

# 2016

INTEGRATED REPORT

Popular

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## FUNCTIONS AND USAGE COMMANDS IN THIS PDF

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- Double arrows icon:** Zoom in
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- Index on each page. Go to the chapters.** (Points to a home icon in the PDF header)
- Links to web pages or within the PDF.** (Points to a link icon in the PDF footer)
- Direct access to the GRI table** (Points to a GRI table icon in the PDF footer)

The PDF content on the screen includes sections such as:

- Impulso a la educación financiera.** (Text about financial education initiatives)
- 2.3.5. Observancia de los Derechos Humanos** (Text about human rights compliance)
- 2.4. Gestión de la cadena de suministro** (Text about supply chain management)
- 2.4.1. Perfil de proveedores y volumen de compras** (Text about suppliers and purchase volume)
- Proveedores residentes** (Table with 1,038 residents and 95.7% active)
- Miles de euros facturados** (Table with 596,75 million euros and 83.2% active)
- Centros Especiales de Empleo** (Text about special employment centers)

# TABLE OF CONTENTS

Chairman's Letter	5
Banco Popular financial highlights	6
Main initiatives developed	10
Performance against 2016 challenges	12
2017 Challenges	13
<b>1. Structural Dimension</b>	<b>14</b>
1.1. Banco Popular Group	15
1.2. Corporate Governance	26
1.3. Business model and creation of shared value	40
1.4. Materiality, risk management model and strategic lines	54
1.5. Banco Popular Group for the future	70
<b>2. Economic Dimension</b>	<b>74</b>
2.1. Differential management of individuals and companies	74
2.2. Customer service	80
2.3. Responsible development of the business	89
2.4. Management of the supply chain	99
<b>3. Social Dimension</b>	<b>104</b>
3.1. Internal Social Dimension: human capital management	104
3.2. External Social Dimension: commitment to society	124
<b>4. Environmental Dimension</b>	<b>134</b>
4.1. Internal Environmental Dimension: reduction of the impact on Climate Change	135
4.2. External Environmental Dimension: commitment to the environment	144
<b>ANNEXES</b>	
Annex 1. About this Report	146
Annex 2. GRI G4 Content Index	154
Annex 3. Verification report	166



<b>Chairman's Letter</b>	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	Annexes	

# Chairman's Letter

2016 has been a year marked by the various challenges which Popular has had to face, as well as the important decisions it has taken to strengthen its commitment to the development of a business model based on efficiency, integrity and responsibility. A customer focused business model to support the real economy, and specialised in SMEs.

Historically, the Bank has bet on developing the productive systems of the economies in which it is present by financing its industrial fabric. Small and medium-sized companies are the main focus of our activity and Popular has developed and will continue developing an intense commercial activity in this segment, supporting them in their short-term funding needs, driving their international development and promoting key sectors of our economy.

The capital increase, carried out successfully thanks to the support of our shareholders, coincided with a turning point in the Bank's management which has involved, amongst other measures, a restructuring of the organisational chart as well as a reorientation towards the organisational and management pillars which differentiate the Main Business and the Property and Associated Business. Likewise, it has also been necessary to restructure the workforce with the will of minimising the impact in the least possible way on people.

In addition, the change in the Bank's governance closes a stage marked by a decided move towards independence where no public support has been received and in which significant milestones have been achieved in the business. The improvements in this area will prepare Popular in facing the new challenges of the environment.

It has also been a significant year in the development of our Corporate Responsibility strategy. Popular, has made progress with integrating the Sustainable Development Goals into its activity and, in addition, through this Report, it renews its commitment to the ten Principles of the United Nations Global Compact.

In this sense, the Integrated Report shows Popular's economic, social and environmental performance, emphasising our business model and our Corporate Governance system. In short, this is a commitment to quality corporate reporting which involves an exercise of revision and integration of the information; and of transparency, an intrinsic value in our corporate culture.

We close the year in which the Bank has had to face significant challenges and adopt the relevant decisions. Popular is prepared to face a future, in which it is optimistic, improving its already high commitment to stakeholders as one of its main signs of identity.

**Ángel Ron**  
Chairman

# Banco Popular financial highlights

Total on-balance sheet assets

**147,925,728**

thousand euros

Gross loans (ex - repos)

**97,595,078**

thousand euros

Customer funds

**84,641,529**

thousand euros

Net operating income (pre-provision profit/loss)

**797,801**

thousand euros

Data in thousands of euros

31.12.2016

31.12.2015

VAR. %

**ECONOMIC DIMENSION**
**BUSINESS VOLUME**

Total assets managed	168,050,719	179,431,235	(6.3)
Total on-balance sheet assets	147,925,728	158,649,873	(6.8)
Own funds	11,364,901	12,719,992	(10.7)
Customer funds	84,641,529	85,420,921	(0.9)
Gross lending to customers	104,296,718	107,085,210	(2.6)

**SOLVENCY**

Total capital ratio (%)	13.15	13.80	
Tier 1 ratio (%)	12.13	13.14	
CET 1 ratio (%)	12.13	13.14	
Basel III phase-in leverage (%) <sup>(1)</sup>	5.31	6.23	

**RISK MANAGEMENT**

Total risks	134,162,738	142,582,977	(5.9)
Non-performing loans	19,601,578	18,339,525	6.9
Credit loss provisions	10,243,088	7,793,422	31.4
Non-performing loans ratio (%)	14.61	12.86	
% coverage ratio of non-performing and not written-off balances	52.26	42.50	
% coverage ratio with guarantees <sup>(2)</sup>	104.36	103.17	

**EARNINGS**

Net interest income	2,096,588	2,251,236	(6.9)
Gross income	2,825,752	3,430,911	(17.6)
Net operating income (pre-provision profit)	797,801	1,689,471	(52.8)
Profit/(loss) before taxes	(4,888,482)	114,184	>
Profit attributable to the parent society	(3,485,366)	105,432	>

**PROFITABILITY AND EFFICIENCY**

RORWA (%)	(4.70)	0.13	
ROA (%)	(2.25)	0.07	
ROTE (%)	(47.33)	1.20	
Operating efficiency (%)	66.79	46.74	

**CORPORATE GOVERNANCE**

Number of Directors (%)	15	14	7
Executive Directors (%)	20	21	
Proprietary Directors (%)	27	43	
Independent Directors (%)	47	36	
"Other external" directors	6	-	
Women on the Board of Directors (%)	20	21	

The Groups' consolidated financial statements at 31 December 2016, whose audit is finalised, are prepared according to the accounting principles and criteria established by the International Financial Reporting Standards adopted by the European Union (IFRS - EU), being consistent with the ones employed in the preparation of the audited financial statements of the 2015 Annual Report.

(1) Basel III phase-in leverage ratio according to CRR.

(2) Risk coverage ratio including the maximum amount of guarantees in accordance with the FINREP criterion.

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<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
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Coverage ratio of non-performing balances (\*)

**52.26%**

(date in %, variation in p.p.)  
(\*) without write-offs

CET 1 Ratio

**12.13%**

(date in %, variation in p.p.)

Economic value generated

**2,831,470**

thousand euros

Investment in *Plan Concilia*

**3,086**

thousand euros

Data in thousands of euros	31.12.2016	31.12.2015	VAR. %
<b>ECONOMIC DIMENSION</b>			
<b>SHAREHOLDERS</b>			
Number of shareholders	303,251	270,114	12.26
Market capitalisation	3,852,716	6,588,325	(41.5)
Number of diluted shares	4,196,858	2,165,075	(93.8)
Earnings per share (euros)	(1.094)	0.049	
Share book value (euros)	2.71	5.88	(53.9)
Price/Earnings (annualised)	(0.84)	61.87	
Price/Book value	0.34	0.52	
<b>CUSTOMERS</b>			
Number of customers	4,564,614	4,757,748	(4)
Overall satisfaction index <sup>(3)</sup>	9.15	9	
Market share of credit (%)	7.7	7.6	
Credit share of companies (%)	12.49	12.18	
<b>SUPPLIERS</b>			
New suppliers evaluated using ESG criteria (%) <sup>(4)</sup>	100	100	
Supplier satisfaction index	8.2	8.3	
<b>SOCIAL DIMENSION</b>			
<b>EMPLOYEES</b>			
Employees <sup>(5)</sup>	11,948	15,079	(20.8)
Female employees (%) <sup>(5)</sup>	43	38	
Female executives (%) <sup>(6)</sup>	21	19	
Number of employees promoted <sup>(6)</sup>	407	971	
Hours of training per employee <sup>(6)</sup>	25.84	36	
Turnover rate (%) <sup>(6)</sup>	6.26	0.36	
Absenteeism - GRI G4-LA6	3.91	3.1	
Investment in <i>Plan Concilia</i>	3,086	2,874	7.3
<b>COMMITMENT TO SOCIETY</b>			
Social investment	8,157	13,330	(39)
Economic value generated - GRI G4-EC1 <sup>(6)</sup>	2,831,470	3,470,288	(18.4)
<b>ENVIRONMENTAL DIMENSION</b>			
<b>ENVIRONMENTAL MANAGEMENT</b>			
Consumption of electricity (GJ/employee) <sup>(7)</sup>	19.43	20.02	(2)
Consumption of paper (tonnes/employee) <sup>(8)</sup>	0.09	0.09	
Consumption of water (m <sup>3</sup> /employee) <sup>(7)</sup>	9.30	9.34	(2.1)
CO <sub>2</sub> emitted (tonnes/employee) <sup>(7)</sup>	1.06	0.88	14.7
<b>ENVIRONMENTAL COMMITMENT</b>			
Environmental investment <sup>(8)</sup>	12,146	13,390	(9.3)

(3) The note published is the average of the notes to the assessments obtained in the platforms of Madrid and Coruña. The scale used to assess this data comprises values ranging from 1 to 10.

(4) ESG: Environmental, Social and Good Governance

(5) This data corresponds to employees of the Bank's Financial Group (11,690) and listed companies (258), excluding those belonging to Investee Companies. For further details on the scope, please consult Chapter 3. Social Dimension.

(6) The scope of this data is the Group's employees. For further details on the scope, please consult Chapter 3. Social Dimension.

(7) The scope of this data is for Spain and Portugal. For further details on the scope, please consult Chapter 4. Environmental Dimension.

(8) The scope of this is for Spain. For further details on the scope, please consult Chapter 4. Environmental Dimension.

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Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	Annexes	

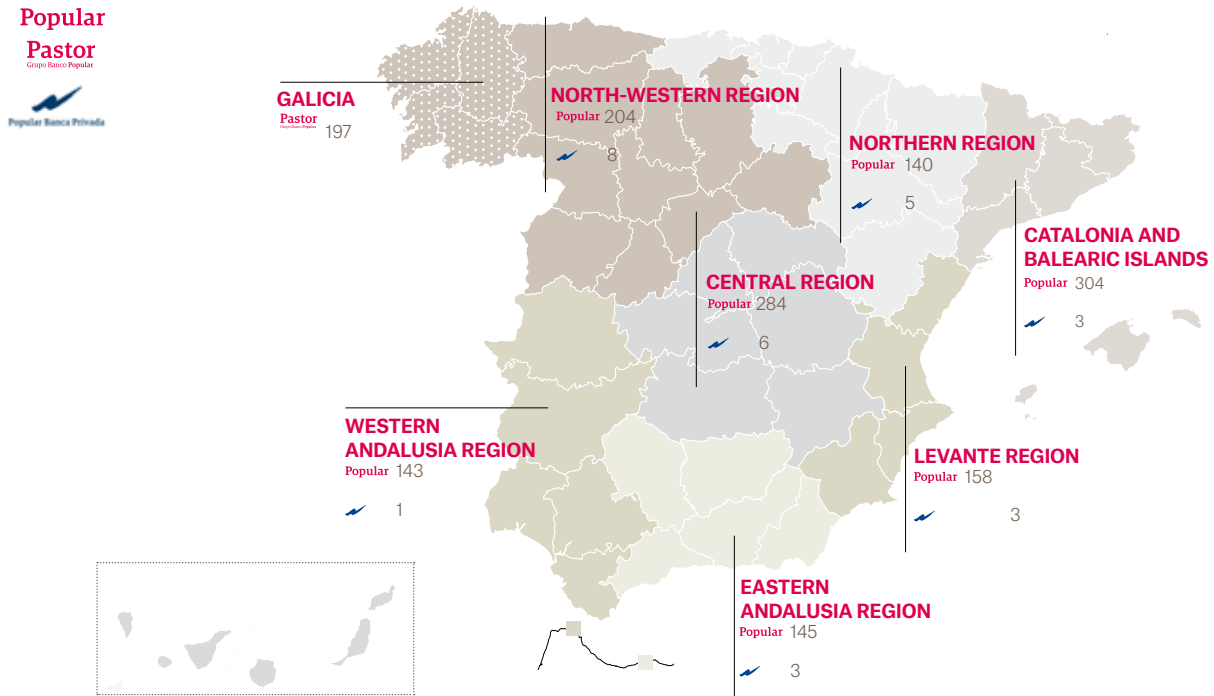
**1** Parent bank  
Banco Popular Español

**4** Banks which operate in Spain  
Banco Pastor, Popular Banca Privada, WiZink (49%)\* and Targobank (48,98%)\*  
(\* Percentage shareholding)

**2** Banks abroad  
Banco Popular Portugal  
Totalbank (USA)

**1** Financial group  
Ve por Más (25%)\*  
(\* Percentage shareholding)

Banco Popular Group's national presence – 2016



- At the close of this Report, the process of reorganisation and optimisation of the Network was continued, which began at the end of the year. For this reason, the maps shows the previous distribution of branches according to the previous Territorial Directorate structure.
- The division of the various Territorial Directorates applies only to the offices of Banco Popular. This same division has been used for Popular Banca Privada, although their offices do not report to the Territorial Directorate under which they are grouped.
- The Canary Islands belong to the Central Territorial Office, while Ceuta and Melilla belong to Western and Eastern Andalusia respectively.

Awards and recognitions

- **Popular amongst the best rated brands in Spain** according to the publication of Interbrand, where they evaluate the abilities of entities to adapt themselves to changes in the environment, as well as the value of their brand. Additionally, it also takes into account the training of employees and the internal promotion prospects of their professional career.
- **Popular Payments assessed as being the best payments method service** by offering innovative and secure payment solutions, facilitating the use of digital media and ensuring reliable purchases by the user.
- **Banco Popular recognised for its environmental transparency**, according to the study produced by Carbon Clear. Popular is the only IBEX-35 financial institution included on the list of the ten most sustainable companies.
- **Banco Popular Portugal has won the prize "Escolha do Consumidor" (Consumer Choice)** for the third year running, in the small and medium-sized banks category. "Escolha do Consumidor" is an assessment and classification system of brands where users appraise their perception of the different entities in each activity segment.



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

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

**1,739** branches  
1,604 in Spain  
135 abroad

Banco Popular Group's international presence – 2016



- **Popular's performance in terms of Corporate Responsibility has been recognised, for another year, by various international sustainability indexes** which have positively assessed the behaviour of the Entity in regard to economic and good governance, social and environmental performance.



- **Popular's good practice identified in compliance with SDG 1 No Poverty due to its social microcredits programme.** It is noteworthy that the Entity has been a partner in the United Nations Global Compact since 2005, therefore demonstrating its commitment to carrying out its activity responsibly in terms of Human Rights, labour laws, environment and fight against corruption.



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# Main initiatives developed

## 1 Structural Dimension

### Definition of the two new management pillars in the Business Model

- Main Business. It represents the total of the banking business and includes Retail Banking and its sub-businesses: SMEs and self-employed persons, individuals, consumption, asset management and insurance, amongst others.
- Property and Associated Business. It includes properties and credit risk associated with the real estate sector (promotion, construction, sale/purchase or renting of property, amongst others), both of the business in Spain as well as subsidiaries and real estate shareholdings.

### Fostering operational efficiency through digitalisation

- Creation of the new Digital Transformation General Management, reporting to the Management Committee with the aim of adapting procedures and systems to the latest trends.
- Development of the portable platform for directors called Nexo which aims to offer the best customer service, simplifying the operation and increasing commercial effectiveness.

### Advances in economic and good governance, social and environmental performance

- Adaptation of the Corporate Responsibility (CR) Policy to the best practices and integrating the 17 Sustainable Development Goals (SDG).
- Creation of the "Socially Responsible Investment" section in the Corporate Website to biannually communicate the main ESG performance as well as the Bank's positioning on various sustainability indexes.
- Recognition of the Entity's ESG performance by analysts and sustainability indexes.

## 2 Economic Dimension

### Betting on innovative technology in the service offered to customers

- Strengthening of the digital channels thanks to the development of new applications and the improvement of the current ones.
- Participation in the Bizum payment platform in collaboration with the majority of Spanish financial institutions.

### Promotion of the Circular Economy and projects which mitigate Climate Change

- Funding of projects with an environmental component, mainly those aimed towards the generation of renewable energies and waste management.
- Signing of a funding line with European Investment Bank (EIB) for the replacement of fleets of polluting vehicles with hybrid or electric ones.

### Application of the CR strategy to the supply chain

- Approval of active suppliers through the completion of the Approval Form and the signing of the Code of Conduct to ensure the close connection to the CR strategy with this stakeholder.
- Risk assessment of suppliers through a system which allows determining the supply chain's compliance with ESG criteria. In 2016, no supplier has been assessed as High Risk.

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### 3 Social Dimension

#### Advances in gender equality issues

- Roll-out of actions under the "Más mujeres, mejores empresas" (More women, better companies) agreement signed with the Ministry for Equality, aimed at increasing the number of women in executive positions. In 2016, 20% of the Board of Directors and 18% of the Management Committee were composed of women.
- Development of the *Promociona* (Promoting) programme whose objective is to strengthen the skills, professional and leadership abilities of highly qualified women in their climb to the Entity's first line management.

#### Professional training for the workforce

- Increase in online training given to the Entity's employees thanks to the implementation of the digital training platform *conoce+*.
- Promotion of training itineraries related to the CR strategy, as well as the creation of a specific library on this theme.

#### Fostering access to banking of vulnerable groups

- Access to banking of vulnerable groups through the granting of microcredits: in Spain through Microcredits "Betting on you" - Third Sector and in Central and South America through social microcredits.
- Training courses in financial education by the Group's retirees and early retirees to groups with low levels of banking and at risk of exclusion under the Corporate Volunteering Programme.

### 4 Environmental Dimension

#### Approval of the Environmental Policy to fight against Climate Change

- Approval of the Policy update which aim is to move forward in the commitment of the Entity to actively participate in the fight against Climate Change.
- Supporting the Circular Economy through actions which favour the efficient use of resources and minimising the environmental impact.

#### Development of the 2014-2020 Eco-efficiency Plan

- Compliance of the goals established in the different actions defined in the Eco-efficiency Plan and the revision of the actions to implement from 2017.
- Emissions neutral Entity of Scopes 1 and 2 due to all the electricity acquired and consumed in Spain having come from renewable sources and which has had 100% of direct CO<sub>2</sub> emissions offset.

#### Positioning in environmental initiatives

- Census-taking of the Carbon Footprint in MAGRAMA and obtaining the CALCULO seal granted by this Ministry.
- Participation in the Climate Change Cluster promoted by Forética in which leading companies participate in issues related to Climate Change.
- Dissemination and promotion of sustainable initiatives among employees.

# Performance against 2016 challenges

	2016 Challenges	Qualitative description
<b>Structural</b>	<ul style="list-style-type: none"> <li>Application of new requirements of external regulators</li> <li>Development of a new documentation platform for the Board of Directors</li> <li>Promotion of strategic alliances to strengthen business development</li> </ul>	<ul style="list-style-type: none"> <li>Adaptation to the new requirements of regulatory and supervisory bodies.</li> <li>Inclusion of the documentation in the platform used by the Board of Directors and other management bodies in the different meetings held.</li> <li>bancopopular-e has become WiZink, a new brand which objective is to be a reference in the credit cards business.</li> <li>WiZink bought the Barclays' card business in Spain and Portugal, to consolidate itself in the credit card market.</li> </ul>
	<ul style="list-style-type: none"> <li>Deepening of the policy of proximity to shareholders and investors</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with the objectives established in the 2016 CR Action Plan - Shareholders 2014-2016.</li> <li>Extension of the new CR Action Plan - Shareholders 2017-2020 to continue moving forward in managing the expectations of one of the main stakeholders.</li> </ul>
	<ul style="list-style-type: none"> <li>Maintenance of a healthy balance sheet:               <ul style="list-style-type: none"> <li>- Strong capital base</li> <li>- Control of non-performing loans and the strength of their coverage</li> <li>- Stable liquidity</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>After the restructuring of the Main Business, it remains strong, demonstrating a great commercial ability to continue generating profitable business.</li> <li>The management of the Property Business, with a specialised Network and resources, together with the increase in coverage, increases the divestment options of non-performing assets.</li> </ul>
	<ul style="list-style-type: none"> <li>Adaptation of the commercial offering for individual customers to the new conditions of the scenario</li> </ul>	<ul style="list-style-type: none"> <li>Adaptation to the characteristics and financial needs of individual customers, based on the <i>Tenemos un Plan</i> model, which has allowed the creation of different segments and specific commercial offers which contain a series of financial and non-financial services.</li> </ul>
<b>Economic</b>	<ul style="list-style-type: none"> <li>Deepening of economic personalisation for SMEs and self-employed persons</li> </ul>	<ul style="list-style-type: none"> <li>Renewal of the line with EIB and commercialisation of different portfolios of products with various national and international institutions.</li> <li>Formalisation of Microcredits "Betting on you" which aims to promote entrepreneurship and self-employment of micro companies and self-employed persons.</li> </ul>
	<ul style="list-style-type: none"> <li>Empowerment of products with special social and environmental benefits</li> </ul>	<ul style="list-style-type: none"> <li>Maintenance of the product offering which brings a social and environmental benefit.</li> <li>Development of proposals which favour the Circular Economy. In this sense, a financing line has been developed for the renewal of hybrid and electric vehicle fleets.</li> </ul>
	<ul style="list-style-type: none"> <li>Definition of the Investments and Financing Policy using ESG criteria</li> </ul>	<ul style="list-style-type: none"> <li>Allianz Popular, the investment fund manager marketed by Popular, has implemented, following Allianz SE guidelines, its investment policy which includes social, environmental and good governance criteria.</li> <li>Popular has postponed the implementation of the Investments and Financing Policy using ESG criteria due to organisational changes.</li> </ul>
	<ul style="list-style-type: none"> <li>Minimising the risk from Popular's supply chain in Spain</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of the Supply Chain Risk Management Model which in 2016, as a result of it, no supplier was rated as High Risk.</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>Implementation of the People Management Model</li> </ul>	<ul style="list-style-type: none"> <li>Finalisation of the People Management Model ready for its implementation in 2017.</li> </ul>
	<ul style="list-style-type: none"> <li>Development of the Transversal Corporate Responsibility Training Plan 2014-2016</li> </ul>	<ul style="list-style-type: none"> <li>Roll-out of actions with the aim of having all the workforce, including Directors, trained on these issues, involving themselves and being an active part of it.</li> </ul>
	<ul style="list-style-type: none"> <li>Encouraging the presence of women in management positions</li> </ul>	<ul style="list-style-type: none"> <li>Under the <i>More women, better companies</i> agreement, the presence of women in management positions has increased. The percentage of female representation reached 20% on the Board of Directors and 18% on the Management Committee.</li> <li>Development of the "Promociona" initiative whose objective is to strengthen the skills, professional and leadership abilities of highly qualified women in their climb up the Entity.</li> </ul>
	<ul style="list-style-type: none"> <li>Fostering entrepreneurship and labour inclusion of groups at risk of exclusion</li> </ul>	<ul style="list-style-type: none"> <li>Fifth edition of Impulse Plans and Projects whose aim is to integrate people with various abilities in the labour market with a shareholder.</li> <li>Support for the inclusion into work of groups at risk of exclusion through social microcredits in Paraguay and Guatemala.</li> <li>Commercialisation of the Microcredits "Betting on you"- Third Sector portfolio with the aim of promoting access to banking services amongst groups with difficulty in accessing credit.</li> </ul>
<b>Environmental</b>	<ul style="list-style-type: none"> <li>Promotion of training and economic education of groups at risk of exclusion</li> </ul>	<ul style="list-style-type: none"> <li>Training of groups with a low level of banking by the Entity's retirees and former employees under the Corporate Volunteering Programme.</li> <li>Provision of grants to the Academic Excellence Loan Programme in the amount of 3.4 million euros.</li> </ul>
	<ul style="list-style-type: none"> <li>Advance in measuring the impact of projects financed with the help of Popular</li> </ul>	<ul style="list-style-type: none"> <li>Greater level of measurement of the social impact of the projects in which Popular collaborates. To ensure the accuracy of this information, the entities themselves are the ones which provide the data for the assessment.</li> </ul>
	<ul style="list-style-type: none"> <li>Implementation of the actions established in the Eco-efficiency Plan</li> </ul>	<ul style="list-style-type: none"> <li>Development of the actions planned for the year set out in the Eco-efficiency Plan, complying with the objectives, timeframes and pre-set investments.</li> <li>With the aim of mitigating the impact on the environment, the Environmental Policy to fight against Climate Change has been reformulated.</li> </ul>
	<ul style="list-style-type: none"> <li>Offsetting of the direct emissions deriving from Popular's activity in Spain</li> </ul>	<ul style="list-style-type: none"> <li>For the fourth year running, Popular has offset 100% of its direct CO<sub>2</sub> emissions generated by its activity in Spain, making the Entity neutral in emissions on Scopes 1 and 2.</li> </ul>

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# 2017 Challenges

	2017 Challenges	Planned date	Association with strategic line
<b>Structural</b>	■ Application of new requirements of external regulators	2017	<b>1</b> Prioritise Good Governance and ethical management through an effective control framework
	■ Fostering operations to strengthen business development	2017-2018	<b>6</b> Leverage opportunities for diversification and specialisation
	■ Advances in digital transformation	2017-2019	<b>5</b> Move forwards in operational efficiency through digitalisation
	■ Integration of best practices and new requirements in Corporate Responsibility	2017-2020	<b>1</b> Prioritise Good Governance and ethical management through an effective control framework <b>7</b> Ensure the responsible development of the activity <b>9</b> Encourage the creation of shared value <b>10</b> Promote eco-efficient behaviour
<b>Economic</b>	■ Targeting a healthy balance sheet: - Strong capital base - Control of non-performing loans and the strength of their coverage - Stable liquidity	2017	<b>2</b> Reinforce economic strength
	■ Maintenance of an integral customer management, from the specialisation and adaptation of each segment: companies and individuals	2017	<b>3</b> Be a customers' bank <b>4</b> Continue being the bank of reference for SMEs and self-employed persons
	■ Empowerment of products with special social and environmental benefits	2017-2018	<b>7</b> Ensure the responsible development of the activity
	■ Progress in the management of the supply chain	2017-2020	<b>9</b> Encourage the creation of shared value
<b>Social</b>	■ Roll-out of the new Performance Evaluation Model and reformulation of individual development plans	2017	<b>8</b> Develop and manage the human capital
	■ Development of an action programme to promote female talent	2017-2018	
	■ Fostering of entrepreneurship and labour inclusion of groups with low levels of banking	2017-2018	<b>7</b> Ensure the responsible development of the activity
	■ Promotion of training and economic education of groups at risk of exclusion	2017-2018	<b>9</b> Encourage the creation of shared value
	■ Move forwards in the measurement of the economic, social and environmental impact of CR projects	2017-2018	<b>9</b> Encourage the creation of shared value
<b>Environmental</b>	■ Implementation of the second phase actions in the Eco-efficiency Plan with the objective of reducing the impact on Climate Change	2017-2020	<b>10</b> Promote eco-efficient behaviour
	■ Establishment of an action plan to encourage the use of conference calls so as to reduce business travel	2017	
	■ Offsetting of the direct emissions deriving from Popular's activities in Spain	2017	

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
<b>Structural Dimension</b>	Economic Dimension	Social Dimension	Environmental Dimension	Annexes	

# 1 Structural Dimension

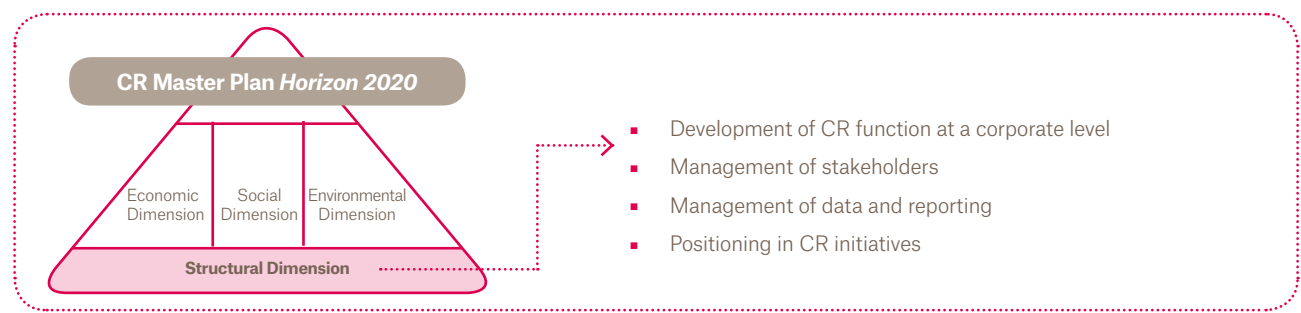


The contents of this Report have been structured taking into account the dimensions established in the CR Master Plan *Horizon 2020*, with the aim of fully showing Popular's economic, social and environmental performance in an integrated way.

In this sense, Popular's structural performance attends to the need to deploy the Corporate Responsibility Policy both internally and externally, answering the commitment to focus the strategy of the Entity on the responsible development of the business.

Throughout this Chapter, the main results achieved in the roll out of the lines of action defined in the Structural Dimension are detailed, as are other global aspects related to the structure of the Entity, the Corporate Governance, the strategy and the business model.

## Structural Dimension of the CR Master Plan *Horizon 2020*



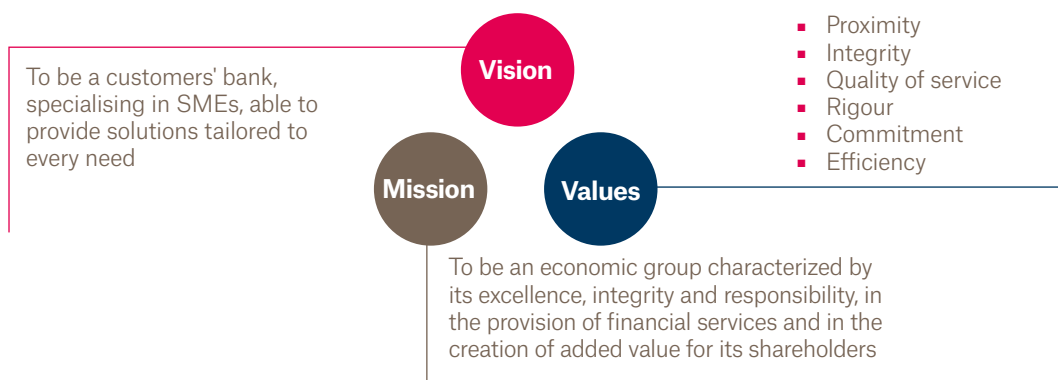
Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> <b>Structural Dimension</b>	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

## 1.1. Banco Popular Group

Banco Popular Group (hereinafter referred to as the Group or Popular) is a Spanish banking group whose business strategy is oriented towards SMEs, groups and families. In its business model, focused on the customer and in the provision of high quality services, it pays special attention to Spanish SMEs, a segment in which it has, for decades, consolidated itself as their reference Entity.

Maintaining its focus on service quality, profitability and efficiency, the Group conducts its business with the utmost respect to its corporate culture and values which allow it to continue to enjoy the confidence of its stakeholders. Therefore shareholders, customers, employees and suppliers are considered to be an integral part of the Group and influence the development of the banking activity as a significant element of its structure.

### Banco Popular Group's corporate culture



## Main agreements to promote business development

### bancopopular-e is now WiZink

bancopopular-e has become WiZink, a new brand born with the objective of being a reference in the credit cards business and offering its customers simple savings solutions. With more than 2.5 million customers and a team of 700 professionals, it will mainly manage credit cards and customer deposits.

### Purchase of Barclays' cards business in Spain and Portugal

Following its growth strategy, WiZink, 49% owned by Banco Popular, acquired Barclays' cards business in Spain and Portugal in 2016. The aim is to strengthen its activity in both countries and increase its credit card specialisation model in Portugal, consolidating itself as the leader in credit cards.

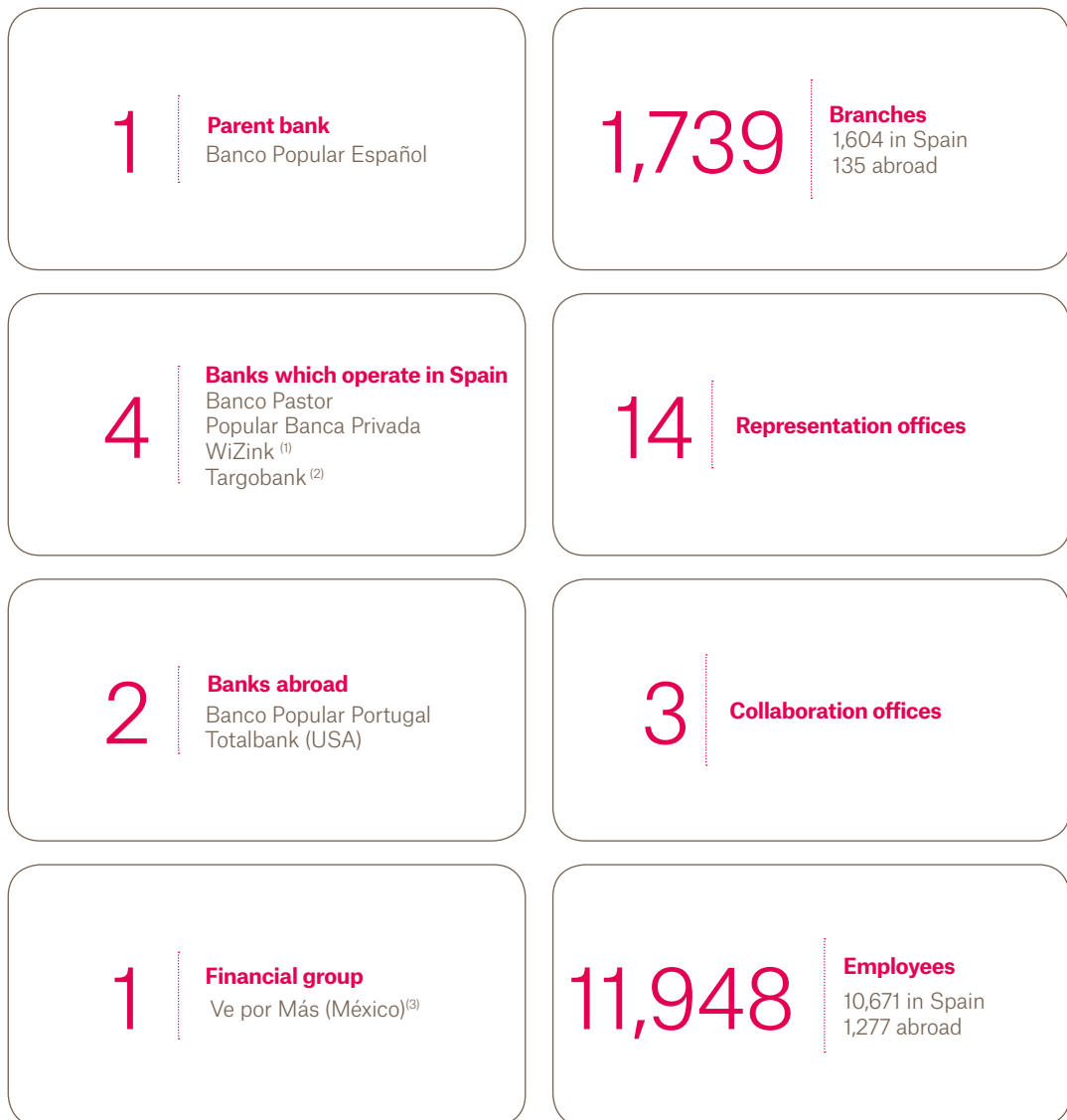
## 1.1.1. Structure

### Organisational structure


The Group is formed by a parent bank, six banks (of which four operate in Spain, one in Portugal and one in the United States) and a financial group in Mexico. In addition, the Group has other subsidiary companies and maintains shareholdings in other companies which complement the banking business.

Banco Popular also has various representation offices and collaboration offices and maintains agreements with different financial institutions with the aim of promoting external trade.

# Popular



(1) 49% Shareholding  
 (2) 48.98% Shareholding  
 (3) 25% Shareholding

 [More information about the Organisational Structure](#)



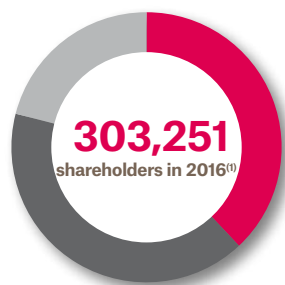
Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> <b>Structural Dimension</b>	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

## Shareholding structure

At 31 December 2016, the Group had 303,251 shareholders, compared with 270,114 in 2015.

The following chart shows the distribution of the Bank's share capital at 31 December 2016. In 2016, the free-float stood at 79.05%. The Board has a shareholding of 20.95% of the share capital, including shares owned directly or indirectly by the Directors and those usually represented by them. The institutional tranche stood at 37.8% whilst the retail tranche reached 41.25%.

### Shareholder composition – 2016



Institutional	37.8%
Retail	41.25%
Board of Directors	20.95%

(1) The figure for the Board of Directors includes the 4.28% of the Mexican shareholders group, represented by Mr. Jaime Ruiz Sacristán, and 3.05% of the Allianz group, represented by Mr. Vicente Tardío.

For their part, the number of shareholders actively employed currently in Popular, at December 2016, is 7,690 and they hold 0.76% of the share capital.

## Personalised management of shareholders' needs

### Minority shareholders

Through the Shareholders' Office, the Bank shares its strategy and strengths with this stakeholder. Its main purpose is to ensure a proper dialogue channel through which to provide information of the Entity on a regular, consistent and transparent manner. For that, telephone service attention and email are available to shareholders, through which they can query or receive information about significant data of the Group and Banco Popular Español's shares. Additionally, frequent meetings are organised with shareholders with the aim of providing them with the most relevant information of the Bank.

### Institutional shareholders

The main purpose of the Investor Relations Office is to maintain a constant and proactive communication channel with analysts and institutional investors (national and international), providing them with the necessary information about the Bank's situation and prospects, thus facilitating their recommendation and investment decisions, while developing a stable investor base. Likewise, it generates feedback for Senior Management where the perception of investors and analysts is conveyed as well as market perception on the sector. It also coordinates with the Corporate Responsibility Office for the management of information requests by sustainability analysts and investors.

This contact takes place through various means such as conferences, roadshows, and individual or group meetings. In 2016, there were 44 events split between conferences, fieldtrips (visits of institutional investors to Popular's offices) and roadshows (visits by Popular to investors' offices) in European and American cities. Overall, more than 600 contacts were held with institutional investors in addition to the regular and continuous communication with more than 30 analysts covering the value of the shares.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> <b>Structural Dimension</b>	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

## General Shareholders' Meeting: prime example of contact with shareholders

Aware of the importance of transmitting the value of the Bank to one of its priority stakeholders, Banco Popular maintains different communications channels that facilitate personalised treatment and proximity to its shareholders. Direct contact with shareholders is most represented by the General Shareholders' Meeting, where personalised services are offered starting at the time the meeting is called. Furthermore, the corporate website provides access to all documentation relating to the proposed agenda.

Together with services rendered in person, over the telephone and remotely, Popular makes a specific section of the corporate website available to shareholders and investors. It contains relevant information regarding the Group (economic information and environmental, social and good governance performance, presentations and Shareholder Report, among others) and online access to the broadcast of quarterly results and Shareholders' Meetings.

At the end of 2016, the Board of Directors reported the unanimous agreement to proposal the appointment of Mr. Emilio Saracho as Chairman of the Board of Directors at an Extraordinary General Shareholders' Meeting to be held on 20 February 2017.



### Proximity initiatives with shareholders

With the aim of providing shareholders with benefits apart from financial benefits, Banco Popular develops different proximity initiatives, amongst which the following are noteworthy:

#### CR Action Plan - Shareholders 2014-2016

In 2014, this Plan was signed within the framework of the CR Master Plan *Horizon 2020*. It is a document which establishes the objectives and actions to be rolled out in 2014-2016 to continue improving the management with one of the main stakeholders as well as allowing them to participate in the CR strategy followed by the Group. This Plan has been renewed in 2016 to include initiatives to develop until 2020.

#### Shareholders' Club

An exclusive space for shareholders through which they can access financial offers and non-financial benefits enabling them to enjoy the best cultural variety, attractive promotions for their free time and preferential conditions from some of the main health, home, travel companies, amongst others.

Additionally, members of the Club have available a series of financial offerings with preferential conditions which they can take advantage by being shareholders of Popular.

 [More information about the Shareholders' Club](#)

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> <b>Structural Dimension</b>	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

## Impulse Plans and Projects

In 2016 the Bank held the fifth edition of the Impulse Plans and Projects in order to make headway in the management of shareholder expectations and, simultaneously, contribute to the social and labour integration of persons with other skills.

Through the Impulse Plans, financing was provided for ten training programmes, whose aim is the integration of persons with disabilities into the employment market, making it possible for ten Bank shareholders, or their direct relatives, to improve their qualifications and employability.

The Impulse Projects financed three social projects managed by entities in the third sector that favour the employment integration of persons with disabilities and which necessarily involved the participation of a Bank shareholder.

Both initiatives have been selected to be part of the campaign promoted by Forética Enterprise 2020, within the thematic axis of *Habilidades para el empleo*. Enterprise 2020 is an action line of the European Corporate Social Responsibility Strategy launched by the European Commission, which encourages the promotion and dissemination of CSR best practices collaboratively and ideally led by companies. It is the only business collaboration initiative recognised by this Strategy and has been led in Spain by Forética since 2011.

### 1.1.2. Banco Popular shares

#### Evolution of Banco Popular shares

In 2016, the equity markets have been marked by volatility as they are constantly influenced by both economic and geopolitical factors.

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

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



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> <b>Structural Dimension</b>	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

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

On the other side of the Atlantic, the S&P 500 and the Nasdaq closed the year positively, reaching to 9.54% and 7.5% respectively. For their part, Asian markets closed practically neutral; Japan's Nikkei rose 0.42%, while the Hang Seng was 0.39%.

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

In this environment, the financial sector was one of the most heavily punished, with the European banking index, SX7P, closing the year with a loss of -6.77% and the average of Spanish domestic banks declining -21.25% in the year. In the year, Popular lost -66.37% closing with a share price of €0.918.

## Share Capital

The following table details the variations in share capital which occurred throughout 2016, indicating the type of operation:

### Share Capital - 2016

Date <sup>(1)</sup>	Transaction		Share Capital
	Type	No. of shares	No. of shares
<b>31.12.2015</b>			<b>2,165,075,497</b>
28.01.2016	3rd Interim dividend 2015	10,732,181	2,175,807,678
30.03.2016	4th Complementary Dividend	16,609,261	2,192,416,939
23.06.2016	Capital increase	2,004,441,153	4,196,858,092
<b>31.12.2016</b>			<b>4,196,858,092</b>

(1) Dates when shares were registered.

## Capital increase

In May 2016, pursuant to the resolutions adopted by the Board of Directors and by the Ordinary General Shareholders' of Banco Popular held on 11 April 2016, Popular announced a capital increase through monetary contributions and with recognition of the pre-emptive right of the company's shareholders. The main purpose of this operation was to strengthen the Bank's balance sheet.

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

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> <b>Structural Dimension</b>	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

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

The shares are admitted to official listing on the four Spanish Stock Exchanges and are contracted in the continuous market. Banco Popular shares are included in the general index of the Madrid Stock Exchange with a weighting of 0.66% of the total, and the IBEX-35 index with a weight of 0.796% at the end of the year.

## Dividends

Banco Popular's Board of Directors agreed, during 2016, the following distribution of dividends:

Paid dividends at 2015 (amounts in euros)

Type	Payment date	Ex coupon date	Exchange ratio	Gross amount	Net amount
3rd Interim	25.01.2016	05.01.2016	1x154	0.02000	0.01620
4th Final	15.03.2016	24.02.2016	1x106	0.02000	0.01620

The dividends were made under the programme "Dividendo Banco Popular: Un dividendo a su medida" (Banco Popular dividend: A tailored dividend) offers shareholders the option of receiving newly issued shares or an amount in cash equal to the interim dividend of each corresponding period.

Due to the capital increase and, based on possible uncertainties which could affect coverage levels, the temporary suspension of the payment of dividends was announced in order to face the environment with the greatest possible soundness. Therefore, the 2018 Plan, amongst its objectives, includes a cash pay-out ratio of at least 40% for 2018.

## Banco Popular's rating

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

Ratings assigned to Banco Popular by the various rating agencies - 2016

Agency	Long-term	Short-term	Perspective
DBRS	BBB (high)	R1 (low)	Stable
Fitch	BB-	B	Positive
Moody's	Ba1/Ba2(*)	NP	Positive
S&P	B+	B	Positive

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

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> <b>Structural Dimension</b>	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

## DBRS

The ratings assigned to Banco Popular Español by DBRS are BBB (high) in the long term and R1 (low) in the short term with the outlook being stable. Both the rating and the outlook were confirmed by the agency in their annual revision in September. This rating places the Entity as investment grade by the agency.

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

## Fitch Ratings

The ratings conferred by Fitch to long- and short-term debt issued by Banco Popular Español are BB- and B respectively, with a positive outlook. Fitch confirmed the Entity's rating and positive outlook for the first time in the year in its February annual revision, and subsequently reiterate them after the capital increase announcement.

## Moody's

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

Additionally, the rating of Popular's Mortgage Covered Bonds is Aa2, which allows them to be in the category of high quality liquid assets.

## S&P

The ratings conferred on Banco Popular Español by S&P are B+ for long-term and B for short-term, with a positive outlook for both. After the capital increase, the agency confirmed both the rating of Banco Popular and its positive outlook. In November, it reiterated both the ratings and the outlooks after its annual revision process.

### 1.1.3. Our operating environment

Below is an overview of Popular's operating environment from a financial and economic, political, social and environmental point of view, emphasising those aspects that make the most impact on its activity and the Entity's capacity to create value in the medium and long-term.

[More information about the operating environment](#)

#### Economic and financial scenario

In 2016, GDP grew by 3.2% in Spain, the highest rate since 2007 (3.8%). The expansion in activity is mainly due to the improvement in private domestic demand, although the leading indicators point to a slowdown in it. In addition, business investment maintained a positive trend, promoted by an increase in the supply of credit and a higher production capacity utilisation.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> <b>Structural Dimension</b>	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

As for the evolution in the unemployment rate, there has been a downward trend. Since reaching highs in the first quarter of 2013 (26.9%), the rate has declined to stand at 18.6% in the fourth quarter of 2016.

The CPI has maintained a downward trend in 2016, reaching negative rates in all months of the year, except for September, October, November and December, arriving at its lowest level in April when it reached a year-on-year variation to the general index of -1.1%. In December, the year-on-year variation in Spain stood at 1.6% compared to 0.7% in October and November.

The deficit targets for Spain agreed with the European Commission stand at 4.6% in 2016 and 3.1% in 2017 and, according to the estimates of the International Monetary Fund and the European Commission, it could be breached in 2017. According to the latest information available, in November 2016, the deficit was 3.54%.

With regard to economic evolution, deleveraging has accentuated, with a fall in credit of -4.5% year-on-year in November 2016 (compared to -3.2% in November 2015). Lending to companies has increased its fall in recent quarters to stand at -7.7% year-on-year in September, while the reduction in lending to private individuals stood at -1.8%.

## Political scenario

The national elections at the end of 2015, which gave rise to the transition from an absolute majority to another with four predominant political forces: PP, PSOE, Ciudadanos and Podemos which led to new elections in June 2016 due to a lack of agreement between the political parties to form a Government. At the end of October, after two investiture sessions, a Government was formed led by the PP with the support of Ciudadanos, with PSOE abstaining.

## Social scenario

The barometer published by the Centre for Sociological Research in December 2016 states the main causes of concerns in Spain as: primarily, unemployment (74.7%), secondly followed by corruption and fraud (36.7%) and thirdly, by economic issues (24.7%).

Furthermore, evictions have continued to be a matter of national concern, however, these are gradually being reduced. In the first nine months of 2016, the number of mortgage foreclosures started and registered amounted to 54,839, which represents an annual decline of 31.2%.

The Spanish population reduced by 0.20% between July 2015 and July 2016, according to data released by the SNI.

## Environmental scenario

Following the Paris Climate Summit in December 2015, it was agreed as a main objective to limit the global temperature increase to 2°C, making a strong commitment to the green economy as the only possible future against Climate Change. This agreement was corroborated at the Marrakesh Climate Summit in November 2016. There, it was stated that, during 2016, the fight against global warming had become more relevant since, in addition to the signatory States, this commitment had also been taken on by science, companies and Governments.

Additionally, in November 2016, the 13th National Congress on the Environment (CONAMA) was held in Spain as a channel for connecting people and organisations to drive forwards the change to a low carbon, circular and green economy. The goals of this edition were aimed at improving the knowledge and abilities in defending the natural environment and biodiversity, the sustainable use of natural resources and the prevention of pollution and Climate Change.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> <b>Structural Dimension</b>	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

## 1.1.4. Positioning in the economic sector

The close of 2016 was characterised by a significant improvement in the main macroeconomic variables of the Spanish economy. Spain's GDP has risen for four successive quarters, and stood at 3.2% at the end of the year, combined with a considerable bettering in job creation. This situation has had a positive impact on the banking sector, improving the non-performing loans ratios and prompting a positive demand for credit, particularly in the SME business which is Banco Popular's core business.

In 2016, although Popular has faced great challenges, it has ended a year in which the most important aspects of the management performed are detailed below:

- **Increase in contracting of credit and more dynamic commercial mood.** With respect to small and medium-sized companies, Banco Popular continues to focus on this segment in which, according to the latest transparency exercise published by the European Banking Association (EBA) in December, it obtained a 17.7% share of the Spanish banking sector, occupying the first position. This business model continues to be a reference in the return on investment. With respect to loans and deposits, Banco Popular obtained 7.8% and 6.1%, respectively in November 2016, equivalent to a market share of 7.0%.
- **Good evolution in Real Estate sales.** In 2016, real estate for the value of 2,024 million euros has been divested, the clear catalyst of sales has been land, which has meant 589 million euros of divestment, a growth of 40% compared to 2015. This strong improvement adds value to Banco Popular's partners' far-reaching experience in managing real estate assets, and the main effort not only in wholesale sales but in retail divestment, which has increased by 7% compared to the previous year, allowing it to make the highest possible return on managing this business.
- **Quality in margins.** Despite the reduction in interest rates, Banco Popular continues to achieve a high customer spread of 2.30% in December 2016.

At the end of the year, the efficiency ratio stood at 66.8% due to the extraordinary expenses arising from the productive capacity optimisation process carried out in the second half of the year. Without this impact, the efficiency ratio would have stood at 54.3%.





Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> Structural Dimension	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

- **Improvement in recoveries management.** As a result of the strategy of anticipation in the management of recoveries, the volume of default loans has been reduced by 36%, which anticipates a clear reduction of non-performing entries for 2017. In turn, the NPL coverage ratio, without write-offs, improved from 42.5% in 2015 to 52.2% in 2016, while the coverage ratio including write-offs rose to 62.3%. In recent years, Banco Popular has made significant efforts in provisioning every year, and this policy has continued in 2016.
- **Solvency ratios in accordance with the requirements.** From a solvency standpoint, 2016 has been defined by the capital increase of 2,500 million euros and the results obtained. Additionally, the ECB has modified the minimum capital requirements demanded if Banco Popular, placing them at 7.875% for CET1, 9.375% for Tier 1 and 11.375% of total capital. At 31 December 2016, Banco Popular's solvency ratios are 12.12% for CET1, 12.12% for Tier 1 and 13.14% of Total Capital, in all cases complying with the minimum requirements demanded. For its part, the phase-in leverage ratio according to CRR is 5.31%, placing it above the minimum levels set by the Basel Committee on Banking Supervision.
- **Continuous improvement in financing structure.** One of Banco Popular's main objectives continues being improving the financing structure, measured (amongst others) through the loan to deposit ratio, which now stands at 103.5%. On the other hand, the Bank has gone to ECB auctions, named TLTRO II, requesting an amount of 16,000 million euros at the close of the year. In terms of Wholesale Funding, various medium and short term issues have been carried out during 2016, confirming the backing of the markets. In this sense, operations in the combined amount of 2,000 million euros have been successfully originated, of which 1,750 million euros is mortgage covered bonds and 250 million in regional bonds.

In short, despite the fact that 2016 has been such a tough year, due both to pressure on margins as well as regulatory pressure and the existence of economic challenges, the Bank has changed significantly, demonstrating a strong ability to adapt in order to deal with the demands of different stakeholders.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> Structural Dimension	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

## 1.2. Corporate Governance

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

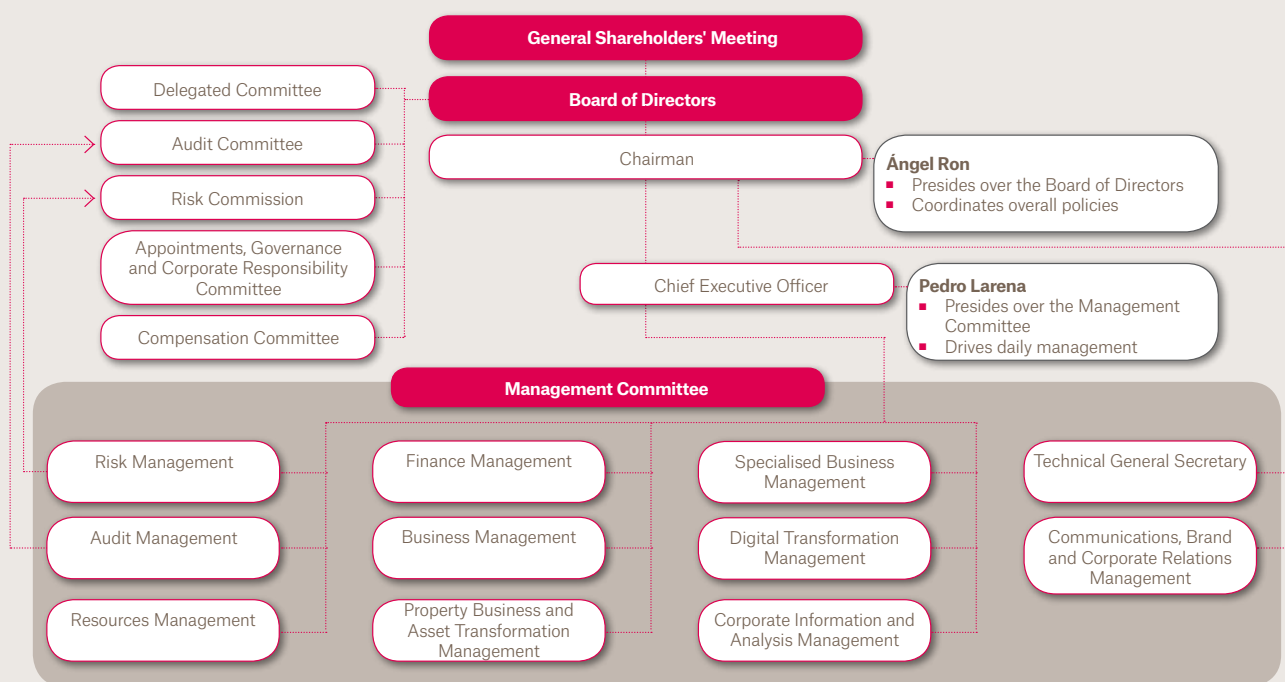
It is a Corporate Governance model which constantly updates to include the recommendations and good practices in the matter as well as the expectations of the supervisor. This creates a strong management model based on transparency, the ethical management of the business and accountability through control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

### 1.2.1. Corporate Governance bodies and structure

The Bank's Corporate Governance is exercised by the Board of Directors and its five Committees, in addition to its General Shareholders' Meeting. The Board of Director's regulations stipulate that the "policy that must preside over all actions is the maximisation of the Bank's long-term value, assuring its future viability and competitiveness." Both the Board of Directors and its Committees perform their tasks with total transparency, unity of purpose and independence of criteria.

#### Adaptation of the organisational structure to lead a new stage

In September 2016, Mr. Pedro Larena's mandate began as the Entity's CEO. After his appointment, the Bank's organisational structure has been adapted to create five new General Management areas: Digital Transformation, Resources, Specialised Business, Corporate Information and Analysis, and finally Property Business and Asset Transformation.



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

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b> Structural Dimension	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

## General Shareholders' Meeting

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

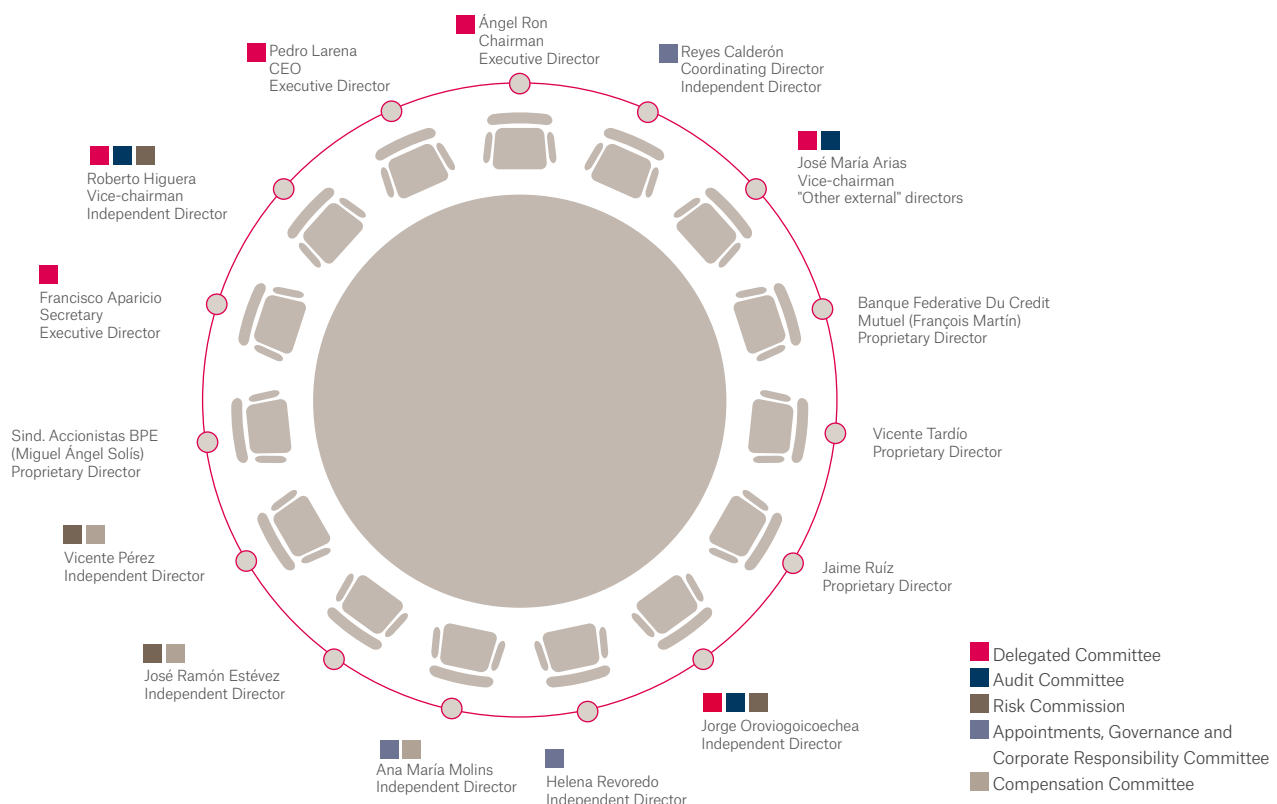
In 2016, a single General Shareholders' Meeting was held which could be attended in person by shareholders owning at least 200 shares, when the legally stipulated maximum is 1,000 shares. Those shareholders with a lower number of shares may be represented by another person, even if not a shareholder, and may remotely exercise their voting and representation rights.

## The Board of Directors

In 2016, the Board of Directors was increased from 14 to 15 members. They include 3 executive Directors (20%) and a large majority of external Directors (12 members who represent 80%). The external Directors are divided into: 4 proprietary Directors, 7 independent Directors and 1 Director classed as "other external".

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

### Banco Popular Board of Directors - 2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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**Board of Directors**

**15** members

**20%** women

**20%** with nationality other than Spanish

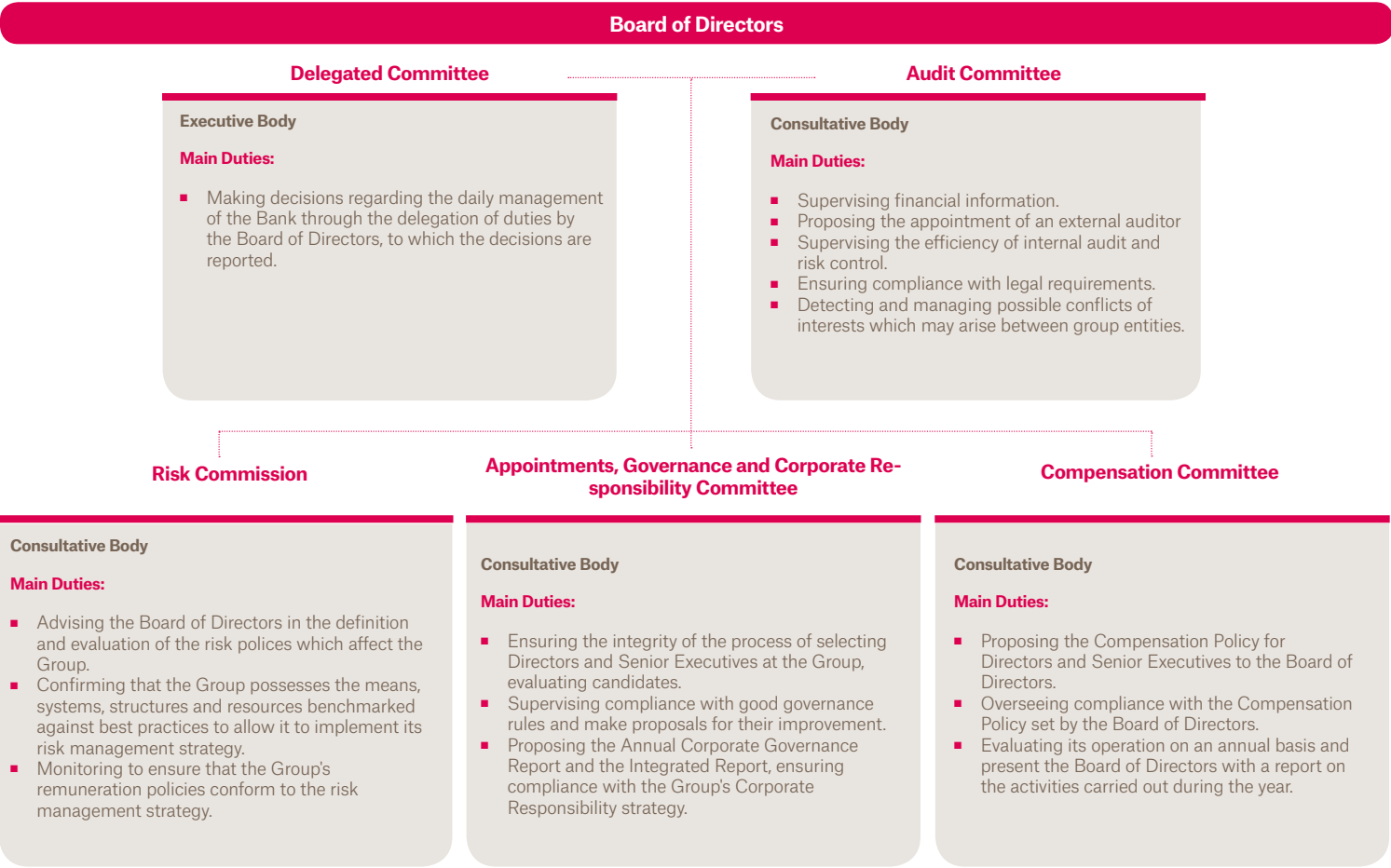
The Board of Directors consists of 15 members, 27% of whom are 55 years old or younger, 67% of whom are between the age of 56 and 70 and the remaining 6% of whom are older than 71. 80% are men and 20% are women, while 13% are societies and 87% natural persons. Also, 20% of them with nationality other than Spanish.

In order to guarantee compliance with the duties belonging to the Board of Directors, there are five Committees delegated the responsibility of permanently monitoring areas that are particularly relevant to the Good Governance of the Bank. These committees are as follows:

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

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

Governance Structure of the Board of Directors - 2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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## Evaluation

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

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

In line with the continuous evaluation of the Board and Senior Management, in 2016 the Board of Directors, with the intervention of the Appointments, Governance and Corporate Responsibility Committee, has continued to apply and oversee the Candidacy Evaluation Policy for Directors, General Managers or similar positions, the persons responsible for internal control duties and other key posts relating to the daily management of the banking activity. All in accordance with the provisions of Article 25.1 of the Law on Management, Supervision and Solvency of Credit Institutions 2014 (hereinafter LOSSEC) and its development standards. This Policy is intended to establish the internal procedures and policies at Banco Popular to select and evaluate candidates for positions that are considered to be essential to its activity.

Equally, during 2016, in accordance with the LOSSEC in 2014, the incompatibilities of Directors and Senior Managers of the Bank with regard to the positions held in different societies of the Banco Popular Group have been reviewed.

## Training

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

Likewise, the 2014-2016 Transversal Corporate Responsibility Training Plan includes specific training initiatives for Directors designed to standardise concepts relating to environmental, social and good governance performance of the Entity, and also to show the Bank's action in this field.

## Remuneration

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

The Compensation Policy of Banco Popular distinguishes between the remuneration system applicable to the Directors in their capacity as such and the system of executive Directors. The compensation of the Directors consisted on a fixed amount of 120,000 euros for all members of the Board of Directors.

Pursuant to the Compensation Policy approved in 2015, a system of bonuses in Banco Popular shares was approved for 2016 for members of the management team of the Entity, including executive Directors and members of Senior Management.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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This system of medium and long-term bonuses establishes a gradual payment over several years, in order to encourage the creation of long-term value and adapt the compensation to the risk timeline. When calculating bonuses, the professional performance of the persons concerned, the attainment of previously established objectives and their alignment with prudent risk management, as well as the result of the offices concerned and the entire Group's business, are taken into account. In 2016, Popular continued including sustainability indicators based on ESG criteria in the calculation of executive Directors' and Senior Management's bonuses.

The weight of the Bank's performance when establishing compensation for executive Directors is particularly reflected in the Entity's Compensation Policy, notwithstanding the general compensation criteria for the rest of the personnel at the Bank and its subsidiaries. This Policy takes into account habitual criteria in the market and, in particular, those from the financial sector. In the event the Entity incurs losses in any year included in the deferral period, the portion of the compensation not deferred will be subject to recovery, retention and return clauses.

#### Compensation received by Executive Directors of the Board of Directors - 2016

2016	Fixed compensation			Bonuses				TOTAL
	As Executive Directors		As Directors	For immediate payment		For deferred payment		
	Fixed	Complement for performance		In cash	In shares	In cash	In shares	
Ángel Ron	1,100	250	120	-	-	-	-	1,470
Pedro Larena	333	-	30	1,000 (*)	-	-	-	1,363
Francisco Aparicio	525	125	120	-	-	-	-	770
<b>TOTAL</b>	<b>1,958</b>	<b>375</b>	<b>270</b>	<b>1,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,603</b>

(\*) Bonus guaranteed under article 34.1 e) of Law 10/2014 of 26 June on the management, supervision and solvency of credit institutions.

[More information about Directors' compensation](#)

## Executive Management

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

The CEO is supported by the Management Committee, which he chairs and is comprised of 1 General Manager, 3 Deputy General Managers and 7 Assistant General Managers. All of the 11 members of the Management Committee are Spanish nationals and the average age is 49 years.

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

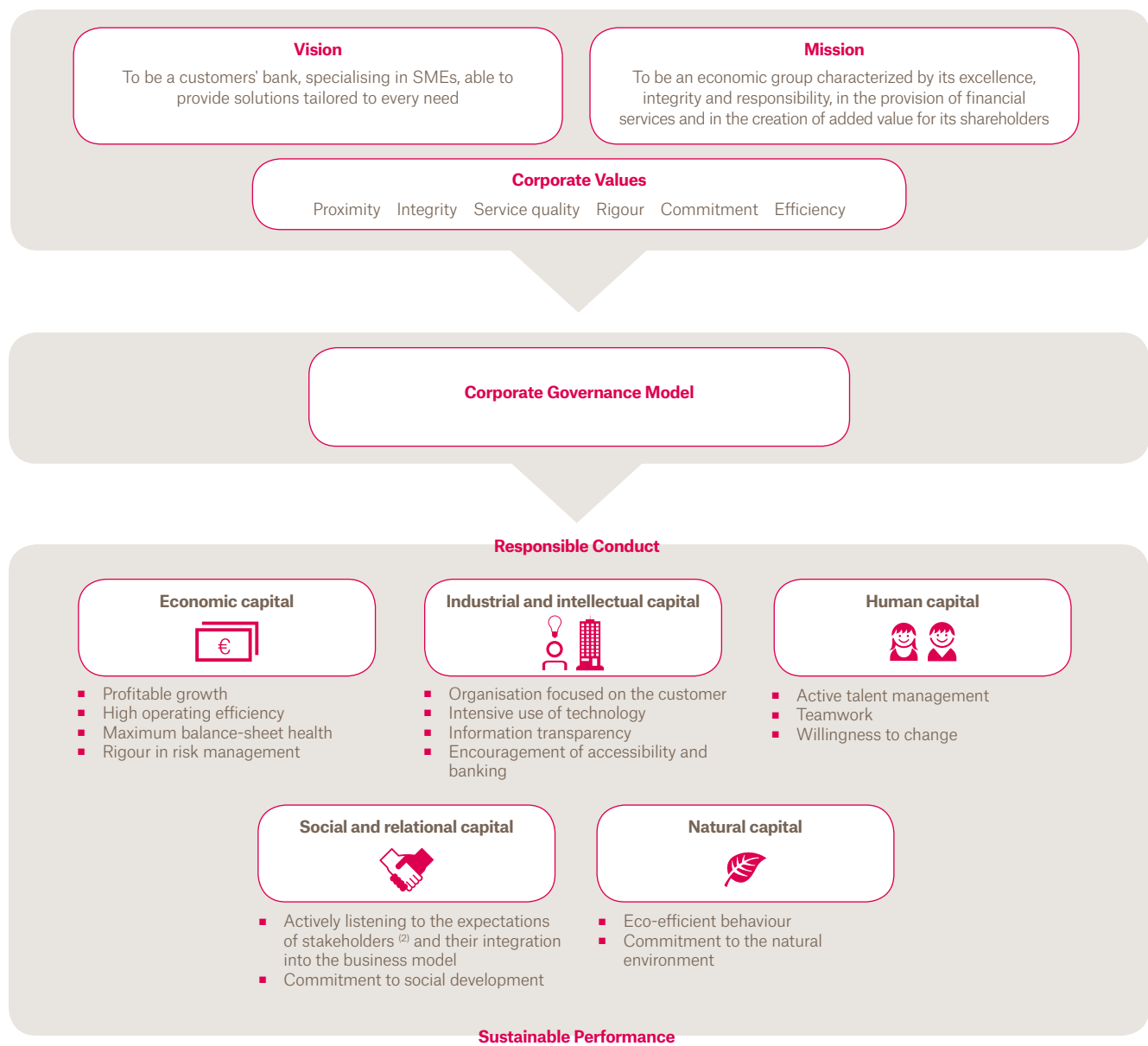
[More information about Executive Management](#)

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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## 1.2.2. Operating principles

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

Reflection of the Corporate Governance Model in the use of the various types of capital<sup>(1)</sup> and its effect



(1) More information about capital

(2) More information about stakeholders



Compliance with

**96%**

of the recommendations of the Code of Good Governance

### 1.2.3. Good Corporate Governance Practices

In 2016 Banco Popular has continued to consolidate its good Corporate Governance practices in accordance with its policy of continually adapting to meet the highest Good Governance standards. In this regard, it is noteworthy that the Bank complies with 96% of the recommendations of the Code of Good Governance. During the year the following milestones are highlighted:

- **Changes in the arrangement of the Board of Directors.** In 2016, the Board of Directors underwent deep changes in its composition, some of which will end up being consummated in 2017. Ordered chronologically, these changes have been as follows:

**- Modification to the proportion of independent Directors and proprietary Directors.** In accordance with Good Governance recommendations and following a report from the Appointments, Governance and Corporate Responsibility Committee, the Board of Directors resolved to propose various appointments and re-elections of Directors to the 2016 Ordinary General Shareholders' Meeting which, together with the departure of certain Directors has led to a significant change in the composition of the Board of Directors in two ways: the proportion of proprietary Directors has reduced and that of independent Directors has increased.

Regarding the reduction in the number of proprietary Directors, this decrease has been due, on one hand, to the resignation presented by Fundación Barrié in early 2016 and the change of category of Mr. José María Arias who having been considered a propriety Director is now under the category of "other external".

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

## Integration of SDG into the Corporate Responsibility Policy

The performance of Banco Popular's Corporate Responsibility implies an exercise in constant innovation and adaptation to the needs of the environment. Following this premise and the recommendations of the Code of Good Governance, in 2015, the Board of Directors approved a Corporate Responsibility Policy.

The primary objective of this Policy is to create tangible and intangible shared value by carrying out the Bank's activity in a responsible manner, taking into account the expectations of stakeholders and managing business risks and opportunities. Additionally in 2016, the Board of Directors approved the update of the Policy related to the commitment of the Entity to integrate the 17 Sustainable Development Goals (SDG) into its Corporate Responsibility strategy.

Its application is based on a set of performance principles, among which include the promotion of good governance and alignment with the best practices in Corporate Responsibility, adding value to the business by developing responsible activity for the Group as well as transparent and accurate communication on economic and good governance, social and environmental performance of the organisation.

The scope of this Policy encompasses all Banco Popular Group's entities and the competence to review and approve its content, as well as monitor its compliance, in order to ensure that it is focused on creating value is the responsibility of the Board of Directors.



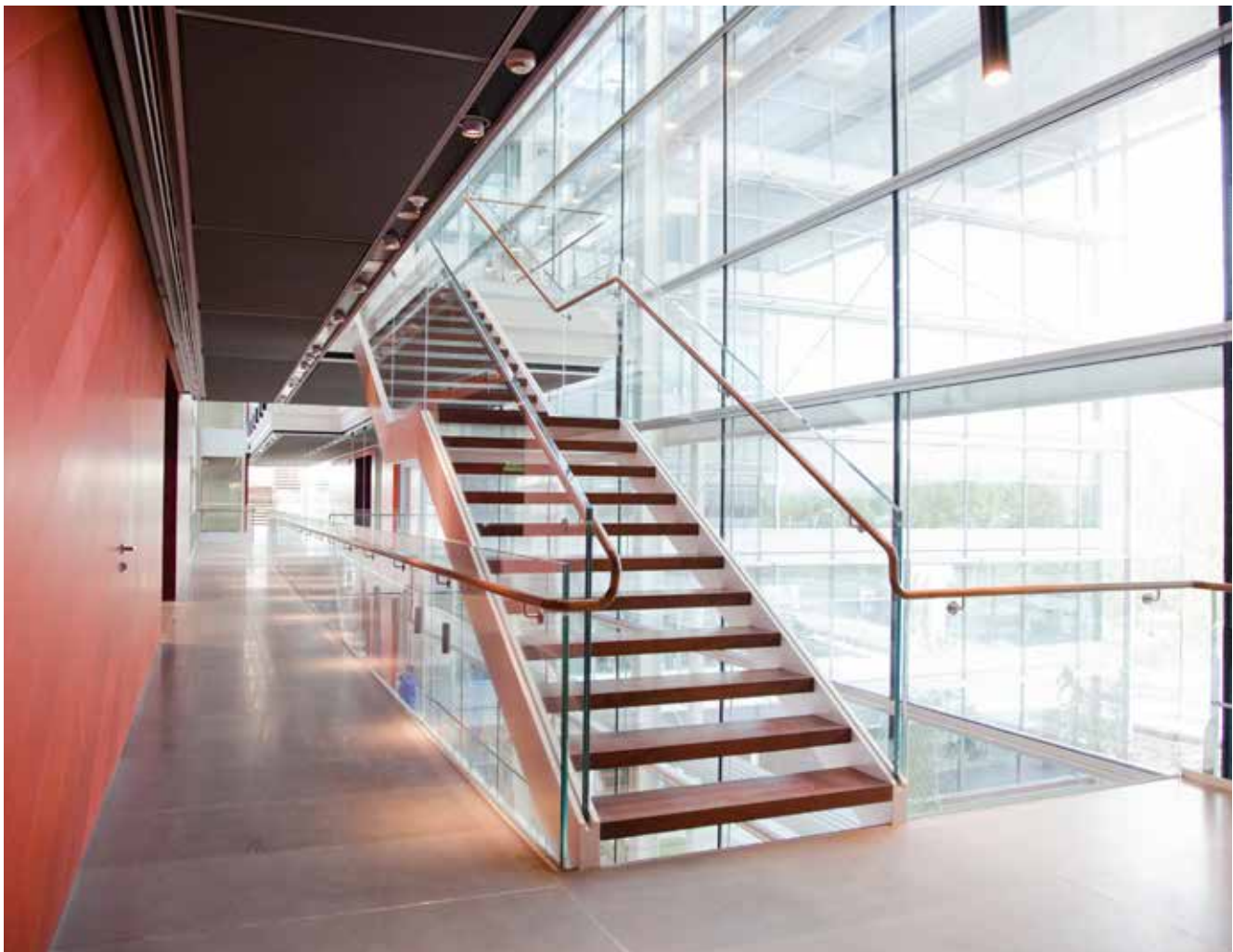
Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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- **Replacement of the CEO.** The Board of Directors, in its July meeting, agreed to accept the resignation of Mr. Francisco Gómez as CEO and, in his place, appoint Mr. Pedro Larena.

- **Succession process of the Chairman of the Board.** In the meeting of the Board of Directors on 1 December, the Board unanimously agreed to initiate a succession process of the Chairman, Mr. Ángel Ron, proposing Mr. Emilio Saracho as his replacement. This replacement will culminate in the Extraordinary General Meeting on 20 February 2017.

All these changes have required intense activity in the selection and evaluation process of the candidates for Directors, allowing the implementation of the Directors' Selection Policy approved in 2015, as well as the Succession Plan of the Chief Executive Officer and the Chairman, approved in April 2016. Likewise, it is assumed that the Board currently has a high degree of knowledge, experience and diversity which guarantees that Popular is prepared to face future challenges.

- **Approval of the Board of Director's Succession Plan.** Again following the sector's recommendations and best practices, the Board of Directors, in its meeting on 11 April 2016, approved the Board's Succession Plan, a document which structures the succession process of the directors in general and in key roles such as its chairman, CEO, coordinating independent director and secretary.



## Risk Management in the Banco Popular Group

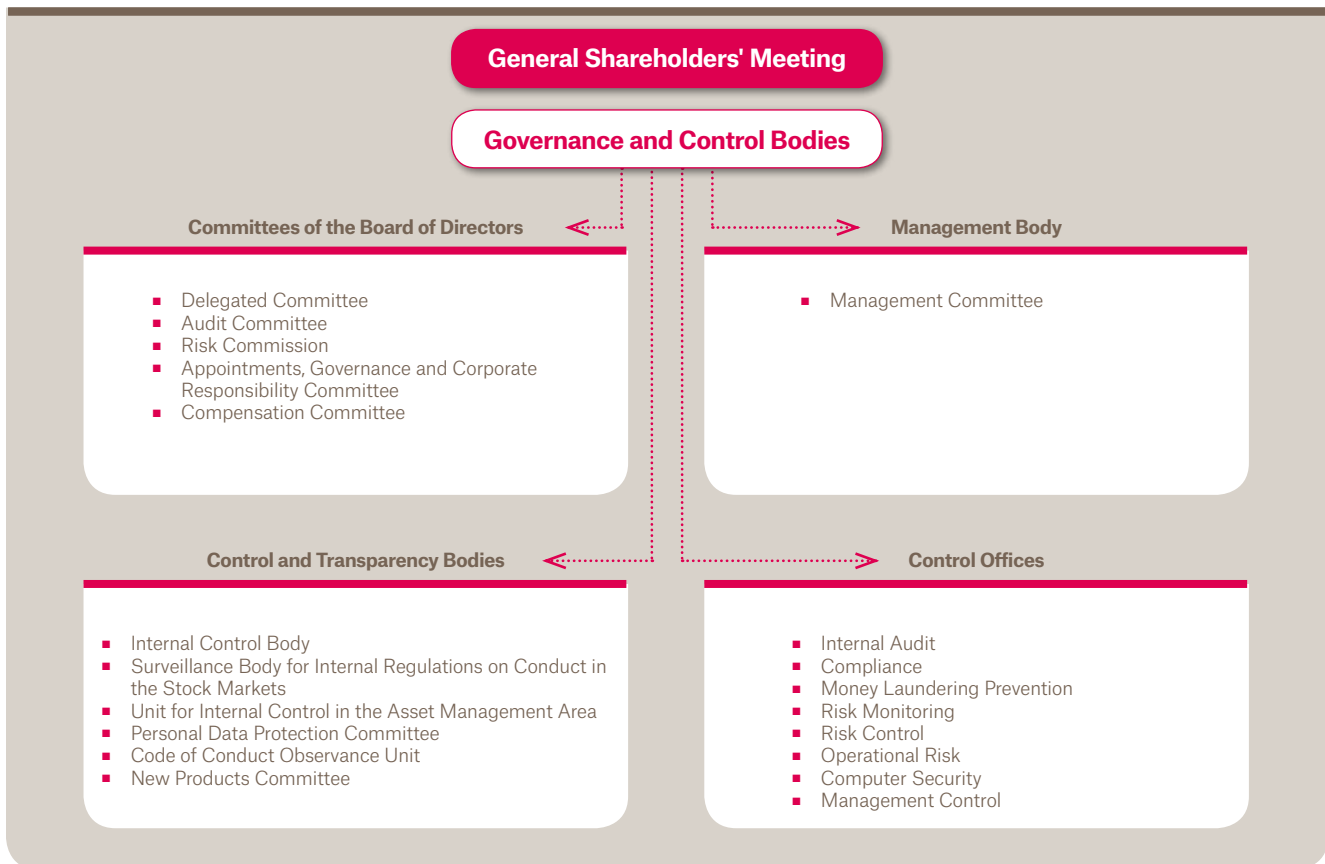
Popular carries out disciplined, diversified and integral risk management, fostering an internal government which promotes prudent risk management and the qualification of the Entity's professionals, establishing risk policy criteria aimed at achieving a Medium-Low risk profile, ensuring that, at all times, the Group carries out its commercial activity and its business expectations within the set risk limits and objectives established.

For its business model, the main risks to which the Group is subject are credit and liquidity.

The following principles govern risk management:

- Targeting a healthy balance sheet
- Control of risk concentration enhancing sectoral diversity
- Adequate risk monitoring and control
- Sustainable business growth with the aim of optimising profitability
- Reasonable balance between loans and receivables and funds obtained
- Systematisation and automation of processes

### Main governance and control bodies – 2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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Moreover, Popular has established the main axes of the risk management policy, as detailed below:

■ **Risk Culture**

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

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

- Corporate values which create an environment of effective critical comments, in which the decision-making processes promote different points of view.
- Training of staff in their responsibilities in terms of risks, showing who is responsible for what type of risk, without risk management solely being the experts in risks or control functions. The responsibility for daily management of the risk appetite and respecting its policies, procedures and controls will be the business units.
- A risk appetite which is incorporated into processes and systems.
- Compensation and career plans which encourage attitudes and skills in line with risk appetite management objectives.

■ **Governance**

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

■ **Risk Appetite**

Popular has a Risk Appetite Framework approved by the Board of Directors, an instrument of governance which contributes to an effective and comprehensive management of the Entity's risk appetite.

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

The risk appetite level shown determines the risk strategy, establishing policies that will maintain or achieve a residual risk profile in accordance with the objective; periodically assessing the level of inherent and residual risk.

The profile of the different categories of financial risks (credit, operational, interest rate, market, liquidity and business) and non-financial risks (reputational and compliance), determine the objective of capital. The planning process and stress test ensure that the risk profile is maintained according to the appetite shown and that the objective of capital is met.

■ **General Control Model**

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

[More information about Risks](#)

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## Regulatory Compliance

The Regulatory Compliance area performs its duties transversally and under the principle of independence from the Entity, evaluating the control mechanisms on regulatory risks which affect the set of activities and businesses developed by the Group in accordance with the ethical behaviour.

The following are amongst its main duties:

- Periodically identifying and assessing possible regulatory non-compliance risks.
- Advising and assisting governing bodies on regulatory compliance matters.
- Establishing effective controls with a view to ensuring the correct implementation of procedures established to mitigate compliance risks.
- Identifying possible flaws and communicating them to Board of Directors, the Audit Committee and Senior Management, suggesting corrective action, where appropriate.
- Managing relations with regulatory and supervisory bodies, (Spanish National Securities Market Commission, Banco de España and SEPBLAC) in a timely and appropriate fashion.
- Collaborating in the development of training schemes on regulatory compliance issues in order to improve knowledge amongst the organisation's employees.

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

### ▪ **Prevention of money laundering**

Popular works with the competent authorities, analysing and reporting, if appropriate, any transactions that present indications of being related to such activities to SEPBLAC. It includes the Manual on the Prevention of Money Laundering and Financing of Terrorism, with the obligations and procedures related to the prevention of money laundering. Given the importance of this issue, a compulsory course for all staff was given. In 2016, Banco Popular was not subject to any penalty with respect to prevention of money laundering.

The Internal Control Body (ICB) is responsible for applying the prevention of money laundering policies and procedures. With the support of the Prevention of Money Laundering area, they monitors and ensures the proper operation and updating of the systems and the proper application of procedures for the prevention of money laundering and terrorist financing.

### ▪ **Management of conflicts of interests**

The Conflicts of Interest Policy establishes the relevant mechanisms and measures which effectively prevent conflicts of interest which may arise between consolidated subsidiaries, those people belonging to them or certain persons related to them, and their customers, as well as among their customers, and that may be detrimental to said customers in the supply of investment services, as well as effectively managing said conflicts of interest.

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With regard to the communication to the interested parties of conflicts of interest in the cases in which the measures established to manage conflicts of interest are not, in the Group's opinion, reasonably sufficient to avoid the risk that the customer will suffer damage, the consolidated subsidiaries must inform them of the nature of the conflict and of the other circumstances which enable them to make a decision on the contracting of the investment service in the context surrounding the conflict of interest.

### ■ Data protection

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

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

### ■ Corporate Conduct

Popular has operated a global programme of Corporate Conduct to establish an analysis of risks in this area, together with the implementation of measures and controls to validate compliance. This programme, which is included in the Code of Conduct and the Action Guidelines for employees, establishes the principles, general rules and action guidelines, as well as their practical application.

With the aim of ensuring compliance with the Code of Conduct and the Action Guidelines for employees, the Supervisory Unit is in charged of the supervision and setting of guidelines on Corporate Defence and coordinates the Whistleblower Channel. In 2016, a course was given on the Code of Conduct through the training platform *conoce+*, for which completion and passing was mandatory for all the Group's workforce.


The Whistleblower channel is the system through which all employees may report to the Supervisory Unit any violations of the Code of Conduct on the part of any employee or Entity subject to compliance strictly confidentially. In 2016, no reports of a criminal nature have been received through this Channel.

Furthermore, there are two Codes of Conduct for Suppliers and Agents, respectively, whose purpose is to ensure that these two groups carry out their business activity respecting the legality and ethical principles at all times. Since 2005, Banco Popular has stated its commitment to the principles contained in the United Nations Global Compact, and has repeatedly expressed it. There were no incidents involving a violation of these in 2016.

### ■ Stock Market

It identifies and evaluates the default risk associated with the Bank's stock market business activities, including the development of new products and business practices, ensuring that the rules governing transparency and customer protection are observed. The tasks performed by the Internal Code Regulations (ICR) Surveillance Body is of particular interest as it ensures compliance by employees of the internal rules regarding stock markets.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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**1,264**  
internal audits made

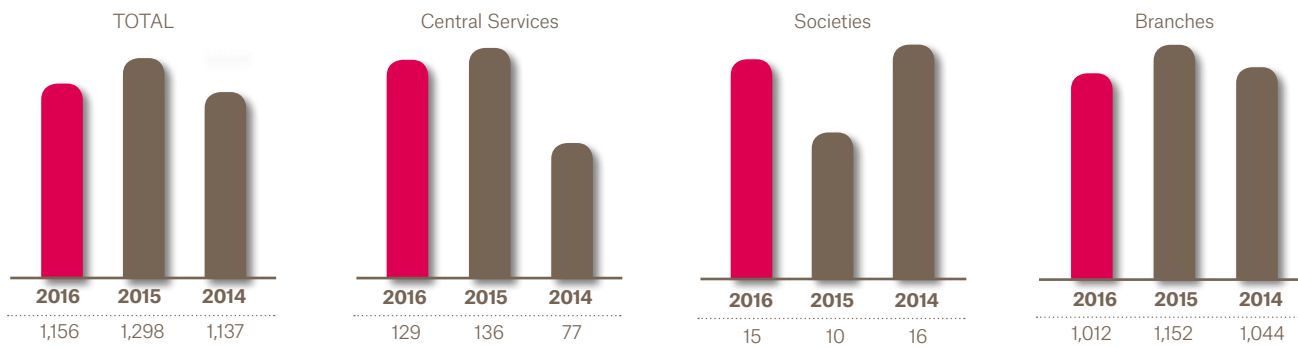
## Internal Audit

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

Its main objective is to evaluate the adequacy of the procedures established in the various Group units for managing risks, including the issuance and monitoring of recommendations for improvement. It keeps the Senior Management and the Audit Committee of the Board of Directors permanently apprised of the results of its tasks and of the degree of implementation of the recommended improvement measures by the audited offices. It proposes an Annual Audit Plan to the Audit Committee, for the latter's approval, where it draws up a risk assessment process, the regulatory requirements and the concerns of the Board of Directors and Senior Management.

In 2016, 58.19% of the total branches and 15.6% of total societies have been audited: 1,012 out of a total of 1,739 and 15 out of a total of 96, respectively. In addition, 129 audits have been performed on Central Services, 10 on Liquidity Risk, Market and Interest Rate Risk and 98 on Risk and IT. Through the latter, the Bank has supervised aspects such as the internal models of Operational and Credit Risk, Database Security and Prevention against the risk of leaking information, ICAAP, ILAAP, Prudential Relevance Report, Risk Appetite Framework (RAF), Internal Control System on Financial Reporting (ICSFR) and the marketing of the Bank's Capital Increase in 2016, among others.

### Type and number of audits - 2014/2016



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## Application of the Group's Information Security Policy

The complexity associated with the use of new technologies, information systems and compliance with applicable legal requirements recommend, the existence of clear and concise directives which define the guidelines to follow in the handling of information. Therefore, the Group's General Management has considered necessary to improve its strategic position in the security of the systems through the adoption of a Corporate Information Security Policy.

The objective of this Policy is the efficient protection of information by means of preventive, detective, reactive and dynamic approaches. The directives within it have been defined according to the UNE-ISO / IEC-27002 standard which establishes an internationally recognised security framework. This security framework is supported by a set of processes, policies, procedures and security tools in place to protect information assets.

The Group has implemented, as a guarantee for business continuity, a procedure to ensure the recovery of critical processes in case of disaster, reducing downtime to acceptable levels from a business point of view with the right combination of organisational, technological and procedural checks, both preventive and recovery.

The scope of this Policy includes all offices, units, areas, departments, employees and subcontractors who access the information systems of all Group companies, as well as external companies and applies to all information systems regardless of the technology which supports it.



### 1.2.4. Supervision and external control

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

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

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

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## 1.3. Business model and creation of shared value

### 1.3.1. Differentiating business model and adapted to the new environment

Over the course of the years, the Bank has focused its efforts on acquiring a differential factor with respect to the competition by constantly seeking to improve customer service. The firm defence of its strategy, together with the capacity to adapt to changes in the environment have made Popular business model historically unique and difficult to replicate. Currently, the financial system is in the process of transformation and conversion, due to: pressured profitability, high indebtedness and deleveraging, new incoming agents and prices, the regulatory environment, digitalisation and risks such as geopolitical or financial.

This has led the Banco Popular Group to evolve its business model towards a commercial bank specialising in business, with a focus on profitability. To this end, two basic organisational and management pillars have been established, which have been specified in the management of its activity in two areas: Main Business and Property and Associated Business.

This new model is centred on value generation, searching at all times for the maximum profitability on the resources used. In this context, each business will be based on micro-management and specialisation with constant adaptation to the environment, having their own measurement and assignment of objectives, together with a requirement of individualised profitability.

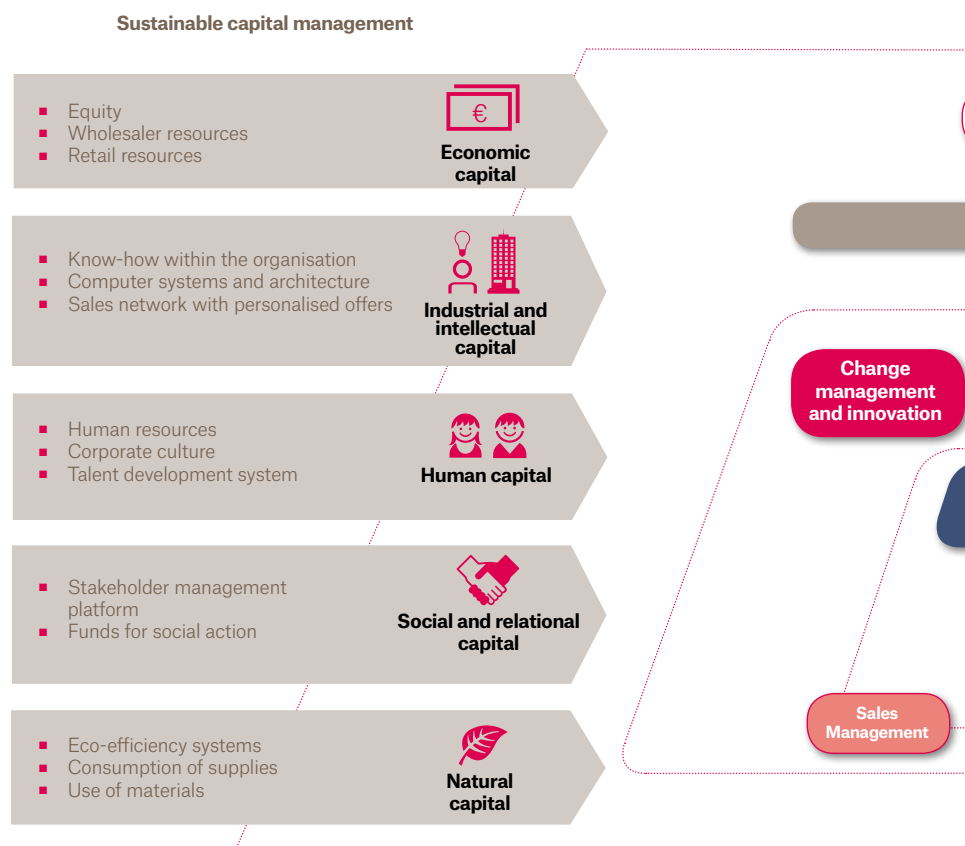
Additionally, Popular continues with its historical essence of being an Entity characterised by integrating the following principles into its business model:

- **Purely retail.** Commercial operations are the Bank's forte, focussing its activity on financing, management of savings and economic services for individuals, families and companies.

#### Banco Popular business model in accordance with IIRC requirements

Banco Popular's business model reflects the Bank's corporate culture, transferring its values from the Corporate Governance of the organisation to its daily operations and its relationships with stakeholders.

Below, Banco Popular's business model is shown taking into account the approach provided by the International Integrated Reporting Council (IIRC).

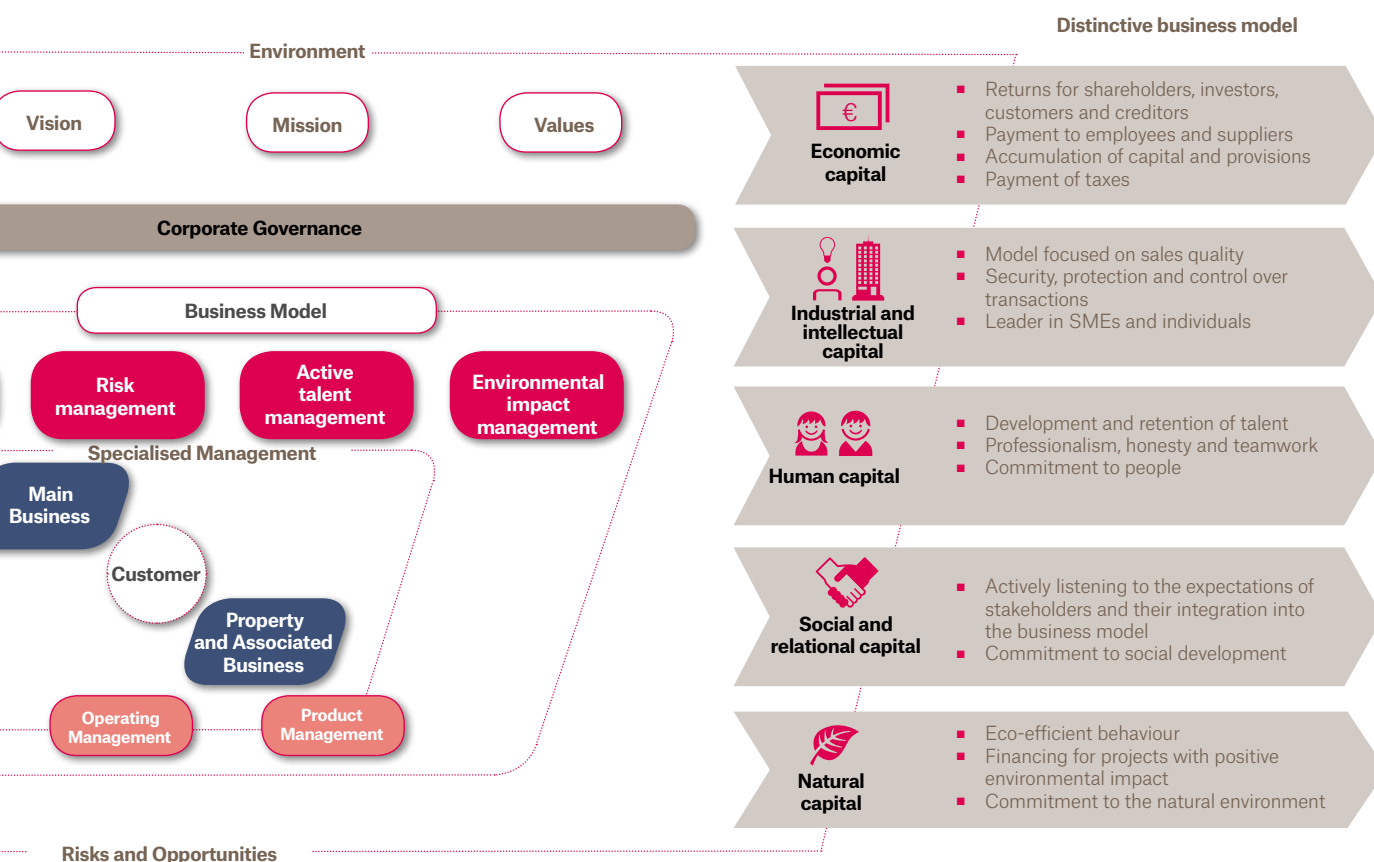


- Transversal management principles
- Specific management principles
- Activity by business line



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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- **An SME specialist.** Traditionally, the Bank has been committed to developing the productive systems of the economies in which it is present by financing their business fabric rather than speculative strategies. To this end, it supports businesses, and SMEs in particular, for which its primary advantage is the proximity of its relationships and knowledge of the sector.
- **Customer oriented.** Popular is committed to offering a quality service that encompasses our customers' needs whilst maintaining high levels of satisfaction. To this end, the Bank has made efforts to attain a flexible organisational structure that is decentralised and horizontal, to increase proximity to customers and ensure constant awareness of economic needs that must be resolved, making a quick response and the resolution of any queries that a customer may have a priority.
- **Efficient.** The culture of efficiency permeates the organisation, allowing the Entity to be one of the most efficient European banks historically despite the difficulties of recent times.
- **Solvent and prudent in risk management.** Popular manages the balance sheet in a responsible and independent manner, based on a conservative write-off policy and prudent, disciplined and diversified risk management. The business concentrates on known areas and takes into account both careful credit management and a conservative position as regards changes in the environment.
- **Favouring strategic alliances to develop specialised businesses.** The Bank's objective is to develop synergies based on the experience of its partners to maximise the Group's value.
- **Responsible to the surroundings in which it operates.** With the responsible development of its activity, the Bank seeks to contribute to growth and economic development as well as strengthen ties with key stakeholder groups, integrating their expectations into the daily management of the business. Maintaining lasting relationships with these groups leads to increased competitiveness and readiness to meet the challenges of a changing global market.




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## Capitals

Popular identifies a number of different types of capital which it takes into account when developing its business model, as well as in responding to business challenges and opportunities. The Group defines "capital" as the various resources that it uses in its internal value creation processes. All the activities that it carries out require one or more types of capital, which are interrelated and in constant transformation. In accordance with the IIRC, and based on the definition of material aspects of Banco Popular, the classification of these capital resources for the Entity is as follows:


### Capitals

- 


**Economic capital**

Economic and financial resources that the Bank has and which it obtains through a strategy for obtaining funds for subsequent management and to make its business model solvent, profitable and efficient.
- 


**Industrial and intellectual capital**

The tangible assets available to Popular to carry out its activity (branch office network and computer systems) and intangible assets relating to know-how within the organisation used to develop a business model which places a premium on sales quality, the security and protection of transactions.
- 

**Human capital**

All of the aptitudes, capabilities, knowledge and experience provided by the employees of Popular which, together with the organisation's corporate culture, ensure that the business model encourages the professionalism of employees and commitment to talent.
- 

**Social and relational capital**

The relationships that the Bank maintains with its stakeholders and the management of their expectations generate shared value that contributes to the business. Furthermore, the performance of banking activities has an impact on society which makes the Entity committed to responsible action in the areas in which it operates.
- 

**Natural capital**

In order to carry on its activity, the Bank needs various materials and supplies, which it uses in an eco-efficient manner, thereby demonstrating its commitment to the natural environment in which it operates.



## Moving forward in operational efficiency through digitalisation

Currently, the financial sector is immersed in a deep process of digital transformation which has led to a change in its business model. Popular, aware of the need to adapt itself to the new market demands, has undertaken an important digitalisation process which will affect the entire organisation to transform the customer relationship model, internal processes and the way of working to achieve greater efficiency, productivity and customer experience.

Firstly, the new Digital Transformation General Management has been created, belonging to the Management Committee and whose purpose is to promote the transformation process in the Group and has the following objectives established to prepare the organisation to compete in the new digital context:





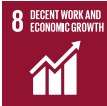


- Increase the number of digital customers.
- Evolve the digital channels to improve the customer experience and driving its transactional and commercial use.
- Develop differential digital proposals for each segment.
- Offer a personalised customer experience.
- Use the digitalisation as an operational improvement to internal processes.
- Incorporate digital in the day to day running of the Branch network.
- Digitalisation of specialised businesses.
- Implementation of new, more efficient, management models: Remote Digital Management.
- Incorporate a digital, agile and collaborative culture throughout the organisation.
- Analyse current opportunities in the Fintech world and in digital innovation to develop new business models.

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## Transversal management principles

Both the culture and the Corporate Governance model at Popular are present in its business model. In order to implement this model, the Entity takes into consideration the following management principles, which help it to prepare for the changing risks and opportunities in its operating environment:

### Transversal management principles

 <b>Change management and innovation</b>	<p>The ability to adapt to change and innovation are two key aspects that allow Popular's business model to be solvent and sustainable over time. For this reason, innovation is a transversal aspect in all business areas, and allows the Entity to be constantly developing and evolving.</p>	
 <b>Risk management</b>	<p>Risk management carried out is oriented to support the business model, based on specialisation. It allows for a global and anticipatory view in the analysis, a well-adjusted balance sheet in terms of risk and a minimised risk cost and adjusted to profitability. All this is possible through the definition of risk policies by business, the delegation of discretionary powers and monitoring from a prospective vision; as well as continuous control of live risks and quick warnings on their non-compliance to resolve the situation in a short period of time.</p>	
 <b>Active talent management</b>	<p>Each person making up Popular is a key part of the Entity, since thanks to their professionalism the business model is unique, sustainable and differentiating. For this reason, commitment to people and retention of talent are significant issues for the Bank.</p>	
 <b>Environmental impact management</b>	<p>The performance of banking activities and interaction with stakeholders generate a series of impacts on the environment that the Bank must manage responsibly, taking them into consideration and including them in the business model in order to create shared value on a sustained basis over time.</p>	

On the other hand, in 2016 Popular created a new tool aimed at the managers of the Group called Nexo to give the best commercial service and customer advice anywhere.

[More information about Multichannel Banking news](#)

Finally, the Bank remains committed to the activities of Research, Development and Technological Innovation. For this, throughout 2016, it has made significant investments which reached 128 million euros, with the main projects carried out being the following:

Customer Platform Project	SICYF Project	RIM Project
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[More information about Innovation and Development](#)

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## Specific management principles

Popular follows a customer-oriented specialist business model which is purely retail in nature and highly specialised in the SMEs sector. The model takes into account certain specific management principles which make it solvent, efficient, responsible and customer-oriented.



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

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



- **Operating Management.** Popular's business model pursues specialised and efficient management of operations, making a quick response and the resolution of matters that may affect a customer a priority. Operationally, the focus is on cost efficiency, agility and flexibility, without which the service supplied to the customer loses quality.



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

In the case of retail business, Popular has focused on the creation of new solutions and economic channels with which to compete in the market, thus increasing customers' range of choices. In relation to companies, the objective is to ensure that customers always have all the necessary resources to develop their business and, accordingly, the most advanced tools and products are made available.

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## Activity by business

The activity developed by Popular is segmented into two specialised management lines: Main Business and Property and Associated Business. Below, the main characteristics are set out:

- **Main Business.** Represents all of the banking business, excluding property and associated. Mainly includes the Retail Banking business and its sub-businesses: SMEs and self-employed persons, individuals, consumption, asset management and insurance, amongst others.

The business with SMEs and self-employed persons continues to be the Group's cornerstone. 57% of new loans granted is to these segments, this growth being very focused on the most dynamic economic sectors. In the business with SMEs and self-employed persons, the Group has granted 38,500 million euros of financing to more than a million customers through more than 1,000 specialised managers. The remainder of the loans are granted to other types of companies and, to a lesser extent, to individuals.

Consumer business maintains its high profitability supported by the good performance of WiZink. This has included the recent acquisition of the Barclaycard cards business in Spain and Portugal.

In addition, the contribution from the insurance, funds and securities business is noteworthy, 22,039 million euros in 2016, which generated an ROTE of more than 100% at the low risk of these activities. Highlighted is the increase in insurance sales which grew by 4.2% over 2015.

The corporate banking and large companies business has increased the profitable investment balance by 3.90% standing at 9,281 million euros compared to 8,933 million euros at the end of 2015.

- **Property and Associated Business.** This business includes properties and credit risk associated with the real estate sector (promotion, construction, sale/purchase or renting of property, accommodation, amongst others), both in Spain as well as subsidiaries and real estate shareholdings.

One of the main objectives of this business is to seek profitability on unproductive assets through the concentration of the management into a single Management area, having a Branch network for specialist management, carrying out deconsolidation initiatives, selling portfolios, Joint Ventures and through teams which increase the recovery of write-offs.

During 2016, the volume of unproductive assets has been reduced, thanks to the good performance of the gap of inflows and outflows of properties and the improvement in the recovery management, which will reduce the levels of non-performing balances for 2017.

Specifically, in the Property and Associated Business, the net volume of unproductive assets has decreased in the last twelve months by 1,789 million euros (-10% year-on-year).

In addition, the good performance of property sales continues, with a total of 2,024 million euros during 2016. It should be noted that retail sales have improved by 7% in relation to 2015, with a very balanced mix of quality and a significant increase in the sale of land of 49% compared to 2015.

More information about the **Business**

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### Segmentation by business area - 2016

Data in thousands of euros	Main Business	Property and Associated Business	Consolidated Total
<b>=Net interest income</b>	<b>2,213,542</b>	<b>-116,954</b>	<b>2,096,588</b>
+ Profit/(loss) of entities accounted for using the equity method	98,590	-38,695	59,895
+ Net fees and commissions	530,256	8,415	538,671
± Profit/(loss) on financial operations (net)	184,928	15,800	200,728
± Other income	-66,419	-3,711	-70,130
<b>=Gross income</b>	<b>2,960,897</b>	<b>-135,145</b>	<b>2,825,752</b>
- Administrative expenses	1,629,942	257,314	1,887,256
- Depreciation and Amortisation	113,844	26,851	140,695
<b>=Net operating income</b>	<b>1,217,111</b>	<b>-419,310</b>	<b>797,801</b>
- Impairment of assets and provisions	1,666,378	4,025,623	5,692,001
± Other gains/losses	85,099	-79,381	5,718
<b>=Profit/(loss) before taxes</b>	<b>-364,168</b>	<b>-4,524,314</b>	<b>-4,888,482</b>
± Taxes and others	-57,430	-1,345,686	-1,403,116
<b>=Profit attributable to the parent company</b>	<b>-306,738</b>	<b>-3,178,628</b>	<b>-3,485,366</b>

The profits at 31 December 2016 in the Main Business show a strong position in net interest income of 2,213 million euros, a gross income of 2,961 million euros due to the contribution from fees and commissions and an operating income of 1,217 million euros which has been reduced by the costs associated with the staff restructuring plan. Profit after tax shows losses of 306.7 million euros as a result of the extraordinary provisions on loans.

For its part, the Real Estate Area had a negative contribution to Group profits with net interest income of -117 million euros and an operating income of -419 million euros, generating accumulated losses of -3,179 million euros due to the extraordinary provision on impairment of property.

The extraordinary provisions have been made based on Circular 4/2016 which introduces amendments to Annex IX of Circular 4/2004, for floor clauses and, applying prudence criteria to improve existing coverage, in line with the sector.



## 1.3.2. Creation of shared value

### Generation of value through business development

The main contribution made by Popular to economic and social development is defined by the impact that its business activity has in a direct and indirect manner on the communities in which it operates.

In terms of direct impacts, the performance of the Bank's business activity creates economic value which directly affects the system in which it operates, with knock-on effects on its primary stakeholders and society as a whole, as may be observed below:

Economic value generated, distributed and retained (thousands of euros) – 2014/2016 <sup>(1)</sup>

	2016	2015	2014
<b>Economic Value Generated (EVG)</b>			
Gross income	2,825,752	3,430,911	3,876,033
Result on disposal of assets	70,341	127,875	498,039
Gains on non-current assets	-64,623	-88,498	-51,987
<b>TOTAL</b>	<b>2,831,470</b>	<b>3,470,288</b>	<b>4,322,085</b>
<b>Economic Value Distributed (EVD)</b>			
Employees: staff expenses	1,237,465	935,833	946,235
Suppliers: general administration expenses	511,574	518,656	645,812
Public Administrations: corporate income tax and other taxes	-1,272,600	70,283	271,425
Shareholders: dividends <sup>(2)</sup>	87,032	160,606	150,765
Society	8,157	13,330	8,505
<b>TOTAL</b>	<b>571,628</b>	<b>1,698,708</b>	<b>2,022,742</b>
<b>Economic Value Retained (EVR)</b>			
EVR = EVG - EVD	2,259,842	1,771,580	2,299,343
Provisions and depreciation and amortisation	5,692,001	1,614,664	2,078,279
<b>TOTAL</b>	<b>-3,432,159</b>	<b>156,916</b>	<b>221,064</b>

(1) Calculation performed in accordance with the GRI G4 requirements for the EC1 indicator. Given that the table does not fully reflect the Entity's financial situation, access the Annual Report for further information on Popular's results.

(2) This data considers total amounts (including amounts in cash and shares) at the time of payment.

Conscious of the direct impact of its activity, Popular has committed to the development of production systems in the economies in which it is present, by financing their business fabric. In this regard, the Entity believes that future economic recovery in Spain will largely involve the financing of SMEs, self-employed persons and entrepreneurs. Accordingly, supporting these segments will continue to be one of the priorities of Popular's business model in 2017.

More information about the [Economic Dimension](#)

Furthermore, there are also a series of indirect impacts deriving from the Bank's relationship with the rest of the economic and social agents in its environment. These effects, which range from the economic activity it generates amongst its customers to contribution to the strength and dynamism of the economic system through support for the country's social fabric or environmental protection.

More information about the [Social Dimension](#)

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## Contribution of value through a sustainable business model, CR Master Plan *Horizon 2020*

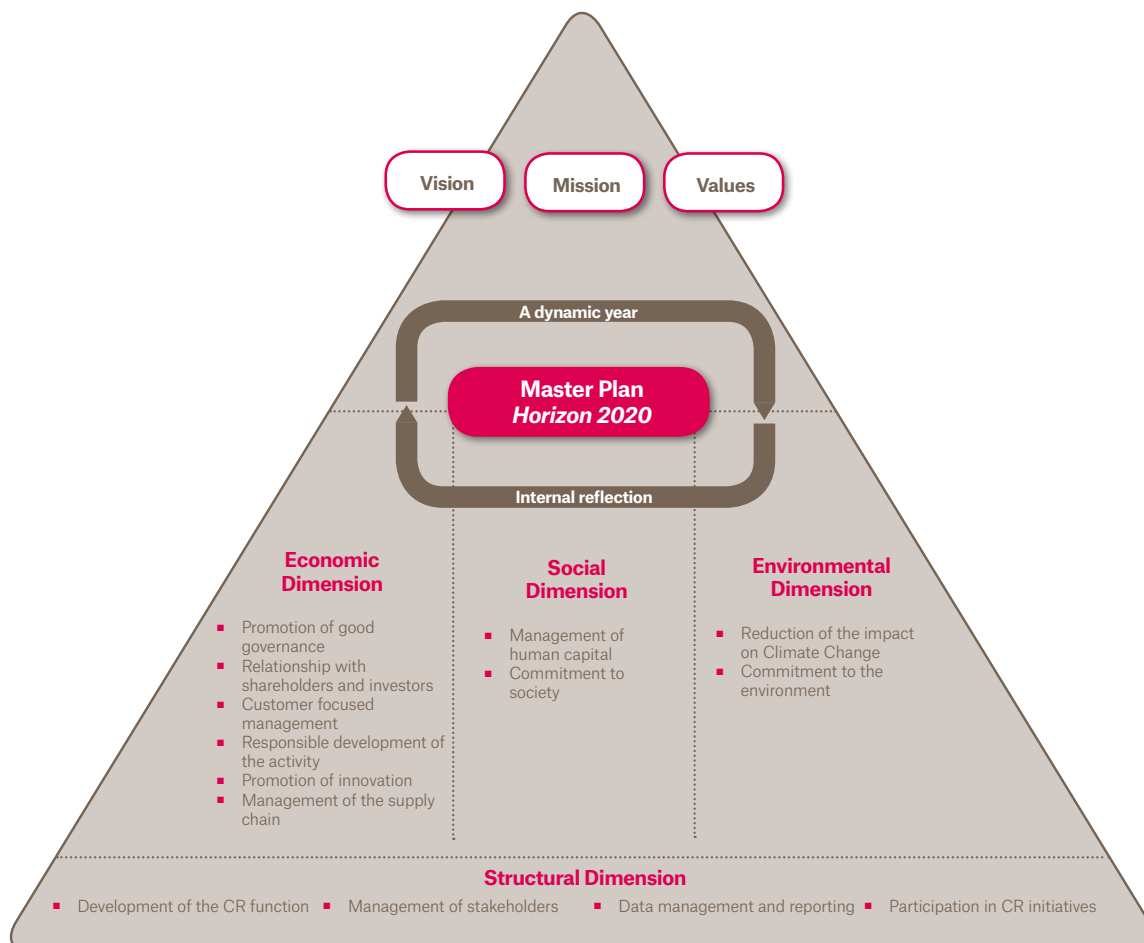
Based on the Bank's Mission and Vision, the CR Master Plan *Horizon 2020* has been defined as a roadmap that will allow the Group's Corporate Responsibility strategy to be rolled out through a multi-annual programme encompassing all of its business management. Thus the Bank's business model is anchored in sustainable management of the resources and responsible for the environment in which it operates.

The primary objective is to create tangible and intangible shared value by carrying out the Bank's activity in a responsible manner, taking into account the expectations of stakeholders and managing business risks and opportunities.

The lines of action defined within this Master Plan cover practically all of the Bank's areas of activity and are divided into four sections: structural, economic and good governance, social, and environmental. Its implementation is set on an annual basis based on the materiality of the issues concerned, in addition to its impact on the risks map, considering the needs of the Bank and the expectations of its stakeholders.

Furthermore, the Bank's Delegated Committee has resolved that, in relation to the Entity's voting intentions in environmental matters, all decisions that are adopted, both internally and at subsidiaries and investees, will follow the action guidelines established in the CR Master Plan *Horizon 2020*.

### Structure of the Corporate Responsibility Master Plan *Horizon 2020*





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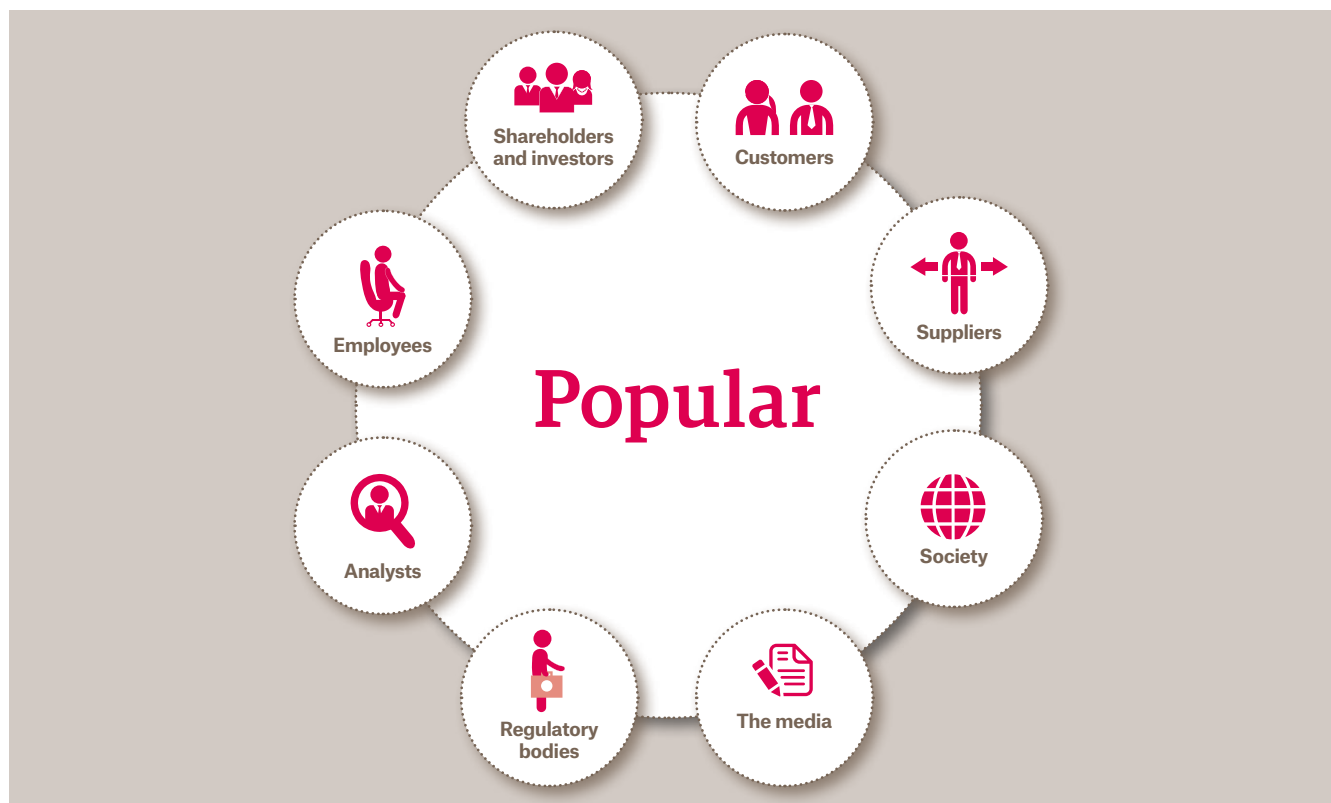
## Contribution of value through the management of stakeholders

The Group has built its business culture based on the performance of its activity in a responsible manner and is committed to all those individuals and societies that in some way influence or are influenced by the Bank's activities and which contribute to its progress, i.e., its stakeholders.

The Banco Popular Group is formed of Banco Popular, its subsidiaries and its stakeholders. As an important part of the Entity's structure, the Group seeks to be proactive in managing their needs, maintaining a global reach and monitoring and controlling the activities carried out.

Also, as a demonstration of the importance for the Entity of the management of stakeholders, certain voluntary standards of the Group establish specific objectives and practices to respond to their demands. These include the Corporate Responsibility Policy, the Environmental Policy to fight against Climate Change and the Employee Code of Conduct.

### Identification of stakeholders - 2016



All of them express expectations and demands commitments focused on achieving sustainable development of the Bank's activities and its own benefits. For this reason, during 2016, a task of reviewing the identification, segmentation and prioritisation of its stakeholders was carried out with the objective of continuing to improve management and dialogue processes. Based on the characteristics of each of them, the Group sets the objectives, defines the actions to be developed and establishes the necessary channels of communication to meet their demands and consolidate a sustainable and lasting relationship with all of them.

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Active listening to demands

Stakeholders	Type	Objectives
<p><b>Shareholders and investors</b></p>	<ul style="list-style-type: none"> <li>Minority Shareholders</li> <li>Institutional Shareholders</li> </ul>	<ul style="list-style-type: none"> <li>Facilitate the participation of shareholders in important decisions</li> <li>Communicate all relevant corporate and economic information in a transparent manner</li> <li>Strengthen the relationship established with shareholders by offering non-economic value associated with CR</li> </ul>
	<ul style="list-style-type: none"> <li>Individuals</li> <li>Companies</li> </ul>	<ul style="list-style-type: none"> <li>Provide a close and personalised service</li> <li>Support SMEs' development</li> <li>Offer products and services suitable to their needs</li> <li>Support international expansion</li> </ul>
<p><b>Employees</b></p>	<ul style="list-style-type: none"> <li>Current</li> <li>Early retirees and retired personnel</li> </ul>	<ul style="list-style-type: none"> <li>Contribute to their capabilities through training and professional development</li> <li>Attract and retain talent</li> <li>Promote equality and diversity</li> <li>Work-life balance</li> <li>Provide benefits to ex-employees of the Bank through preferential conditions associated with their working lives</li> <li>Maintain the Bank's association with a group that has contributed to its development</li> </ul>
	<ul style="list-style-type: none"> <li>Resident suppliers</li> <li>Non-resident suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Ensure equality of opportunities, accessibility and transparency in the management of the supply chain</li> <li>Promote and demonstrate responsible action with suppliers</li> </ul>
<p><b>Analysts</b></p>	<ul style="list-style-type: none"> <li>Economic</li> <li>Sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Convey all relevant economic information to the market in a transparent manner</li> <li>Establish a fluid, constant and permanent relationship with analysts</li> <li>Show the responsible behaviour of the Bank</li> <li>Promote the inclusion of sustainability indexes and initiatives</li> </ul>
	<ul style="list-style-type: none"> <li>Local</li> <li>National</li> <li>European</li> <li>International</li> </ul>	<ul style="list-style-type: none"> <li>Ensure compliance with regulations in each of the Bank's areas of action</li> <li>Anticipate regulatory trends to optimise the Bank's position</li> <li>Maintain a collaborative attitude, participating with regulatory bodies to contribute to maximising the benefit of regulations for all stakeholders</li> </ul>
<p><b>The media</b></p>	<ul style="list-style-type: none"> <li>General</li> <li>Specialised</li> </ul>	<ul style="list-style-type: none"> <li>Manage communications in a changing scenario, with impacts on the Bank's activity and reputation</li> <li>Maintain interaction with the media</li> <li>Instantaneous and immediate information and interaction with the digital community through social networks and the online world</li> </ul>
	<ul style="list-style-type: none"> <li>Spanish socio-economic scenario</li> <li>Communities in emerging economies</li> <li>Groups at risk of exclusion</li> <li>Environment</li> <li>Third sector</li> </ul>	<ul style="list-style-type: none"> <li>Encourage the creation of economic value and maintain employment</li> <li>Support development cooperation in economically depressed countries</li> <li>Encourage the social and economic integration of groups with specific needs</li> <li>Preserve and care for the environment</li> <li>Develop initiatives which mitigate Climate Change</li> <li>Participate in forums and associations related to the business</li> <li>Forums</li> <li>Collaborate with agents promoting socio-economic development activities</li> <li>Encourage corporate volunteering among employees of the Group and their social network through the web portal <i>con tu ayuda</i></li> </ul>

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Main actions	Communication	
	Periodic	Permanent
<ul style="list-style-type: none"> <li>Financial conferences, briefing sessions and meetings with shareholders, investors and analysts</li> <li>Impulse Plans</li> <li>Impulse Projects</li> </ul>	<ul style="list-style-type: none"> <li>General Shareholders' Meeting</li> <li>Roadshows</li> <li>Shareholders' Report</li> <li>Biannual and annual reports</li> <li>Meetings with investors</li> </ul>	<ul style="list-style-type: none"> <li>Shareholders' Office</li> <li>Website</li> </ul>
<ul style="list-style-type: none"> <li>Commercial Quality Model</li> <li><i>Popular Óptima</i></li> <li><i>Tenemos un Plan</i></li> </ul>	<ul style="list-style-type: none"> <li>Web accessibility</li> <li>Customer service through Social Networks</li> </ul>	<ul style="list-style-type: none"> <li>Branch network</li> <li>Customer service department</li> <li>Website</li> </ul>
<ul style="list-style-type: none"> <li>Plans for self-employed persons</li> <li>Preferential lines of financing for companies: EIB and EIF</li> <li>Meetings with businesses and participation in forums</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration with International Development Banks: ADB, EBRD, IFC (World Bank)</li> </ul>	
<ul style="list-style-type: none"> <li>Code of Conduct for Employees</li> <li>Actions associated with the Equality Plan</li> <li><i>Impulsando Talento</i> (Boosting Talent) Programme</li> <li><i>Ejerce</i> management training programme</li> </ul>	<ul style="list-style-type: none"> <li>Social benefits guide</li> <li>Corporate Volunteering Programme</li> <li>Director Development Programme</li> </ul>	<ul style="list-style-type: none"> <li>Intranet</li> <li>Employee portal</li> <li>Suggestions box</li> <li>Corporate Volunteer Portal <i>con tu ayuda</i></li> </ul>
<ul style="list-style-type: none"> <li>Popular Club</li> <li>Social benefits guide</li> <li>Corporate Volunteering Programme <i>con tu ayuda</i></li> </ul>		<ul style="list-style-type: none"> <li>Intranet</li> <li>Employee portal</li> <li>Suggestions box</li> <li>Corporate Volunteer Portal <i>con tu ayuda</i></li> <li>Popular Club</li> </ul>
<ul style="list-style-type: none"> <li>Code of Conduct for Suppliers</li> <li>Supplier Approval System</li> <li>Purchasing Management Model</li> </ul>	<ul style="list-style-type: none"> <li>Supply Chain Risk Management Model</li> </ul>	<ul style="list-style-type: none"> <li>Evaluation sheets</li> <li>Forums</li> <li>Suppliers' Portal</li> </ul>
<ul style="list-style-type: none"> <li>Presentations of economic results</li> <li>Specific meetings with analysts</li> </ul>	<ul style="list-style-type: none"> <li>National and international roadshows</li> </ul>	<ul style="list-style-type: none"> <li>Website</li> </ul>
<ul style="list-style-type: none"> <li>Continually respond to various sustainability surveys</li> <li>Conference calls with the various analysts</li> <li>Publication of biannual ESG reports</li> </ul>	<ul style="list-style-type: none"> <li>FTSE4Good - Ibex35, Euronext Vigeo Eurozone 120, Ethibel Excellence and STOXX</li> <li>Signatory of the Carbon Disclosure Project (CDP)</li> </ul>	<ul style="list-style-type: none"> <li>Specific meetings</li> <li>Roadshows</li> <li>Quarterly reports</li> <li>Biannual ESG reports</li> <li>Questionnaires</li> </ul>
<ul style="list-style-type: none"> <li>Analysis of proposed legislation and assessment of impacts in order to define action plans</li> <li>Control over regulatory compliance and participation in transversal projects: MiFID, EMIR, PRIIPS, Dodd Frank, FATCA and Volcker Rule</li> </ul>	<ul style="list-style-type: none"> <li>Code of Good Tax Practices</li> <li>Participation in public consultations, work groups and conferences: FSB, BIS, European Commission, ECB, EBA, ESMA, EIOPA, national and local regulators</li> </ul>	<ul style="list-style-type: none"> <li>Informational meetings</li> <li>Participation in work groups</li> </ul>
<ul style="list-style-type: none"> <li>Press conferences and meetings with the media</li> <li>Publication of articles and commentaries</li> <li>Meetings with the Chairman/CEO and interviews with Bank executives</li> </ul>	<ul style="list-style-type: none"> <li>Presence in the main social networks: Twitter and Facebook</li> <li>Corporate blog</li> </ul>	<ul style="list-style-type: none"> <li>Press releases</li> <li>Interviews and meetings with journalists</li> </ul>
<ul style="list-style-type: none"> <li>Economic value generated: 2,831 million euros</li> </ul>	<ul style="list-style-type: none"> <li>Financial support for key economic sectors</li> </ul>	<ul style="list-style-type: none"> <li>Interviews and meetings with entities from the third sector</li> <li>Annual Reports</li> </ul>
<ul style="list-style-type: none"> <li>Microcredits for entrepreneurs without resources</li> <li>Build and equip health and training centres</li> </ul>	<ul style="list-style-type: none"> <li>Assistance for professional training and education</li> <li>Promotion of education for women</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Volunteer Portal <i>con tu ayuda</i></li> <li>CR box</li> <li>Website</li> </ul>
<ul style="list-style-type: none"> <li>8.2 million euros applied to social investments</li> </ul>	<ul style="list-style-type: none"> <li>Support for work programmes for people with disabilities through expert third sector entities</li> </ul>	
<ul style="list-style-type: none"> <li>Environmental Policy to fight against Climate Change</li> <li>Eco-efficiency Plan 2014-2020</li> </ul>	<ul style="list-style-type: none"> <li>Participation in CONAMA</li> <li>Offset CO<sub>2</sub> emissions</li> </ul>	
<ul style="list-style-type: none"> <li>SpainSIF</li> <li>Spanish Banking Association</li> <li>Spanish issuers</li> <li><i>Fundación de Estudios de Economía Aplicada</i> (Foundation for Applied Economic Studies)</li> </ul>	<ul style="list-style-type: none"> <li><i>Asociación Española de Calidad</i> (Spanish Quality Association)</li> <li>Corporate Excellence</li> <li>Forética</li> <li>FEDEPE</li> </ul>	
<ul style="list-style-type: none"> <li>Global Compact</li> </ul>	<ul style="list-style-type: none"> <li>Specialised entities of the third sector</li> </ul>	
<ul style="list-style-type: none"> <li>Corporate Volunteering Programme <i>con tu ayuda</i></li> </ul>		

Commitment to the management of expectations

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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The primary objective of the Corporate Responsibility strategy is to integrate and manage the expectations of the primary stakeholders with respect to the organisation's decisions, with a view to strengthening the economic and sustainable growth of the business and maximising the creation of shared value for all parties involved.

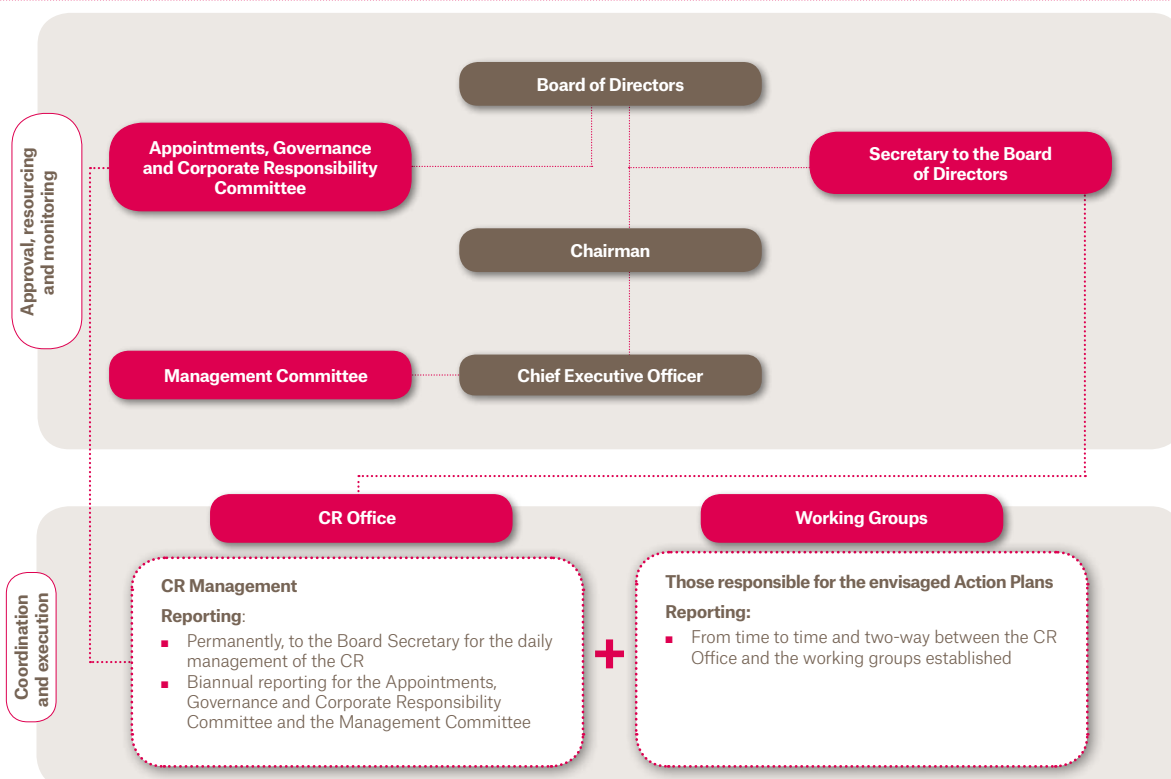
The Corporate Responsibility Office, which reports directly to the Secretary to the Board of Directors, is in charge of defining the strategy in this area and promoting its implementation as a transversal element of all of the organisation. To this end, activities undertaken to identify environmental, social and corporate governance risks and opportunities are worth particular mention.

The implementation of the actions under the CR Master Plan *Horizon 2020* is carried out unilaterally by the CR Office or through specific working groups to develop specific Action Plans. Moreover, the CR Office reports on progress as following:

- Biannually to the Appointments, Governance and Corporate Responsibility Committee, the body with overall responsibility for proposing to set the Group's Corporate Responsibility strategy to the Board of Directors as well as for approving the objectives set for each year. Notably, the Chairwoman of the Appointments, Governance and Corporate Responsibility Committee is the Counselor Coordinator responsible for representing matters of Corporate Responsibility on the Board of Directors.
- Biannually, to the Management Committee with the aim of promoting the integration of these issues in the business strategy and monitoring the organisation's performance in this area.

Thus, tasks involving approval, resourcing and monitoring of plans are placed at the top executive level of the Bank, ensuring alignment with the overall business strategy.

### Organisational structure of Corporate Responsibility

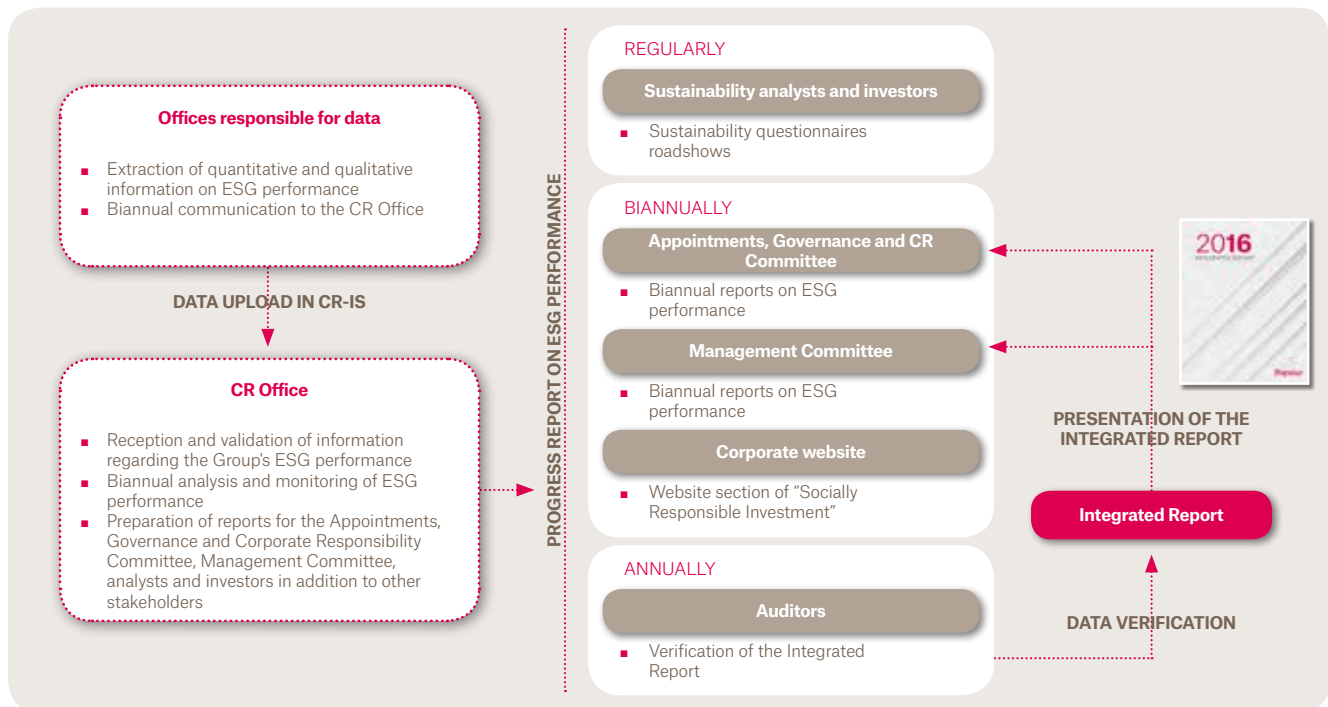


Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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In addition, the Corporate Responsibility Office, in its objective to improve the management of its activity, has the CR Information System CR-IS, an online platform which is configured as a dashboard and allows centralising all information related to the Group's economic and good governance, social and environmental performance. This facilitates the measurement and regular tracking of progress, monitoring material aspects and improving the flow of dialogue with stakeholders. The tool also improves the quality of the information reported to the Appointments, Governance and Corporate Responsibility Committee and the Management Committee.

Thus, CR-IS opens up a range of opportunities as regards management and reporting by providing for the creation of a single data warehouse for the Entity's performance and greater safeguards in terms of integrity and traceability regarding the data verification process.

### Corporate Responsibility Information System CR-IS



## Commitment to transparency and quality of ESG information

Popular's corporate culture has always been based, among other values, on transparency and rigour in the information it provides to its stakeholders. In this sense, it considers it fundamental to make relevant information related to the economic and good governance, social and environmental aspects that the Entity's activity generates known, mainly to shareholders, investors, analysts and customers.

For this reason, in 2016, Popular launched a new section on its corporate website called "Socially Responsible Investment", where it publishes its Biannual ESG Performance Report, which includes the main indicators of its environmental, social, economic and good governance development, with the aim of providing up-to-date and useful information to stakeholders. In addition, this section reports on the Bank's positioning on different sustainability indexes as a display of the recognition they represent to the development of the Entity's CR strategy.

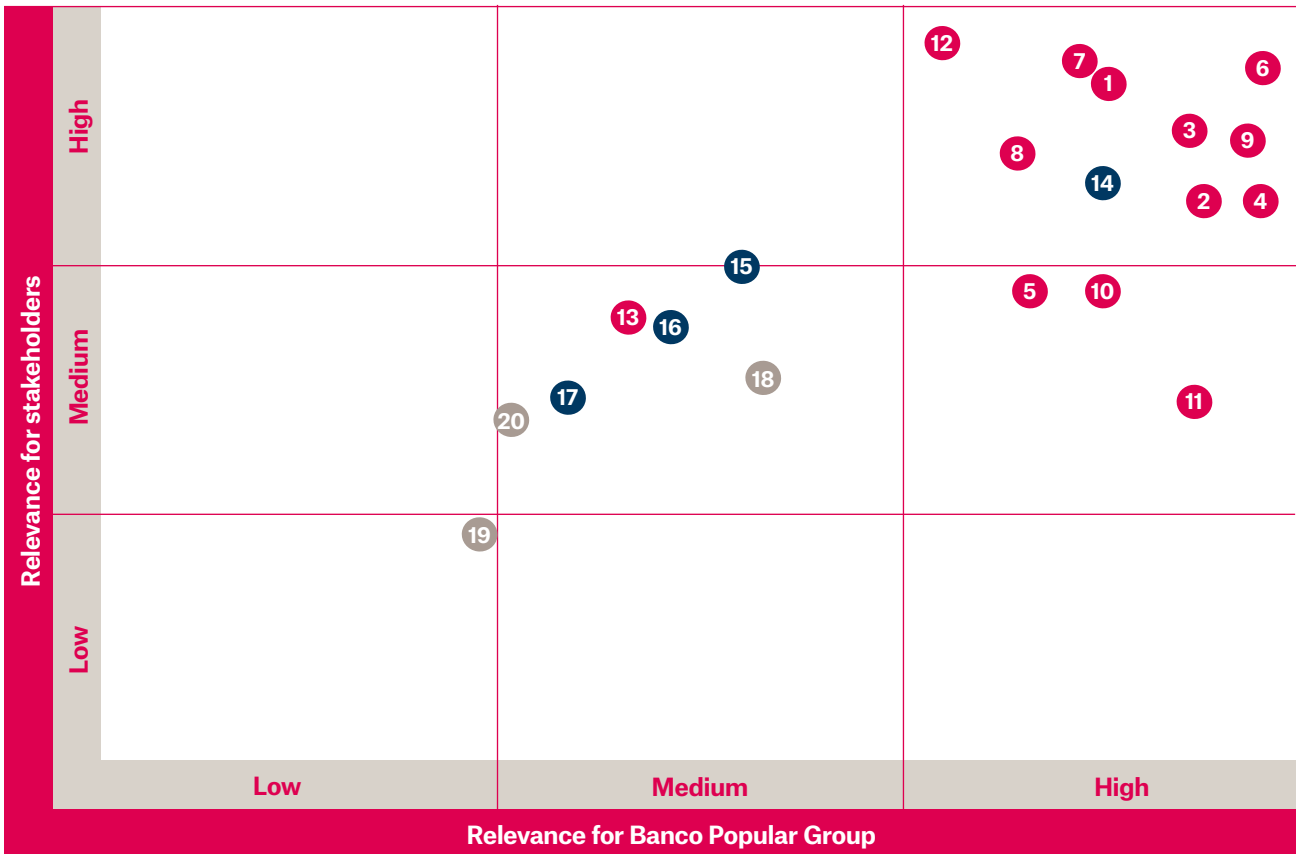
## 1.4. Materiality, risk management model and strategic lines

Popular's corporate strategy reflects the Bank's corporate culture and business model which is capable of evolving and adapting to maintain its focus on profitability. In defining each of the strategic lines and the resource allocation that will influence its performance, the conclusions of both the materiality analysis and the risk management model were taken into account, and are shown below.

### 1.4.1. Materiality Analysis

The identification of the relevant aspects that Popular manages with respect to its stakeholders was carried out based on a materiality analysis that considered the guidelines established by the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC).

Materiality Matrix of Popular – 2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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This is a dynamic exercise that allows Popular to know the level of importance that stakeholders give to the main management issues and also to decide where to concentrate its efforts to improve the contribution of value to those stakeholders. The issues identified in the materiality matrix are thus constantly reviewed and are updated annually in order to prepare the Bank for any possible changes and new events, as well as to ensure an appropriate response at any given moment.

For its development, an initial external analysis was carried out with the objective of identifying the general subjects of greatest interest. Relevant public information was used and an initial priority was established based on a comparative study of the sector and the opinion of leading experts in the field. Subsequently, the importance that the selected topics have for the various stakeholder groups was determined.

An internal analysis has been carried out to know the importance which Popular placed on each of the above issues. In this regard, the Entity's strategic lines were reviewed together with relevant information and internal dialogues held with the various areas involved in the development of the identified issues.

As a result, a materiality matrix was defined that shows the most significant issues in order of relevance, classified by economic, social, and environmental area.

## Material aspects broken down by area of action

### Economic Area

- 1 Culture and Corporate Governance
- 2 Compliance and control
- 3 Economic strength
- 4 Risk management
- 5 Change management and innovation
- 6 Service focused on customers
- 7 Transparency in commercial relationships
- 8 Quality management
- 9 Commercial strategy for SMEs and self-employed persons
- 10 Commercial strategy for individuals
- 11 Business diversification
- 12 Management of stakeholder groups
- 13 Management of the supply chain

### Social Area

- 14 Human capital management
- 15 Commercial offer with special social benefits
- 16 Economic inclusion
- 17 Social commitment

### Environmental Area

- 18 Environmental management
- 19 Commercial offer with a positive environmental impact
- 20 Commitment to the environment

## 1.4.2. Risk management model

Popular's risk management model identifies a group of risks that goes beyond strictly economic concepts and also includes risks with an impact at a corporate level. Through this, the implicit risks of banking activity are detailed in the policies and procedures established by the Group.

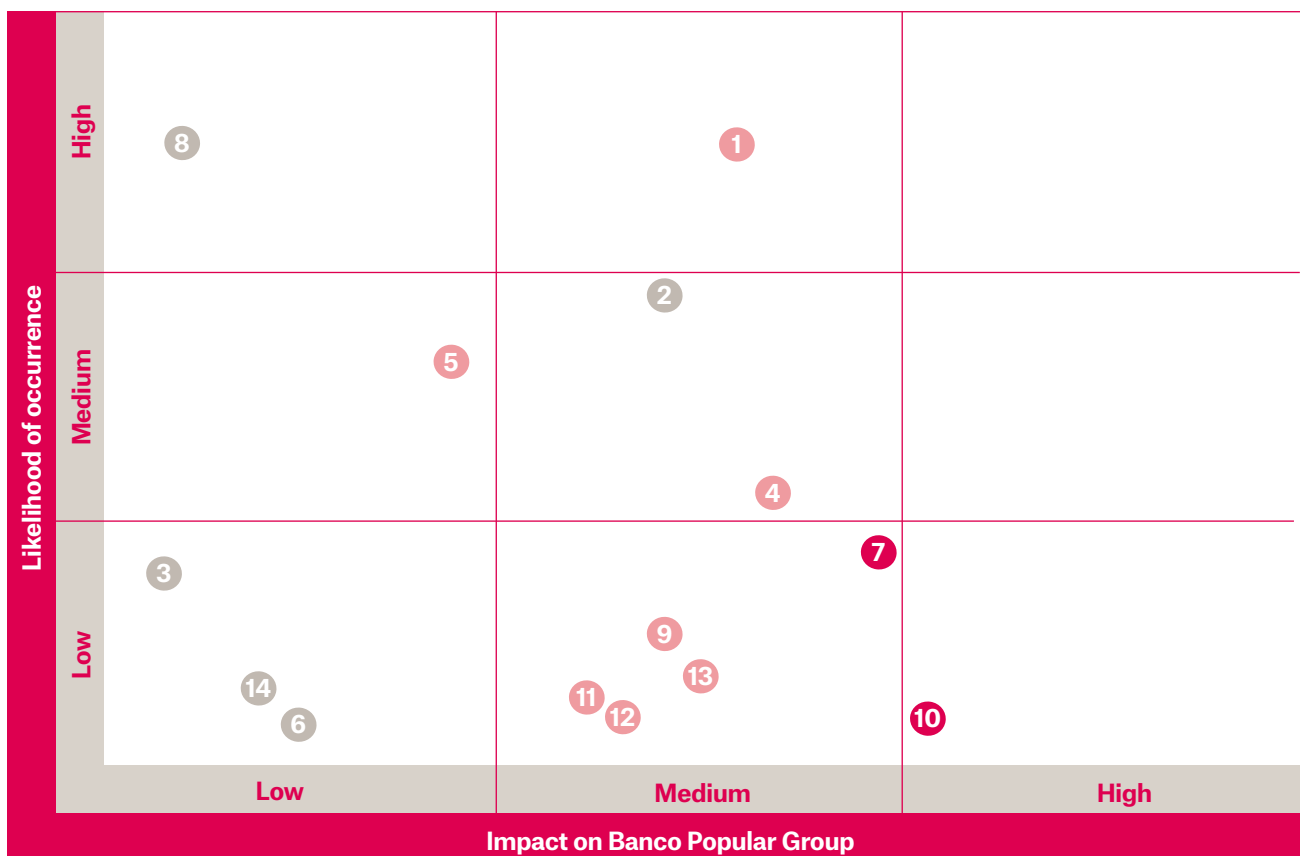
 [More information about risk management](#)

### Risk Map

From a corporate point of view, a series of risks have been identified by level of origin, based on whether the risk originates externally or internally. Risks of an external origin are those that, if they arose, would affect the entire sector as they derive from circumstances in the current environment. Risks of an internal origin are understood as those implicit to both strictly banking activities and at a corporate level.

This is an identification process that is constantly reviewed over the short and medium-term time frame and it is updated annually in order to anticipate new risks and adapt the Bank's capacity to respond to any changes in the environment. Thus, taking into account the environmental circumstances and the situation of the Entity, the review carried out in 2016 has resulted in the identification of a total of 14 potential risks, none of them serious.

Risk map of Popular – 2016





Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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The map shown places the risks identified for the Entity taking into account the following criteria:

- **Likelihood of occurrence:** shows the likelihood that the risk will materialise.
- **Impact on the Banco Popular Group:** indicates the impact that the risk may have on the balance sheet and results, the business model and the Bank's procedures. This also takes into account an evaluation of the management and control processes and systems available to the Group to handle the materialisation of such risks.
- **Level of seriousness of the different risks:**
  - Serious: materialisation would require the Bank's strategy to be modified
  - Assumable: materialisation could require targets for the year to be modified or the changing of lines of action
  - Acceptable: materialisation would require an adaptation of internal management procedures
  - Low: materialisation would not require any significant modification to the Bank's management

Each of these identified potential risks are, in turn, associated with certain types of capital. In order to manage these risks, Popular implements a series of actions described in the tables of pages 58 and 59.

## Corporate risks broken down by origin and severity

### External Origin

- 1 Regulatory changes in the economic sector
- 2 Development of new technologies
- 3 New customer demands
- 4 Competitive evolution of the market
- 5 Changes in the social scenario
- 6 Changes in the environmental scenario
- 7 Periods of economic instability
- 8 Entry of new/replacement players

### Internal Origin

- 9 Shareholder and investor requirements
- 10 Strategic and investment decisions
- 11 Economic risks
- 12 Operational risks
- 13 Reputational risks
- 14 Changes in professional performance

● Serious    
 ● Assumable    
 ● Acceptable    
 ● Low

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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## Popular's response to the identified risks

Risk identified	Description	Group's response	Capitals involved
1 Regulatory changes in the economic sector	<ul style="list-style-type: none"> <li>Appearance of new economic regulations</li> <li>Increase in regulatory pressure</li> </ul>	<ul style="list-style-type: none"> <li>Development of internal processes and organisational structure adaptation to respond to changes and regulatory controls</li> <li>Collaboration with regulatory bodies</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> <li>Social and relational capital</li> </ul>
2 Development of new technologies	<ul style="list-style-type: none"> <li>Technological changes that could affect the banking business</li> <li>Obsolescence of equipment and current systems</li> </ul>	<ul style="list-style-type: none"> <li>Development of new technological applications (Multichannel Banking)</li> <li>Verification of the status of equipment and systems and upgrades</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> </ul>
3 New customer demands	<ul style="list-style-type: none"> <li>Changes in the expectations of current and potential customers</li> </ul>	<ul style="list-style-type: none"> <li>Commercial Management Master Plan</li> <li>Customer Platform Project to predict and satisfy customer demands</li> <li>Commercial Quality Model for current and potential customers</li> <li>Development of new products and services</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> <li>Human capital</li> <li>Social and relational capital</li> </ul>
4 Competitive evolution of the market	<ul style="list-style-type: none"> <li>Changes in the competitive structure</li> <li>Pressure on business volumes and margins due to advances made by the competition</li> <li>Changes in investor perceptions due to differential aspects of competition</li> </ul>	<ul style="list-style-type: none"> <li>Development of strategies, products and services which respond to the demands of customers and investors and changes in the competitive structure</li> <li>Continuous analysis of the market structure</li> <li>Continuous relations with investors and analysts to know their expectations: meetings, roadshows, responses to surveys, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> <li>Social and relational capital</li> </ul>
5 Changes in the social scenario	<ul style="list-style-type: none"> <li>Demographic and social changes</li> <li>Reduced level of access to banking services of groups at risk of social exclusion</li> <li>Increase in social demands from stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Development of products and services with special social benefits and adapted to socio-demographic changes</li> <li>Promotion of access to banking services and financial training to groups at risk of exclusion</li> <li>Support for the development of social projects</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> <li>Social and relational capital</li> </ul>
6 Changes in the environmental scenario	<ul style="list-style-type: none"> <li>Appearance of new environmental regulations</li> <li>Increase in environmental demands from stakeholders</li> <li>Losses arising from the impossibility to continue with daily activity after a natural catastrophe</li> </ul>	<ul style="list-style-type: none"> <li>Development of products and services with special environmental benefits</li> <li>Support for the development of initiatives to fight against Climate Change</li> <li>Execution of the Contingency Plan</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> <li>Social and relational capital</li> <li>Natural capital</li> </ul>
7 Periods of economic instability	<ul style="list-style-type: none"> <li>Abrupt change in international finance flows and the markets' level of appetite for risk</li> <li>Toughening of funding conditions for States, economic institutes, companies and families</li> </ul>	<ul style="list-style-type: none"> <li>Systemic planning which includes adverse stress scenarios</li> <li>Balancing of funding sources and strengthening of balance sheet</li> <li>Geographic and business diversification</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> </ul>
8 Entry of new/ replacement players	<ul style="list-style-type: none"> <li>Introduction of new sources of financing</li> </ul>	<ul style="list-style-type: none"> <li>Adaptation of the distribution model</li> <li>Adaptation of the commercial offering to customer needs</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> <li>Social and relational capital</li> </ul>
9 Shareholder and investor requirements	<ul style="list-style-type: none"> <li>Deterioration of the perception of Banco Popular by shareholders and investors</li> </ul>	<ul style="list-style-type: none"> <li>Specialised attention to claims through the Shareholder Office</li> <li>Development of the General Shareholders' Meeting</li> <li>Response to demands for information by investors</li> <li>Development of roadshows and specific meetings</li> <li>Annual and quarterly information regarding the Bank's performance</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Human capital</li> <li>Social and relational capital</li> </ul>

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### Popular's response to the identified risks

Risk identified	Description	Group's response	Capitals involved
10 Strategic and investment decisions	<ul style="list-style-type: none"> <li>Consequences deriving from the taking of decisions that negatively affect the Bank's positioning</li> </ul>	<ul style="list-style-type: none"> <li>Internal monitoring and control procedures relating to the materialisation of risks in the taking of strategic decisions and the associated contingency plans</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> <li>Human capital</li> </ul>
11 Economic risks	<ul style="list-style-type: none"> <li>Losses derived from inappropriate management of financial risks: business, credit, structural interest rate, market, liquidity and regulatory</li> </ul>	<ul style="list-style-type: none"> <li>Internal management and control procedures relating to the materialisation of this risk</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> <li>Human capital</li> </ul>
12 Operational risks	<ul style="list-style-type: none"> <li>Losses derived from inadequate or failed processes, personnel and internal systems or caused by external events</li> </ul>	<ul style="list-style-type: none"> <li>Business Continuity Plan</li> <li>Interbank collaboration measures for fraud prevention</li> <li>Internal management and control procedures relating to the materialisation of this risk</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> <li>Human capital</li> <li>Natural capital</li> </ul>
13 Reputational risks	<ul style="list-style-type: none"> <li>Negative impact on the reputation of the Entity through non-compliance with regulations, codes of conduct and good practice standards</li> <li>Losses derived from the development of an action, occurrence of an event or impact on the actions of stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Internal management and control procedures relating to the materialisation of this risk</li> </ul>	<ul style="list-style-type: none"> <li>Economic capital</li> <li>Industrial and intellectual capital</li> <li>Human capital</li> <li>Social and relational capital</li> <li>Natural capital</li> </ul>
14 Changes in professional performance	<ul style="list-style-type: none"> <li>Inadequate response to new demands from stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Management of human capital</li> <li>Attracting and retention of talent</li> </ul>	<ul style="list-style-type: none"> <li>Industrial and intellectual capital</li> <li>Human capital</li> <li>Social and relational capital</li> </ul>

### 1.4.3. Our business strategy

The development of the strategic lines described below offers an integrated and concise view of the Bank's economic and good governance, social and environmental performance, in line with its commitment to provide value to stakeholders. For each strategic line its current link to capital, material aspects and the principle of risk management, which is fundamental to the Bank, is shown. Finally, the main stakeholders related to these as well as their key performance indicators are given.

#### Identification of the main strategic lines

- 1** Prioritise Good Governance and ethical management through an effective control framework
- 2** Reinforce economic strength
- 3** Be a customers' bank
- 4** Continue to be the bank of reference for SMEs and self-employed persons
- 5** Move operational efficiency forward through digitalisation
- 6** Leverage opportunities for diversification and specialisation
- 7** Ensure the responsible development of the activity
- 8** Develop and manage the organisation's human capital
- 9** Encourage the creation of shared value
- 10** Promote eco-efficient behaviour

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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# 1

## Prioritise Good Governance and ethical management through an effective control framework

The Board of Directors performs its functions with unity of purpose and independence of criteria, to achieve the social interest and the maintenance of a profitable and sustainable business in the long term, which promotes its continuity and maximisation of the Entity's economic value.

The governance model is updated to incorporate recommendations and good practices, as well as the expectations of the supervisor, and is based on an adequate control framework which seeks to ensure, at all times, compliance with applicable standards and ethical management of the business.

### Main actions

#### Drive of Good Governance and adaptation to best practices

Constant adaptation to best practices, which are verified at a high degree of compliance with the recommendations of the Code of Good Governance, as well as in the adoption of the guidelines of the banking regulators and supervisors.

#### Promotion of the ethical behaviour of the workforce

The Global Corporate Conduct Programme, which was developed with the objective of applying the new regulatory requirements and good practices in this area, has regular training plans and allows risks to be diagnosed, as well as the establishment of measures and controls for assessing its compliance. The Code of Conduct defines the principles, general rules and action guidelines, as well as their practical application. Through the Whistleblower Channel infringements of the Code can be made known confidentially.

#### Culture of risk based on the adequate articulation of the lines of defence, independently and with the authority and sufficient means for carrying out their roles

The risk control culture requires that any risk incurred be identified, measured and mitigated in time. The Entity assigns clear risk responsibilities, from the design and approval of the strategy to the monitoring and supervision of its implementation.

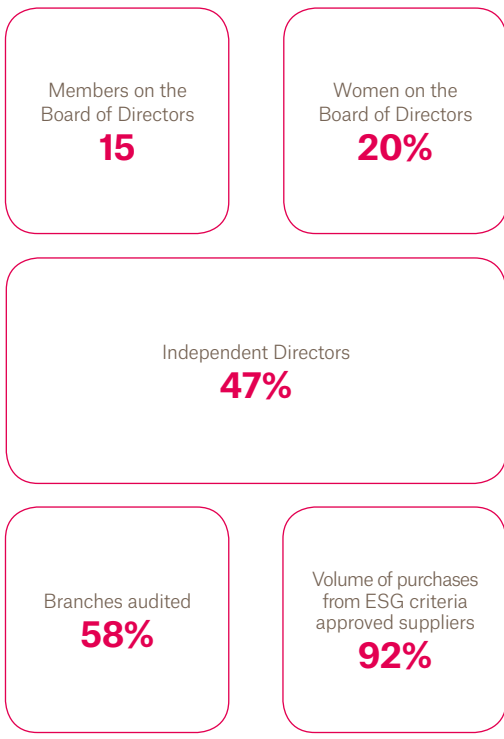
#### Communicating the corporate culture and governance to suppliers

The Code of Conduct for Suppliers incorporates the principles and rules of the Code of Conduct, establishes the selection and operating criteria applied by the Group in the procedures to approve its suppliers, in accordance with the principles of the United Nations Global Compact and the Bank's corporate responsibility strategy.

### Stakeholders



### Key Performance Indicators



### Capitals involved

- Economic capital
- Industrial and intellectual capital
- Human capital
- Social and relational capital
- Natural capital

### Materiality

- 1 Culture and Corporate Governance
- 2 Compliance and control

### Related risks

- 1 Regulatory changes in the financial sector
- 12 Operational risks
- 13 Reputational risks

# 2 Reinforce economic strength

The Main Business remains strong after the restructuring process carried out, demonstrating a great commercial ability to continue generating profitable business.

The management of the Property Business, characterised by having a specialised Network and resources, together with the increase in coverage, increases the divestment options of non-performing assets.

For Popular, profitability will continue to be a strategic priority.

## Main actions

### Specialised management of the businesses to increase profitability

In 2016, the Bank's activity was divided into:

- Main Business, with a clear focus on profitability, including the portfolio of loans to SMEs, companies, households, consumers, private banking and similar. It represents 82% of all assets.
- Property and Associated Business, focuses on the divestment and profitability of non-performing assets. It represents 18% of all assets.

### Control of total expenses

Costs show a favourable evolution after the restructuring process carried out by the Bank. Total expenses have also been favourable, without taking the cost of the restructuring process into account.

### Increase in provisions to comfortable levels

Establishment of a high level of provisions in the year, largely due to non-recurring impacts. With regard to the objectives of the coverage envisaged, these have not been achieved despite significant increases.

### Capacity to generate capital

Organic capital generation occurs in several ways, such as:

- The generation of profit.
- The additional reduction in risk-weighted assets as the reduction of non-performing assets is advanced.
- The sale of treasury shares and the reduction of fixed income capital losses.

Additionally, one of the alternatives to generate capital inorganically is the divestment of non-strategic businesses.

## Capitals involved

- Economic capital
- Industrial and intellectual capital
- Human capital
- Social and relational capital
- Natural capital

## Materiality

- ③ Economic strength
- ④ Risk management

## Related risks

- ① Regulatory changes in the financial sector
- ⑨ Shareholder and investor requirements
- ⑪ Economic risks
- ⑫ Operational risks
- ⑬ Reputational risks

## Stakeholders



## Key Performance Indicators

Total assets managed  
**168,050,719**  
thousand euros

Profit before provisions  
**797,801**  
thousand euros

Profit before taxes  
**(4,888,482)**  
thousand euros

Gross income  
**2,825,752**  
thousand euros

RORWA  
**(4.70%)**

# 3 Be a customers' bank

Popular puts the customer at the centre of its business model, allowing it to attend to their changing demands and ensuring the competitiveness and efficiency which characterise the Bank.

Customer relationships are based on excellence and proximity aimed at gaining in-depth knowledge of customer needs in order to offer them suitable services at any given moment.

## Main actions

### Develop personalised commercial offering centred on the customer

The customer is the central pillar of the Bank's activity and therefore it is committed to offering quality services responding to their current and potential needs. Thus, the commercial policy is managed from the point of view of segments differentiating customers between individuals and companies. Using this approach, the portfolio criteria are established as are the commercial proposals that are necessary to offer the best products and services to each customer.

### Promoting excellence and commercial quality

The service offered to the customers is carried out according to quality levels which seek to obtain their maximum satisfaction. The Commercial Quality Model pursues the identification and improvement of the perception which current and potential customers have of Popular and the service it provides. By measuring several variables such as the treatment received, professionalism, advice received and the commercial action of employees, customers' satisfaction with the service received can be learnt, assessed and quantified.

Moreover, the Customer Service Department channels all customer complaints and claims, which are monitored and evaluated to define the corrective steps necessary.

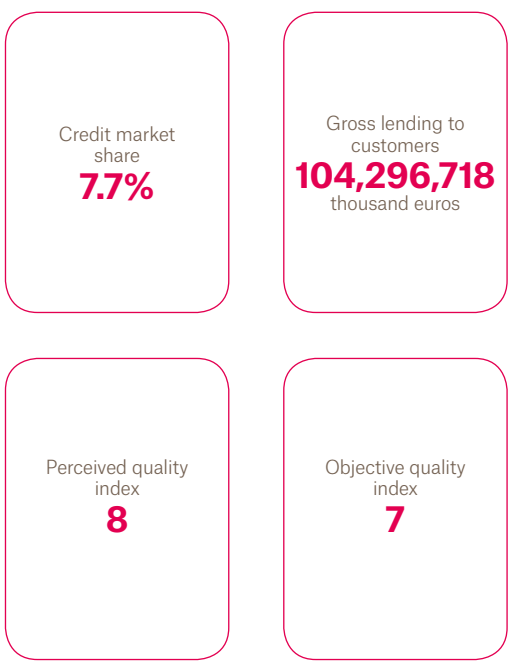
### Commitment to advertising transparency

The Bank's advertising rigorously complies with legislation in the countries in which it operates and it observes the principles established by customer protection rights, respect for advertising ethics and the usefulness of advertising for its final users. Autocontrol (association in charge of managing the Spanish advertising self-regulation system) certifies the Entity's ethical and responsible performance in the field of advertising information.

## Stakeholders



## Key Performance Indicators



## Capitals involved

- Economic capital
- Industrial and intellectual capital
- Social and relational capital

## Materiality

- 5 Change management and innovation
- 6 Service focused on customers
- 7 Transparency in commercial relationships
- 8 Quality management

## Related risks

- 2 Development of new technologies
- 3 New customer demands

# 4

## Continue being the bank of reference for SMEs and self-employed persons

Within the commercial strategy framework, a noteworthy characteristic is the high level of specialisation in serving a very specific type of customer: SMEs. In this sense, Popular has a management model for SMEs and self-employed persons that allows it to make progress with respect to those solutions that are most valued from their Bank: financing and personalised services, efficiency in daily operations and medium and long-term confidence in its business.

### Main actions

#### Specialised service for SMEs and self-employed persons

Popular maintains a strategy of specialisation, proximity and knowledge based on current and potential customers through a highly autonomous commercial network that channels all operations with SMEs and self-employed persons and provides a complete portfolio to satisfy their financial needs.

#### Establishment of agreements to support SMEs and self-employed persons

As part of the advantages that the Bank offers SMEs, it makes available several lines of preferred financing through collaboration agreements with groups of a similar activity. The Bank's position in the agro-food and agricultural sectors is particularly relevant because of its importance in the productive activity of the country and as a catalyst in the regional economy.

#### Promotions to entrepreneurs

Popular promotes various initiatives to support entrepreneurs. Highlight Microcredits "Betting on you" – Third Sector with the aim of increasing the level of banking among groups with difficulty in accessing credit so that they may be better integrated socially and economically. Also, with the collaboration with *Cadena SER* and *El País*, organise the We are Business Awards, which aims to recognise the ability of Spanish entrepreneurs to create value and generate employment.

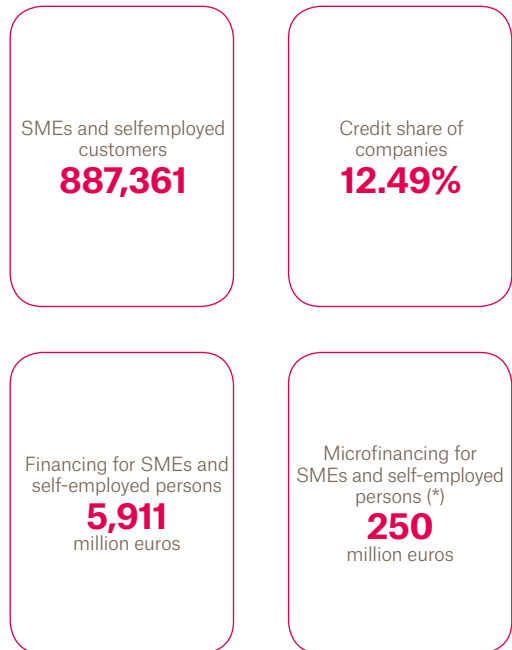
#### Support the internationalisation of companies

New funding lines are maintained and signed through agreements with different national and international bodies such as the EIF or the EIB. These agreements allow to the business of SMEs and self-employed persons to be promoted, as well as their internationalisation.

### Stakeholders



### Key Performance Indicators



(\*) Self-employed persons 25,000 euros; SMEs 40,000 euros.

### Capitals involved

- Economic capital
- Industrial and intellectual capital
- Social and relational capital

### Materiality

- 9 Commercial strategy for SMEs and self-employed persons

### Related risks

- 3 New customer demands
- 5 Changes in the social scenario
- 8 Entry of new/replacement players

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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# 5

## Move operational efficiency forward through digitalisation

Popular has faced the digital transformation process with a comprehensive vision which, on one hand, relies on digitalisation to improve and enhance the current business model and, on the other, analyses the existing alternatives to develop new business models in the digital ecosystem.

Digitalisation is one of the key levers to meet the objectives of profitability and improve the efficiency of the Business Plan due to the opportunity it offers for cost reduction and process optimisation, as well as to improve the customer experience and adapt the business to the new demands and consumer habits.

### Main actions

#### Integration of digitalisation at a transversal level in the Entity

The new Digital Transformation General Management has been created and it has defined the Digital Transformation strategy to enhance its transversal integration in the Entity.

#### Digitalisation of the current business model

A programme of actions aligned with the Bank's strategic priorities has been defined to promote the digital transformation of the current business model. This programme includes, among other initiatives: the promotion of digital channels (Internet Banking and Mobile Banking for individuals and companies), omnichannel development, the implementation of a mobility platform for commercial managers, the creation of remote management channels, digitalisation of specialised businesses, the development of analytical capabilities on customer information and improvement of internal operational efficiency through the digitalisation of processes.

#### New business models and digital innovation

The creation of a specific Digital Innovation unit has been committed to which explores the opportunity to develop new business models in the digital ecosystem through the integration of third party solutions (Fintechs) in Popular's value proposition and for the distribution of financial products and services in the new digital markets.

### Stakeholders



### Key Performance Indicators

Investment in R+D+i  
**almost 750**  
million euros (since 2011)

Active Multichannel Banking customers  
**877,043**

Year-on-year evolution of active Multichannel Banking customers  
**2%**

Active Mobile Banking customers  
**213,048**

Year-on-year evolution of active Mobile Banking customers  
**27%**

### Capitals involved

- Economic capital
- Industrial and intellectual capital
- Social and relational capital

### Materiality

- 5 Change management and innovation
- 6 Service focused on customers
- 12 Management of stakeholder groups

### Related risks

- 2 Development of new technologies
- 3 New customer demands
- 4 Competitive evolution of the market
- 8 Entry of new/replacement players
- 10 Strategic and investment decisions



# 6

## Leverage opportunities for diversification and specialisation

Popular has continued developing timely actions to identify opportunities to progress the business in the medium-term business, both from a geographical standpoint and the promotion of new business.

Among the actions is also the development of potential business alliances which shows a clear potential for future growth.

### Main actions

#### Boost agreements to promote business development

Purchase of Barclays' cards business in Spain and Portugal. Following its growth strategy, WiZink, 49% owned by Popular, has acquired the Barclays' card business with the aim of strengthening its activity in both countries and expanding its credit card specialisation model to Portugal, consolidating itself as a leader in credit cards.

#### Leveraging opportunities for diversification and specialisation

Popular maintains both an organic and inorganic growth strategy focused on profitable business niches, with a segmentation of the growing offer and focused on digitalisation.

From the point of view of geographic diversification, in the short term, Popular's work focuses on centring its efforts on optimising all its resources, both inside and outside Spain, in order to achieve the objectives of profitability in 2018. In the medium term, the Entity's objective in terms of its international expansion continues being that of achieving a prudent geographical diversification, taking advantage of Popular's competitive advantages and by generating increasing returns.

### Stakeholders



### Key Performance Indicators



### Capitals involved

- Economic capital
- Industrial and intellectual capital
- Human capital
- Social and relational capital

### Materiality

- 11 Business diversification

### Related risks

- 4 Competitive evolution of the market
- 7 Periods of economic instability
- 10 Strategic and investment decisions

# 7 Ensure the responsible development of the activity

Harmonising business success with action that is respectful of and committed to the environment is a responsibility that Popular assumes. Therefore, its action in Corporate Responsibility implies a constant innovation exercise which allows it to develop new initiatives which integrate the expectations of the stakeholders and offer an inclusive vision of society's most vulnerable groups.

### Main actions

#### Development of a commercial offering with a positive social and environmental impact

The Group has several financial instruments whose primary objectives are to generate a positive social and environmental impact, in addition to attaining an economic benefit. Of particular note are social microcredits, supportive means of payment, financing social projects and environmentally friendly infrastructure, as well as the financing of quality studies in preferential conditions for students in need of resources.

#### Impulse Socially Responsible Investment

The application of SRI criteria is channelled from the investment portfolio through the management of various products which take ESG criteria into account in their investment decisions. Equally, the employee pension fund is managed according to valuation and exclusion criteria, which go beyond the strictly financial criteria, both in fixed income and in the variable income of the Fund.

#### Promotion of access to banking services and accessibility

The Group understands that accessibility to banking is part of its contribution to the socio-economic insertion of groups that have difficulty accessing economic services. Therefore, it maintains its activity in areas of low population density and works to favour access to both digital and physical services and products intended for users, regardless of their limitations and circumstances.

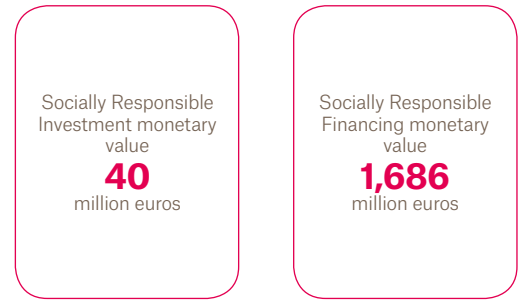
#### Financial education and entrepreneurship

Popular, aware that one of the key factors for the economic progress of any country is to have a developing business network and to have a society with adequate financial knowledge, several actions have been implemented with the intention of encouraging financial education.

### Stakeholders



### Key Performance Indicators



(\*) Calculation made on the branches which Popular and Pastor have in Spain, taking into account the population statistics of the INE at December 2014.

### Capitals involved

- Economic capital
- Industrial and intellectual capital
- Human capital
- Social and relational capital
- Natural capital

### Materiality

- 15 Commercial offer with special social benefits
- 16 Economic inclusion
- 17 Social commitment
- 19 Commercial offer with a positive environmental impact

### Related risks

- 3 New customer demands
- 5 Changes in the social scenario
- 6 Changes in the environmental scenario
- 9 Shareholder and investor requirements

# 8

## Develop and manage the organisation's human capital

Achieving optimal management of the organisation's talent, as well as maximising internal capabilities, has become a permanent challenge for Popular.

For this, it develops multiple solutions aimed at favouring the growth of employees in a professional environment of change.

### Main actions

#### Attraction, promotion and talent management

The mission of Popular is to attract professionals with potential and contributing to their development through training and teamwork experience. High-potential employees are closely monitored and have a specific compensation policy which seeks to ensure their link and development.

#### People management

People management is governed by criteria of professionalism and independence with maximum respect for non-discrimination and equal opportunities. Employees learn by rapidly assuming responsibilities, acquiring a high degree of autonomy and committing themselves to the achievement of results.

#### Compensation, benefits and innovation

The remuneration system influences the concept of total compensation and clearly exceeds the concept of remuneration. Emphasises that in the calculation of employees' bonuses, sustainability indicators based on ESG criteria are taken into account. Likewise, the *Plan Concilia*, included in the Equality Plan, through which employees have access to 32 conciliation measures is noteworthy.

#### Training and development

Training is considered a strategic resource for optimum talent management, always attending to different profiles and professional needs. The 2014-2016 CR Transversal Training Plan is of note, which aims to promote training in this area, as well as raising awareness of the implications of the responsible development of the Bank's activity.

#### Employee communication and participation

Contact with employees is direct, fluid and constant. Communication is encouraged through the internal corporate channels and also through bi-directional communications within teams.

### Capitals involved

- Industrial and intellectual capital
- Human capital
- Social and relational capital

### Materiality

**14** Human capital management

### Related risks

**14** Changes in professional performance

### Stakeholders



### Key Performance Indicators

Number of employees <sup>(1)</sup>  
**11,948**

Female employees <sup>(1)</sup>  
**43%**

Female directors <sup>(2)</sup>  
**21%**

Number of employees promoted  
**407**

Turnover rate  
**6.26%**

Hours of training per employee  
**26**

Investment in *Plan Concilia*  
**3,086**  
thousand euros

(1) This data corresponds to employees of the Bank's Financial Group (11,690) and listed companies (258), excluding those belonging to Investee Companies. For further details on the scope, please consult Chapter 3. Social Dimension.

(2) The scope of this data is the Group's employees. For further details on the scope, please consult Chapter 3. Social Dimension.

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# 9

## Encourage the creation of shared value

The Group has built its business culture based on the development of its activity in a manner that is responsible and committed to its stakeholders and the environment in which it operates. In this sense, Corporate Responsibility is a transversal element of the organisation that allows it to strengthen economic growth that is sustainable for the business by managing the expectations of the main stakeholders, as well as the risks and opportunities that arise in the environment. The primary objective of the CR strategy is the creation of tangible and intangible shared value through the business.

### Main actions

#### Generation of direct and indirect value through the development of the banking activity

The main contribution made by Popular to economic and social development is defined by the impact that its business activity has in a direct and indirect manner on the communities in which it operates.

#### Integration and management of stakeholder groups' expectations

Stakeholders are considered an important part of the Entity's structure. For this, Popular seeks to be proactive in managing their needs, maintaining a global reach and monitoring and controlling the activities carried out.

#### Contribution of value through the CR Master Plan *Horizon 2020*

Based on the Mission and Vision, the CR Master Plan *Horizon 2020* has been defined as a roadmap that will allow the Corporate Responsibility strategy to be rolled out through a multi-annual programme encompassing all of its business management. Thus the Bank's business model is anchored in sustainable management of the resources and responsible for the environment in which it operates.

#### Positioning of CR initiatives

The Bank collaborates with different expert entities and participates in various CR forums in order to advance in the development of initiatives which favour its positioning in this issue.

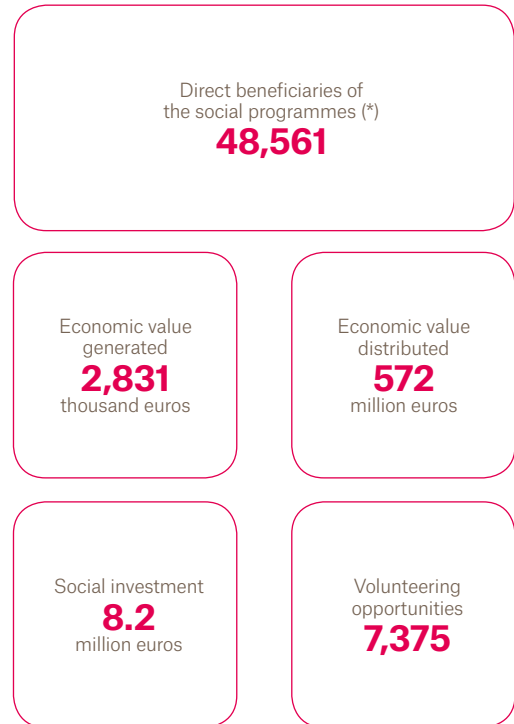
#### Promotion of the Corporate Volunteering Programme

This Programme allows for the management of the Group's solidarity network and the promotion of initiatives related to the business, such as financial education given by volunteers to groups with low access to banking.

### Stakeholders



### Key Performance Indicators



(\*) Volunteered, CR donations and *Fundación Hispánica*.

### Capitals involved

- Economic capital
- Industrial and intellectual capital
- Social and relational capital
- Natural capital

### Materiality

- 12 Management of stakeholder groups
- 13 Management of the supply chain

### Related risks

- 4 Competitive evolution of the market
- 5 Changes in the social scenario
- 6 Changes in the environmental scenario

# 10

## Promote eco-efficient behaviour

Popular, in line with its corporate culture and in accordance with the provisions of its Vision, Mission and Values, has the Environmental Policy to fight against Climate Change, committing itself to minimising its environmental impact, promoting awareness of its stakeholders and carrying out concrete actions in the field of prevention, protection and conservation, through a global action approach.

### Main actions

#### Development of the 2014-2020 Eco-efficiency Plan

In accordance with the principles set forth in the Environmental Policy to fight against Climate Change, the Eco-efficiency Plan is framed which details the set of actions to be undertaken, aimed at reducing the environmental footprint of the organisation, minimising the consumption of resources and positioning the Entity as a company committed to its environment. To this end, the Plan is based on the following principles that have been established to serve as a guide when it comes to defining specific steps in this area:

- Minimise consumption of electricity, paper and water.
- Encourage measures to reduce direct CO<sub>2</sub> emissions.
- Provide training on sustainable practices to Banco Popular Group's employees.
- Encourage the reuse and recycling of materials, minimising the production of waste.
- Introduce a practice of supervision and continuous improvement of environmental management.
- Promote sustainability with actors in the Bank's value chain.
- Respond positively to environmental legislation and commitments of reference in the sector.

#### Promotion of environmental commitments

The Group shows its commitment to the environmental through the support of different initiatives such as the Carbon Disclosure Project (CDP), an entity of which it is a signatory. For the second consecutive year, Popular has obtained the "CALCULO" seal from Ministry of Agriculture, Food and Environment (MAGRAMA) for registering the calculation of its carbon footprint. Likewise, it has participated in Climate Change Cluster, the main business leadership platform in this issue, driven by Forética.

### Capitals involved

- Economic capital
- Industrial and intellectual capital
- Social and relational capital
- Natural capital

### Materiality

- 18 Environmental management
- 20 Commitment to the environment

### Related risks

- 6 Changes in the environmental scenario

### Stakeholders



### Key Performance Indicators

Consumption of electricity  
**19.43**  
Gj/employee

Consumption of water  
**9.30**  
m<sup>3</sup>/employee

CO<sub>2</sub> emitted  
**1.06**  
Tn/employee

Consumption of paper  
**0.09**  
Tn/employee

Environmental investment  
**12,146**  
thousand euros

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<b>01</b> <b>Structural Dimension</b>	<b>02</b> Economic Dimension	<b>03</b> Social Dimension	<b>04</b> Environmental Dimension	<b>05</b> Annexes	

## 1.5. Banco Popular Group for the future

### 1.5.1. Evolution of the Spanish economic system

As in 2016, banking business will continue developing in an environment with low interest rates, strong regulatory requirements and the entry of new competitors. The uncertainty over the intensity of the recovery and the risks from macroeconomic forecasts invite financial institutions to maintain a cautious approach, which will continue to strengthen the balance sheet to confront the changes in circumstances.

The signs of improvement detected in the economy during 2015 have continued in 2016, indicating that the Spanish economy is on the road to recovery. Among those signs are GDP growth, which has now risen for fourteen consecutive quarters, the continued drop in unemployment and the reduction in the deficit of approximately 97,000 million euros in the first ten months of the year. These indications point to the improvement in the Spanish macroeconomic climate. In the Spanish financial system area, new production of credit is growing but has not yet transferred to an increase in balances because, at this time, the new loans do not allow maturities to be exceeded.

Nevertheless, the domestic and global economy still faces important challenges in 2017. Based on the macroeconomic situation, the main environmental factors which will shape the evolution of the Spanish financial system are the following:

#### Economic outlook for Spain - 2016/2017 (\*)

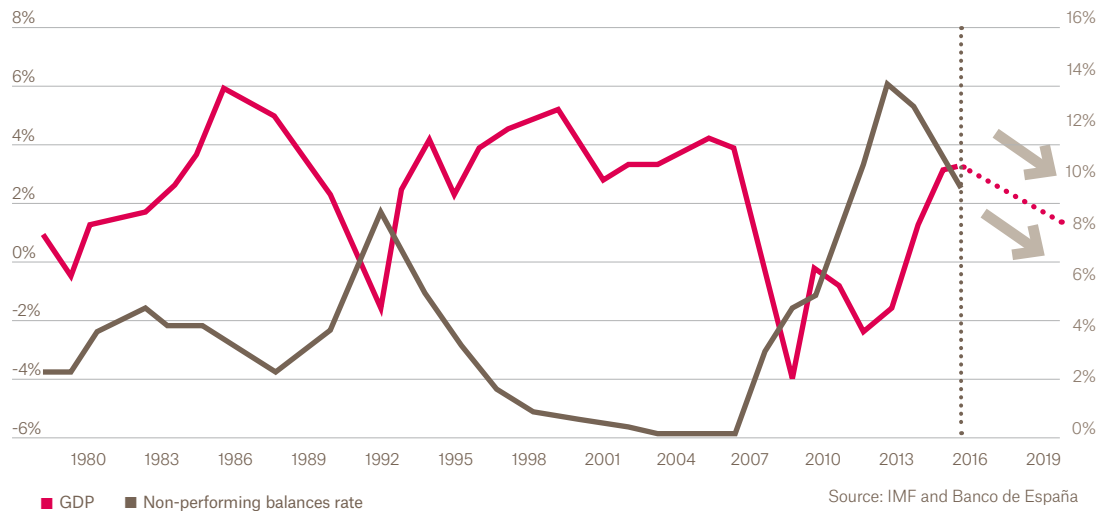
	2017	2016
Real GDP	2.4%	3.2%
Consumer spending	2.4%	3.1%
Public spending	1.2%	1.4%
Gross fixed capital formation	3.4%	3.8%
Domestic demand (contribution to growth)	2.3%	2.9%
Exports	3.9%	4.5%
Imports	3.8%	3.6%
Employment	2.0%	2.9%
Unemployment rate	18.1%	19.7%

Source: FUNCAS, Panel of forecasts for the Spanish economy, January 2017

(\*) The data reflects the figures from the "CONSENSUS (average)" published by the source. Expressed as annual average change percentage, except in the case of the unemployment rate.

- Domestically, the continued improvement in the economy is significant. It must be taken into account that in general terms the recovery will probably confront major challenges since unemployment and the high debt levels will continue to impede the recovery. In relation to non-performing loans, the pattern noted in previous crises has held and has commenced its decline, though rather late with respect to the recorded improvements in the GDP and unemployment levels.

## GDP vs. Non-performing balances rate



The projected unemployment rate in Spain for 2017 is around 18%. Due to the high correlation between unemployment and default, this information requires the Bank to maintain a certain prudence.

However, in this context of difficulties and uncertainties, the recent changes of the last two years in the Spanish economy invites to a moderate optimism for 2017. It is consequently expected that conditions continue improving for the granting of credit.

The Spanish financial system will continue with abnormally low interest rates and it is expected that the European Central Bank's monetary policies will continue to be expansive. All this will lead to pressure on margins in the banking system continuing in the short term.

Additionally, regulatory changes faced by the Bank have generated a turnaround in the profitability of entities which, along with cyclical aspects and the uncertainty of legal risks, will generate significant challenges for the system.

- In the European environment, financial institutions are adapting to the Banking Union. Firstly, the Single Supervisory Mechanism led by the European Central Bank. In 2016 the results of the stress tests were published, against which the Spanish bank showed a situation of strength. With regard to 2017, entities will continue to be subject to continuous reviews and transparency exercises.

The development of the European Banking Union is essential and will give rise to economic stability and supervision of the link between banks and states. Financial institutions will be supervised closely under European and uniform regulations so that the economic sector may carry out its primary business: transferring financing to the real economy. For the future, efforts will continue to develop this Banking Union: the Single Resolution Mechanism has been set up within the European Commission to strengthen the resolution capabilities of financial institutions and to ensure their orderly resolution in the event of bankruptcy. On the other hand, the debate on the creation of a European Deposit Guarantee Fund opens, although it remains a fairly controversial issue.

The strong regulatory intensity puts pressure on the profitability of financial institutions. Together with the process of building the Banking Union, the strengthening of the European Single Market and the creation of the Capital Markets Union could lead to a process of banking concentration at both a national and European level.

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## 1.5.2. Popular: view of the future

Despite good economic outlooks for Spain expressed by the principal international institutions, significant global challenges and regulatory changes in the economic sector point to prudent optimism as the appropriate behaviour. For the moment, the major global economic forecast institutions are also taking a prudent view over the existing risks for the world economy.

Link 2017 challenges to strategic lines, materiality, risks and capitals

	2017 Challenges	Planned date	Association with strategic line
<b>Structural</b>	■ Application of new requirements of external regulators	2017	<b>1</b> Prioritise Good Governance and ethical management through an effective control framework
	■ Fostering operations to strengthen business development	2017-2018	<b>6</b> Leverage opportunities for diversification and specialisation
	■ Advances in digital transformation	2017-2019	<b>5</b> Move forwards in operational efficiency through digitalisation
	■ Integration of best practices and new requirements in Corporate Responsibility	2017-2020	<b>1</b> Prioritise Good Governance and ethical management through an effective control framework <b>7</b> Ensure the responsible development of the activity <b>9</b> Encourage the creation of shared value <b>10</b> Promote eco-efficient behaviour
<b>Economic</b>	■ Targeting a healthy balance sheet: - Strong capital base - Control of non-performing loans and the strength of their coverage - Stable liquidity	2017	<b>2</b> Reinforce economic strength
	■ Maintain an integral customer management, from the specialisation and adaptation of each segment: companies and individuals	2017	<b>3</b> Be a customers' bank <b>4</b> Continue being the bank of reference for SMEs and self-employed persons
	■ Empowerment of products with special social and environmental benefits	2017-2018	<b>7</b> Ensure the responsible development of the activity
	■ Progress in the management of the supply chain	2017-2020	<b>9</b> Encourage the creation of shared value
<b>Social</b>	■ Roll-out of the new Performance Evaluation Model and reformulation of individual development plans	2017	<b>8</b> Develop and manage the human capital
	■ Development of an action programme to promote female talent	2017-2018	
	■ Fostering of entrepreneurship and labour inclusion of groups with low levels of banking	2017-2018	<b>7</b> Ensure the responsible development of the activity
	■ Promotion of training and economic education of groups at risk of exclusion	2017-2018	<b>9</b> Encourage the creation of shared value
	■ Move forwards in the measurement of the economic, social and environmental impact of CR projects	2017-2018	<b>9</b> Encourage the creation of shared value
<b>Environmental</b>	■ Implementation of the second phase actions in the Eco-efficiency Plan with the objective of reducing the impact on Climate Change	2017-2020	<b>10</b> Promote eco-efficient behaviour
	■ Establishment of an action plan to encourage the use of conference calls so as to reduce business travel	2017	
	■ Offsetting of the direct emissions deriving from Popular's activities in Spain	2017	



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Under these circumstances, Banco Popular continued its reinforcement during 2016 to confront 2017 from a position of strength.

Banco Popular has evolved its business model towards a commercial bank specialised in businesses with a focus on profitability, supported by the customer-focused and SME-specialised retail banking segment.

The most significant future challenges faced by Banco Popular will be taken on in a manner aligned with its strategy, focusing on material aspects for the organisation and applying the risk management principle, which is crucial to the Bank. The responses to these challenges, which are seen as opportunities for improvement, are aimed at maintaining the competitive position of Banco Popular and consolidating its unique and differentiating business model.

	Link with materiality	Link with risks	Link with capital
<b>Structural</b>	<ul style="list-style-type: none"> <li>1 Culture and Corporate Governance</li> <li>2 Compliance and control</li> </ul>	<ul style="list-style-type: none"> <li>1 Regulatory changes in the economic sector</li> <li>12 Operational risks</li> <li>13 Reputational risks</li> </ul>	<ul style="list-style-type: none"> <li>■ Economic capital</li> <li>■ Industrial and intellectual capital</li> <li>■ Human capital</li> <li>■ Social and relational capital</li> <li>■ Natural capital</li> </ul>
	<ul style="list-style-type: none"> <li>11 Business diversification</li> </ul>	<ul style="list-style-type: none"> <li>4 Competitive evolution of the market</li> <li>7 Periods of economic instability</li> <li>10 Strategic and investment decisions</li> </ul>	<ul style="list-style-type: none"> <li>■ Economic capital</li> <li>■ Industrial and intellectual capital</li> <li>■ Human capital</li> <li>■ Social and relational capital</li> </ul>
	<ul style="list-style-type: none"> <li>12 Management of stakeholder groups</li> </ul>	<ul style="list-style-type: none"> <li>4 Competitive evolution of the market</li> <li>5 Changes in the social scenario</li> <li>6 Changes in the environmental scenario</li> </ul>	<ul style="list-style-type: none"> <li>■ Economic capital</li> <li>■ Industrial and intellectual capital</li> <li>■ Social and relational capital</li> <li>■ Natural capital</li> </ul>
<b>Economic</b>	<ul style="list-style-type: none"> <li>3 Economic strength</li> <li>4 Risk management</li> <li>5 Change management and innovation</li> </ul>	<ul style="list-style-type: none"> <li>1 Regulatory changes in the economic sector</li> <li>9 Shareholder and investor requirements</li> <li>11 Economic risks</li> <li>12 Operational risks</li> <li>13 Reputational risks</li> </ul>	<ul style="list-style-type: none"> <li>■ Economic capital</li> <li>■ Industrial and intellectual capital</li> <li>■ Human capital</li> <li>■ Social and relational capital</li> <li>■ Natural capital</li> </ul>
	<ul style="list-style-type: none"> <li>5 Change management and innovation</li> <li>6 Service focused on customers</li> <li>7 Transparency in commercial relationships</li> <li>8 Quality management</li> <li>10 Commercial strategy for individuals</li> </ul>	<ul style="list-style-type: none"> <li>2 Development of new technologies</li> <li>3 New customer demands</li> <li>5 Changes in the social scenario</li> </ul>	<ul style="list-style-type: none"> <li>■ Economic capital</li> <li>■ Industrial and intellectual capital</li> <li>■ Social and relational capital</li> </ul>
	<ul style="list-style-type: none"> <li>6 Service focused on customers</li> <li>7 Transparency in commercial relationships</li> <li>8 Quality management</li> <li>9 Commercial strategy for SMEs and self-employed persons</li> </ul>	<ul style="list-style-type: none"> <li>2 Development of new technologies</li> <li>3 New customer demands</li> <li>5 Changes in the social scenario</li> <li>8 Entry of new/replacement players</li> </ul>	<ul style="list-style-type: none"> <li>■ Economic capital</li> <li>■ Industrial and intellectual capital</li> <li>■ Social and relational capital</li> </ul>
	<ul style="list-style-type: none"> <li>15 Commercial offer with special social benefits</li> <li>16 Economic inclusion</li> <li>17 Social commitment</li> <li>19 Commercial offer with a positive environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>3 New customer demands</li> <li>5 Changes in the social scenario</li> <li>6 Changes in the environmental scenario</li> <li>9 Shareholder and investor requirements</li> </ul>	<ul style="list-style-type: none"> <li>■ Economic capital</li> <li>■ Industrial and intellectual capital</li> <li>■ Human capital</li> <li>■ Social and relational capital</li> <li>■ Natural capital</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>14 Human capital management</li> </ul>	<ul style="list-style-type: none"> <li>14 Changes in professional performance</li> </ul>	<ul style="list-style-type: none"> <li>■ Industrial and intellectual capital</li> <li>■ Human Capital</li> <li>■ Social and relational capital</li> </ul>
	<ul style="list-style-type: none"> <li>12 Management of stakeholder groups</li> <li>13 Management of the supply chain</li> </ul>	<ul style="list-style-type: none"> <li>4 Competitive evolution of the market</li> <li>5 Changes in the social scenario</li> <li>6 Changes in the environmental scenario</li> </ul>	<ul style="list-style-type: none"> <li>■ Economic capital</li> <li>■ Industrial and intellectual capital</li> <li>■ Social and relational capital</li> <li>■ Natural capital</li> </ul>
<b>Environmental</b>	<ul style="list-style-type: none"> <li>18 Environmental management</li> <li>20 Commitment to the environment</li> </ul>	<ul style="list-style-type: none"> <li>6 Changes in the environmental scenario</li> </ul>	<ul style="list-style-type: none"> <li>■ Economic capital</li> <li>■ Industrial and intellectual capital</li> <li>■ Social and relational capital</li> <li>■ Natural capital</li> </ul>

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
01 Structural Dimension	02 <b>Economic Dimension</b>	03 Social Dimension	04 Environmental Dimension	05 Annexes	



# Economic Dimension

The economic performance of the Group reflects certain guidelines set in the CR Master Plan *Horizon 2020*, which establishes the course of action anticipated to favour the development of the activity in a responsible and sustainable manner with the environment in which it operates.



## 2.1. Differential management of individuals and companies

The customer is the central pillar of the Group's activity and therefore it is committed to offering quality services responding to their current and potential needs. Through the commercial strategy and integral customer management, Popular has been able to gain a greater knowledge of its customer base which has enabled it to develop more effective commercial policies. Together with excellence in service, closeness and efficiency allow individuals and corporate clients to maintain their trust in the Entity.

This narrow relationship with customers marks the design and development of the Commercial Policy, which is managed from a segment perspective, differentiating between customers who are private individuals and those who are companies. Both groups, in turn, are divided into several sub-segments in order to facilitate the portfolio criteria and offer the best product and service to each customer.

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<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
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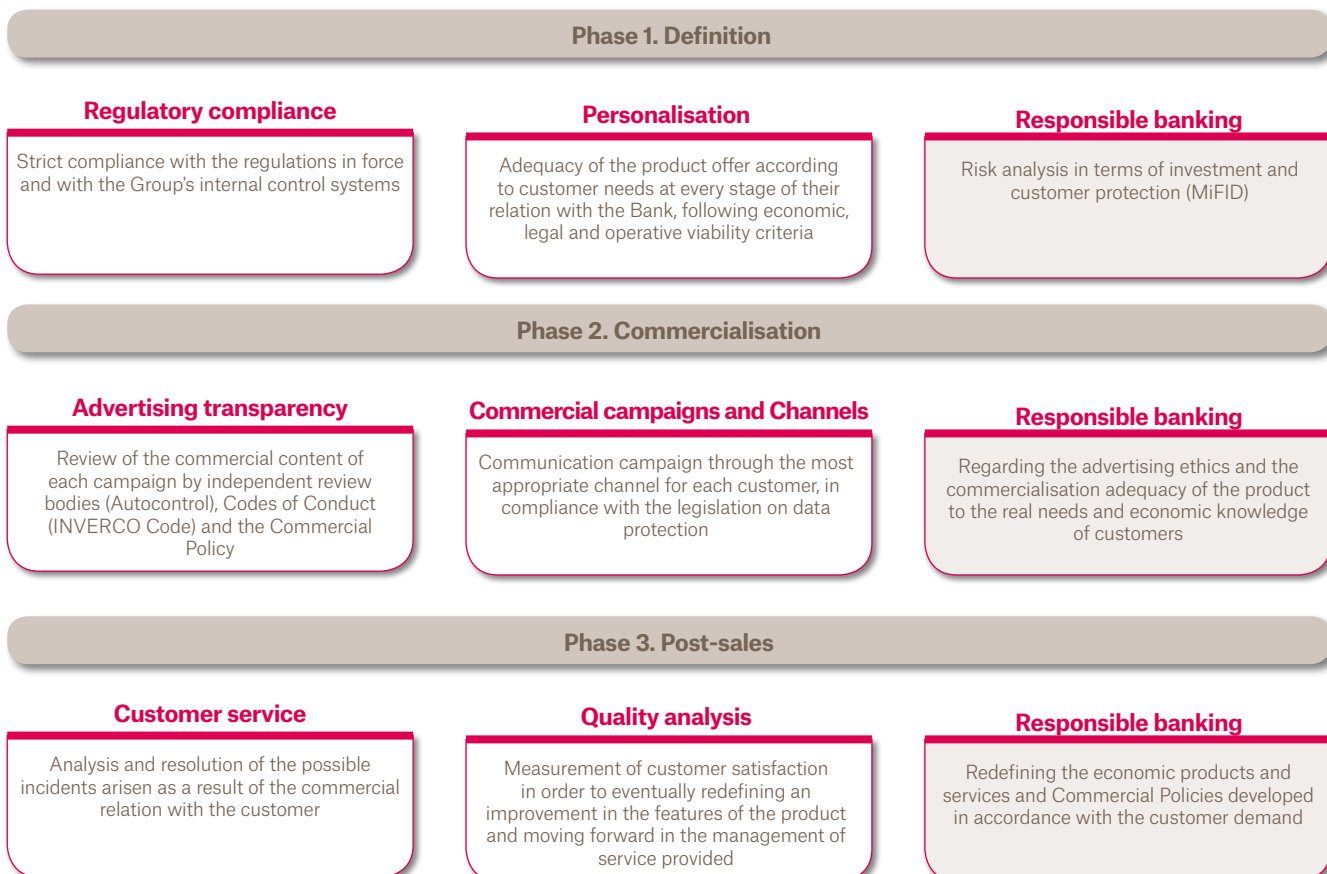
## Segmentation of Banco Popular Group's customers - 2016



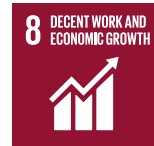
In order to maintain customer confidence, it is also important to ensure their safety and manage the entire life cycle of the products and services offered efficiently and responsibly. Accordingly, from conception until commercialisation and post-sales, all legislative and administrative requirements affecting the protection of security of customers are taken into account, and no incidents or penalties have arisen with respect to any failure to comply with the law or any voluntary code of conduct in 2016.

Also, Popular is committed to providing transparent and accurate information regarding the characteristics and conditions of its products and services. Popular's advertising rigorously complies with the legislation in force in the countries in which it operates and with observance of customer rights protection principles with respect to ethical advertising. Therefore, in 2016 there have been no events giving rise to the levying of any significant fine or penalty with respect to the advertising information regarding its products.

## Features and management of the life cycle of products and services by Banco Popular Group



## 2.1.1. Support for companies



### Business customers

546,303

### New financing and renewals

17,969

million euros



### SMEs and self-employed customers

887,361

### New financing and renewals

14,160

million euros

Corporate banking is one of the main core businesses. This segment includes large companies, SMEs, self-employed persons, businesses and non-trading companies, the segments of SMEs, self-employed and businesses being the most significant in the Bank's results.

Even taking into account the deleveraging process which continues taking place in the sector, Banco Popular has maintained its commitment to remain at the side of SMEs, intensifying its commercial efforts and dedicating all resources available within its reach.

### Management model for SMEs and self-employed persons

Popular has a management model for SMEs and self-employed persons that allows it to make progress with respect to those solutions that are most valued from both groups: financing and personalised services, efficiency in operations and medium and long-term confidence in its business. This model is sustained by six fundamental pillars:

- **A strategy of specialisation, proximity and knowledge** based on current and potential customers and managed by a highly autonomous commercial network which channels operations and provides a complete portfolio to satisfy their economic needs.
- **Customer relationships based on systematic commercial services and differentiating management** that allows the Bank to maintain a holistic view of customers.
- **Customer-orientated product management** that covers your economic needs in order to maximise your overall satisfaction and profitability.
- **Conservative, rapid and precise risk management** thanks to the specialisation of commercial teams and the agile discretionary powers system designed for the Commercial network and Central Services.
- **Centralised and efficient management of operations in order to provide quick and specific responses** to the issues affecting SMEs and self-employed persons.
- **A team of specialised SME managers** through career and training plans which have been created as a key tool for talent management within the Entity.

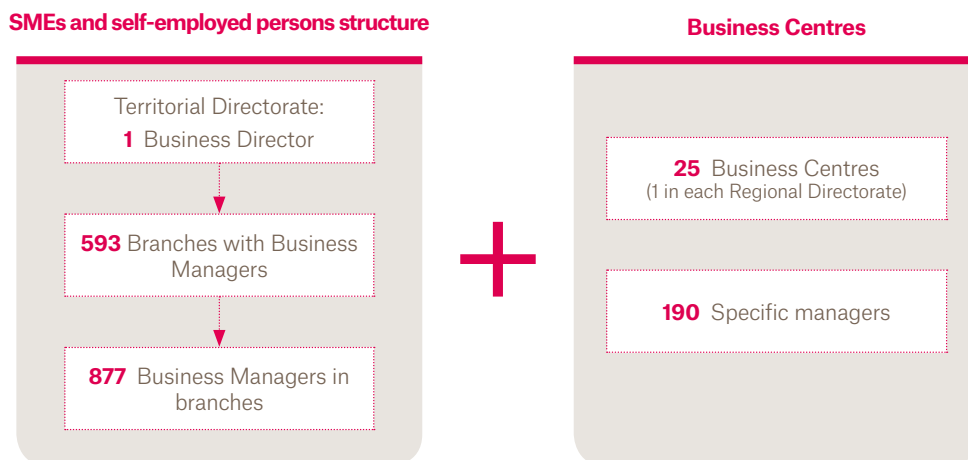
Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

## An organisational structure at the service of SMEs and self-employed persons

Popular has created a distinctive organisational structure to provide the best service to the SMEs and self-employed persons segments and become the financial entity of reference for this sector. In this structure, noteworthy is the personalised attention model which is transferred to the customer through the Business Managers who work in the branches.

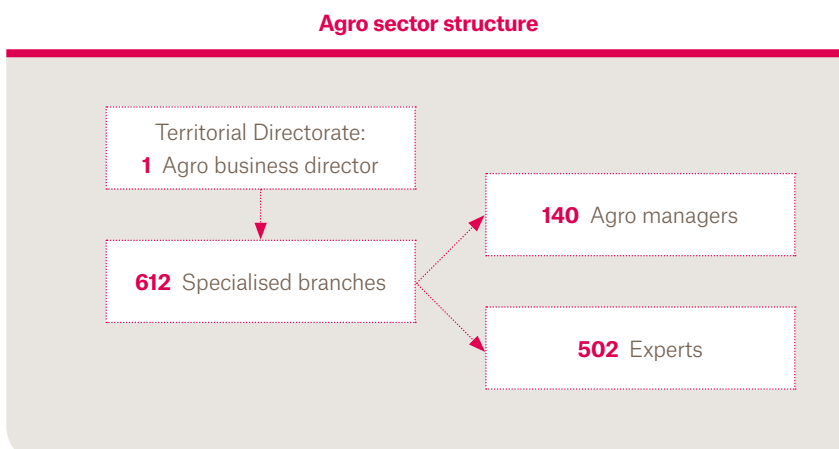
This structure coexists with a network of Business Centres which have a high degree of specialisation and are dedicated to facilitating new companies' access to the Group.

### Organisational structure for SMEs and self-employed persons



Particularly important is the support Popular has provided to the agricultural and agro-food sectors as the Entity is very aware of its role as a promoter of credit towards a real economy which favours the socio-economic development of rural areas. The agro-food sector is also a fundamental pillar in Spanish productive activity as it is the second most important sector at a national level, acting in many areas as a catalyst for the regional economy.

### Organisational structure of the agro-food and agricultural sectors



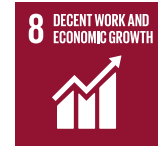
**Customers in the agro-food and agricultural sector**

**+99,600**  
Turnover

**+8,360**  
million euros

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

## Proximity with the business community: spaces, recognitions and agreements for SMEs



Aware of the need to support the business environment, in 2016 several initiatives have been developed which have led to the management of the Group's customer and non-customer companies:

- **SMEs forum.** Business forum held in various cities in Spain whose objective is to promote the exchange of ideas and debate. In addition, it adds value to companies through the interventions of experts in management or economic issues and the participation of prestigious regional entrepreneurs. In 2016, Popular held 23 forums where more than 5,550 entrepreneurs attended.
- **basepyme.** It is a portal designed for entrepreneurs to consult and clarify issues relating to their business as well as to offer expert articles or analysis of the sector, among others.

On the other hand, in 2016, Banco Popular and Banco Pastor maintained their support to national and local companies with calls for the *Premios Somos Empresa* (We are Business Awards) and the *Premios Mi Negocio* (My Business Awards), which recognise the work and development of this segment.

- **We Are Business Awards.** With the collaboration with *Cadena SER* and *El Pais*, Popular has organised the second edition of the We are Business Awards, which aims to recognise the ability of Spanish entrepreneurs, create value and generate employment. The awards are aimed at companies with fewer than 250 employees and an annual turnover of under 50 million euros, who have their headquarters in Spain and are not a subsidiary of a larger company.

### Categories awarded in the second edition of the We Are Business Awards - 2016

- We are Inspirers
- We are International
- We are Conciliators
- We are Sustainable
- We are Innovators
- We are the Future
- SME 2016

- **My Business Awards.** Banco Pastor, supported by *La Voz de Galicia*, has promoted the second edition of the My Business Awards through which the work, effort and talent of entrepreneurs in the Autonomous Community of Galicia is recognised.

### Categories awarded in the second edition of the My Business Awards - 2016

- Young SME
- SME with history in Galicia
- Innovative SME
- Internationalisation SME
- Galician SME

Finally, Popular has continued to sign new collaboration agreements with different business sectors, associations, organisations and cooperatives in Spain. In 2016, fifty-two new collaboration agreements had been signed and at the end of the year the Bank had signed over 95 agreements with these entities benefiting almost 100,000 active customers and boosting trade in this sector with more than 8,600 million euros, 100 million more than in 2015.

New funding lines have also been maintained or signed through agreements with different national and international bodies such as the EIF or the EIB. These agreements have allowed the business of self-employed persons and companies to be promoted, as well as their internationalisation.

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01 Structural Dimension	<b>02 Economic Dimension</b>	03 Social Dimension	04 Environmental Dimension	05 Annexes	

## Banco Popular Financial Economy School

In September 2016, Popular and *Universidad Internacional Menéndez Pelayo (UIMP)* organised a course aimed at promoting innovation and transformation of Spanish SMEs, which was taught by lecturers from IESE's Department of Finance Management.

The course was aimed at students and academics as well as directors and qualified staff of small and medium-sized companies. It was attended by different experts who discussed the management, growth and internationalisation of Spanish companies, their technological transformation, human resources management, financing and taxation. Various success stories of the sector were also analysed.

Within the activities of the course, an SME Forum was held in which representatives of the business community and prominent speakers analysed the reality and challenges of this group.



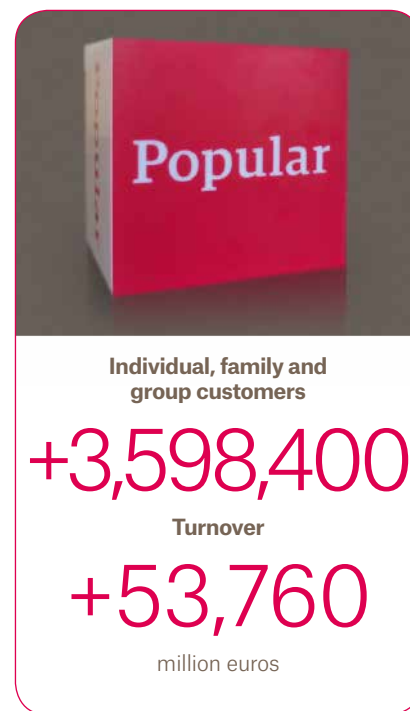
### 2.1.2. Services for private individuals, families and groups

The management policy developed for this business segment focuses on satisfying the needs of each customer based on their economic situation.

In this sense, Popular has consolidated itself as one of the primary savings channels for private individuals through the commercial model developed in 2015 called *Tenemos un Plan*. This model, based on Popular's knowledge of the financial characteristics and needs of its private individual customers, has helped it to create various segments and specific commercial offers which involve a series of financial and extra-financial services.

*Tenemos un Plan* was created to increase the recruitment and linking of customers through the development of a personalised, automated and transparent commercial action, whose objective is to promote savings among individuals, families and groups.

Finally, regarding the economic transactions signed by Popular with political parties, trade unions and similar institutions, it should be stressed that in no case are these donations. Financing requests have followed risk analysis, concession and post-sales processes under the same commercial terms as those granted to any other customer.



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Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

## Private individual management model

Popular also has a Private individual management model through which it channels the services and products most suitable for each customer. This model is based on the following pillars:

- **Knowledge of the customer** based on proximity, dealt with directly and supported by commercial algorithms which allows individual offers which satisfy their financial needs depending on their life cycle as a customer.
- **Commitment to personalised attention**, via a personal manager, aimed at those customers who require specific attention based on their banking situation.
- **Suitability of the product or service based on the financial profile of each customer** to cover their economic needs with the aim of maximising their satisfaction and their overall profitability.
- **Transparent information on the characteristics of the products and services offered**, complying with current regulations and offering clear and rigorous assessment to each customer.

## 2.2. Customer service


The Branch office network is the main means of interaction with customers, where dialogue and proximity are fundamental aspects for establishing an efficient, lasting and personalised relationship. Additionally, the Group makes Multichannel Banking services available to customers in which transparency, security and responsibility are the foundation of the relationship.

### 2.2.1. Branch network

The Branch network is one of the pillars on which Popular bases the service it offers to its customers. Its high degree of specialisation and knowledge of both the business and the environment are fundamental to meet the financial needs of companies and individuals.

In 2016, Popular began a reorganisation and optimisation process of its Branch network with the objective of improving its profitability and efficiency, which has meant the reduction in the number of branches. The new Network configuration will allow an even more personalised and direct management than currently, since administrative procedures in the branches will be significantly reduced.

Once the first phase of this process is completed, the number of Territorial Directorates in Spain will have been reduced to six, compared to eight currently, to which report 25 Regional Directorates, previously 36. Therefore, each Territorial Directorate will depend on an average of four Regional Directorates which in turn have their main objective as giving support to the branches underneath it.



**Reordering and optimisation of the Branch network**

**1,739**  
branches

**1,604** in Spain  
**135** abroad

**14** Representation offices and  
**3** collaboration offices  
in **17** countries



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<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

## Elimination of economic barriers: Access to banking



The Group understands that accessibility to banking is part of its contribution to the socio-economic insertion of people who have difficulty accessing the financial system. For this reason, it tries to serve these groups by maintaining its presence in less populated areas and creating services and products tailored to this customer profile.

### ▪ Branches in low population density areas

The number of Popular offices located in low population density areas amounts to 476, representing 30.3% of the branches in Spain. This has thus avoided the potential negative impact deriving from the closing of branches in these communities and limiting access to banking services.

Branches in low population density areas – 2016

Location	Number of branches	Percentage with respect to the total number of branches in Spain <sup>(1)</sup>
Between 10,000 and 5,000 inhabitants	220	14.0%
Fewer than 5,000 inhabitants	256	16.3%
<b>TOTAL</b>	<b>476</b>	<b>30.3%</b>

(1) Calculation made on the Popular and Pastor branches in Spain, taking into account the population statistics of the National Statistics Institute at December 2014.

### ▪ Products and services for foreigners

Also, the Entity has extensive experience attending to the needs of foreigners. This is illustrated by some of the initiatives detailed below:

Trabex Programme	Trabex remittances	Payment of pensions
<p>A service which assists foreign workers residing in Spain in two different ways: integration through their introduction into the Spanish banking system and the facilitation of maintaining links with their respective countries.</p> <p><b>Foreign customers</b></p> <p><b>834,187</b></p> <p><b>Turnover</b></p> <p><b>+5,000</b> million euros</p>	<p>A service which allows the sending of remittances to the customer's country of origin and which has preferential conditions if the user opens a current account in one of the banks with which the Group has signed a collaboration agreement.</p> <p><b>52%</b> of foreign customers use the service</p> <p><b>Volume of Trabex remittances</b></p> <p><b>11.7</b> million euros</p>	<p>Several foreign entities have entrusted Popular with the management of the payment of annual pensions in favour of beneficiaries residing in Spain, Portugal and several South American countries.</p> <p><b>1.4</b> million pensions paid</p> <p><b>Amount of pensions paid</b></p> <p><b>801</b> million euros</p>

## Elimination of physical barriers: accessibility

The Group is committed to carrying out its activity and offering its products and services on an equal opportunities basis in order to attain the socio-economic integration of groups with specific needs. In this sense it is seeking to physically adapt its facilities to allow persons with reduced mobility to access its financial services. With this objective, new buildings are constructed in accordance with established accessibility rules and in those facilities that have already been built, all appropriate improvements are being made to comply with current legislation.

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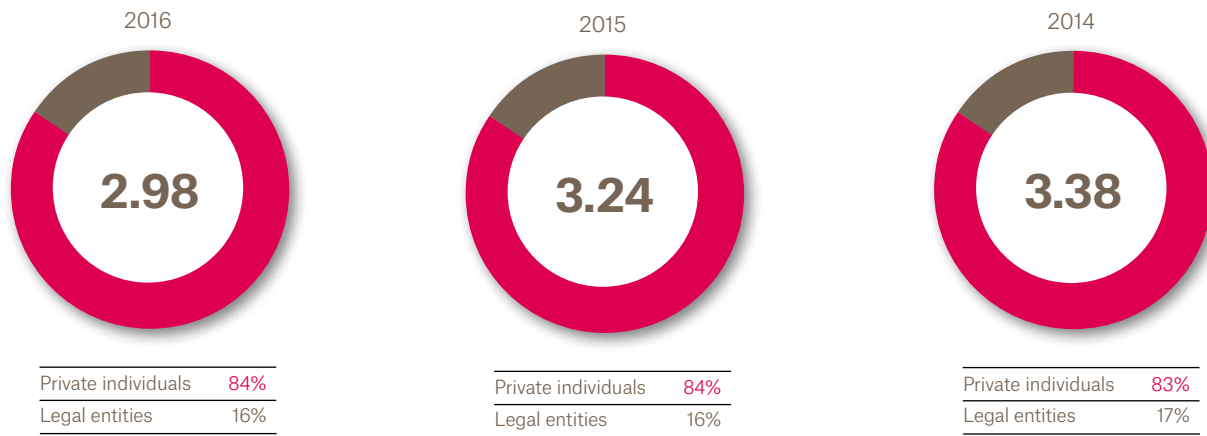
On the other hand, Totalbank's entire Branch office network complies with the American with Disabilities Act (ADA) requirements and, therefore, 100% of its offices are accessible. This way, the Entity ensures that all customers can access the services it provides through its Branch network, its transactional website or any mobile device anywhere. Some of the most significant measures deployed by Totalbank in this respect are:

- Cash machines with instructions in *Braille* and spoken for people with audio or visual disabilities.
- Specialised telephone banking service to receive calls through specific systems for people who are hard of hearing. It also responds to other customers who wish to use such systems.
- Reading service for blind, visually or hearing impaired customers. Totalbank has a reading service for customers who have any of the three described disabilities, whenever they request an appointment in advance. The service can be offered in the branch or over the phone.

### 2.2.2. Multichannel Banking

Popular understands the relationships with its customers in a multichannel way. For this, relationships with customers are primarily intended to evolve and create environments that are capable of providing responses to customers with changing interaction needs marked by immediacy, the need for information, personalisation and security. The concept of multichannel is the widest possible and includes any of the channels which aims to give the customer the same user experience with quality as a reference.

Distribution of Multichannel Customers (millions) – 2014/2016



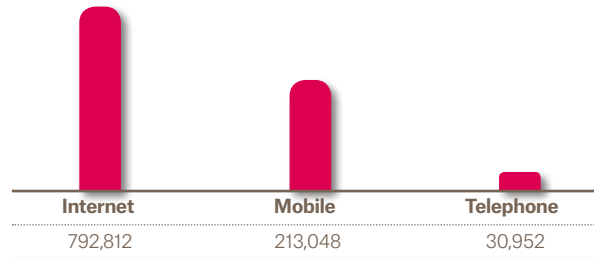
### Digital channels

During 2016 the channels evolved in order to increase accessibility to customers more easily and with the expected levels of quality. Through the Multichannel Banking service, customers may make and check the status of transactions over the Internet and by telephone, without restrictions and in any place and at any time.

The total number of active Multichannel Banking customers has increased in 2016 to 877,043. Below shows the distribution of active customers in each channel, although it must be borne in mind that a customer can be active in more than one channel under the same contract.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

## Distribution of Multichannel Banking active customers by channels – 2016



In addition, Popular understands that the behaviour and needs of its customers with a more technological profile are fundamental to design digital environments which respond effectively to this group, increasingly demanding and continuously evolving. In this sense, different actions have been carried out to create and improve various technical developments:

### ▪ User experience

Various surveys and studies have been developed with users in order to know how they access and use the digital channels, as well as to detect the most important points for improvement. The resulting information has been key in designing and adapting services to the needs of customers.

In this vein, tests have been developed with users to identify the limitations which exist in the main Internet Banking and Mobile Banking operations, as well as to verify the content of the main navigation elements. The result is a service in constant evolution, increasingly adapted and easier to handle.

Also, with the support of an expert consultant, several telephone surveys have been carried out to better understand the needs of customers' daily lives or professional activities which are not covered.

### ▪ New web analytics tool

With the aim of knowing and analysing navigation and user behaviour, in 2016 the new analytical tool was deployed in the private area of the website in order to detect and incorporate continuous improvements which allow links with customers, to increase the active activity ratio and sales in the channel.

### ▪ Accessibility

Accessibility and ease of use are critical to allow customers to adapt to the digital reality. Therefore, it is important to have accessible channels regardless of the customer and that processes allow a correct user experience by eliminating functional barriers through simple and effective designs. In this sense, Popular complies with the "Doble-A Technosite + Euracert WCAG 2.0" level.



On the other hand, Banco Popular Portugal follows the accessibility guidelines set out by the Website Accessibility Initiative (WAI) of the World Wide Web Consortium (W3C), in accordance with the certificate issued by Technosite, a leading accessibility company, part of *Fundación ONCE*.

### ▪ Telephone assistance and social networks

Various telephone support groups have been created to provide coverage to customers during the main technological, regulatory and corporate milestones. In the area of social networks, two pilots of new assistance platforms have been made: a chat inside the "Help Centre" section of the corporate blog and one WhatsApp. Both channels have been very well received. Noteworthy is the work done on the YouTube channel, with an average of 2,700 visits per month. The videos published there aim to help customers with doubts and incidents which may arise and explain how to deal with them in each case.

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## Betting on innovative technology of the service

Since 2011, Popular has allocated almost 750 million euros to the innovation of its technological fabric with the aim of adapting to the needs of customers and improving the commercial productivity of its services.



Started in 2015, the Bank's mobility project was consolidated in 2016 with the launch of new mobile applications which have emerged from the demand of more tech-savvy customers and, through a more modern and flexible digital structure, has made it possible to speed up the distribution of products through different channels.

### Internet Banking: More functionalities and operations

Throughout 2016, significant advances have been made in the transactional web environment with the objective of improving customers' financial operations. The most noteworthy are the following:

- App of new styles, the redesign of elements which ease navigation and improve access to virtual correspondence.
- Re-engineering usual processes such as transfers or the payment of taxes, as well as progress in the increase of information about movements in demand bank accounts.
- Activation of the new functionality called click-to-call which improves the efficiency of the remote customer registration process and reinforces the satisfaction survey processes online.

### Mobile Banking: improvements in the mobile application

During 2016, Popular implemented a new Mobile Banking App which affords substantial improvements in user operation and experience. The new App has been designed to work on different iOS and Android devices. It is available for Banco Popular, *Oficina Directa* and Banco Pastor and has the following functionalities:

- Quick balance checking which allows the customer to see the status of an account simply by opening the App. This functionality is unique in the market.
- Fingerprint access for quick and secure access to Mobile Banking on iOS.
- Personalisation of the customer's integral position depending on whether they are a private individual or company.
- New easy and intuitive interface, designed to simplify the visualisation and operation.
- Improvements when simulating the contracting of products and in the usability of transfers and management of receipts.

Since the App launch, it has been downloaded more than 290,000 times and has achieved a significant improvement in the its appraisal on the different download services.

### Remote customer acquisition

The service which offers the possibility of becoming a remote customer, in a simple and convenient manner, through the web has been perfected. The applicant only has to complete a request form with the basic data necessary for the Entity to start the process. At that time, the applicant receives an e-mail with the documentation they must sign without the need to visit any of the Entity's branches.

### Bizum: new payment service in which Popular participates

As part of Popular's strategy to deepen its digital transformation, during 2016 it participated in the Bizum project, a payment platform in which it has collaborated with almost 30 national financial institutions. In the first phase of launch, this service links the customer's account to their mobile phone number, allowing them to make payments to another individual in an intuitive and secure manner. In future versions, this channel will also allow payment in physical shops and electronic stores.

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### 2.2.3. Quality and Satisfaction

The Group's business model is oriented towards obtaining maximum service quality as well as the highest customer satisfaction. The Bank has implemented a series of actions that improve the excellent service rendered and seek to maintain customer confidence.

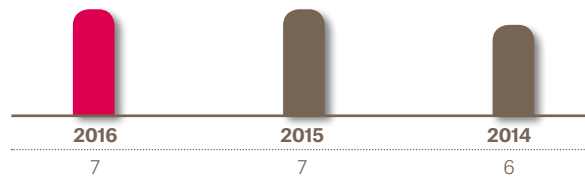
#### Commercial Quality Model

The Commercial Quality Model is intended to identify and improve the perception of current and potential customers of the Group. By measuring several variables such as the treatment received, professionalism, advice received and the commercial action of employees, we may learn, value and quantify customer satisfaction with the service received.

In 2016, Measurement Plan has been maintained which envisages two lines of investigation addressed at achieving two main objectives:

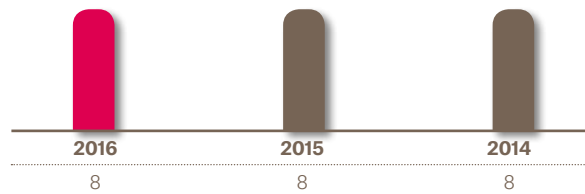
- Measuring the service provided by the Bank in its branches.** This action was achieved with the collaboration of an external auditor who made a visit every six months to each and every one of the branches, under its Mystery Shopping model, and obtained the Average Objective Quality Index (IMCO) with a score of 7 points.

Evolution of the Average Objective Quality Index (IMCO) - 2014/2016



- Measuring the customers' perception of the Entity.** To this end, an external auditor carried out 12 half-yearly telephone surveys on customers of each branch office. In this way a score for customers' Global Satisfaction with the Branch office was obtained, whose average score remained 8 points.

Evolution of the Global Satisfaction - 2014/2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

## Quality of the Multichannel Channels: measurement and new processes

### Telephone Banking

The service rendered through this channel allows the quality of services rendered to be monitored through telephone surveys and identify opportunities for improvement in order to increase the quality of the service, its availability and its performance.

Results of telephone quality surveys - 2016 <sup>(1)</sup>



<sup>(1)</sup> The scores on the Global Service Quality Index and the Global Satisfaction Index correspond to the average of the scores on the Madrid and A Coruña telephone platforms. Scale from 1 to 10 with 1 being the lowest and 10 the highest.

### Internet and Mobile Banking

The commitment with the quality of the service offered is still a priority, placing Popular another year with the maximum "A" rating by Aqmetrix for both channels, both in terms of quickness, availability and customer service as well as in consultation, transactions and contracting skills. Quality surveys have been carried out in both channels.

Results of the quality surveys carried out in the Internet and Mobile channels - 2016 <sup>(2)</sup>

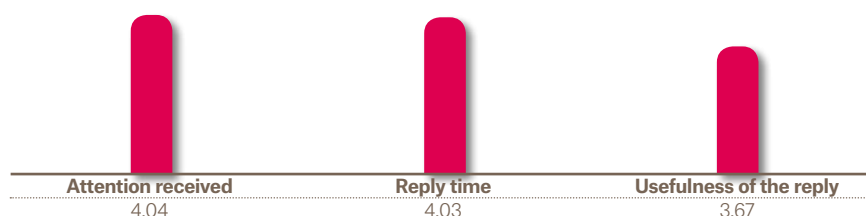


<sup>(2)</sup> Scale from 1 to 10 with 1 being the lowest and 10 the highest.

### Social networks

During 2016, quality surveys continued to be made to analyse customers' degree of satisfaction attended to through Twitter @ PopularResponde.

Results of the quality surveys carried out on Twitter @PopularResponde - 2016 <sup>(3)</sup>



<sup>(3)</sup> Scale from 1 to 5 with 1 being the lowest and 5 the highest.

## Customer Service Department

The Customer Service Department handles the complaints and claims from the Group customers. The quality of the service is improved through the classification and standardization of complaints received and incidents detected. It is a system that is constantly evaluated, monitored and controlled to identify the origin and reasons for the complaints and incidents, as well as to define specific corrective action.

In 2016 the Customer Service Department has answered to a total of 14,208 claims, complaints and queries. None of them has been related with the violation of Human Rights. On the other hand, it has given priority to all those which have had a larger social component, especially those related with floor clauses, dation in payment, data protection, preferred shares and the Code of Good Practices, bonuses and obligations.

**Average time to resolve complaints, queries and claims**

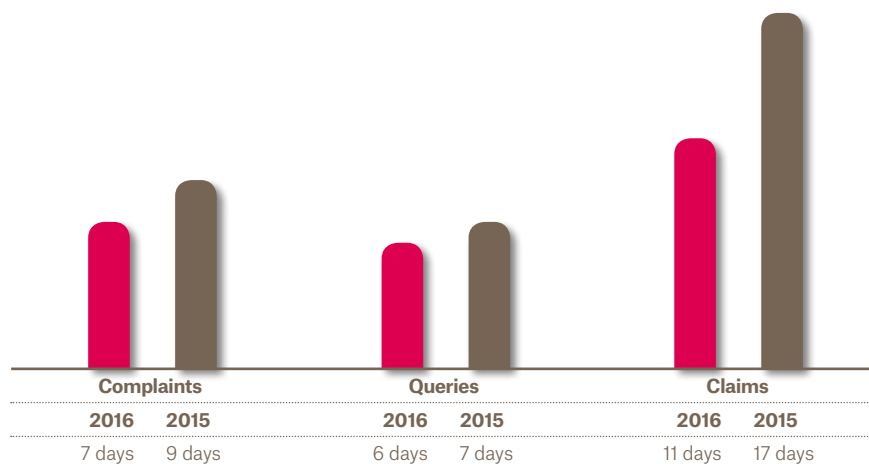
**8 days**

### Matters resolved by the Customer Service Department - 2014/2016

	2016	2015	2014
Claims	12,879	10,395	18,045
Complaints	331	387	1,110
Queries	998	682	962
<b>TOTAL</b>	<b>14,208</b>	<b>11,464</b>	<b>20,117</b>

Of note is the improvement in response time that the Customer Service Department has given to the various complaints, queries and claims with respect to the previous year.

### Average time to resolve complaints, queries and claims - 2015/2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

## 2.2.4. Transaction protection and security

The Information Systems Security Policy includes a series of internal operating rules in order to efficiently protect information, with a preventive, reactive and dynamic approach. Based on this Policy, rules and procedures have been adopted to guarantee computer system security and to comply with the legal requirements established for the information society, e-commerce and the processing of personal data. In addition, the clauses of all contracts inform customers of the rights granted by the Organic Law on Data Protection with respect to the use of their personal data.

Additionally, as a complement to this Policy and with the purpose of regulating the use of the technological resources which the Group makes available to its employees for the development of their professional activity, a Specific Policy for the Use of New Technologies and Computer Resources has been incorporated.

During 2016, Banco Popular Español has received three firm economic sanctions by final judgement related to the Personal Data Protection Act for the amount of 80,000 euros.

## 2.2.5. Customer security

In order to prevent fraud and to guarantee security in customer transactions, the Group implements several security measures, both internally and in collaboration with other institutions in the sector.

- **Internal security measures.** The Group takes measures to detect and review any incidents found in transactions carried out over the Internet in order to prevent fraudulent procedures. To reduce their effects and to reinforce available measures, there is a specific team whose primary purpose is to identify, analyse and prevent these types of transactions and, if appropriate, verify doubtful transactions with the customer concerned. Different control mechanisms have also been set in transactions made through debit and credit cards to prevent fraudulent misuse by third parties and losses to the Group.

On the other hand, the Group has a computer tool that allows it to adequately comply with its obligations to detect and report to the CNMV (National Stock Market Commission) any suspicious transactions in securities markets.

- **External collaboration measures.** Noteworthy is the participation of Popular, in collaboration with other entities in the sector, in fraud prevention committees and working groups such as the *Centro de Observación del Delito Económico* (Financial Crime Observation Centre) or the *Asociación Nacional de Establecimientos Financieros* (ASNEF - National Association of Credit Financial Establishments), amongst others.





Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

## 2.2.6. Business Continuity Plan

This Plan established a series of procedures, infrastructure and coordination programmes among the various areas involved around three basic concepts: resistance, flexibility and adaptation to extremely serious events. The objective of the Business Continuity Plan is to guarantee the survival of the Bank against any threat that could impede the performance of its activity and, therefore, the providing of services to its customers.

The risk prevention model establishes five possible emergency scenarios:

- Physical impossibility of accessing posts
- Inability to travel to work centres
- Absence of key personnel
- Inability to access information systems
- Errors in the information systems

### Organisational levels which respond to possible incidents



Given its geographical location, it may be pointed that in Totalbank this Business Continuity Plan is activated regularly in case of a hurricane alert in the area. The necessary measures are taken to safeguard each customer's information and to ensure a quick and efficient response to the computer and management systems.

## 2.3. Responsible development of the business

The Group maintains the commitment to harmonise its business success with the development of its activity in a responsible and committed manner with the environment in which it operates. Its actions in terms of Corporate Responsibility require the development of new business models that include stakeholder expectations, as well as the implementation of innovative initiatives that offer an inclusive view of the most vulnerable groups in society.

### 2.3.1. Socially Responsible Financing



Popular has a range of products for finance initiatives and projects which have a clear social or environmental component and are aimed at both private individual and entrepreneurial customers as well as large companies and corporations.



**Equator Principles**

**22**  
projects since 2008

**3**  
projects in 2016

### Equator Principles

In 2013, Popular implemented the Equator Principles, an initiative backed by several economic sector entities in coordination with the International Economic Corporation, which is an agency of the World Bank. Through this membership the Bank voluntarily accepts a total of ten guidelines to include and manage social and environmental risks to allow it to more exhaustively evaluate risks in larger financing transactions.

Once the project had begun, the Bank, together with the other financing banks and the financed company, established a monitoring system by technical advisers that ensures compliance with the objectives set in the environmental and social sphere. In this way, direct control is exercised over the potential risks which affect Climate Change and the social area.

In order to carry out this management effort, Popular has a group of professionals that pertain to the Investment Banking and Risk areas which, among other responsibilities, analyse and manage projects relating to the Equator Principles, and reports to the Risk Committee as the responsible party for the financing decision.

Although Popular has ratified its commitment to the Equator Principles in 2013, since 2008 it has executed a total of 22 projects that take into consideration the Equator Principles. In 2016, it has subscribed three operations in accordance with the Equator Principles, which represent 30% of the Project Finance formalised in the year by the Investment Banking area and with the objective of expanding its commitment, it has extended the application of these principles to other major financing operations.

Classification of Project Finance in accordance with the Equator Principles – 2008/2016

Project Finance							
Category	No. of operations	Sector	No. of operations	Region	No. of operations	Designated country	Independent evaluation
A	1	Energy	1	Europe	1	1	-
B	15	Infrastructures	9	Europe	7	9	9
				North America	2		
		Energy	5	Europe	4	5	5
				North America	1		
Other	1	Europe	1	1	1		
C	6	Infrastructures	3	Europe	6	6	6
		Energy	3				

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

## Classification of Project Finance in accordance with the Equator Principles – 2016

Project Finance								
Category	No. of operations	Sector	No. of operations	Region	No. of operations	Designated country		Independent evaluation
						Designated	Not Designated	
A	-	-	-	-	-	-	-	-
B	2	Energy	2	Europe	2	2	-	2
C	1	Energy	1	Europe	1	1	-	1

In the framework of the CR Transversal Training Plan 2014–2016, all those responsible for the management of the Equator Principles in the Entity received the necessary training to perform the analysis and granting of each of the operations presented. The objective of this training was to progress in the evaluation and risk management process, in addition to informing of the novelties of the principles and publishing its third edition. This training action was taught by external experts to those responsible for the areas whose activity had a direct relationship with the guidelines defined in the Equator Principles.

### ▪ Microcredits “Betting on you” – Third Sector, funding for groups at risk of social exclusion

Microcredits “Betting on you” – Third Sector, is comprised of a portfolio of microcredits aimed at promoting entrepreneurship and self-employment in groups at risk of social exclusion. The portfolio has 1,250,000 euros allocated to it encompassed within a line of 10,000,000 euros named Microcredits “Betting on you”. This line comes with the guarantee of 960,000 euros from the European Investment Fund (EIF) and offers preferential conditions associated with each of the operations.

This portfolio, which comes with the agreement entered into in 2015 with the European Investment Fund has the support of the European Union under the guarantee instrument established under Regulation (EU) No. 1296/2013 of the European Parliament and of the Council, related to the European Union Programme for Employment and Social Innovation (EaSI).

The recipients of funding are micro companies (both *startups* and ongoing businesses) and self-employed people that submit their projects accompanied by a third sector entrepreneurial expert body with which Popular has signed a collaboration agreement to develop this initiative. The beneficiaries have the advice of a specialist in entrepreneurship from that Entity which will perform mentoring and training during the early years of the project.

On the other hand, Popular maintains its confidence in the management of entrepreneurs, SMEs and traditional self-employed persons through the granting of microcredits. During 2016, a total of 8,020 microcredits were granted with a limit of up to 25,000 euros for businesses and self-employed persons and 11,548 of up to 40,000 euros for SMEs. These transactions, which 16,138 customers benefited from, amounted to 250 million euros.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
01 Structural Dimension	02 <b>Economic Dimension</b>	03 Social Dimension	04 Environmental Dimension	05 Annexes	

**ICO loans**

**€892,954,447**

**Percentage of the area's total:**

**0.856%**

▪ **ICO loans**

Popular has been one of the three entities which has the most ICO loans granted in 2016 with a total of 17,758 operations which have benefited more than 8,973 companies. Three agreements which finance investments in sectors contributing to the development of society or the environment are particularly relevant.

ICO agreements made with sustainable criteria - 2016

Agreements	No. of operations	Amount
ICO - Companies and Entrepreneurs	9,636	437,279,621
ICO - Exporters	8,024	154,375,291
ICO - Local entities	97	301,212,535
ICO- Trade credit	1	87,000

## Promotion of the Circular Economy and projects which mitigate Climate Change

Popular has supported the development of proposals which favour the Circular Economy through the financing of projects promoting the recycling of waste. It has also granted loans to renew fleets of polluting vehicles and to develop the construction and operation of different renewable energy infrastructures. These financing lines, designed to mitigate the emission of greenhouse gases, are aligned with Popular's commitment to halt the development of Climate Change.



### Projects with an environmental component financed by the Group

Popular has financed, in various countries of the world, projects whose objectives are the generation of energy from renewable sources or the management of recycling of organic and inorganic wastes.

**Environmental projects**

**€778,339,488**

**Percentage of the area's total:**

**0.746%**

Projects financed with an environmental component (thousands of euros) - 2001/2016

Type of project	Number	Amount Financed	Percentage
Solar Energy	13	308,319	39.6%
Wind Energy	17	223,895	28.8%
Photovoltaic Energy	15	193,537	24.9%
Biomass	3	28,551	3.7%
Recycling	2	1,219	0.2%
Waste	1	22,816	2.93%
<b>TOTAL</b>	<b>51</b>	<b>778,339</b>	<b>100%</b>

### Financing line for the renewal of hybrid and electric vehicle fleets.

Popular and the European Investment Bank (EIB) signed an agreement in 2016 to finance 200 million euros to renew vehicle fleets of SME and medium-sized companies. The objective is for both groups to have vehicles, mainly hybrid and electric, which are more respectful to the environment.

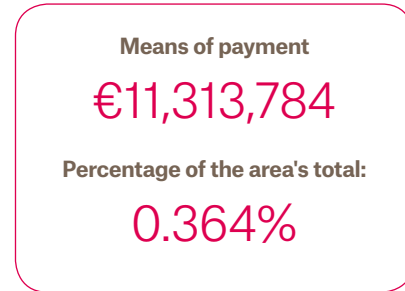
This operation has been carried out within the framework of Environmental Impulse Plans designed by the Ministry of Agriculture, Fisheries, Food and Environment and is a tool for the promotion of a set of specific measures which contribute to the improvement of the environment. They also have a positive effect on economic development and the promotion of employment.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
01 Structural Dimension	02 <b>Economic Dimension</b>	03 Social Dimension	04 Environmental Dimension	05 Annexes	

**Means of payment**



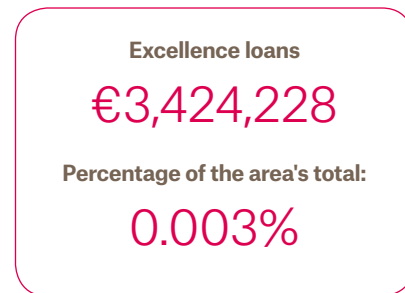
In 2016, the Group has marketed a range of Visa Affinity cards and has allocated a percentage of the use made with them to various organisations of the third sector. The cards marketed are: *Visa Domund*, *Visa Alcer*, *Visa Aldeas Infantiles* and *Visa Misiones Salesianas*.



**Academic Excellence Loan Programme**



This line of credit is part of a programme which Popular supports through *Fundación Hispánica* and aims to facilitate access to university for students who have an above average high school certificate and prove that they don't have sufficient financial resources to support their studies.



This project is developed together with various Spanish and foreign universities. During the 2015/2016 academic year, the programme had a total of 992 beneficiaries and their loans were repaid in the amount of €3,424,228.

**Collaboration with International Development Banks**



The Group maintains agreements with various financial institutions in order to encourage foreign trade in developing countries and to facilitate the internationalisation of Spanish companies in countries with which, to date, trade relations were very limited and where there are unstable banking systems. At 31 December 2016 agreements are in force with the Asian Development Bank, the European Bank for Reconstruction and Development and the International Economic Corporation, which forms part of the World Bank.





### 2.3.2. Socially Responsible Investment

During 2016, the Group has managed different investment products which consider environmental, social and good governance criteria within their portfolios.

**EUROVALOR COMMITMENT**

**€6,150,324**

Percentage of the area's total:

**0.056%**

- **SRI, EUROVALOR COMMITMENT.** The portfolio of this investment fund is fully comprised of Socially Responsible Investment funds. These funds have been managed by reference entities at an international level and consider, in addition to financial criteria, the following when selecting assets in which to invest:

- **Environmental Criteria:** they are based on indicators related to the impact on Climate Change, valuing energy, water, forestry, biodiversity policies and compliance with environmental protocols, among others.
- **Social Criteria:** based on indicators which measure the existence of policies related to education, health, employment and equality, a population's access to public services, compliance with the fundamental working regulations of the ILO (International Labour Organization) or the Gini coefficient which evaluates inequality when measured in terms of income.
- **Good Governance Criteria:** based on indicators which measure, among others, the analysis of political rights, democracy levels, political stability, civil liberties and rights, free press, transparency and corruption.

**GAWA**

**€3,800,000**

Percentage of the area's total:

**0.035%**

- **GAWA MICROFINANCE FUND SCA SICAR.** This fund, which according to the SRI terminology is considered as "impact investment", invests in micro-finance and similar institutions to provide support for micro-entrepreneurs and small companies, primarily in Latin America and Asia through debt investments (70% of the value) and in equities (30%). Its objectives are to obtain an economic return for investors and include disadvantaged groups in the economic system.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
01 Structural Dimension	02 <b>Economic Dimension</b>	03 Social Dimension	04 Environmental Dimension	05 Annexes	

- InC INCLUSION GLOBAL FUND SCA SICAR.** This is a social impact investment fund focusing on Global Inclusion that invests in micro-finance and similar institutions in sub-Saharan Africa, Latin America and Asia through debt investments (60% of the value) and in equities (40%). It is for institutional, private, foundation and religious institution investors. In addition, the fund manager links its profit-sharing to the social performance obtained by the investment portfolio. This fund is also considered as "impact investment" in SRI terminology.

**INCLUSION GLOBAL FUND**

**€12,300,000**

Percentage of the area's total:

**0.112%**

- PBP BIOGEN, FI.** This is an investment fund managed by Popular Gestión Privada. It invests 50% in pharmaceutical industry equities, 25% in healthcare and the remaining 25% in biotechnology. This is a solidarity fund and it donates part of its commission to the Applied Medicine Research Foundation (FIMA) so that it may carry out its research projects. FIMA collaborates with Popular Gestión Privada to select securities, especially in the biotechnology field.

**PBP BIOGEN**

**€5,744,748**

Percentage of the area's total:

**0.052%**

- FONEMPORIUM.** This is a mixed global investment fund managed by Popular Gestión Privada. It invests 40% in equity and the rest in fixed-income and monetary assets. FONEMPORIUM is a solidarity fund since 0.15% of this fund's worth is donated each year through equal payments to Caritas Diocesanas de Barcelona, ONCE Foundation and *Fundación Internacional de Solidaridad de la Compañía de María*.

**FONEMPORIUM**

**€12,314,523**

Percentage of the area's total:

**0.112%**



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

## Integration of ESG criteria in investment and financing activities of Allianz

In 2016, Allianz Popular, an investment fund manager marketed by Popular, has implemented, following Allianz SE guidelines, its investment policy which includes social, environmental and good governance criteria.

Under this policy, we have established a number of exclusive filters and others of an evaluative nature, such as encouraging investment in companies which have signed the United Nations Global Compact. Likewise, it states that investments in certain sectors that may present potential reputational, environmental, social and good governance risks, are subject to a specific and detailed study.

The scope of this Policy's application affects fixed and variable income bonds and investments in third party funds.

### Popular in the current mortgage situation

Continuing with the practice originating from the start of the economic crisis, the Bank offers various alternative solutions that help to mitigate the situation deriving from the temporary incapacity to satisfy obligations on the part of customers with primary home mortgages. In those cases in which repayment of the debt has been impossible and legal proceedings unavoidable, Banco Popular has not forcibly evicted any family whose habitual home has been foreclosed as a result of the execution of a mortgage and specific agreements have always been reached with occupants.

The main social initiatives where Banco Popular participates with the purpose of enabling its customers to have decent housing are the following:

- **Fondo Social de Viviendas (Social Home Fund).** In 2013, Popular signed the Treaty for the Creation of a Social Home Fund, under which it assigned 336 properties. Therefore, it decided to extend this assignment to 335 more buildings, which have been made available to the applicants, thus reaching the figure of 671 homes granted. These homes which are within the framework of this Treaty are leased to persons who have been evicted due to mortgage payment failure and are in particularly vulnerable circumstances. At the close of 2016, Popular has foreclosed all of these homes. However, the Entity, endorsing its commitment to society, continues to care for families in a vulnerable situation who address them requesting housing.
- **Code of Good Practice for the restructuring of mortgage debt.** Popular is committed to the Code of Good Practice for the viable restructuring of debts with mortgage security on the usual place of residence which was defined by Royal Decree-Law 6/2012 of 9 March. This Code enables restructuring the mortgage debt of those who have extraordinary difficulties to meet payments, such as flexibility in the enforcement of the real guarantee. It applies to persons who are considered as being at the "exclusion threshold". Under this initiative in the current year 341 contracts for social rent have been formalised.

### 2.3.3. International Operation Centres

Since 2004, when Popular's Executive Committee (now the Delegated Committee) established the policy relating to off-shore establishments, it keeps the commitment to gradually reduce their activity prior to their elimination where viable. At the end of 2016, it closed the final centre which held preferred shares.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	


### 2.3.4. Support for entrepreneurs and economic education

In 2016, Popular continued its commitment with the development of different actions aimed at the promotion of the entrepreneurial activity and economic education:

▪ **Entrepreneurial training.** In this area we note the following initiatives:

- Support for the tenth edition of the Junior Business Challenge, in collaboration with ESIC–Business & Marketing School. This is a competition between groups of students from different schools throughout the country who, with the assistance of a teacher, manage a project to create and start their own business through a business reality simulation tool. During the last ten editions more than 8,500 high school and higher education students and 750 teachers participated in more than 2,500 teams pertaining to nearly 500 schools.
- Collaboration with *CECE (Confederación Española de Centros de Enseñanza)* in the *X Jornada de Emprender* (10<sup>th</sup> entrepreneurship workshop), a project which encourages the spirit of entrepreneurship in non-university education to promote personal motivation of children and youths.
- Maintaining the cooperation agreement. In 2016, we also maintained a cooperation agreement signed with ESIC-Business & Marketing School to enhance entrepreneurship and promote the creation of new companies in Spain. The agreement enables ESIC students and former students to obtain finance at very advantageous conditions for the development of their entrepreneurial projects within the country.
- Active participation in the Patronato *Fundación Princesa de Girona*. This entity's main objectives are entrepreneurship, employment, school success and the exploitation of talents of young Spanish students. Moreover, it provides support in the process of discovering scientific, mathematical, artistic and musical vocations, facilitating the path for students to develop their talent.

By entering into these agreements, the Bank undertakes the commitment of making an effort to increase the work opportunities of all youngsters, showcasing training, effort, values and the attitude to fight for their own place in the job market. In 2016 Popular has granted lines of credit to entrepreneurs for a total of 16,887,000 euros.



**Lines of credit  
for entrepreneurs**

**€16,887,000**

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

- Increasing financial education.** The economic education of groups with low access to banking services has been encouraged through the development of training days within the framework of the Corporate Volunteering Programme. This line of action has been carried out since 2011 by Group volunteers with the aim of teaching economic language, as well as other technical knowledge, to people with intellectual disabilities and at risk of exclusion. In 2016, 7 economic education working days were carried out in different entities of the third sector, benefiting more than 93 students.

Popular participated in this training promoted by the Spanish Banking Association (SBA) and the Junior Achievement Foundation, which aims to promote financial literacy among students of 2nd and 3rd year of Compulsory Secondary Education. This participation is part of the activities of European Money Week 2016 and the National Plan for Financial Education.

“Your finances, your future” has been developed in more than 127 schools across Spain and has enjoyed the participation of more than 500 volunteers from the majority of financial institutions adhering to the SBA, including Popular. This action has managed to train more than 7,200 young people helping them to be more financially responsible.

Popular believes in training in financial matters at an early age so that in the future young people develop a financial behaviour in which responsibility and commitment are the main guarantee.

### 2.3.5. Observance of Human Rights

The Group develops its banking activity responsibly in compliance with Human Rights, it applies this principle of observance to 100% of the managed products and services. Accordingly, it does not carry out its activity in countries where Human Rights are of special concern due to the risk of violation.

We note the absence of both incidents that have given rise to any violation of minority rights and the potential risk of child labour incidents. Similarly, there have been no transactions that could be considered to involve forced or coerced labour.

In order to support the achievement of the United Nations Sustainable Development Goals, a number of initiatives have been carried out as identified throughout this Report. Also in Annex 1. About the Report, which expands information on the Group's performance in relation to SDG.

 [More information about SDG application](#)



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

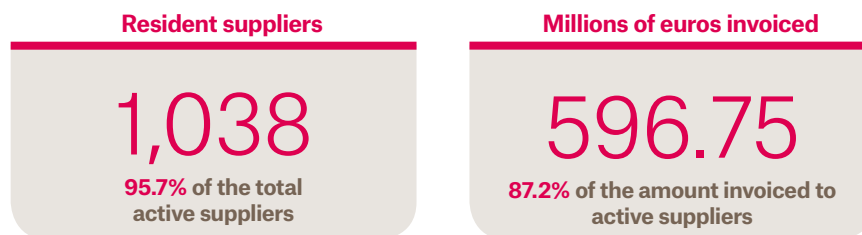
## 2.4. Management of the supply chain

The application of corporate values and sustainability criteria in the management of each supply chain, and its transfer to suppliers is a responsibility that the Group assumes as its own. In this regard, the relationship that the Entity promotes with its suppliers is based on transparency and mutual trust, in order to guarantee the efficient provision of quality services.

### 2.4.1. Supplier profile and purchasing volume

In 2016, the Group contracted products and services from its active suppliers, those who supply services and offer products relating to key aspects of the business and whose payment is managed by the Purchasing area, totalling over 680 million euros. In addition, the Bank carries out most of its activity in Spain and the majority of its suppliers are residents, i.e. domiciled for tax purposes in Spain.

Information regarding active resident suppliers of the Banco Popular Group - 2016



### Special Employment Centres

In line with the commitment required by the Bank with respect to the socio-employment integration of disabled persons, it promotes the purchasing of products and services from Special Employment Centres, which are companies that employ mainly persons with certified disabilities.



The collaboration with these Centres in 2016 has allowed the Group to take the following actions, among others:

- Review of web accessibility
- Digitalisation of documents
- Recycling of toner cartridges
- Production of promotional materials
- Coordination of communications initiatives
- Preparation and distribution of office materials

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
01 Structural Dimension	02 <b>Economic Dimension</b>	03 Social Dimension	04 Environmental Dimension	05 Annexes	

## 2.4.2. Suppliers Management

### Suppliers Management Plan 2014-2016

In line with the Corporate Responsibility strategy and the CR Master Plan *Horizon 2020*, the Suppliers Management Plan, establishes the objectives and actions to unfold in the period 2014-2016 to move forward in the management of the Groups' supply chain from an economic and good governance, social and environmental point of view.

The actions within the Suppliers Management Plan 2014-2016 include series of milestones which have been managed during 2016 and are the following:

- Developing the Supply Chain Risk Management Model
- Maintain the establishment of the Supplier Approval Protocol
- Improve supplier satisfaction
- Developing the actions listed in the Eco-efficiency Plan 2014-2020 to reduce the impact that suppliers' activities might have on the environment

The implementation of these actions allows Popular to deepen the internal management of one of its priority stakeholder groups, as well as consolidating a more transparent, stable and satisfactory relationship with suppliers.



**Completion of the Approval Form**

**100%**

**of suppliers**

**The Group's invoicing which comes from active resident suppliers approved under ESG criteria**

**92%**

### Code of Conduct and Approval Form

The Group's purchasing management model guarantees accessibility and transparency in accordance with the action principles established in the Code of Conduct for Suppliers. This Code establishes the selection and action criteria that the Group applies to all suppliers for certification, in accordance with its corporate culture and the United Nations Global Compact principles, with which the Bank is committed.

The certification system consists of an Approval Form in which resident suppliers report, in addition to economic and management aspects, information relating to environmental and social performance, and good governance, as well as the acceptance of the Code of Conduct.

Popular has requested that 100% of new suppliers complete the form and 297 suppliers did so in 2016. Currently, 92% of the Group's invoicing comes from active resident suppliers approved under ESG criteria.

The selection of suppliers is based on objective criteria in order to guarantee maximum professionalism, independence and impartiality, together with a commercial relationship based on mutual confidence and respect. However, any repeated failure to comply with the terms and conditions regarding deliveries or any deficient quality affecting products and services are considered to be very serious violations of that confidence. In these cases the supplier will be excluded from future purchasing processes, notwithstanding the application of any actions and penalties established in this respect.

It should be noted that during the year no contract was cancelled and no supplier was rejected due to any failure to comply with the guidelines set out in the aforementioned Approval Form or in the Code of Conduct.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

## Supply Chain Risk Management Model

During 2016, the measurement of supplier activity has continued through the Supply Chain Risk Management Model. The Model sets out the methodology for the management of the supply chain based on the classification of suppliers by their risk profile, according to economic and good governance, social and environmental criteria.

### Standards and indicators assessed in the Supply Chain Risk Management Model - 2016

Economic	Good Governance	Social	Environmental
<ul style="list-style-type: none"> <li>Company activity</li> <li>Recent years' invoicing</li> <li>Employees</li> <li>Special Employment Centre</li> <li>Annual financial data</li> <li>Type of company</li> </ul>	<ul style="list-style-type: none"> <li>CR Policy</li> <li>Code of Conduct for Employees</li> <li>Anti-corruption and Anti-fraud Policy</li> <li>Adherence to the Global Compact</li> <li>Carrying out of audits</li> <li>Regulatory compliance and certificates for that</li> </ul>	<ul style="list-style-type: none"> <li>Human and labour rights</li> <li>Anti-discrimination Policies</li> <li>Labour integration plans for disadvantaged groups</li> <li>Regulatory compliance and certificates for that</li> </ul>	<ul style="list-style-type: none"> <li>Environmental Management System</li> <li>Sustainable products/services</li> <li>Savings and quantification programmes for raw materials, energy, water, waste and emissions</li> <li>Regulatory compliance and certificates for that</li> </ul>

The assessment of these indicators allows suppliers who develop an activity in line with the Group's Corporate Responsibility strategy to be identified and to know the risk level of suppliers in order to establish the timely mitigation systems.

To such end, the Model defines several phases that all the Group suppliers will be subject to:

Diagnosics Phase	Analysis Phase	Monitoring Phase
<ul style="list-style-type: none"> <li>This provides the Bank with a global view of its supply chain risk, allowing the identification of the risk level of each supplier. The risk levels identified are Minimal, Moderate and High. The latter is the most critical since it identifies the actual and potential significant negative impacts which the supplier has incurred on the basis of economic, social, environmental and good governance criteria. Although no High Risk supplier has been identified in 2016, the Entity establishes the appropriate procedures to mitigate the possible impacts generated, among them, the development of follow-up audits.</li> </ul>	<ul style="list-style-type: none"> <li>This takes a deeper insight into the good governance criteria taken by suppliers qualified as Moderate Risk to perform their activity. Having analysed this, this phase helps to identify aspects for improvement and follow these up in the medium term.</li> </ul>	<ul style="list-style-type: none"> <li>Based on the results of the previous phases, the management of suppliers qualified as High Risk are revised. They will all be specifically monitored and, where appropriate, an independent third party will verify if the standards evaluated and negative impacts have been corrected and will determine if the supplier is suitable or not to maintain a trading relationship with the Group.</li> </ul>

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

During 2016, the Diagnostics Phase was developed evaluating 494 suppliers which represents 78.93% of the Group's total invoicing. The results of this phase are shown in the following chart:

Number of suppliers with assessed risk according to economic, social, environmental and good governance criteria - 2016



Totalbank's Purchasing area has developed a methodology to assess the risks of the new suppliers it contracts. In this procedure, the supplier is asked for documentation regarding compliance with certain economic, social, environmental and good governance requirements which must meet the country's regulatory requirements.

In terms of the contracting processes, these are carried out in a standardised and clear manner to ensure equal opportunities between suppliers and ensure the optimisation of contracted products and services.

### Consultation and dialogue channels

In order to maintain a fluid and transparent relationship with suppliers, the Group has a series of general consultation and dialogue channels through which it receives and manages these queries. In this connection, the Group is always available to listen to any suggestions that are intended to improve quality or services.

In 2016 the first phase of the Suppliers' Portal has been developed. It is a web-based environment on which suppliers can check the status of their invoices. The Portal will continue offering technological solutions to this group aimed at facilitating the exchange of information and documentation, as well as applications which improve the operation.

On an annual basis the main suppliers are invited to complete a satisfaction survey in order to learn what aspects are most valued or susceptible to improvement in the existing relationship between the supplier and the Bank, as well as in negotiation, service and invoicing areas.

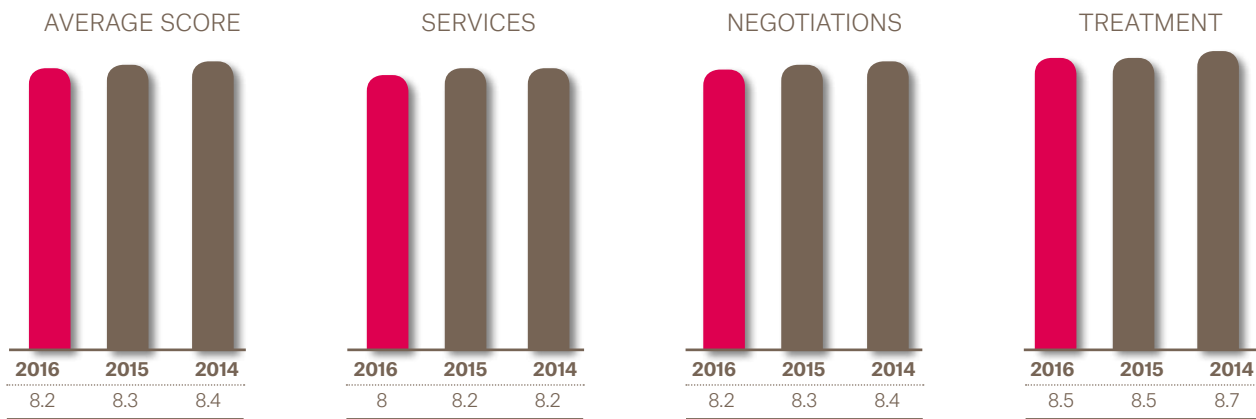
Aspects most valued by suppliers – 2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	<b>Economic Dimension</b>	Social Dimension	Environmental Dimension	Annexes	

As may be observed in the graphs shown as follows, in 2016 the evaluation of suppliers has remained similar in all indicators compared with 2015, and high satisfaction levels continue. Given the current market situation, Popular concerns itself with making relationships with suppliers progressively more direct and reliable. This thus anticipates possible contingencies and establishes the measures to be taken by mutual agreement with suppliers with an attitude of collaboration and dialogue.

Evaluation of Banco Popular Group in the supplier satisfactions survey – 2014/2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
01 Structural Dimension	02 Economic Dimension	<b>03 Social Dimension</b>	04 Environmental Dimension	05 Annexes	



# 3 Social Dimension

In line with the CR Master Plan *Horizon 2020*, the Group's social performance is developed in two differentiated dimensions based on its sphere of action: internal and external. The actions defined in the Internal Social Dimension have the purpose of linking the professionalism of the human capital with the success of the Bank. Meanwhile, the issues observed inside the External Social Dimension have the purpose of showing the Bank's commitment with the social scenario in which it operates. Below shows the main results achieved by the action lines defined in both areas.

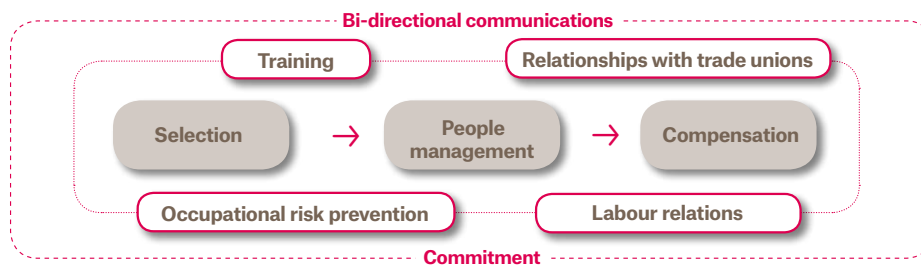
## Social dimension of the CR Master Plan *Horizon 2020*



### 3.1. Internal Social Dimension: human capital management

The mission of the People area is to align the policies intended to manage human capital at the Group with the Entity's corporate strategy. To this end, it attempts to attract people with potential and to contribute to their development through training and experience in work teams. People who are part of the Group acquire a sufficient level of knowledge to assume responsibility from their first years of employment, acquiring a high level of independence and committing to attaining results.

#### Functions of the People area





Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
01 Structural Dimension	02 Economic Dimension	03 <b>Social Dimension</b>	04 Environmental Dimension	05 Annexes	

## Workforce restructuring process

In mid-2016, Popular presented its strategic plan, thus initiating a new renovation and restructuring stage of its business, accompanied by a firm plan to reduce costs. After a thorough operational analysis on possible optimisation measures, a restructuring process was proposed, which has been developed at the end of the year, as the only way to adapt the productive capacity to the current level of income.

This restructuring process has affected both the Branch network and the staff in Spain of Banco Popular and Banco Pastor, resulting in an adjustment of almost 2,600 employees.

The process carried out has been negotiated with the Entity's union representatives and has been closed with an agreement signed by 85% of the trade union representation. This agreement was presided over by the will to minimise the effects on the workforce, betting on early retirement and voluntary measures. But it has also sought to protect and consider the personal circumstances of each employee. The economic conditions offered have significantly exceeded what is legally established, including complementary compensation and maintaining certain social benefits.

As a result of this agreement, 100% of the employees undergoing the restructuring process have done so on a voluntary basis, whether through pre-retirement formulas, compensated withdrawals or compensated surcharges.

It should be noted that in the People area, charged with managing the restructuring process and the agreement reached, a series of actions have been developed to provide the tools, information and support to the staff, facilitating collective and individual development of the adjustment.

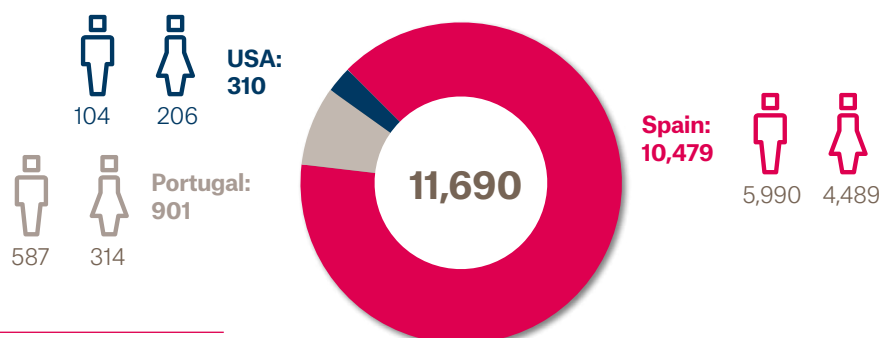
In addition, Banco Popular Portugal has carried out a restructuring process of its offices and employees, which in this case resulted in the closure of 47 branches and an adjustment of 305 employees.

As in the case of Banco Popular, 100% of the employees have done so on a voluntary basis and have attempted to minimise the negative impacts on the workforce.

### 3.1.1. Profile and breakdown of the workforce

In 2016, the Group had 11,948 employees. The Group's financial institutions concentrate 98% of human capital and it should also be noted that 100% are full-time employees and 99.5% have indefinite employment contracts.

Distribution of employees by region and gender – 2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

In the following tables, the most relevant capital figures can be found, both for Spain and for the Group. For the scope of Spain (hereinafter, *employees in Spain*), we have considered 10,479 employees belonging to financial institutions in Spain (Banco Popular, Banco Pastor and Popular Banca Privada), given that they have all been managed under the Group's People area system throughout the whole of 2016.

For the scope of the Group, hereinafter, *employees of the Group*, it has been considered 10,479 *employees in Spain*, and employees from financial institutions in Portugal (901) and USA (310). Thus, the scope *employees of the Group* reached the figure of 11,690.

For both scopes, it has been considered exclusively financial institutions, given that being governed by similar collective agreements makes them comparable. The rest of societies of the Group are not included as they are governed by heterogeneous collective agreements, which would make it difficult to be compared with financial institutions where most of the human capital is concentrated.

It should be noted that in the calculation of the ratios in this Report using the number of *employees in the Group* or the number of *employees in Spain*, the average number of employees in the Group or employees in Spain has been applied instead.

Likewise, given that the majority of the restructuring of the workforce occurred at the end of December 2016, the workforce on 29.12.2016 was taken to calculate data related to training, rotation, accidents and absenteeism. The objective of presenting this information at that date is to more coherently reflect the activity developed by the Group in these matters throughout the whole of 2016, limiting the impact of the restructuring.

### 3.1.2. Selection and hiring

The selection and hiring of people is based on a model of selection by competency with maximum respect for the principle of non-discrimination and equal opportunities. In 2016, the hiring of certain profiles required for very specific positions of the Entity has been maintained. In this regard, in 2016 the Group was not involved in any incident related to discrimination in any setting.

The corporate website has a specific page regarding this topic and it is possible to register for specific areas of interest, modify and update a curriculum vitae and register for employment opportunities and practices that best match the candidate's profile.

Furthermore, during 2016 there have been taken different initiatives to directly hire individuals with disabilities. Among them, the following are notable:

- **Participation in *Por Talento* through the *Convenio Inserta* programme.** This programme includes a series of measures to increase employment and training of people with disabilities. *Convenio Inserta* is driven by *Fundación ONCE* and co-financed with the European Social Fund.
- **Publication of vacancies on various job boards.** Of particular note are those published in *Fundos* and *disJob*, two web environment job search programmes for people with disabilities.
- **Integration of people with disabilities in highly-qualified positions.** Through this agreement signed with the Seeliger y Conde Foundation, a channel has been established for receiving professional profiles to assess their inclusion in various selection processes.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

### Distribution of employees in the Group by region and gender - 2014/2016

Region	2016		2015		2014	
	M	W	M	W	M	W
Spain	5,990	4,489	8,655	5,341	8,698	5,186
Portugal	587	314	782	380	904	395
USA	104	206	112	220	154	264
<b>TOTAL</b>	<b>11,690</b>		<b>15,490</b>		<b>15,601</b>	

### Distribution of employees in the Group by gender and work contract - 2014/2016

Gender	2016		2015		2014	
	Indefinite contract	Temporary contract	Indefinite contract	Temporary contract	Indefinite contract	Temporary contract
Men	6,656	25	9,406	143	9,594	162
Women	4,976	33	5,820	121	5,710	135
<b>TOTAL</b>	<b>11,632</b>	<b>58</b>	<b>15,226</b>	<b>264</b>	<b>15,304</b>	<b>297</b>

### Distribution of employees in the Group by professional category, age and gender - 2016

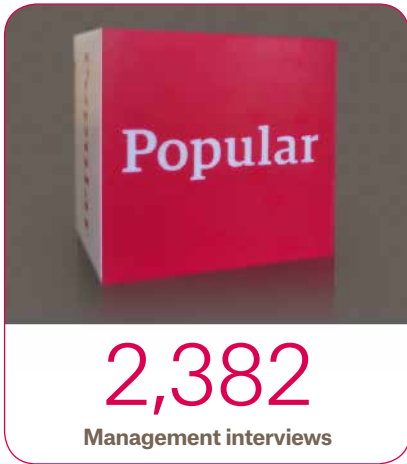
Professional Category	<30 YEARS		BETWEEN 30 AND 50		>50 YEARS		TOTAL
	M	W	M	W	M	W	
Administrative staff	123	132	265	425	248	101	1,294
Technician	89	87	3,080	3,481	769	200	7,706
Directors	2	1	1,747	544	358	38	2,690
<b>TOTAL</b>	<b>214</b>	<b>220</b>	<b>5,092</b>	<b>4,450</b>	<b>1,375</b>	<b>399</b>	<b>11,690</b>

### Number and rate of new contracts of employees in the Group distributed by region, age and gender - 2016 (\*)

Region	<30 years				Between 30 and 50				>50 years				TOTAL			
	M		W		M		W		M		W		M		W	
	Total	Rate	Total	Rate	Total	Rate	Total	Rate	Total	Rate	Total	Rate	Total	Rate	Total	Rate
Spain	25	7.31	23	6.85	30	0.58	29	0.63	3	0.09	-	-	58	0.67	52	0.97
Portugal	3	12.50	4	9.76	15	2.27	5	1.55	4	4.08	6	37.50	22	2.81	15	3.95
USA	8	57.14	5	20.00	15	21.43	23	20.54	5	17.86	12	14.46	28	25.00	40	18.18
<b>TOTAL</b>	<b>36</b>	<b>9.47</b>	<b>32</b>	<b>7.96</b>	<b>60</b>	<b>1.02</b>	<b>57</b>	<b>1.14</b>	<b>12</b>	<b>0.37</b>	<b>18</b>	<b>3.37</b>	<b>108</b>	<b>1.13</b>	<b>107</b>	<b>1.80</b>

### Number and turnover rate of employees in the Group distributed by region, age and gender - 2016 (\*)

Region	<30 years				Between 30 and 50				>50 years				TOTAL			
	M		W		M		W		M		W		M		W	
	Total	Rate	Total	Rate	Total	Rate	Total	Rate	Total	Rate	Total	Rate	Total	Rate	Total	Rate
Spain	17	4.97	19	5.65	247	4.79	251	5.49	78	2.47	31	7.13	342	3.95	301	5.64
Portugal	3	12.5	2	4.88	135	20.45	54	16.72	27	27.55	11	68.75	165	21.1	67	17.63
USA	8	57.14	10	40	25	35.71	39	34.82	5	17.86	8	9.64	38	33.93	57	25.91
<b>TOTAL</b>	<b>28</b>	<b>7.37</b>	<b>31</b>	<b>7.71</b>	<b>407</b>	<b>6.92</b>	<b>344</b>	<b>6.87</b>	<b>110</b>	<b>3.35</b>	<b>50</b>	<b>9.36</b>	<b>545</b>	<b>5.71</b>	<b>425</b>	<b>7.15</b>



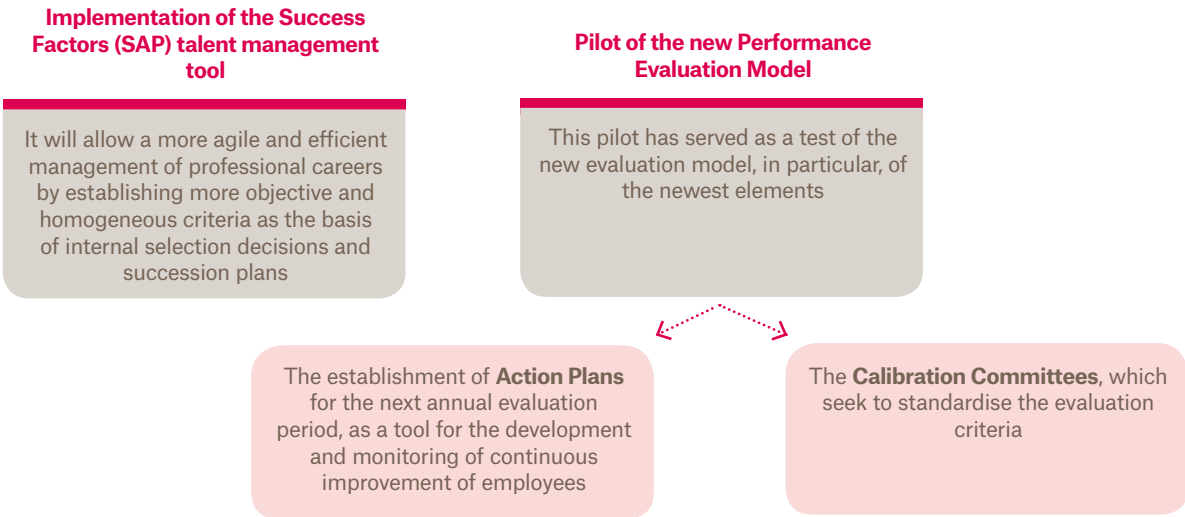
### 3.1.3. People management

The People Management Model followed by the Group allows for keeping close contact with all employees through a decentralised structure, with managers in each Regional Directorate, Territorial Directorate and Central Services; a continuous systematic communication through interviews and tools, as well as specific plans designed for the employee to flexibly manage their relationship with the Bank.

Management interviews allow to advance the knowledge of the workforce, identify talent and manage alerts that are detected. Throughout 2016, 2,382 management interviews were held; this represents 22.7% of the workforce which are part of the *employees in Spain*. The decrease in interviews compared to the previous year, 53% lower, has been due to the workforce restructuring process.

#### People Management Model

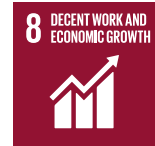
During 2016, the People area continued developing the "Evolution of the HR Management Model" project, whose objective is to carry out an in-depth revision of the tools and policies of the area. During this period the development of two initiatives included within the Model has begun:



It is planned that in the first months of 2017, the new Performance Evaluation Model will be rolled-out to the whole organisation, for which the Training Plan tested in the Pilot Phase will be replicated.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

## Promotion and Talent Management



The criteria for promotions are professional in nature and are based on the merits and capabilities demonstrated by the employee. Most executives are employees that have developed their professional careers within the Group and due to their merits, and as a result of the continuous training and teamwork experience, have been promoted in their professional careers.

Distribution of promoted *employees in Spain* by gender – 2016

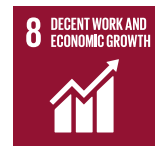
Professional category	Workforce		Promotions	
	Number	Percentage	Number	Percentage
Men	5,990	57.16%	216	53.07%
Women	4,489	42.84%	191	46.93%
<b>TOTAL</b>	<b>10,479</b>	<b>100%</b>	<b>407</b>	<b>100%</b>

Internal promotions are the result of individualised proposals agreed upon by the person responsible for the business and the People area, which has the final decision in order to preserve the uniformity of criteria. The employee's potential, performance evaluation, functional and geographical mobility and the organisation's needs are taken into account to find the best person-job match.

Any job offer placed in the market is previously published internally in the space created to such end in the Employee Portal. This gives internal employees that meet the requirements and competencies required for the post priority over an external candidate. This guarantees that the professionals entering from the market match profiles that Popular cannot fill internally at that time. In addition to strengthening transparency in the management of human capital, this allows for the possibility of growth, development and functional mobility among employees to be very broad.

Those employees that have been identified and classified as having high potential are closely followed by different areas of Human Resources: People Management, the persons responsible for Regional/Territorial Human Resources, as well as Training and Development. Popular has defined a specific compensation policy for this group (compensation, benefits, training, etc.) that is intended to ensure the loyalty and development of this talent.

In this way and since 2011, the Impulsando Talento (Boosting Talent) programme has strengthened the creation of a pool of future executives in specialised areas that are identified and linked to both the Bank's development project as with its corporate values. The programme is intended for recent university graduates with postgraduate degrees and no professional experience, originating from various universities and business schools with excellent academic records and a high level of language knowledge. These individuals start their careers with the Bank after undergoing a more exhaustive selection process than normal.



Banco Popular's Senior Management – 2016

**1** Managing Director      **5** Deputy Managing Directors      **22** Deputy General Directors

Note: All are Spanish. At Banco Popular Portugal, the chief executive is Portuguese, while at Totalbank he is Spanish.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

## Performance Evaluation System

Popular has a Competency Evaluation Performance System which represents an important communication tool oriented to the knowledge of people, their concerns and their professional development paths. This system has been revised during 2016 establishing new metrics which allow a more objective assessment of employees' capabilities. Two pilots have been carried out involving 67 employees, representing 0.6% of the workforce of employees in Spain. These pilots have served as a test of the new evaluation model, in particular, of the newest elements.

Besides being an important communication tool of the Group's teams, this evaluation serves to:

- **Evaluate people**, placing each person in the appropriate post and professional stage.
- **Train and develop people**, improving the person-job match based on the requirements of the job and the competency profile obtained. The evaluation also serves to define a development plan between the evaluator and the person being evaluated, with training itineraries that are in line with the development of competencies deriving from the evaluation.
- **Compensation and differentiation of the level of contribution from each person**, establishing the performance standard together with the relative position of each employee compared with the reference established for the post. This information also influences the review of any bonuses.

The evaluation consists of an open phase in which both the evaluator and the evaluatee may opinions regarding the process. This evaluation will serve as a reference to adapt the employee's behaviour to that which is expected and is therefore an internal communications tool in the organisation as well as a lever for change management.

Distribution of *employees in Spain* evaluated through the New Performance Evaluation Model by professional category and gender - 2016<sup>(\*)</sup>

Professional category	Men		Women	
	Evaluations	Percentage	Evaluations	Percentage
Administrative staff	3	0.57	4	0.79
Technician	31	0.90	26	0.76
Directors	2	0.10	1	0.18
<b>TOTAL</b>	<b>36</b>	<b>0.60</b>	<b>31</b>	<b>0.69</b>

(\*) Percentages are calculated on the total number of *employees in Spain* that there is in each Professional category.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

## Diversity at Banco Popular Group

Diversity is a key value in the Group's human resource management system. Accordingly, Somos Diversidad (We are Diversity) initiative has continued and is intended to reflect the commitment acquired through its integration as an element that makes the values, capacities and differences of each employee the Bank's main asset.

### Somos Diversidad - lines of action



**Gender equality**



**Support to disabled persons**



**Various generations**



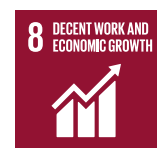
**Diverse nationalities**

Distribution of employees of the Group with a nationality other than local by region, professional category, age and gender – 2016<sup>(\*)</sup>

Professional category	<30 years				Between 30 and 50				>50 years				TOTAL				
	Men		Women		Men		Women		Men		Women		Men		Women		
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	
Spain	Administrative staff	1	0.97	-	-	2	1.04	2	0.57	-	-	1	1.64	3	0.57	3	0.59
	Technician	-	-	2	2.70	12	0.46	34	1.06	3	0.41	-	-	15	0.44	36	1.05
	Directors	-	-	-	-	8	0.47	4	0.78	4	1.19	1	3.70	12	0.59	5	0.92
Portugal	Administrative staff	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Technician	-	-	-	-	-	-	1	0.47	-	-	-	-	-	-	1	0.43
	Directors	-	-	-	-	1	2.70	1	5.26	1	6.25	-	-	2	3.77	1	5.00
USA	Administrative staff	1	50.00	3	100.00	2	8.00	3	6.00	2	13.33	3	6.52	5	11.90	9	9.09
	Technician	-	-	-	-	4	21.05	2	5.71	-	-	2	5.26	4	9.76	4	4.55
	Directors	-	-	-	-	7	43.75	2	22.22	-	-	-	-	7	33.33	2	10.53
<b>TOTAL</b>	<b>2</b>	<b>0.93</b>	<b>5</b>	<b>2.27</b>	<b>36</b>	<b>0.71</b>	<b>49</b>	<b>1.10</b>	<b>10</b>	<b>0.73</b>	<b>7</b>	<b>2.06</b>	<b>48</b>	<b>0.72</b>	<b>61</b>	<b>1.22</b>	

(\*) Employees with a nationality other than local in Portugal and USA refer exclusively to employees whose nationality is Spanish.

Popular is also a signatory of the "Diversity Charter", European initiative that encourages commitments from organisations to the principles of including diversity and non-discrimination in employment, as elements that guarantee social inclusion and the effectiveness of organisations.



## We continue moving forward in equality

As a result of the signing of the collaboration agreement with the Ministry of Health, Social Services and Equality for four years linked to the adoption of measures to increase the presence of women in management positions and Management Committees, Popular has appointed two women Deputy General Managers and has incorporated them into its Management Committee. In addition, two new initiatives have been promoted to continue moving forward in equality:

- **Conecta2.** It is a training space aimed at employees who, after prolonged absences, mainly due to maternity, long-term illness and/or care of dependants, require an update in their work place. It has been configured as a tailor-made training solution and includes management and operational tools, business content, regulations and standards, banking English and courses given by the European Postgraduate Institute. The employee can access *Conecta2* before reinstatement through any device and configure access to content which best suits their professional concerns and the needs of their work environment. In addition, it includes an update area with relevant news from the Bank and the economic outlook.
- **Promociona - Executive Programme for Women in Senior Management.** Its objective is to strengthen the skills, professional and leadership abilities of highly qualified women in their climb to the Entity's first line. The objective is that there is a real promotion of the directives and for this they must have the specific and written support of the Entity through a letter of support. This support must guarantee the commitment of the company to actively pursue their promotion to a position of greater responsibility and visibility within a reasonable period of time from the date of completion of the programme, following the Group's internal promotion criteria.



### Equal opportunities for men and women

Equal treatment and opportunities for men and women constitutes a fundamental principle that cannot be waived and its application is reflected in all of the Group's policies and actions. In 2008 the Equality Plan contemplating 52 initiatives was signed with this objective:

- **20 positive-action measures in the form of a declaration of intent**, whose objective is to continue to drive quality in the selection, training, promotion and compensation of employees.
- **32 work-life balance measures, that are part of the Plan Concilia**, as a support formula for the consolidation of quality policies, are divided into three blocks: flexibility, well-being and family.

In addition to these measures, the Equality Plan envisages the creation of an Equality Committee responsible for ensuring compliance with the plan and evaluating its development. This Committee met on one occasion during the year to discuss, among other matters, the status of the measures and the analysis of employees in this respect. It is important to note that the Group periodically compares this analysis with data from a gender point of view by examining the following headings:

#### Workforce data

Analysis by gender, age, length of service, type of contract, professional category, promotions, compensation, new hires, number of ex-employees and evolution by post in the Commercial Network.

#### Reconciliation of work and personal lives

Evolution of flexibility, well-being and family measures, as well as an analysis of measures applied by gender and the evolution of the investment made in this respect.

#### Training

Evolution of participation in training actions by gender and type of training, as well as the number of hours of training given.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

Meanwhile, in terms of equal opportunities, since 2010 Banco Popular has been recognised with the seal of "Equality in the Company", a certificate granted by the Ministry of Health, Social Services and Equality to those companies that have notably applied Equal treatment and opportunity policies. In 2014, the extension of such award for another 3 years was communicated.



### 3.1.4. Remuneration

The Remuneration Policy is aligned with the business strategy and its objective is to better compensate each employee in the most equitable and competitive manner. The compensation system that is applied to all Group banks and societies in Spain coincides with the concept of total compensation, which clearly exceeds the concept of a salary.

#### Characteristics of the remuneration system

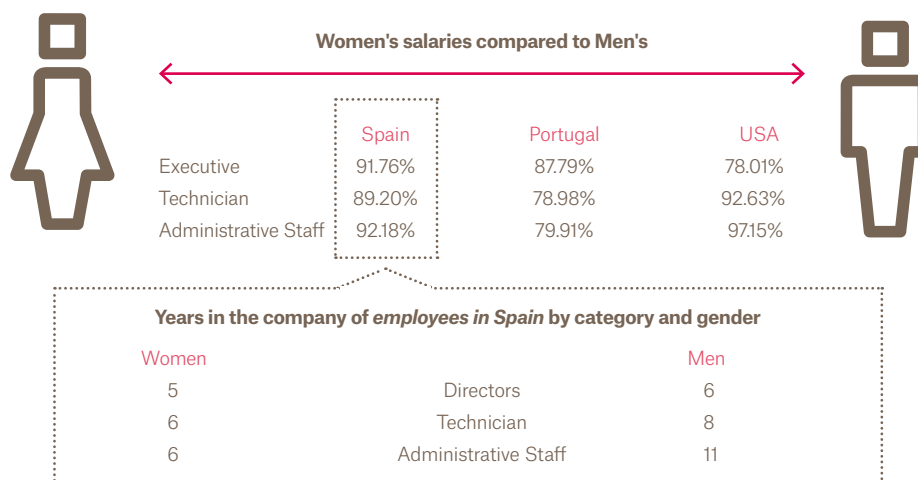
Remuneration	Benefits	Environment	Development
<ul style="list-style-type: none"> <li>Fixed Remuneration</li> <li>Bonuses</li> <li>Flexible remuneration</li> <li>Mobility supplement</li> </ul>	<ul style="list-style-type: none"> <li>Social benefits</li> <li>Pension plans, life insurances, health insurances</li> <li>Payment in kind</li> <li>Loans, advances and other financial products</li> </ul>	<ul style="list-style-type: none"> <li>Reconciliation of professional and private life</li> <li>Communication</li> <li>Corporate Responsibility</li> </ul>	<ul style="list-style-type: none"> <li>Opportunities for development and projects</li> <li>Training</li> <li>Mobility</li> <li>Acknowledgements</li> <li>Performance management</li> </ul>

In addition to compensation and the various variable components, monetary compensation for employees is supplemented by a series of social and economic benefits that translate into in-kind compensation. There is also an intangible portion that is offered within the Compensation Plan and it operates as a source of attracting and retention of talent.

Specifically, Popular considers that compensation is an important part of all of the items that retain employees at the Bank and keep them highly committed, but it is not the key factor to obtaining employee commitment.



The salary ratio female/male of employees of the Group by professional category and region - 2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

Employee base salaries for each professional category are regulated by the Collective Bargaining Agreement and are identical for women and men in terms of both technical categories and administrative positions, such that there is no salary discrimination due to gender. Starting salary for new employees, which is also established in the Collective Agreement, is 1,383.23 euros (gross) per month: 2.11 times higher than the minimum wage levels (655.20 euros per month).

The difference in the women/men salary ratio is directly related to the time the employee is in the professional category concerned (executive, technician or administrative staff). It is therefore a salary difference deriving from supplementary components and not the base salary, given that the base salary per professional category for women and men is the same.

## New fixed remuneration system

In 2016 a new process of revision of the employees' fixed remuneration has been carried out which has meant the modification of some aspects of the remuneration system of the workforce in order to align it to the new People Management Model.

The introduction of this model has meant the introduction of new objective variables in the remuneration matrices allowing the decision on the remuneration review to be aligned to each worker based on more objective and consistent criteria linked to the position above the person.

All this has meant giving the fixed remuneration system an overall coherence to apply the same parameters to the whole organisation.



## Linking bonuses of the workforce to sustainable criteria

For the second consecutive year, Popular included sustainability indicators based on economic, good governance, social and environmental criteria in the calculation of employees' bonuses. These criteria represent a 10% of the total variable compensation of each worker entitled to it.

The measure has been applied to the non-fixed remuneration of Executive Directors and Senior Management, as well as 100% of the employees belonging to the Branch office network and Central Services of Banco Popular, Banco Pastor and Popular Banca Privada who are entitled to receive bonuses.

In this way, the bonuses of employees is linked to both financial and non-financial indicators, assuming a significant alignment with the Corporate Responsibility Policy.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

## Flexible remuneration

The flexible remuneration system, which is available to all employees in Spain with a permanent employment contract has been very positively received since it was launched in 2011. This system allows employees to use part of their salary to purchase or obtain certain products or services, with tax advantages and at more affordable prices than those available in the market.

The information regarding the Flexible Remuneration Plan and a description of the products and suppliers available in this system, as well as a simulator that facilitates membership, is available in the Employee Portal.

### Products contracted through the Flexible Remuneration Plan - 2016



## 3.1.5. Benefits and environment

In regard to social benefits, there is a Guide to social benefits for employees and their families which is updated and revised regularly indicating each benefit provided by Popular.

Notable among these benefits are preferential interest rates for both loans and on deposits, exemption from transaction commissions on banking products, subsidies for higher education, as well as preferential interest rates on loans for postgraduate studies.

They are benefits that an employee may easily translate into economic savings and which in many cases significantly increase their monetary compensation. These types of measures are some of the best valued benefits by employees.

Totalbank also has a series of benefits for its employees, amongst which the following are highlighted:

- **Medical health programme.** It has different means of assistance with the objective of improving the employees' health: vaccinations, nutrition advice or information about healthy habits, among others.
- **Employee Assistance programme.** It offers counselling services and specialised care managed by professionals to solve problems related to stress, depression or addictions. It also has financial aid for the adoption of children, childcare or care of relatives with special situations.
- **Transportation Assistance programme.** Through this programme Totalbank assumes the cost of public transport which each employee must use to go to their place of work. The Entity also shares, with users who use their own vehicle to get to their corporate headquarters, the payment of parking in the car parks of the area.
- **Educational Assistance programme.** This programme offers financial assistance for the training of employees who want to improve their abilities and professional skills. Totalbank assumes the cost of tuition for each course and the fees of the practicals performed as long as these training itineraries are related to the activity that the employee carries out in their job.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

## Employee portal

It is a web space designed to take into account the characteristics of the workforce, with the best options for employees. The functionalities of this Portal are diverse and include the Individual Flexible Compensation Plan, requests for conciliation measures, operations related to the Code of Conduct or the Guide to Benefits, among others.

In addition, it includes a Benefits Club named *Contigo+* which offers interesting discounts on a wide variety of services and items. In all purchases, employees benefit from significant discounts and promotions. *Contigo+* includes a wide offering of sustainable products whose benefit goes to various initiatives of a social nature.

### Portal Senior

As a continuation of the renovation project of the Employee Portal, developed in the last quarter of 2015, the renovation of the *Club del Popular*, the portal for retired and early retired employees of the Entity named *Portal Senior*, has been carried out. The main innovations have been the update of the functionalities and content following the criteria applied to the Employee portal.

The launch of the new *Portal Senior* has been supported by a communication campaign in which people were contacted individually through e-mail and has seen more than 2,000 registered users since its inception. Popular has collected their suggestions which have served to make improvements in the functionalities of this *web* space. In addition, each of the queries raised by these groups has been attended to personally.

As a result of this project, retired and early retired employees of Popular currently have a more dynamic Portal, with new information of interest and new contents adapted to this group, as well as offering a more modern and renewed image.

## Integration of SRI criteria in the Employee Pension Plan

The Europopular Integral Pension Fund, which brings together the Pension Plans of Employees of Banco Popular, Pastor and Popular Banca Privada, involves the participation of workers in its management through the so-called Control Committee and includes Socially Responsible Investment criteria in its portfolio.

In this way, it incorporates demanding exclusion and assessment criteria, which means that, in addition to strictly financial ones, environmental, social and good governance criteria are also taken into account in the fixed and variable income of the portfolio. In this sense, excluded from investments are those assets or companies that perform all or part of their activity in the arms industry, polluting industries, gambling or that have been involved in issues relating to the exploitation of children or the violation of Human Rights have been excluded. Investment in companies which have signed the United Nations Global Compact will be particularly highly valued.

In 2016, this fund had a total of 11,132 participants, equity of 1,037 million euros and a total of 4,587 beneficiaries. SRI criteria are applied to 87.72% of the current portfolio.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

## Reconciliation of personal and working lives: *Plan Concilia*



Anticipating the Equality Act of 2008 and promoted by Senior Management, in 2005 Popular created *Plan Concilia*, which was defined by consensus with all employee representatives and is a pioneer in the sector. Thanks to this initiative included in the Equality Plan, employees may freely request work-life balance measures without any need for authorisation from their superior and receiving individual and specific attention from the Benefits and Compensation Office, if necessary.

Employees have access to 32 work-life balance measures whose purpose is to facilitate the reconciliation of their personal and professional lives. The measures are managed by the People area and in most cases are granted immediately due to the automation of the process.

Since 2005 almost 38,600 requests have been processed and this year 4,858 were handled. In 2016, *Plan Concilia* led to an investment of almost 3 million euros and more than 29.4 million euros since it was first launched. The most requested benefits are as follows: days off for length of service, nursery vouchers, additional paid maternity leave.

Banco Popular Portugal also has a series of work-life balance measures for its employees, ranging from non-paid leave due to adoption abroad or participation in solidarity activities, to paid leave for mothers of triplets or children with a disability.



### Main reconciliation measures included in *Plan Concilia*



- Extension of holiday periods
- Maternity leave coverage
- Additional days for caesarean sections
- Days off for length of service
- Training leave
- Family care leave
- Child care leave (less than 3 years old)
- Solidarity leave
- Unpaid leave for adoptions abroad
- Paid leave for mothers of triplets or disabled children
- Additional weeks of paid leave



- Flexibility during the first week of school
- Workday flexibility for children under 6
- Continuous workday schedule for children under 3
- Continuous workday schedule for children with 33% disability under 8
- Continuous workday schedule for children with 45% disability indefinitely
- Special timetable during the last month of pregnancy
- Short workday for family care
- Nursing time replaceable by time off
- Unpaid leave for assisted reproduction techniques



- Advance payments for adoption
- Special assistance for disabled employees
- Family aid in special situations
- Nursery vouchers
- Maternity/paternity supplements
- Advance payments for needs relating to disabled dependants



- Equality training

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

### 3.1.6. Training



Popular considers the training of its professionals a strategic resource to realise an optimal Talent Management of its workforce, always attending to the different profiles and professional needs and to the specific business situation.

In a highly competitive environment, where changes take place rapidly, professional training and preparation are factors which ensure the Bank's optimal performance by influencing the quality of staff performance and contributing to the strengthening of the Values, Mission and Vision of the organisation.

The training in Popular supports the lines of the People Management Model according to professional trajectories and organisational needs; develops the professional potential of each employee and contributes to formalising the succession of certain profiles. The main lines of action are:

- Training plans based on duties, job post and responsibilities
- Training aimed at developing the business and specialised areas
- Training to address professional development of careers and potential

In 2016, total investment in training of the Group reached 2.2 million euros, which means an average of 174 euros per employee. Likewise, the subsidy received this year from the *Fundación Tripartita para la Formación en el Empleo*, a State Public Sector entity totalled 1.65 million euros, having used up until December, 0.79 euros million as training assistance.

Training hours for employees in Spain by professional category and gender - 2015/2016 (\*)

		2016		2015	
		Average hours	Total hours of training	Average hours	Total hours of training
Professional category	Administrative Staff	17.15	29,305	28.74	52,286
	Technician	26.81	214,940	36.84	353,027
	Directors	28.38	80,311	37.12	96,328
Gender	Men	24.84	192,303	31.72	274,520
	Women	27.47	132,253	42.52	227,120
<b>TOTAL</b>		<b>324,555</b>		<b>501,640</b>	

(\*) In the calculation of the indicator for Spain, the staff employed in Spain on 29.12.2016 was used.

During 2016, Banco Popular Portugal has given to its workforce different courses, among which stand out those related to regulatory compliance: Prevention of Money Laundering, Risk Management and Internal Control.

Amount and hours for in-person and online training in Popular Portugal - 2016

Online training		In-person training	
Hours	Amount	Hours	Amount
6,965	€11,250	19,612	€258,095

On the other hand, Totalbank has given different training courses for its employees which have been divided into 3,510 hours for in-person courses, and 1,011 hours for online courses.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	



## Driving online training

In 2016, Popular's training platform named *conoce+* maintained its maximum level of technological development optimally exploiting all educational resources and learning that the Entity makes available to its workforce.

Over the past year, this platform has represented an innovative way to deliver training and information universally to the Group's employees, thanks to the technological cutting-edge tools for which it was developed.

All published resources on *conoce+* under different formats (training modules, courses, learning communities, forums, among others.), cover commercial, technical, financial and personal effectiveness areas which are considered key in the learning of each of Popular's employees.

## Main training actions regarding Corporate Responsibility

The CR Transversal Training Plan 2014-2016 includes all training initiatives linked to the Corporate Responsibility strategy. The objective is that the whole workforce is informed regarding the contents and progress made in the Group's Corporate Responsibility strategy and for them to become involved in its development.

Among the main training actions carried out in 2016 regarding Corporate Responsibility, the following are notable:

- **Code of Conduct.** The Code of Conduct includes the main behavioural guidelines to be taken into account by employees of Popular, plus an Action Principles Guide to prevent criminal risks. In 2016 all staff have been registered for this, with more than 92% of employees having completed it at the end of the year.
- **Corporate Responsibility Management.** Since 2010, new employees have been provided with a welcome package containing corporate information including a Corporate Responsibility Policy module and the different actions that the Bank is implementing in this respect. Furthermore, the Executive Development Programme includes a theoretical and practical session regarding CR so that this group is informed and participates in the Group's commitment to develop its business in accordance with CR principles, emphasising the importance of their action for the Bank's competitiveness. All the contents of these training modules are continually updated with the aim of sharing the newest information as well as significant developments in Corporate Responsibility.
- **Prevention of Money Laundering and the Financing of Terrorism.** Training materials have been made available throughout the workforce on the Learning Management System (LMS) training platform *conoce+* and a mandatory course on the prevention of money laundering has been given to 100% of staff where case studies were given.

Distribution of *employees in Spain* who received training in the subject by professional category – 2015/2016 (\*)

Professional category	2016		2015	
	Number	Total	Number	Total
Administrative staff	1,709	100%	1,811	99.56%
Technician	8,017	100%	8,699	90.78%
Directors	2,830	100%	2,220	85.55%
<b>TOTAL</b>	<b>12,556</b>	<b>100%</b>	<b>12,730</b>	<b>90.95%</b>

(\*) In the calculation of the indicator for Spain, the staff employed in Spain on 29.12.2016 was used.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

- **Observance of Human Rights.** Training action has been developed for 11,061 employees (88% of all *employees in Spain*) totalling 44,518 hours. In addition, since 2011 the Training Portal has made available to all employees in explanatory video regarding the Universal Declaration of Human Rights. Finally, 100% of security personnel have received training in those areas of Human Rights that are particularly important when performing their duties.
- **Environmental awareness.** Through the training course called The Baldomero Challenge, Popular seeks to raise awareness about the environmental impact generated by the development of daily activity. Through Baldomero, an imaginary employee of Banco Popular, staff are shown which behavioural habits are most suitable to reduce this impact on Climate Change.
- **Section dedicated to Corporate Responsibility in the virtual library.** A virtual library has been incorporated in the *conoce+* platform, a space which houses various books whose content is related to CR. All staff can access these titles which cover different matters related to the economic, environmental, social and good governance dimensions of companies.

### 3.1.7. Communications and participation

#### Internal communication

Contact with Group employees is direct, fluid and constant. Communication is encouraged through the internal corporate channels and also through bi-directional communications within teams.

- **Intranet.** This allows access and awareness to all information regarding the most relevant issues that affect the Bank's management, such as General Management meetings, commercial communications or the launch of new products.
- **Employee portal.** This is an essential channel for communications with employees and their families. Divided into two areas, *Personal* and *Contigo+*, it offers professional and non-professional information to employees.
- **+ informados.** This platform publishes daily news of the most relevant items related to the Group's activity. Likewise it includes a discussion forum in which employees share professional experience and proposals for improvement, regardless of geographical and organisational barriers which may exist.
- **Employee Box.** Queries made through the Employee Box mainly cover topics relating to the People area, training and people management. In 2016, 201 suggestions were received in this box.
- **Portal Senior.** It is an internet space addressed at the group of retired and early-retired employees of the Group. It also includes a specific Corporate Responsibility section whose objective is to inform and participate.
- **con tu ayuda.** Website of the Corporate Volunteering Programme which channels the Group's voluntary activities and where the spirit of solidarity of employees and their relatives and friends is invigorated. Furthermore, it helps users be informed of the volunteering activities and news which take place close to them.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	



## Relationships with Trade Unions

Everyone has the right to freedom of association and affiliation is a right of every person. Popular is aware of the respect that its employees deserve and it provides the elements that are necessary for them to exercise their employee rights in all countries in which it operates.

The Collective Agreement for Banking, which is applicable to all employees, 99.67%, except for Senior Management, establishes that “labour relations at companies must be governed by non-discrimination by birth, race, gender, religion or any other personal or social circumstance”. Any modification to working conditions applied on a collective basis considered to be substantial, must be preceded by a consultation period with employee representatives that must last at least 15 days, ensuring negotiations in good-faith between the parties and the achievement of a satisfactory agreement.

The Group Management maintains continuous and permanent contact with union representatives that are channelled through the Union Relationship Office, a bi-lateral permanent information, negotiation and contact desk. Union representatives may raise any employment issue or any issue relating to the evolution of the Group. This thus encourages an open dialogue that allows timely reporting and the adequate management of any potential differences.

Banco Popular Group in Spain has 477 union representatives, including those originating from Banco Pastor, while there are 3 union representatives at Banco Popular Portugal. In the United States employees are free to belong to a trade union, but there is no organised trade union structure and, furthermore, the size of Totalbank facilitates employee participation and information.

### The State Safety and Health Committee (CESS)

In accordance with current legislation, this Committee is made up of an equal number of company and employee representatives and it is responsible for monitoring occupational health and risk prevention in the field of business. This committee represents 98% of the Group’s employees in Spain.

## 3.1.8. Safety and health

### Occupational Risk Prevention Service

The Occupational Risk Prevention Service manages all aspects related to the prevention, detection and resolution of work-related risks. Among its most important responsibilities are:

- Training and information to workers in all aspects related to this area.
- Identifying occupational hazards that may exist in the workplace where employees carry out their activity.
- The development of emergency and evacuation plans of the buildings and facilities of the Group.
- The management of procedures related to industrial accidents and occupational illnesses.
- Monitoring the health of workers through various medical tests on the workforce.

In 2013 the Occupational Risk Prevention Plan 2013-2018 was approved and is intended to include all actions relating to this area within a framework defined by the Group’s preventive policy. This Policy is supplemented by the creation of a Prevention Management Manual, which includes working procedures and operating instructions relating to the prevention of occupational risks. All new employees are provided with a copy of this manual which is also available on the Employee Portal.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

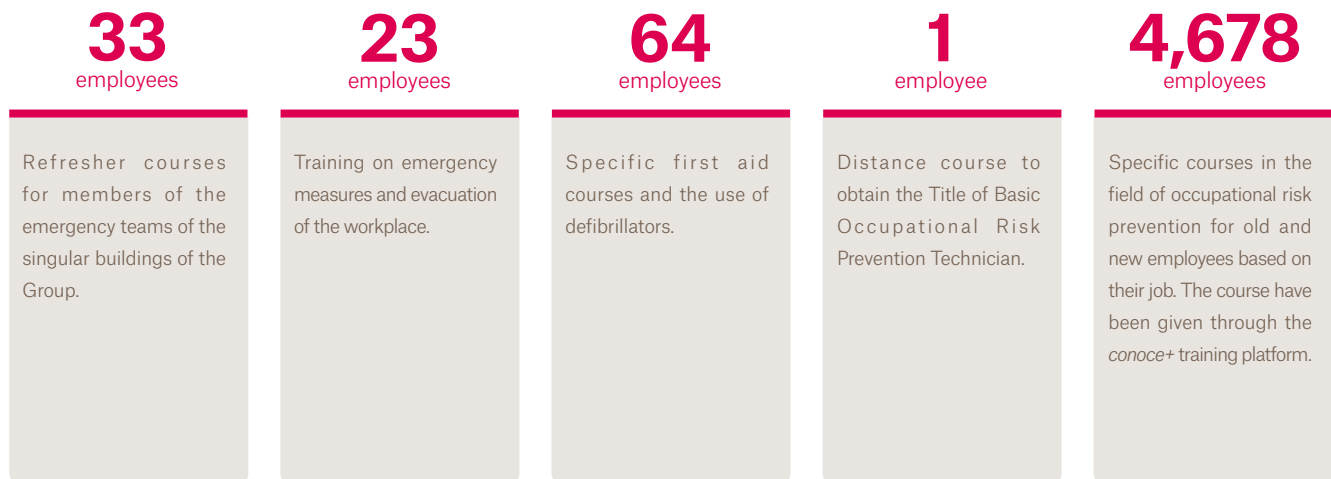
## Risk assessments

In 2016, 502 risk assessments have been carried out. The information gathered from the evaluations is published in the Employee Portal. Since 2006, when this evaluation method was first applied, 3,465 evaluations have been performed.

## Occupational Risk Prevention Training

The Training Occupational Health and Safety Plan includes a series of courses both in-person and online to employees aimed at train and prevent against possible risks in the workplace.

In this regard, the following classroom training actions performed in 2016 were:



The training in Occupational Risk Prevention is complemented by the following documents which each employee can find in the various platforms which Popular offers:

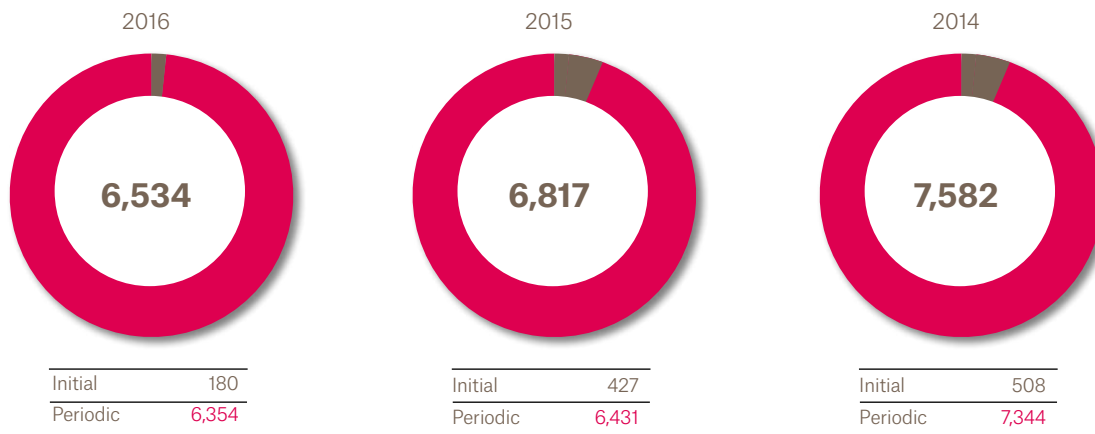
- Training sheet on occupational risks during pregnancy and the Occupational Risk Prevention Plan.
- All new employees are given the manual of general and specific risks in offices.
- Information about emergency, general and specific measures for each building, names of the emergency teams' members and the meeting point.
- In the delivery of the centre's risk assessment, all employees are informed of the summary sheet of risks detected in the centre for their information.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

## Monitoring of occupational health, accidents and absenteeism

The Group carries out various types of action to monitor occupational health and accident prevention.

### Medical check-ups given to employees in Spain – 2014/2016



Workplace accidents is represented in the Group by occupational accidents reported and treated by various work accident insurance companies. The Group's Occupational Risk Prevention Plan 2014-2018 Group includes the protocol in the event of accident, the communication mechanism thereof, insurance companies and points of assistance in all the country and their study and further investigation.

### Employees in Spain with the right to parental leave by gender – 2016 (\*)

Indicators	Men	Women
Number of employees entitled to parental leave	379	360
Number of employees that exercised this right	361	356
Number of employees that returned to work after exercising the right	345	306
Return to work rate after exercising the right to parental leave	95.57	85.96
Number of employees who remain in the organisation one year after parental leave	359	354
Employee retention rate	92.76	89.62

### Occupational accidents of employees in Spain by gender – 2016 (\*)

Indicators	Men	Women	TOTAL
Total accidents	140	124	264
Accidents – no leave	83	60	143
Accidents – with leave	57	64	121
Total working days lost	1,755	1,436	3,191

(\*)In the calculation of the indicator for Spain, the staff employed in Spain on 29.12.2016 was used.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

### Amount and type of absenteeism of employees in Spain by gender – 2016 (\*)

Indicators	Men	Women	TOTAL
Total leave	1,771	1,860	<b>3,631</b>
New leave	1,591	1,678	<b>3,269</b>
Additions	1,685	1,725	<b>3,410</b>
Total working days lost	54,808	53,386	<b>108,194</b>
Accident rate	0.0011	0.0015	<b>0.0012</b>
Index of days lost	0.43	0.67	<b>0.52</b>
Absenteeism	3.22	5.02	<b>3.91</b>

(\*)In the calculation of the indicator for Spain, the staff employed in Spain on 29.12.2016 was used.

## 3.2. External Social Dimension: commitment to society

With regard to social investment, Popular believes its work consists of contributing to the development of viable projects as part of its economic and technical operation, aimed at repairing the social fabric and providing access to education to people who could not otherwise afford it, given that they will be the ones to witness the improvement of society.

Popular invests in non-profit organisations of recognised prestige in the beneficiaries' local areas with a view to ensuring its social initiatives and the effectiveness of its contribution benefit reach as many people as possible. Popular's social initiatives have been channelled for years through the *Fundación Hispánica* under the principle of assisting those that promote the initiatives. The entity is most active where it directly pursues its activities and where assistance with development is most needed, regardless of whether commercial relationships exist with the benefiting area.

### Distribution of the social action of Banco Popular – 2015/2016 (\*)



(\*) In order to reflect the totality of the Group's contribution to society, in 2016 other contributions made in addition to those detailed in the chart have been included. The overall figure is also included in the economic value indicator distributed to the company in section 1.3.2. Creation of shared value.

Popular channels and organises the social initiatives with total separation from its commercial activity and in the manner that the Bank considers they should be carried out: without promoting any initiative but helping those who promote it. It only acts upon request, as a last resort and without publicity. Accordingly, it does not consider acts of sponsorship or patronage and does not sustain any proposal or activity on an ongoing basis, seeking to avoid reliance on systematic assistance.

Popular makes contributions voluntarily and the social investment formulas developed by the Foundation that receives them have their own management style, based on the principles of professionalism, transparency and responsibility, selecting exclusively sustainable projects. The endowments are managed autonomously and are entirely earmarked for the pursuit of its social aims.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
01 Structural Dimension	02 Economic Dimension	03 <b>Social Dimension</b>	04 Environmental Dimension	05 Annexes	

The *Fundación Hispánica's* lines of social action



**Access to quality education**

Targeted at providing access to education to people who lack the economic means to complete their training. Special attention is paid to projects that facilitate employment.



**Promotion of cultural and social welfare progress**

Aimed at people and groups at risk of exclusion, especially in developing countries. It is implemented through programmes that provide access to microcredits and other initiatives aimed at improving educational, social and health conditions.



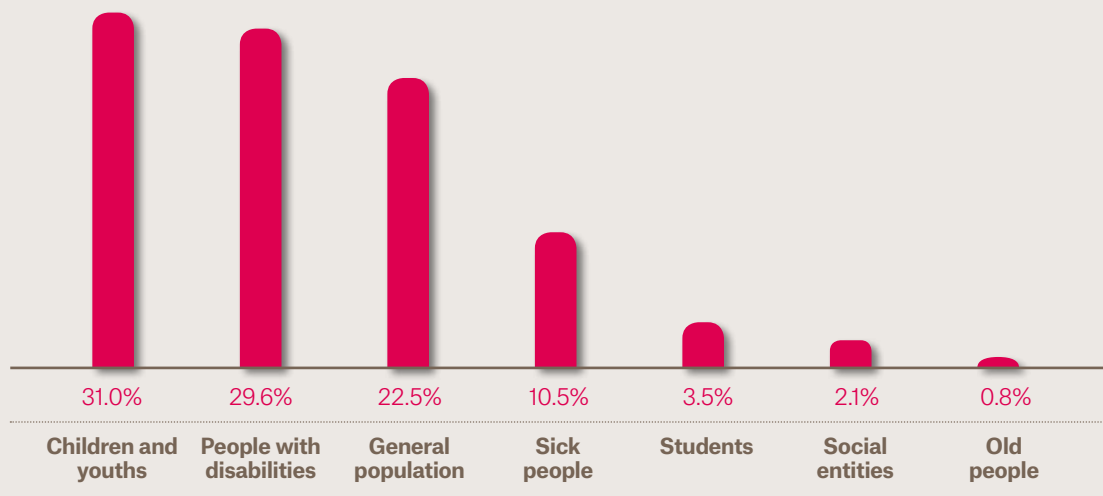
**Inclusion of people with disabilities**

Established to boost the inclusion in the labour market of people with different levels of ability through assistance projects, training of volunteers and raising the awareness of social partners.

**Measurement of Popular's social impact**

The internal measurement system of the impact which Popular's social action generates has allowed its contribution to the different organisations with which it collaborates to be assessed. To ensure the accuracy of this information it is the entities themselves which provide the necessary data for the assessment.

This system includes different indicators related to the social activity on which Popular's actions impact, as well as the number of direct and indirect beneficiaries favoured by the different initiatives which it supports. The following graph shows the percentage of groups who benefited from Popular's social action.





**Direct beneficiaries**  
**+27,300**

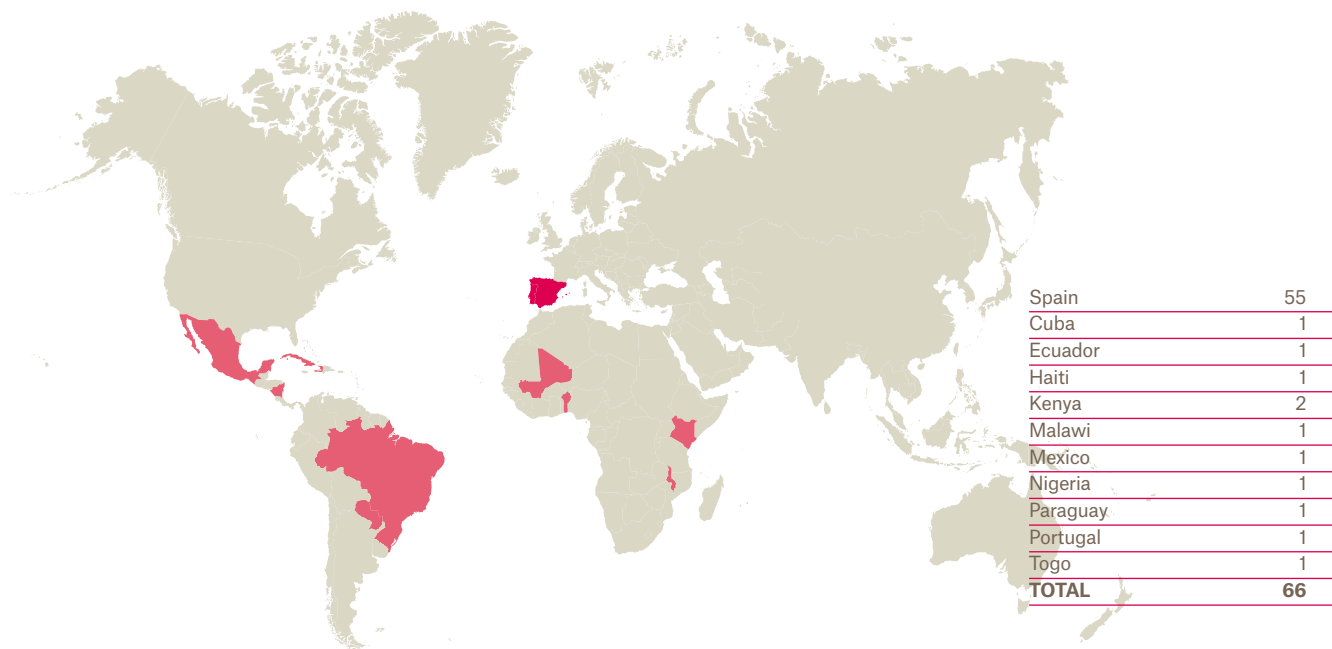
**Indirect beneficiaries**  
**+706,500**

### 3.2.1 Most significant projects

In 2016, with the help of Popular, 66 different projects have started, 55 of which were implemented in Spain and 11 abroad; the cooperation and development programmes were mainly carried out in Africa and Latin America. In total, these projects have resulted in more than 27,300 direct beneficiaries and 706,500 indirect beneficiaries. Given that a large part of the projects in which we have collaborated have resulted in the development of initiatives with a significant multiplier effect (for example training of educators, support to a hospital that provides service to the whole population in the region, among others) the amount of indirect beneficiaries is exceptionally significant.



Map of the *Fundación Hispánica* social investment – 2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

## Education and training

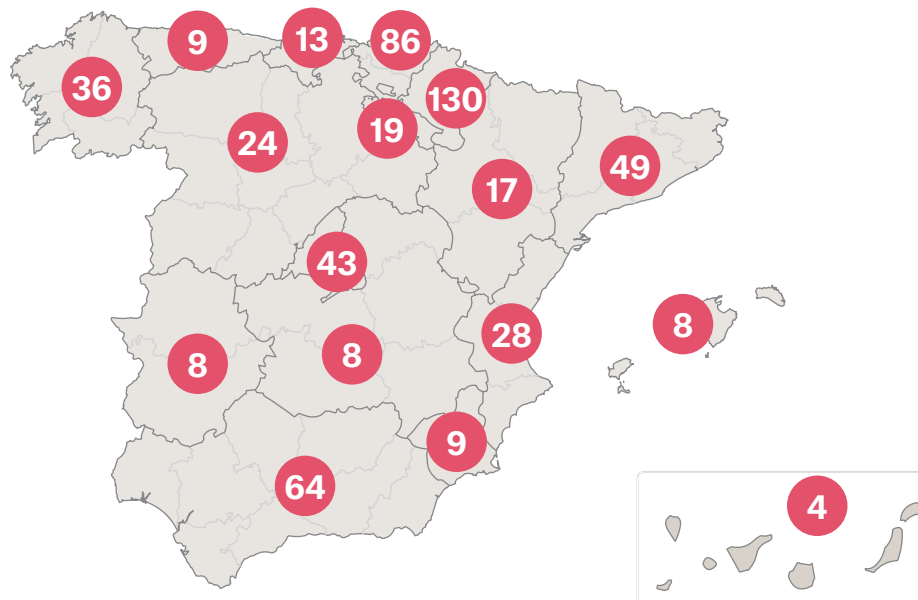
Popular, in line with the areas of social action it considers to be a priority, has continued to boost talent in the academic world for another year, making it easier for those with the skills and capacity, but hitherto prevented by lack of means, to access quality education.

Thus, the programmes promoted by the Foundation along with several Spanish and foreign universities have been carried out successfully, maintaining the growing rhythm of aid which had been shown in previous years. "Facilitating study and encouraging effort" stands as a motto of the programmes which seek to recognise excellence and keep students motivated to aspire to it at all times.

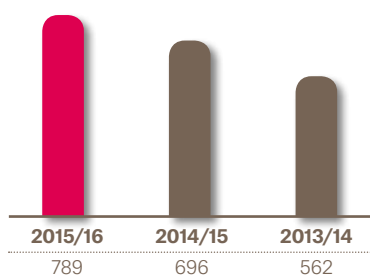
The interest shown by the Academic Excellence Loan Programme among potential beneficiaries and which, based on the academic results, allows the partial credit of studies which have been requested in one of the Bank's offices, has generated an increase in the number of applications (849 students submitted) and, consequently, an increase in aid totalling €3.4 million for 789 beneficiaries in 2016.



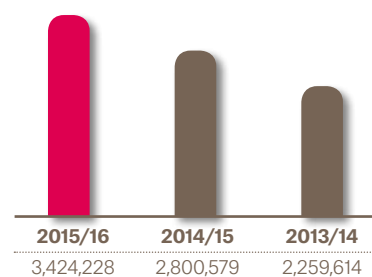
### Distribution of the Excellence Loans in Spain - 2016



Cumulative number of student beneficiaries - 2014/2016



Cumulative amount - 2014/2016



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
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## Access to banking through microcredits

Popular, through *Fundación Hispánica* and local organizations, supports the access to banking of certain groups at risk of exclusion through microcredits.

### ■ Communal banks for women in Quetzaltenango (Guatemala)

This project, which is implemented through the *FUNDAP* Foundation, consists in organising a group of women who reside in the same community and wish to undertake an economic activity. Each woman develops her business plan with support from her family members and from the local *FUNDAP* adviser and she presents her financing needs to her group. The investment plan is assessed by the adviser and by the other participants so that jointly they can make any appropriate amendments. If the business initiative is considered viable, the entire group submits the application for the loan.

These women, especially those with few resources living in rural areas, do not have collateral to back their applications, so each woman acts as collateral for the others. When the group receives the financing in question and each woman makes her investment, *FUNDAP* provides follow-up, advisory and ongoing training services, which stimulates the growth of both the individual and the group.

### ■ Labour integration of people without access to the economic system (Paraguay)

*Fundación Microsol* works in urban, suburban and rural settlements where they try to help the poorest micro entrepreneur. Thus, people in these settlements, many of which are hotspots of social conflict, have the opportunity to access better living through work.

These credits give young women with scarce resources the possibility to work through this system and this is how they earn their sustenance. It is also an important contribution for youngsters to be able to finance their studies.

In rural areas, small agricultural workers and farmers who develop alternative activities with a production and sale cycle averages 5 to 7 months receive first help. Craft producers, mainly food and clothes producers are also usually beneficiaries of *Microsol Foundation*. In short, the entity works with people who are excluded from the economic system, giving them the possibility to have more advantageous conditions to make their business grow.

Thus, it supports efforts to provide banking services to groups at risk of exclusion through microcredits and has allocated 1,250,892 euros, accounting for 16.4% of the social investment in 2016.

### Summary of the microcredits granted by Popular – 2016

Description	Communal banks for women	Labour integration of people without access to the financial system	TOTAL
	Guatemala	Paraguay	
<b>Country</b>			
Number of Communal Banks	6	1	<b>7</b>
Number of beneficiaries	131	2,214	<b>2,345</b>
Number of women beneficiaries	131	952	<b>1,083</b>
Number of microcredits	131	3,217	<b>3,348</b>
Equivalent value microcredits (euros)	48,302	1,202,590	<b>1,250,892</b>
Number of times that the portfolio rotated	2	2	<b>4</b>
Average loan amount (euros)	369	374	<b>371</b>
Average term (months)	6	7	<b>7</b>
Non-performing ratio (%)	0.96	6.18	<b>3.57</b>



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	



## Other collaboration projects

In addition, in 2016, other significant projects have been developed, among which the following should be highlighted:

- **School supplies for families at risk of social exclusion (Madrid, Spain)**

Through the *Fundación Toda Ayuda y de Mensajeros de la Paz*, Popular attended the annual meeting of solidarity and awareness of the "Fill your backpacks of illusion" Campaign, which tries to alleviate the difficulties many families have for their children with the school supplies necessary to attend their classes. Through this initiative, a full complement has been provided for 400 schoolchildren.

- **Collaboration in the fund-raising campaign of partners (Madrid, Spain)**

The objective of the *Fundación Cris* is to overcome cancer and find a cure. This absolute objective is the one that guides all their decisions, their investment, their financing plans and the operations they carry out. This includes providing the scientific community, its partners and civil society with the necessary tools to achieve this. Banco Popular has contributed to a fundraising campaign through which *Fundación Cris* has been able to incorporate 3,500 new members over a ten-month period, with an average contribution of €100 per partner per year.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

▪ **Construction of housing for people with disabilities (Huesca, Spain)**

*Crisálida*, a Foundation created in June 2009 and based in Camporrells, Huesca, seeks to promote the integral development of people with intellectual disabilities to achieve maximum personal autonomy. During this year the construction of 3 houses has been carried out to convert them into the family dwelling of the disabled workers of its special employment centre.

▪ **Construction of a home for abandoned babies (Kitenguela, Kenya)**

Popular collaborated in the construction of all the necessary infrastructure for the implementation of a home for babies in Kitenguela. This building has responded to the need which the helpers of International Help Alliance detected in the provincial house of the *Hermanas Misioneras de la Caridad de la Madre Teresa*, located in the Huruma Slum in Nairobi. This congregation, which welcomes abandoned babies and those at risk of exclusion, did not have a suitable room to deal with them. Popular has participated in its construction through the project "Suns of Africa", whose development will help improve the living conditions of many children in this region.

▪ **Renovation of two colleges (Nairobi, Kenya)**

In collaboration with the Karibu Sana Association, Popular has participated in the renovation of two schools in the suburb of Kibera. In the Desert Stream centre of this region, books have been purchased for all students and the facilities have been remodelled to make them more accessible and safe. In the same way, a new roofed building is being built to mitigate the low winter temperatures. In another school, Transform School, the flooring of the classrooms was completed and the grounds in which they had their breaks were completely changed, in addition to increasing it by purchasing a small attached plot of land.

## Projects from Totalbank and Banco Popular Portugal

Totalbank has contributed to the development of different projects managed by third sector organisations in South Florida. This aid has contributed to improving the quality of life of the most deprived persons living in that area, especially immigrants. Among the almost 20 projects in which Totalbank has collaborated, the most noteworthy are those whose work has the following objectives:

- Provide decent housing to needy families.
- Provide health care to those who cannot afford it.
- Foster financial education and offer personalized financial advice.
- Support academic training for young people who can not afford their education.
- Provide free psychological and social assistance for young people and those over 60 who require it.

Furthermore, Banco Popular Portugal has participated in several projects promoted by GRACE, *Grupo de Reflexao e Apoio à Cidadania Empresarial*. This non-profit making organisation, of which the Bank is a member, was founded in 2000 by a group of companies whose objective was to promote and develop Corporate Responsibility in Portuguese companies.

It has also collaborated with various institutions which pursue the labour inclusion of people with disabilities, as well as with other organisations which support people at risk of social exclusion, mainly through the donation of food or computer equipment.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	



## Bringing Christmas closer to those who most need it

During 2016, Popular carried out several solidarity actions targeting people at risk of social exclusion, highlighting those in the last month of the year coinciding with the Christmas season.

### Fifth food donation campaign

This year the donation system has allowed employees, former employees, family and friends, to participate in the campaign by donating through a digital platform. The action collected 8,010 euros and was destined entirely to *Banco de Alimentos España*, allowing the acquisition of more than 5,000 kilos.



### Toy donation campaign

Popular has organised a campaign to collect new toys and children's books so that the most vulnerable children and young people could also enjoy their gifts on the most celebrated dates of Christmas. The action was coordinated with Red Cross Youth and collected toys, games and books which have been distributed among children aged between 0 and 17 in the Community of Madrid.

Popular therefore supports the Universal Declaration of the Rights of the Child, which recognises play as a fundamental right, since playing allows optimal situations which influence the healthy growth and development of children.

### Bringing Christmas to the little ones

For the third consecutive year, Popular organised its Christmas Competition aimed at the Group's entire workforce in Spain in which more than 500 employees participated. On this occasion, the competition consisted of building several figures of the traditional nativity scene.

An endowment of these figures has allowed Popular volunteers, together with the children admitted to the paediatric units of four hospitals in Madrid, Valencia and Barcelona, to decorate the nativity scenes of these centres.

The action was coordinated with *Fundación Theodora* whose mission is to improve the quality of life of children suffering from health problems.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

## Support to people with disabilities

Popular's commitment to disabled persons can be seen in the various initiatives established in its Global Disability Plan and which are aimed at their social, economic and labour integration. Amongst those worth highlighting are:

- Direct and indirect inclusion in the labour market.
- Purchase of products and services from Special Employment Centres.
- Promotion of universal accessibility.
- Publicity and raising social awareness.
- Financing for programmes implemented by specialised entities.

In addition, Banco Popular is a member of the Advisory Board of the Inserta Responsible Forum, a space for participation and social innovation relating to Corporate Responsibility and to Disabilities promoted by the *Fundación ONCE*.

### 3.2.2. Corporate Volunteering Programme

Since 2010 Popular has had an extensive Corporate Volunteering Programme through which it encourages its professionals to participate, in person or online, in charitable initiatives organised by both the Bank and by the main NGOs and noteworthy associations from the third sector.

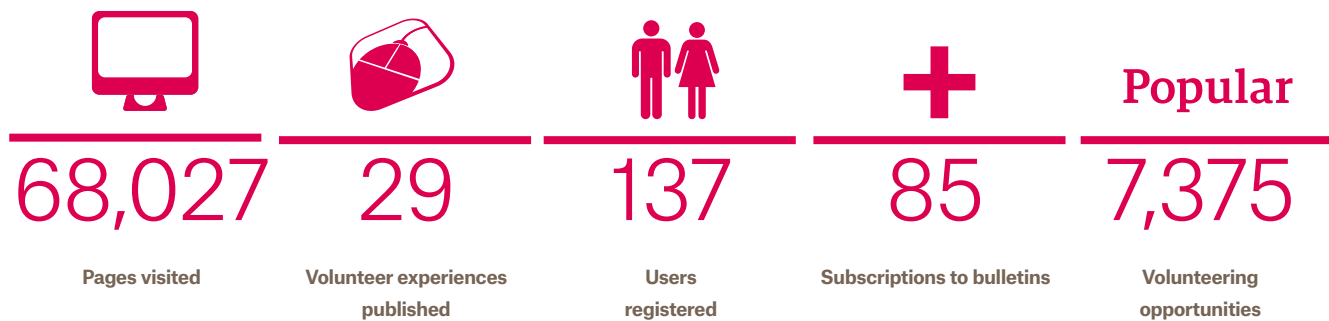
All the steps are coordinated through *con tu ayuda*, the website created to channel part of the charitable commitment of the Group's social network and to promote values such as solidarity, respect and responsibility. In addition, *con tu ayuda* makes it possible to express Popular's support for the initiatives of different non-profit organisations.

Since 2014, Popular has had a specific space in the *con tu ayuda* portal for early retirees and retirees of the Group, which aims to offer the possibility of allocating part of their time to provide financial education to low access to banking of groups at risk of exclusion.



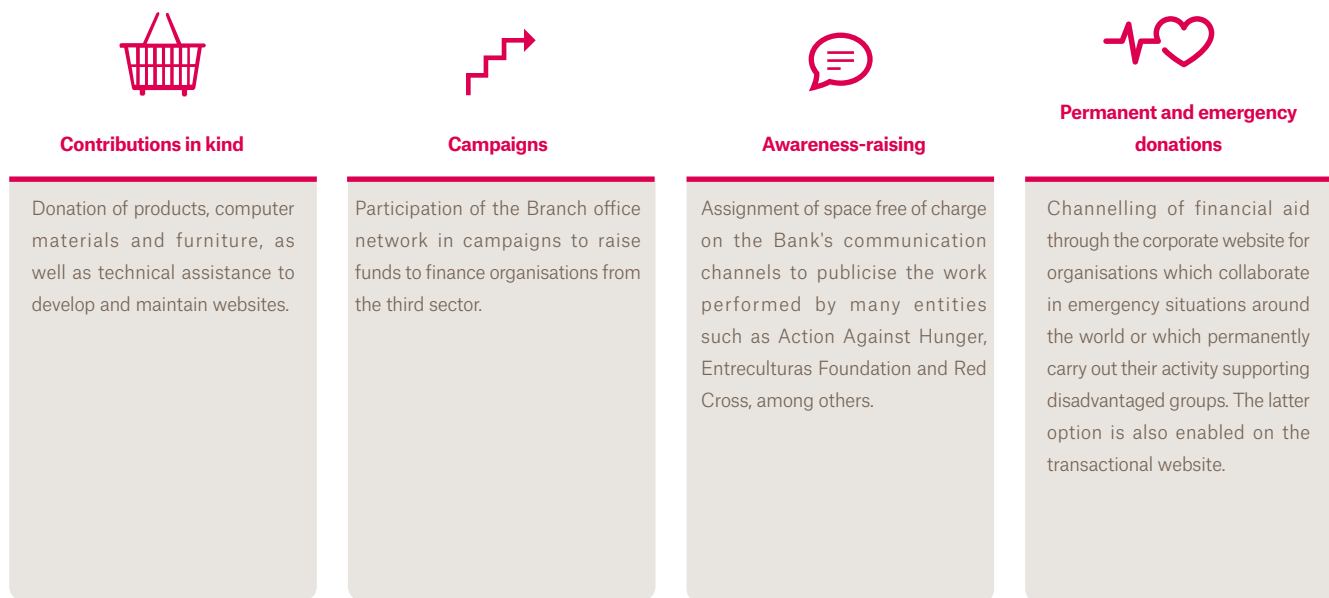
Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	<b>Social Dimension</b>	Environmental Dimension	Annexes	

Figures for *con tu ayuda*, Banco Popular Group's Volunteer Portal – 2016



### 3.2.3. Other forms of collaboration

In addition to the economic assistance and the volunteer activities in which its professionals participate, Banco Popular assists many non-profit entities by donating physical resources so they can better accomplish their aims.



[Emergency help website](#)

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	<b>Environmental Dimension</b>	Annexes	



# 4

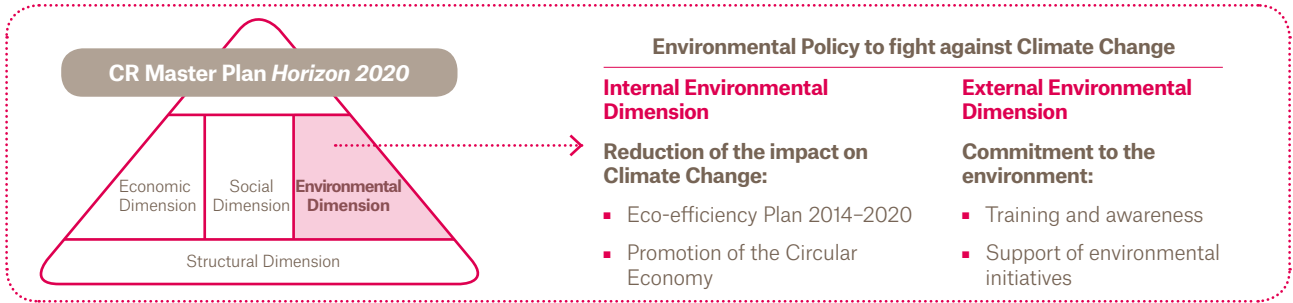
## Environmental Dimension

The environmental performance of Banco Popular is conducted in line with its Environmental Policy in the fight against Climate Change and the CR Master Plan *Horizon 2020*, which establishes two action dimensions: internal and external.

The actions contemplated in the Internal Environmental Dimension aim to minimise the impact which the Group's activity could cause to Climate Change, promoting a Circular Economy which is sustainable and allows its environmental footprint to be reduced.

Meanwhile, the issues observed in the External Environmental Dimension have the purpose of showing the Group's commitment to the preservation of the environment through awareness and participation in initiatives related to it. Below shows the main results achieved by the action lines defined in both dimensions.

Environmental dimension of the CR Master Plan *Horizon 2020*



The Environmental Committee, which reports directly to the Board of Directors through its Appointments, Governance and Corporate Responsibility Committee, is responsible for establishing the objectives in this area and for ensuring that they are met, performing the task of promoting and supervising the environmental management of the Bank's activities. In 2016, no significant sanctions were received deriving from any failure to comply with environmental legislation or regulation.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	<b>Environmental Dimension</b>	Annexes	

## Moving forward with the Environmental Policy to fight against Climate Change

Popular, in line with its corporate culture and in accordance with the guidelines set out in its Vision, Mission and Values, has updated its Environmental Policy with the aim of moving forward in its commitment to actively get involved in the fight against Climate Change, promoting awareness of its stakeholders and carrying out concrete actions in the field of prevention, protection and conservation, through a global action approach.

The principles on which the Group's Environmental Policy to fight against Climate Change are based are:

- Seek compliance with current environmental legislation.
- Integrate environmental considerations into the organisation's overall management.
- Generate good environmental practices throughout its value chain.
- Identify and manage environmental risks and opportunities and implement the most appropriate improvement measures.
- Promote products with a special environmental benefit.
- Collaborate with initiatives aimed towards the fight against Climate Change as well as promoting participation in forums and meetings about it.
- Support the development of projects and initiatives which favour the Circular Economy.
- Extend these principles to all its stakeholders.



As part of the Group's Corporate Responsibility strategy, the progress achieved in environmental matters is monitored every six months through a reporting system which reports to the following internal bodies:

- Board of Directors through the Appointments, Governance and Corporate Responsibility Committee, charged with proposing the Group's environmental strategy.
- Management Committee with the aim of favouring the integration of these issues into the business strategy.
- Environmental Committee, charged with managing and monitoring the good development of the Environmental Policy to fight against Climate Change.

This ensures the involvement of the highest decision-making bodies in the control and monitoring of the environmental strategy and the fight against Climate Change.

More information about the [Environmental Policy to fight against Climate Change](#)

### 4.1. Internal Environmental Dimension: reduction of the impact on Climate Change

The CR Master Plan, *Horizon 2020*, establishes in its Internal Environmental Dimension the lines of action to be pursued in order to reduce the bank's environmental impact. These actions involve a series of calculations which respond to the indicators shown in this Dimension and which take into account data on the scope defined in the Social Dimension for employees in Spain (10,479), except for electricity consumption and its emissions, which also includes employees of Banco Popular Portugal (901). The sum of all these employees (11,380) represent 97% of the staff defined for the scope of *employees of the Group* (11,690).



Regarding the strategy defined in the CR Master Plan *Horizon 2020* and in the Environmental Policy to fight against Climate Change, the Eco-efficiency Plan 2014-2020, the main pillar of the Internal Environmental Dimension, is supported and whose first phase was completed in 2016, achieving the objectives set in it: minimising the consumption of resources, efficiently managing waste and reducing emissions.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	<b>Environmental Dimension</b>	Annexes	

Up to 31 December 2016, all the actions foreseen in the Plan for the period 2014-2016 have been executed. The monitoring of each of them has allowed all environmental indicators under evaluation to be examined. In that sense, no significant incident or relevant event has been detected which might hinder the development of each action.

More information about the [Eco-efficiency Plan 2014-2020](#)

#### Eco-efficiency Plan: Compliance of the objectives and savings attained - 2016

Performance	Savings target (%) <sup>(1)</sup>		Saving compared to the previous year %	Savings in resources	Savings in emissions (Tn CO <sub>2</sub> )
	In the period 2014-2020	In 2016			
Electricity	6	1	10.05%	33,518.98 Gj	3,072.57
Paper	6	1	8.19%	100.15 Tn	297.90
Water	6	1	10.32%	15,047.00 m <sup>3</sup>	-
Direct and indirect emissions <sup>(2)</sup>	6	1	-21.87%	-2,672.61 TnCO <sub>2</sub>	-2,672.61

Performance	Objective		Amount of products/services purchased, prioritized with sustainability criteria		Savings in emissions (Tn CO <sub>2</sub> ) <sup>(3)</sup>
	In the period 2014-2020	In 2016	Percentage/total amount of purchases	Amount (thousands of euros)	
Purchases made with sustainability criteria	20	2.86	1.75%	12,146	22,710.51

#### Eco-efficiency Plan: cumulative compliance of the objectives and savings attained - 2014/2016

Performance	Savings target (%) <sup>(1)</sup>		Savings since the start of the Plan %	Savings in resources	Savings in emissions (Tn CO <sub>2</sub> )
	In the period 2014-2020	In 2016			
Electricity	6	3	43.39%	209,371.98 Gj	19,192.43
Paper	6	3	18.40%	265.15 Tn	788.71
Water	6	3	55.76%	164,863.00 m <sup>3</sup>	-
Direct and indirect emissions	6	3	44.86%	12,118.39 TnCO <sub>2</sub>	12,118.39

Performance	Objective		Amount of products/services purchased, prioritized with sustainability criteria		Savings in emissions (Tn CO <sub>2</sub> ) <sup>(3)</sup>
	In the period 2014-2020	In 2016	Percentage/total amount of purchases	Amount (thousands of euros)	
Purchases made with sustainability criteria	20	8.57	3.11%	43,818.70	76,904.43

(1) The "savings target in 2016" is the percentage of saving expected for each action during the current year. The "objective for the period" is the savings percentage expected for each action during the time the Eco-efficiency Plan is in force: 2014-2020.

(2) As a result of the advance in the calculation of emissions corresponding to Scope 3, the emissions generated by the Acquisition of goods (2,779 tonnes) are included for the first time in 2016. For this reason the savings in emissions compared to 2015 is negative.

(3) Only the Tn CO<sub>2</sub> that are no longer emitted due to the purchase in Spain of renewable electric energy are indicated, representing 100% of consumption.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	<b>Environmental Dimension</b>	Annexes	

The implementation of actions in relation to electricity, paper, water and emissions during 2016 have represented an investment of almost 700,000 euros and an emissions saving of 1,416 tonnes of CO<sub>2</sub>, complying with the terms, investments and expected costs of each of them.

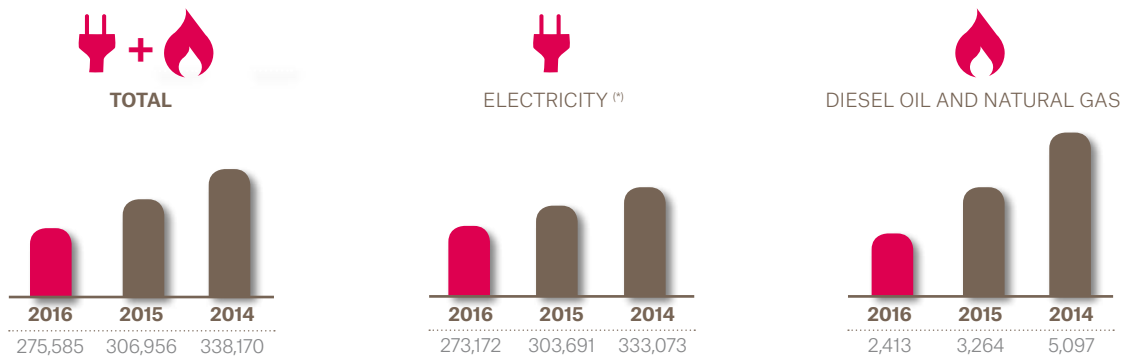
In 2017, coinciding with the inauguration of the Popular's New Head Office, the second phase of the Eco-efficiency Plan will be which will develop the actions forecast for 2017-2020 plus those already begun in 2014.

## Energy

Electricity is the Bank's main source of energy, accounting for nearly 99% of all its internal consumption. The remaining 1% relates to diesel fuel and natural gas, the use of which is limited to very specific emergency situations, such as fuelling auxiliary generators. The few facilities that do not have this mission will cease to exist in the coming years, as they will be disregarded with the construction of new efficient offices. 10.22% less energy was consumed in 2016 compared to 2015.



Internal energy consumption (figures in Gj) - 2014/2016



(\*) The electricity consumption figures refer to Spain and Portugal.

## Sustainable building

In order to support its commitment to minimise the environmental impact generated by the development of its activity, Popular includes environmental criteria both in the construction of new buildings and branches, and in the remodelling of old ones.

- **Unique buildings.** The 1,700 employees who work in *Edificio Abelias*, represent 16.2% of the Bank's employees in Spain and have seen improvements in their workstations, leading to greater comfort and less energy consumption. In addition, the own energy generation system installed in the building has entailed the production of 162 Gj.

*Edificio Abelias* achieved LEED Gold certification in 2013 as a sustainable building that complies with the most innovative energy efficiency measures.

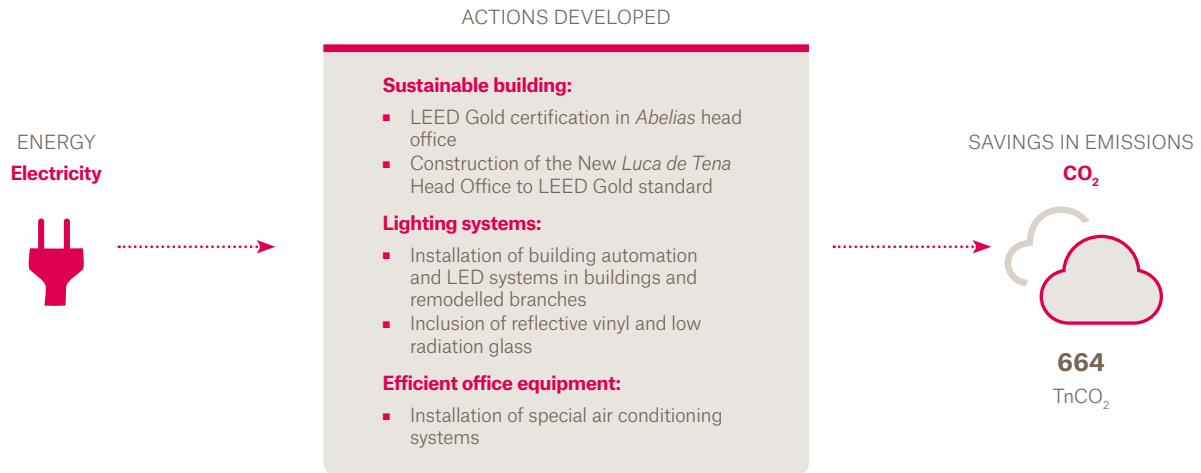


Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	<b>Environmental Dimension</b>	Annexes	

Pursuant to the Group's commitment to promoting sustainable buildings, the future construction in Madrid of *Edificio Luca de Tena*, which will have twice the capacity of *Edificio Abelias*, will follow the LEED Gold certification process. Under this framework standard, in 2016, the construction work has continued causing the least possible impact on the environment and meeting deadlines. Both constructions will form Popular's New head Office, with the inauguration of *Edificio Luca de Tena* forecast for 2017.

- **Branch office network.** Various LED, building automation and air conditioning systems have been implemented, thus fulfilling one of the actions considered in the Eco-efficiency Plan 2014–2020 aimed at reducing the use of electricity in this type of facility. This systems have been included in newly opened branches and those which have undergone remodelling.

### Measures developed to reduce energy consumption - 2016

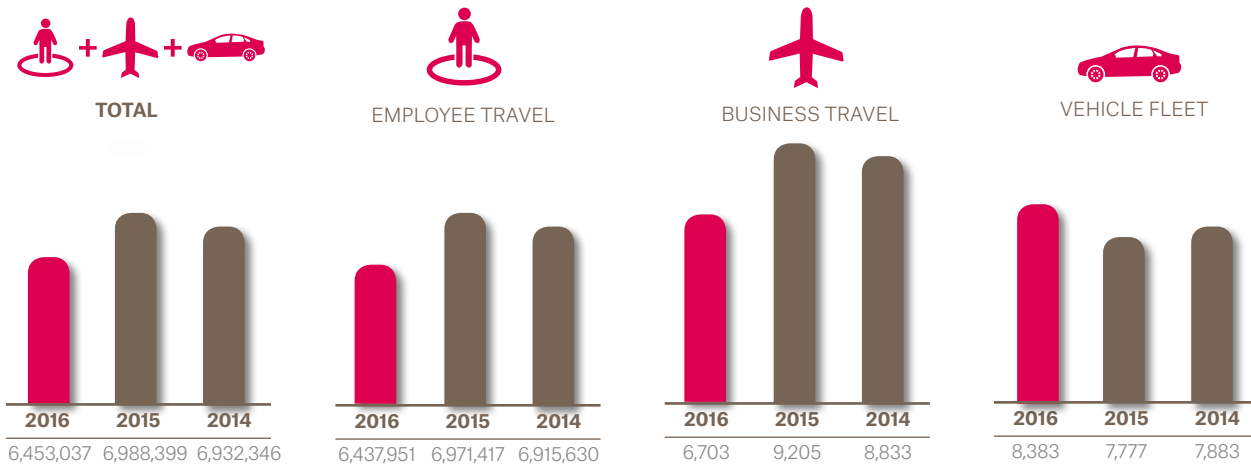


External energy consumption, that arising outside the Bank, and the energy for which is not under contract, originates mainly from travel by employees to the workplace, to their homes or to meetings. These consumption figures are presented in the following graph.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	<b>Environmental Dimension</b>	Annexes	

### External energy consumption (figures in Gj) – 2014/2016



The initiatives in the energy area are supplemented with a firm commitment to renewable energy given that 100% of the electricity consumed in Spain is from renewable sources. All of the 247,587 Gj consumed in Spain are acquired from a single operator that certifies their renewable source, thereby clearly minimising the Bank's environmental footprint.

For Portugal, and as a result of the Entity's commitment to increase the use of electricity from renewable sources, 41% of the electricity used comes from this. In 2016, the total electric energy consumption by Banco Popular Portugal reached 25,423 Gj.

**100%**  
of consumed energy in Spain  
comes from renewable sources

### Intensity of internal and external electricity consumption (figures in Gj/employee) – 2014/2016

	2016	2015	2014
<b>Internal energy intensity</b>			
Electricity <sup>(1)</sup>	19.43	20.02	21.9
Diesel oil <sup>(2)</sup>	0.07	0.09	0.4
Natural gas <sup>(2)</sup>	0.11	0.14	-
<b>TOTAL</b>	<b>19.60</b>	<b>20.25</b>	<b>22.3</b>
<b>External energy intensity<sup>(3)</sup></b>			
<b>TOTAL</b>	<b>499.27</b>	<b>499.31</b>	<b>499.3</b>

(1) Data refer to Spain and Portugal.

(2) Until 2014 the intensity on Diesel oil consumption included information on Natural gas plus Diesel oil. Since 2015 the data from both sections has been broken down.

(3) Data refer to Spain.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
01 Structural Dimension	02 Economic Dimension	03 Social Dimension	04 <b>Environmental Dimension</b>	05 Annexes	

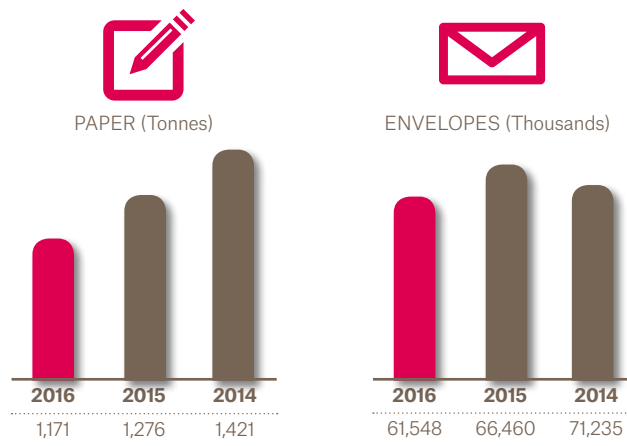
## Paper

Banco Popular Group puts various initiatives into practice at its facilities in Spain in order to reduce its paper and cardboard consumption.

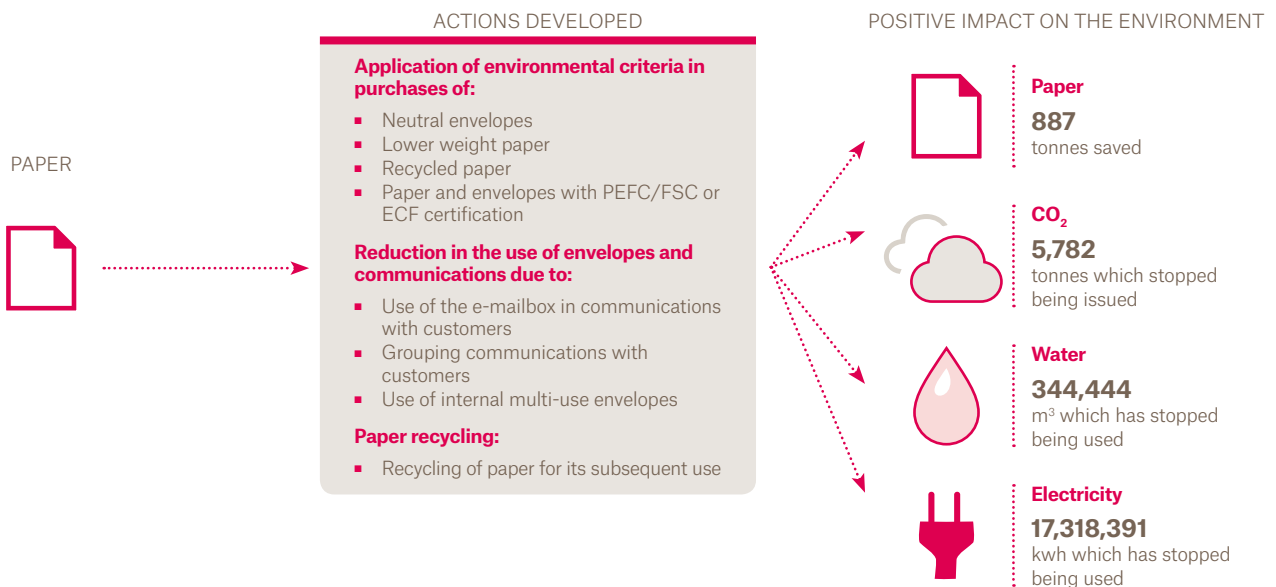
In 2016, total paper use was 1,171 tonnes which is 8.23% less than in 2015 corresponding to photocopier paper of which 84% comes from recycled sources. Banco Popular Portugal used a total of 4.3 tonnes of paper of which 3.08 tonnes, or 70%, came from recycled sources. Paper consumption in Spain and Portugal reached 1,175 tonnes.



Use of paper by employees in Spain – 2014/2016



Measures developed to reduce paper consumption - 2016



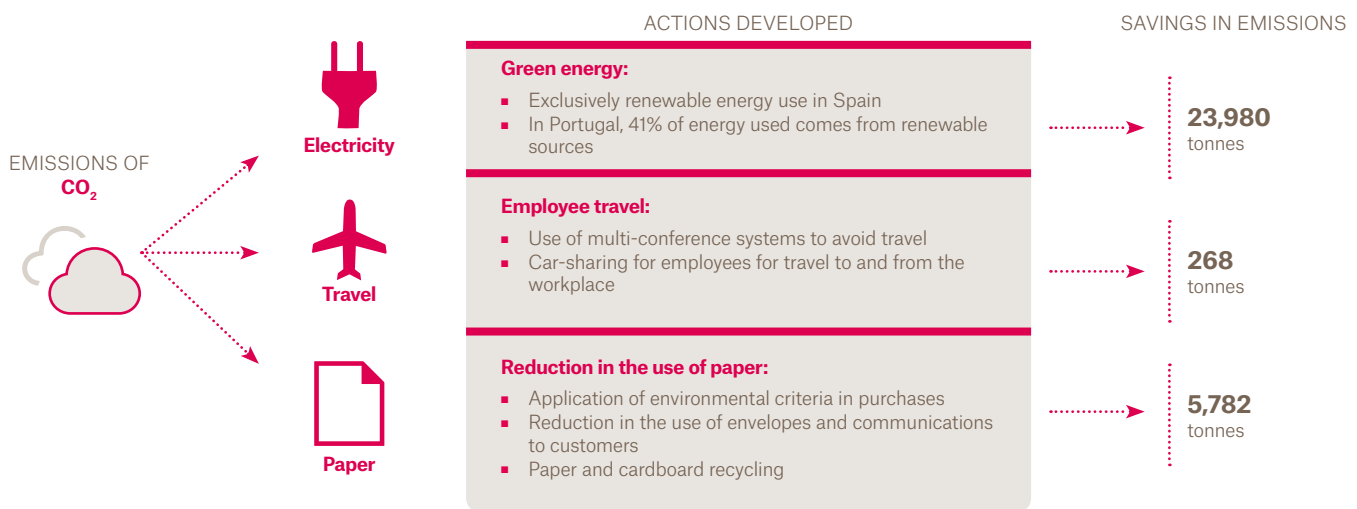
Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	<b>Environmental Dimension</b>	Annexes	

## Emissions

Total direct and indirect emissions in 2016 amounted to 14,834 tonnes of CO<sub>2</sub>. The most important actions that Popular has developed to reduce its CO<sub>2</sub> emissions are shown in the following chart:



Measures developed to reduce emissions of CO<sub>2</sub> - 2016



Direct and indirect CO<sub>2</sub> emissions generated - 2014/2016

Emissions	Scope	Concept	Tonnes of CO <sub>2</sub>		
			2016	2015	2014
Direct	Scope 1	Diesel oil <sup>(1)</sup>	72.09	94.14	374
		Natural gas <sup>(1)</sup>	81.87	103.30	-
		BPE vehicle fleet	565.02	614.59	574
		<b>Total direct emissions</b>	<b>718.98</b>	<b>812.03</b>	<b>948</b>
Indirect	Scope 2	Electricity <sup>(2)</sup>	1,827.61	933.39	1,200
	Scope 3	Employee travel	9,068.14	9,820	9,741
		Business travel (air and rail)	482.94	657	647
		Acquisition of goods <sup>(3)</sup>	2,778.76	-	-
	<b>Total Indirect Emissions</b>	<b>14,157.44</b>	<b>10,477</b>	<b>11,588</b>	
<b>TOTAL</b>			<b>14,876.43</b>	<b>12,222</b>	<b>12,536</b>

(1) In 2015 and 2016, the data on consumption of Diesel oil and Natural gas corresponds only to Spain as Popular Portugal consumed neither of these resources.

(2) The 1,827 tonnes of CO<sub>2</sub> emitted from electricity consumption relate entirely to Banco Popular Portugal given that Banco Popular Español consumes electricity from renewable sources only.

(3) As a result of the advance in the calculation of emissions corresponding to Scope 3, the emissions coming from the Acquisition of goods are included for the first time in 2016.

Intensity of direct and indirect CO<sub>2</sub> emissions generated - 2014/2016

Emissions	Scope	Tonnes of CO <sub>2</sub> /employee		
		2016	2015	2014
Direct	Scope 1	0.06	0.06	0.07
Indirect	Scope 2	1.61	0.07	0.09
	Scope 3	0.96	0.75	0.75
<b>TOTAL</b>		<b>1.06</b>	<b>0.88</b>	<b>0.91</b>

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
01 Structural Dimension	02 Economic Dimension	03 Social Dimension	04 Environmental Dimension	05 Annexes	

## 100% offset of CO<sub>2</sub> direct emissions in Spain

The 100% offset of the CO<sub>2</sub> from direct emissions which the Group generated in 2016 is made through the CommuniTree Carbon Program project in Limay, Nicaragua. It is a community initiative which brings together small farmers to reforest some of their disused land in one of the basins which feed the Royal Estuary, one of the most biodiverse areas in Central America. Through better land use and more sustainable management of forest resources, the project increases the forest cover of the area and prevents its deterioration.

It is the fourth consecutive year that Popular has become a Neutral Entity in emissions derived from Scopes 1 and 2 thanks to the fact that all electricity purchased and consumed in Spain has come from renewable sources and that it has offset 100% of its direct CO<sub>2</sub> emissions. Therefore, as in the three previous years, Popular has obtained the CeroCO<sub>2</sub> label (ECODES).

### Other

Other smaller scale initiatives, but also of interest given their environmental impact, are detailed as follows:



**Water.** Water consumption in Spain amounted to 116,501 m<sup>3</sup>, while in Portugal it amounted to 14,280 m<sup>3</sup>. A total of 130,781 m<sup>3</sup>. One of the most importance measures implemented by Popular to save water is the installation of eco-efficient taps and cisterns in its unique buildings and in branches which have undergone remodelling.



**Toner cartridges.** 12,642 toner cartridges were consumed, of which 59% were refurbished, following the policy of the maximum use possible of re-used cartridges.

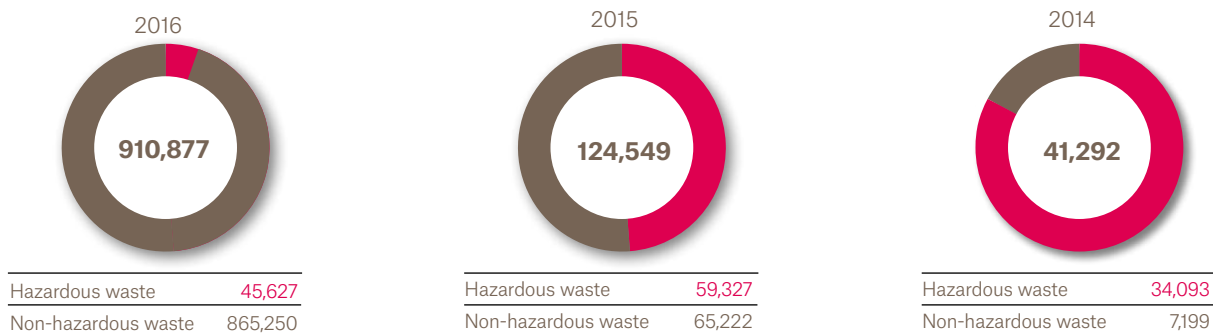


**Plastics.** The plastics used are mainly those resulting from the transportation of funds, documentation and coin packaging. 98.13% of plastic bags are oxo-biodegradable / photo-degradable.



**Waste.** In total, 910,877 kg of waste were managed in the proper manner. The investment made in these recycling processes amounted to more than 80,000 euros. In Popular Portugal, 65,481 kg of waste was managed. Total waste managed in Spain and Portugal was 976,358 kg.

Waste managed by Popular in Spain (kg) – 2014/2016 <sup>(1)</sup>



(1) The increase in non-hazardous waste managed is due to that coming from the use of paper being included for the first time in 2016

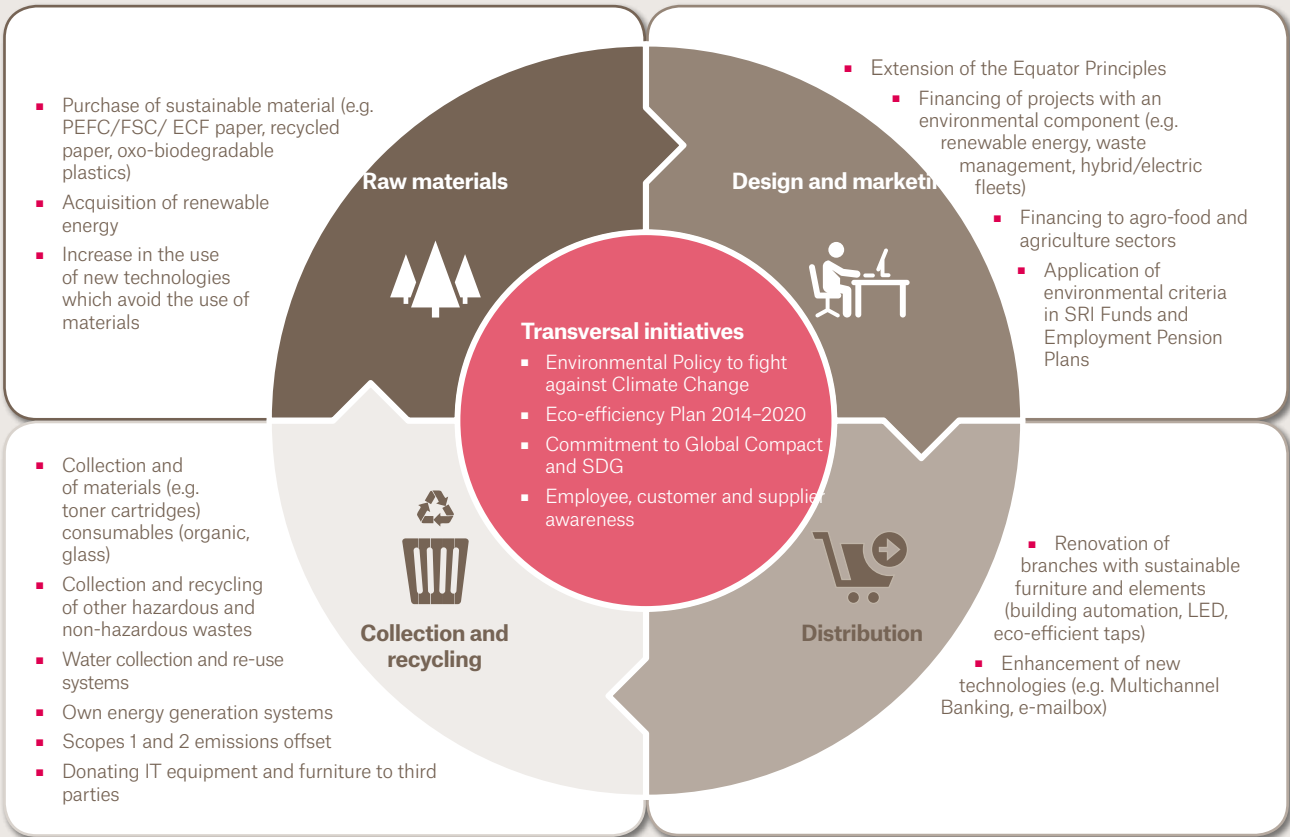


## Approach to the Circular Economy

One of the most important lines which Popular describes in its Environmental Policy to fight against Climate Change is to support through its activity, the principles of the Circular Economy whose objective is the development of sustainable and efficient, economic and environmental actions.

The Group has a series of products, services and initiatives, most of which are included in its Eco-efficiency Plan, which favour the improvement of natural capital, optimisation of the use of resources and minimisation of system risks when managing a finite number of stocks and renewable flows. Below is a global view of Popular's role in the Circular Economy system:

# CIRCULAR ECONOMY



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	<b>Environmental Dimension</b>	Annexes	

## 4.2. External Environmental Dimension: commitment to the environment

### 4.2.1. Training and awareness-raising

With environmental training and awareness actions, Popular seeks to involve all its staff in following practices aimed at sustainable development in their day-to-day activity. To this end, the Intranet, *+informados* newsletter and the Corporate Volunteer Portal *con tu ayuda*, amongst other communications channels, are being used. The most important initiatives carried out in 2016 have been:



- **Environmental training for employees.**

In 2016, the training action named Baldomero Challenge has remained active whose objective is to raise awareness of the Group's workforce in environmental matters.

In this edition, composed of 4 training modules, the main commitments of the Entity to mitigate its impact on Climate Change are disclosed and how each employee can participate in them through small day to day gestures.

- **Dissemination and promotion of sustainable initiatives among employees.**

The main actions developed have been:

- Recycling of bottle tops by Group employees. In total, over 5.5 tonnes of bottle tops have been collected since the beginning of the campaign in Spain.
- Recycling of used mobile phones. In the last quarter of the year a campaign was started to collect these devices which have also been used to help a third sector entity.
- Dissemination of other environmental initiatives. Through the *con tu ayuda* Corporate Volunteering Programme the company disseminated environmental initiatives developed at a global level among its employees with the aim of raising awareness in this matter. The most important were World Water Day, World Tree Day, World Energy Efficiency Day, World Environment Day and European Mobility Week.

- **Turning-off of lighting of the Bank's most emblematic buildings.**

As in prior years, this initiative was carried out as part of WWF Earth Hour 2016. More than 10,000 cities countries switched off the lights of their main monuments and representative buildings. Popular participate by switching of the lights in 14 of its emblematic buildings and in 226 offices located throughout Spain.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
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Structural Dimension	Economic Dimension	Social Dimension	<b>Environmental Dimension</b>		Annexes

## 4.2.2. Support of environmental initiatives

Popular collaborates with bodies which evaluate the Bank's activities in environmental aspects, such as the Carbon Disclosure Project (CDP), of which it is a signatory entity.



It has also reaffirmed its involvement with the environment by participating in various environmental initiatives.

- Census-taking of the Carbon Footprint in MAGRAMA.** For the second consecutive year, Popular has obtained the "CALCULO" seal from Ministry of Agriculture, Food and Environment (MAGRAMA) for registering the calculation of its 2015 carbon footprint with said body. This voluntary registry was created to promote the calculation, reduction and offset of the carbon footprint by Spanish organisations and establishing itself as a measure to combat Climate Change.
- Participation in the Forética Climate Change Cluster.** The Climate Change Cluster is one of the main leadership business platforms in the field of climate change driven by Forética and is made up of 36 large companies. It has the following objectives:
  - Transfer the main trends and conversations being held worldwide in the field of Climate Change from the business perspective to the Spanish context.
  - Contribute, through studies, to generating practical solutions and to disseminate the trends linked to this theme among the business community.
  - Collaborate with Public Administrations and opinion leaders, making the Cluster a point of reference on Climate Change.
- Maintain the commitment with 1 million for the climate.** This initiative by the ECODES Ecology and Development Foundation offers a virtual space aimed at both individuals and companies where both groups can take a census of their environmental commitments in order to mitigate the impact that Climate Change is having on the planet. Popular has joined this action for the second consecutive year and has reaffirmed its commitment to reducing its CO<sub>2</sub> emissions by contracting renewable electricity, optimising the use of resources or offsetting its carbon footprint, amongst others.
- Participation in the Offshore Wind Energy Congress.** Banco Pastor participated in the Offshore Wind Energy Congress held in Galicia, whose purpose was to disseminate the critical aspects of the wind industry and in which several projects were presented, representative of the potential that this sector can develop. Pastor highlighted the Entity's support to companies which develop this type of project.

### Popular is the only financial institution recognised in the Carbon Clear ranking

Popular has been the only financial institution which has entered the ranking of companies in the Carbon Clear Ibex-35, which identifies companies with more transparent sustainability reports, ranking seventh.

The study by Carbon Clear, an English consultancy specialising in the environment, has been based on available public information and has analysed the status of sustainability reporting throughout the five study sections: Measurement, Reporting and Verification, Strategy, Reduction and Offsets, Engagement and Innovation. An assessment was obtained for each section and an overall assessment, 66% in the case of Popular, with the average in financial and real estate companies being 47%.

In this way, Popular's commitment in the fight against Climate Change and its development of adaptation measures to ensure a sustainable and low carbon future is quantitatively recognised.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	



# Annex 1

## About this Report

### 1.1. Description of the scope

This report includes all of the activities of interest relating to Banco Popular Español, S.A. and the economic group to which it pertains, called the Group or Banco Popular Group in this report, between 1 January and 31 December 2016. This Report reflects the most relevant data related to the Group's structural changes in 2016 and those which, although effective at the beginning of 2017, have been prepared in 2016. Among these, the following are notable:

- Appointment of Mr. Emilio Saracho as Chairman of the Board of Directors after his approval of his appointment to the Board at the Extraordinary General Shareholders' Meeting held in February 2017.
- Appointment of Mr. Pedro Larena as new CEO.
- Update of the Management Committee organisational structure with the creation of new General Management areas: Digital Transformation, Media, Specialised Business, Real Estate and Asset Transformation Business, and Corporate Information and Analysis.
- Establishment of two basic organisational and management pillars: Main Business and Property and Associated Business.

Since 2005 the Corporate Responsibility reports have been verified, in accordance with the Global Reporting Initiative Guide for the Preparation of Sustainability Reports, by the independent firm PricewaterhouseCoopers Auditores S.L., which also audits the Group's economic information. As is specified in Annex 3, the information contained in this report for 2016 has also been verified by that firm. This has been done in order to provide a true and fair, complete and transparent view of the Group's action in all of its business areas. Furthermore, the Integrated Report has been submitted for the approval of the Bank's Board of Directors in its meeting of February 2017.

### 1.2. Principles and focus of the Report

As with the last Integrated Report published by the Group in 2015, in drawing up this Report, account was taken of the suggestions of the Bank's various stakeholder groups and of the guidelines established by the International Integrated Reporting Council (IIRC) in its international framework for establishing content for integrated reports and the Global Reporting Initiative (GRI) in its G4 guide and the financial sector supplement, as detailed in the table below.

## IIRC and GRI principles for the definition of content and quality, together with their reflection in this Integrated Report

G4 Principles		Reflected in the Report		Integrated Report Principles	
Contents	<p><b>Materiality.</b> Present issues that reflect the significant social, environmental and economic impacts of the organisation.</p>	→	Information regarding Policies, strategies and data that affect the organisation and its environment in a transcendental way.	←	<p><b>Strategic approach and future orientation.</b> Allow for a better understanding of the company's strategy and how it is related to its capacity to create value in the short, medium and long-term, as well as its association with the use of capital and the effect on those items.</p> <p><b>Ability to respond to stakeholders.</b> Allow for an understanding of the quality of the company's relationships with its key stakeholder groups, in addition to how the company understands and responds to their legitimate needs, expectations and interests.</p> <p><b>Information connectivity.</b> Show the combination, inter-relation and dependency among components that are relevant to the company's ability to create value over time.</p>
	<p><b>Participation of stakeholders.</b> Identify its stakeholder groups and describe how it has responded to their reasonable expectations and interests.</p>	→	Balance between the information presented to the various stakeholder groups: shareholders, customers, employees, suppliers and the social and environmental community.		
	<p><b>Sustainability.</b> Report performance within the broadest context of sustainability.</p>	→	Presentation of the measures that contribute to preserving the social and environmental context in the Group's area of influence.	←	
	<p><b>Exhaustiveness.</b> Indicate the scope, coverage and timing of the report.</p>	→	Disclosure of the activities carried out by the Group in as much detail as possible with respect to their content and timing.		
Quality	<p><b>Balance.</b> Disclose positive and negative aspects of the organisation's performance to provide an overall evaluation.</p>	→	Presentation that allows an appreciation of data trends and an analysis of the changes experienced by the organisation over time.		<p><b>Consistency and comparability.</b> Ensure that the information is consistent over time and allows comparisons with other companies to the extent that they are relevant to create value.</p>
	<p><b>Punctuality.</b> Disclose information on a timely basis and following a regular schedule.</p>	→	Publication of the report during the first quarter of the year following the year being reported.	←	
	<p><b>Comparability.</b> Present information in a consistent manner, facilitating comparability.</p>	→	Information prepared in a consistent manner and presented by calendar year.		
	<p><b>Clarity.</b> Provide information to stakeholders in an understandable and accessible manner.</p>	→	Systematically ordered content of the various Group initiatives.	←	<p><b>Reliability and integrity.</b> Include all relevant positive and negative matters in a balanced manner without significant errors.</p> <p><b>Relevance and conciseness.</b> Provide concise and relevant information to evaluate the company's capacity to create value in the short, medium and long-term.</p>
	<p><b>Precision.</b> Report precise and sufficiently detailed information such that the organisation's performance may be evaluated.</p>	→	Detailed and precise description of the information, making reference to other public documents issued by the organisation to obtain further information.	←	
	<p><b>Reliability.</b> Ensure that the information has been gathered, recorded, compiled, analysed and presented in a manner that may be subject to examination.</p>	→	Accurate and precise information in the report certified by external auditor verification.		

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

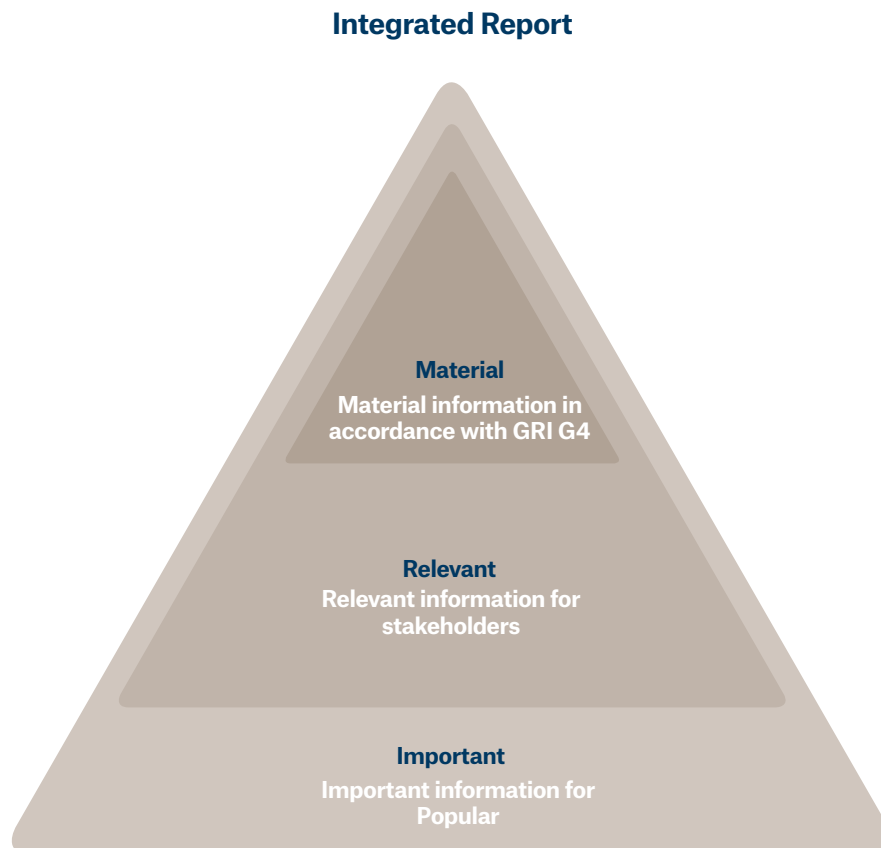
### 1.3. Integration of the materiality principle in accordance with GRI G4

Banco Popular Group has linked its material aspects to the specific information regarding the management approaches in accordance with the guidelines established by the Global Reporting Initiative (GRI) in its G4 guide.

This way, each Disclosure on Management Approach (DMA) which comprises relevant issues for the group has been linked to the material aspects identified in the corporate materiality matrix included in Chapter 1 of this Report. For each DMA a "coverage" level has also been established, specifying whether the scope of the impact in each area is internal, external or mixed based on the affected stakeholders. Furthermore, the "scope" is determined based on the significance of its treatment, indicating if detailed information is provided for the entire Group or only for some entities belonging thereto.

Additionally, the Bank publishes in this report other issues that while not directly related to the DMA, or not considered material in accordance with the GRI G4 guidelines, have been included as being relevant for its stakeholders and/or important for explaining the Entity's performance during the year.

Materiality of the information included in the 2016 Integrated Report



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

## Association of corporate material aspects with GRI G4 DMA

Category	Disclosures on Management approach (DMA)	Corporate material aspect	Coverage	Scope
<b>Impact of products and services</b>	Product list	9, 10, 15, 19	External	Group - Spain
	Audit	2	Mixed	Group - Spain
	Active ownership	1, 15, 19	Internal	Group - Spain
	Labelling of products and services	4, 6, 7, 8, 16	External	Group - Spain
<b>Economic dimension</b>	Economic performance	3, 4, 14	Mixed	Group - Spain
	Market presence	14	Internal	Group
	Indirect economic impacts	9, 10, 13, 16	External	Group - Spain
	Procurement practices	13	External	Group - Spain
<b>Environmental performance</b>	Materials	18	Internal	Group - Spain and Portugal
	Energy	18	Internal	Group - Spain and Portugal
	Water	Not material	Not applicable	Not applicable
	Biodiversity	Not material	Not applicable	Not applicable
	Emissions	18	External	Group - Spain and Portugal
	Effluents and waste	Not material	Not applicable	Not applicable
	Products and services	18	Internal	Group - Spain
	Regulatory Compliance	2, 18	Mixed	Group - Spain
	Transport	18	Mixed	Group - Spain
	General	18, 20	Mixed	Group - Spain
	Supplier environmental assessment	13	External	Group - Spain
Environmental grievance mechanisms	2, 12, 18	Mixed	Group - Spain	
<b>Labour practices and decent work</b>	Employment	14	Internal	Group
	Employee-management relationships	14	Internal	Group
	Occupational health and safety	14	Internal	Group - Spain
	Training and education	14	Internal	Group
	Diversity and equal opportunities	1, 14	Internal	Group
	Equal pay for men and women	1, 14	Internal	Group
	Evaluation of supplier labour practices	13	External	Group - Spain
	Labour practices grievance mechanisms	2, 12, 14	Internal	Group - Spain
<b>Human Rights</b>	Investment	1, 4, 14	Mixed	Group - Spain
	Non-discrimination	1, 14	Mixed	Group - Spain
	Freedom of association and collective bargaining	1, 13, 14	Mixed	Group
	Child labour	Not material	Not applicable	Not applicable
	Forced labour	Not material	Not applicable	Not applicable
	Security measures	Not material	Not applicable	Not applicable
	Indigenous population rights	Not material	Not applicable	Not applicable
	Evaluation	2	Mixed	Group - Spain
	Human rights evaluation of suppliers	13	External	Group - Spain
Human rights grievance mechanisms	2, 12	Mixed	Group - Spain	
<b>Society</b>	Local communities	14, 17	Mixed	Group
	Fight against corruption	1, 2, 14	Mixed	Group
	Public Policy	1, 7	External	Group - Spain
	Unfair competition practices	2	Internal	Group - Spain
	Regulatory Compliance	2	Internal	Group - Spain
	Evaluation of supplier social repercussions	13	External	Group - Spain
	Social impact grievance mechanisms	2, 12	External	Group - Spain
<b>Product liability</b>	Customer health and safety	2, 6	External	Group - Spain
	Labelling of products and services	2, 6, 7, 8	External	Group - Spain
	Marketing communications	2, 7, 12	External	Group - Spain
	Customer privacy	2	External	Group - Spain
	Regulatory Compliance	2	External	Group - Spain

## 1.4. Integration of the IIRC contents

In order to clearly and concisely present the relevant issues that affect the Bank's capacity to create and maintain value in the present and in the future, the following table indicates where the various issues requested by the International Integrated Reporting Council (IIRC).

Issues included in the Integrated Report based on the IIRC content requirements

Requested issues		Pages
<b>Description of the organisation and the environment</b>	General description	6-13
	Vision, mission and values	15
	Structure	16-18
	Positioning in the economic sector	24-25
	Description of the environment	22-23
<b>Corporate Governance</b>	Governance bodies and mechanisms	26-30
	Decision-taking processes	26-39
	Reflection of the culture in the use of the various types of capital and their effect	31
	Remuneration and value creation	29-30
<b>Business Model</b>	Value chain	40-46
	Materiality	54-55
	Stakeholders: identification, selection and management	49-51
	Creation of shared value	47-51
<b>Opportunities and risks</b>	Identification of opportunities and risks	56-59
	Probability and occurrence and opportunities for improvement	56-59
<b>Strategy and assignment of resources: performance</b>	Objectives and actions taken to attain them	59-69
	Allocation of resources	59-69
	Measurement of attainments and challenges	12-13
<b>Future outlook</b>	The organisation's expectations regarding the environment and their effect	70-71
	Readiness of the organisation with respect to the future outlook	72-73
	Objectives set for each type of capital	72-73

## 1.5. Application of Global Compact standards

As a signatory company of the United Nations Global Compact principles, Banco Popular is committed to providing annual reports regarding its performance with respect to the ten conduct and action principles relating to Human Rights, labour, environment and the fight against corruption.

The Group has prepared this Integrated Report by taking into account the information requirements necessary to respond to the Progress Report and thus achieve the Advanced level, the highest rating within the reporting levels awarded by the Global Compact.

The pages on which the activities that are most directly related to the ten principles of the Global Compact may be found are indicated as follows.

### Issues included in the Integrated Report based on the Global Compact

	Requested issues	Pages	Equivalent in GRI
<b>Human Rights</b>	1. Companies should support and respect the protection of fundamental Human Rights, recognised internationally, within their scope of action.	82, 87, 90, 91, 96, 105, 106, 121, 126, 128	G4-HR1, G4-HR3, G4-HR4, G4-HR12, G4-SO1, G4-SO2
	2. Societies must ensure that they are not involved with the violation of human rights.	87, 90, 91	G4-HR1, G4-HR12
<b>Employment legislation</b>	3. Societies must respect the freedom of affiliation and the effective recognition of the right of collective bargaining.	134	G4-11, G4-LA4, G4-HR4
	4. Societies must support the elimination of all forms of forced labour or work performed under coercion.	98	G4-HR6, G4-HR8
	5. Societies must support the eradication of child labour.	98	G4-HR5
	6. Societies must support the abolition of employment and job discrimination practices.	28, 105, 106, 107, 111, 113, 114, 123, 124	G4-10, G4-HR3, G4-LA1, G4-LA3, G4-LA12, G4-LA13
<b>Environment</b>	7. Societies must maintain a preventive focus that benefits the environment.	69, 134, 136, 137, 138, 139, 140, 141, 142	G4-EN2, G4-EN6, G4-EN7, G4-EN19, G4-EN29, G4-EN30, G4-EN31, G4-EN34
	8. Societies must encourage initiatives to promote increased environmental responsibility.	69, 134, 136, 137, 138, 139, 140, 141, 142	G4-EN2, G4-EN6, G4-EN7, G4-EN19, G4-EN29, G4-EN30, G4-EN31, G4-EN34
	9. Societies must facilitate the development and use of technologies that respect the environment.	69, 134, 136, 137, 138, 139, 140, 141, 142	G4-EN2, G4-EN6, G4-EN7, G4-EN19, G4-EN29, G4-EN30, G4-EN31, G4-EN34
<b>Anti-corruption</b>	10. Societies must work against all forms of corruption, including extortion and bribery.	36, 37, 38, 79, 119	G4-SO3, G4-SO4, G4-SO6

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

## 1.6. Integration of Sustainable Development Goals

Banco Popular, in line with its corporate culture and aware of the relevant role of the private sector in achieving the United Nations Sustainable Development Goals, commits itself to integrating them into its strategy and contributing to achieving them in a way that is aligned with the development of its activity.

Throughout the Report, the actions developed by Popular which respond to the principles most closely linked to the Group's main activity are identified. Likewise, below is a summary of the compliance of these SDG indicating the actions carried out and the pages where they are detailed in greater depth.

### SUSTAINABLE DEVELOPMENT GOALS

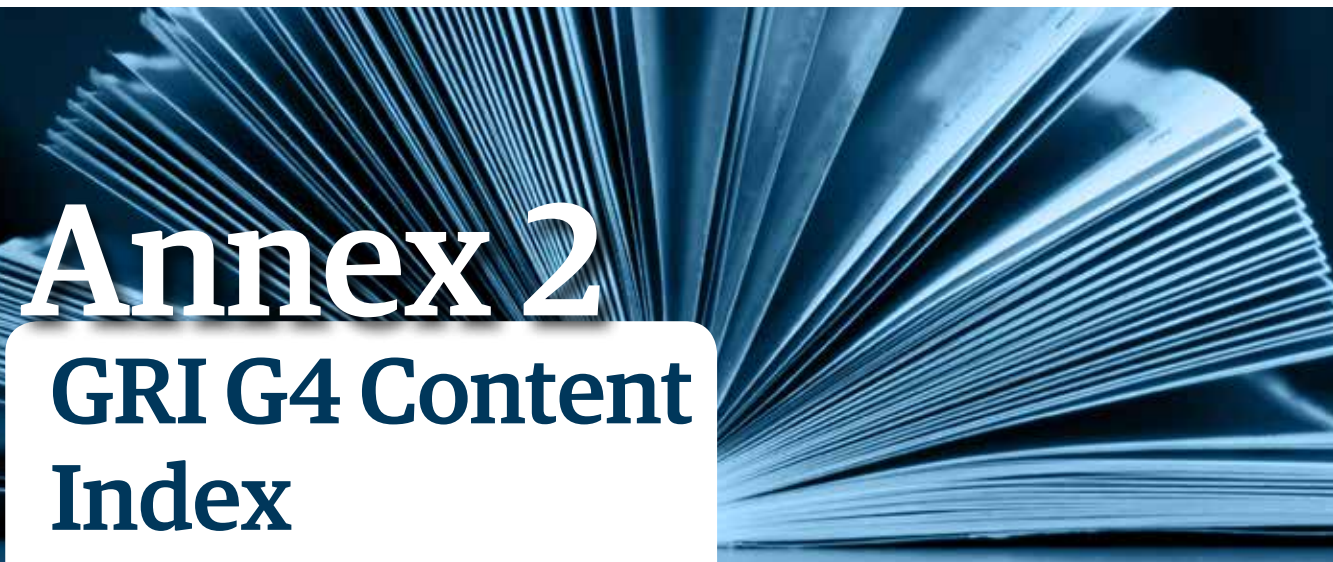


SDG	Description	Actions	Pages
	Contribute to the eradication of extreme poverty throughout the world by reducing it in all its dimensions and facilitating access to economic resources, basic services and social protection to the entire population.	<ul style="list-style-type: none"> <li>Human Rights Culture</li> <li>Decent working conditions</li> <li>Equality policy</li> <li>Inclusive businesses</li> <li>Accessible products and services</li> <li>Microcredits</li> <li>Support for entrepreneurs and students</li> <li>Advertising and marketing</li> <li>Assessment of suppliers</li> <li>Reduction of environmental impact</li> <li>Voluntary actions</li> </ul>	81, 91, 94, 99, 112, 113, 121, 127, 128, 129, 131, 135, 137, 140, 141, 142, 143, 144, 145
	Promote access to education for the entire population, as a basis for ensuring sustainable economic and social growth.	<ul style="list-style-type: none"> <li>Continuous learning of employees</li> <li>Training in CR</li> <li>Volunteer activities</li> <li>Technological innovations</li> <li>Support for students</li> <li>Partnerships with universities and schools</li> </ul>	118, 127, 132
	Promote equality in access to education, medical care and opportunities to achieve decent work for women and girls, as well as representation in political and economic decision-making processes.	<ul style="list-style-type: none"> <li>Equality Plan</li> <li>Somos Diversidad</li> <li>Female empowerment</li> <li>Salary policies</li> <li>Recruitment and employment protection</li> <li>Family reconciliation</li> <li>Human Rights Culture</li> <li>Access to financing</li> </ul>	112, 113, 117, 128



SDG	Description	Actions	Pages
	Promoting sustainable and inclusive economic growth, which benefits all everyone equally and does not harm the environment, through the creation of quality employment, especially for women and young people.	<ul style="list-style-type: none"> <li>Efficient use of resources</li> <li>Equality Plan</li> <li>Somos Diversidad</li> <li>Human Rights Culture</li> <li>Decent working conditions</li> <li>Promoting employment for young people</li> <li>Control and training of the supply chain</li> <li>Boosting the local economy and culture</li> <li>Promoting economic growth</li> <li>Development cooperation</li> <li>Public-private partnerships</li> </ul>	43, 76, 78, 91, 94, 99, 108, 109, 111, 112, 113, 128
	To promote sustainable, resilient and quality infrastructures for all, promoting a new industry based on sustainability criteria which adopt clean and environmentally sound technologies and industrial processes, promote technology, innovation and research and achieve equal access to information and knowledge, mainly through the internet.	<ul style="list-style-type: none"> <li>Eco-efficiency Plan 2014-2020</li> <li>Equator Principles</li> <li>LEED Gold certification in New Head Office</li> <li>Investment in R+D+i</li> </ul>	42, 43, 84, 89, 119, 135, 137, 140, 141, 142, 143
	Favour change in the current production and consumption model to achieve efficient management of natural resources and the reduction of waste generated, amongst others.	<ul style="list-style-type: none"> <li>Efficient consumption of resources</li> <li>Use of biodegradable and recyclable materials</li> <li>Re-use of water</li> <li>Own energy generation</li> <li>Employee and supplier awareness</li> <li>Purchase of sustainable products and services</li> </ul>	135, 137, 140, 142, 143, 144
	Introduce Climate Change as a key issue in policies, strategies and plans, improving the response to the problems which it generates.	<ul style="list-style-type: none"> <li>Fight against Climate Change strategy</li> <li>Environmental Policy to fight against Climate Change</li> <li>Eco-efficiency Plan 2014-2020</li> <li>Awareness and training of the workforce</li> <li>Awareness of the supply chain</li> </ul>	43, 89, 92, 135, 137, 140, 141, 142, 143, 144, 145

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	



# Annex 2

## GRI G4 Content Index

The pages of the Report that respond to the general standard disclosures, management approaches and performance indicators established by GRI in the G4 guidelines are indicated below. Any absence or omission of information is explained in the section "notes".

Furthermore, as mentioned in section 1.3. Integration of the materiality principles in accordance with GRI G4 of Annex 1, the Group has performed a materiality analysis that links material issues with the specific management approach information. All of the indicators presented below have been considered to be material, except for those indicated with (\*). However, information relating to these immaterial issues is published in accordance with GRI G4 as they are considered to be relevant for stakeholders or to explain the Bank's performance.

### Popular's Integrated Report is prepared on the basis of the GRI G4 "in accordance COMPREHENSIVE" option

Banco Popular has prepared this report in accordance with the guidelines established in the GRI Guidelines for the Production of the GRI Sustainability Report, in its new G4 version, as well as the criteria indicated in the financial supplement.

The Report includes the verification carried out by the independent auditor, PricewaterhouseCoopers Auditores, S.L., notes that the report has been prepared on the basis of the "in accordance-COMPREHENSIVE" option according to the GRI G4 guidelines and the financial services sector supplement. This verification indicates that Popular's Integrated Report includes the essential content of a Corporate Responsibility Report and also describes its performance in detail, covering all indicators relating to material issues.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

## General Basic Contents

Indicator	Pages	Omissions	Description
<b>STRATEGY AND ANALYSIS</b>			
G4-1	5	-	Provide a statement from the most senior decision-maker of the organisation (such as CEO, chair, or equivalent senior position) about the importance of sustainability to the organisation and the organisation's strategy for addressing sustainability.
G4-2	12-13	-	Provide a description of key impacts, risks, and opportunities.
<b>PROFILE OF THE ORGANISATION</b>			
G4-3	146	-	Report the name of the organisation.
G4-4	15-16, 97	-	Report the primary brands, products, and services.
G4-5	2016 AR(9)	-	Report the location of the organisation's headquarters.
G4-6	8-9, 15-16	-	Report the number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the related sustainability topics covered in the report.
G4-7	15-16, 146	-	Provide a description of the nature of ownership and legal form.
G4-8	8-9, 15-16	-	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).
G4-9	6-9, 15-17	-	Report the size of the organisation.
G4-10	105, 107	-	a) Report the total number of employees by employment contract and gender. b) Report the total number of permanent employees by employment type and gender. c) Report the total workforce by employees, supervised workers and by gender. d) Report the total workforce by region and gender. e) Report whether a substantial portion of the organisation's work is performed by workers who are legally recognised as self-employed, or by individuals other than employees or supervised workers, such as employees and supervised employees of contractors. f) Report any significant variation in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).
G4-11	121	-	Report the percentage of total employees covered by collective bargaining agreements.
G4-12	99-102	-	Describe the organisation's supply chain.
G4-13	99-102, 106, 146	-	Report any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain.
G4-14	90-91	-	Report whether and how the precautionary approach or principle is addressed by the organisation.
G4-15	50-51, 68	-	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.
G4-16	50-51, 68	-	List memberships of associations (such as industry associations) and national or international advocacy organisations to which the organisation pertains.
<b>MATERIAL ASPECTS AND COVERAGE</b>			
G4-17	15-16	-	a) List all entities included in the organisation's consolidated financial statements or equivalent documents. b) Report whether any entity included in the organisation's consolidated financial statements or equivalent documents is not covered by the report.
G4-18	54-55	-	a) Describe the process followed to determine the content of the report and the coverage of each aspect. b) Explain how the organisation has applied the reporting principles to determine the report's content.
G4-19	148-149	-	List all the material aspects identified in the process for defining report content.
G4-20	148-149	-	For each material aspect, report the coverage within the organisation.
G4-21	148-149	-	For each material aspect, report the limit beyond the organisation.
G4-22	146-147	-	Report the effect of any restatements of information from previous reports, and the reasons for such restatements.
G4-23	146-147	-	Report significant changes from previous reporting periods of each aspect and coverage.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

## General Basic Contents

Indicator	Pages	Omissions	Description
<b>STAKEHOLDERS' PARTICIPATION</b>			
G4-24	50-51	-	Provide a list of stakeholder groups engaged by the organisation.
G4-25	50-51	-	Report the basis for identification and selection of stakeholders with whom to engage.
G4-26	50-51	-	Report the organisation's approach to stakeholder engagement, for example, the frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.
G4-27	50-51	-	Report key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.
<b>REPORT PROFILE</b>			
G4-28	146	-	Reporting period (such as fiscal or calendar year) for information provided.
G4-29	146	-	Date of most recent previous report (if any).
G4-30	146	-	Reporting cycle (such as annual, biennial).
G4-31	170	-	Provide the contact point for questions regarding the report or its contents.
G4-32	154	-	a) Report the 'in accordance' option the organisation has chosen. b) Report the GRI Content Index for the chosen option. c) Report the reference to the External Assurance Report, if applicable. GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines.
G4-33	146	-	a) Report the organisation's policy and current practice with regard to seeking external assurance for the report. b) If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c) Report the relationship between the organisation and the assurance providers. d) Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report.
<b>GOVERNANCE</b>			
G4-34	26-28	-	Report the governance structure of the organisation, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.
G4-35	26-28	-	Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.
G4-36	134	-	Report whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.
G4-37	50-51	-	Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body.
G4-38	26-28	-	Report the composition of the highest governance body and its committees.
G4-39	30, 2016 AR (21)	-	Report whether the Chair of the highest governance body is also an executive officer. If so, describe his or her function within the organisation's management and the reasons for this arrangement.
G4-40	27	-	Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members.
G4-41	34, 36-37	-	Report processes for the highest governance body to ensure conflicts of interests are avoided and managed. Report whether conflicts of interests are disclosed to the stakeholders.
G4-42	52-53, 124, 134, 136	-	Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.
G4-43	29-30	-	Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.

## General Basic Contents

Indicator	Pages	Omissions	Description
G4-44	2016 AR (183-185)	-	a) Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency. Indicate whether it is a self-assessment. b) Report actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership and organisational practice.
G4-45	50-51, 2016 AR (204-213)	-	a) Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Also indicate the role of the senior governing body in the implementation of due diligence processes. b) Report whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities.
G4-46	34-36, 134 2016 AR (212-213, 216-221)	-	Report the highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics.
G4-47	54-59, 2016 AR (204-206)	-	Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.
G4-48	146	-	Report the highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material aspects are covered.
G4-49	17-18	-	Report the process for communicating critical concerns to the highest governance body.
G4-50	50-51	-	Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.
G4-51	29-30 2016 AR (181)	-	a) Describe remuneration policies for the governing body and senior management. b) Report how performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives.
G4-52	29-30 2016 AR (181)	-	Describe the processes for deciding remuneration. Report whether remuneration consultants are involved in determining remuneration and whether they are independent of management. Report any other relationships which the remuneration consultants have with the organisation.
G4-53	50-51	-	Report how stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable.
G4-54	-	(a)see notes p.165	Report the ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country.
G4-55	-	(a)see notes p.165	Report the ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country.

## ETHICS AND INTEGRITY

G4-56	15, 31	-	Describe the organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.
G4-57	60	-	Report the internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as helplines or advice lines.
G4-58	60, 87-88	-	Report the internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

## Basic Specific Contents

Indicator	Pages	Omissions	Description
<b>CATEGORY: ECONOMY</b>			
<b>MATERIAL ASPECT: ECONOMIC PERFORMANCE</b>			
G4-DMA	47	-	Economic performance.
G4-EC1	47, 68	-	Direct economic value generated and distributed.
G4-EC2	92	-	Financial implications and other risks and opportunities for the organisation's activities due to climate change.
G4-EC3	94-96, 115-117	-	Coverage of the organisation's defined benefit plan obligations.
G4-EC4	118	-	Economic assistance received from government.
<b>MATERIAL ASPECT: MARKET PRESENCE</b>			
G4-DMA	8-9, 16, 47-49	-	Market presence.
G4-EC5	113-114	-	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.
G4-EC6	109	-	Proportion of senior management hired from the local community at significant locations of operation.
<b>MATERIAL ASPECT: INDIRECT ECONOMIC IMPACTS</b>			
G4-DMA	48-49	-	Indirect economic impacts.
G4-EC7	124, 126, 128-132	-	Development and impact of infrastructure investments and services supported.
G4-EC8	47, 92	-	Significant indirect economic impacts, including the extent of impacts.
<b>MATERIAL ASPECT: PROCUREMENT PRACTICES</b>			
G4-DMA	100	-	Procurement practices.
G4-EC9	99	-	Proportion of spending on local suppliers at significant locations of operation.
<b>CATEGORY: ENVIRONMENT</b>			
<b>MATERIAL ASPECT: MATERIALS</b>			
G4-DMA	134-135, 137, 139-140	-	Materials.
G4-EN1	69, 140, 142	-	Materials used by weight or volume.
G4-EN2	140, 142	-	Percentage of materials used that are recycled input materials.
<b>MATERIAL ASPECT: ENERGY</b>			
G4-DMA	134-135, 137-139	-	Energy.
G4-EN3	69, 137-138	-	Energy consumption within the organisation.
G4-EN4	139	-	Energy consumption outside of the organisation.
G4-EN5	139	-	Energy intensity.
G4-EN6	137-139	-	Reductions of energy consumption.
G4-EN7	137-139	-	Reductions in energy requirements of products and services.
<b>MATERIAL ASPECT: WATER</b>			
G4-DMA	-	(*) see notes p.165	Water.
G4-EN8	69, 142	(*) see notes p.165	Total water withdrawal by source.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

## Basic Specific Contents

Indicator	Pages	Omissions	Description
G4-EN9	-	(*) see notes p.165	Water sources significantly affected by withdrawal of water.
G4-EN10	-	(*) see notes p.165	Percentage and total volume of water recycled and reused.
<b>MATERIAL ASPECT: BIODIVERSITY</b>			
G4-DMA	-	(*)see notes p.165	Biodiversity.
G4-EN11	-	(*)see notes p.165	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.
G4-EN12	-	(*)see notes p.165	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
G4-EN13	-	(*)see notes p.165	Habitats protected or restored.
G4-EN14	-	(*)see notes p.165	Total number of IUCn Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.
<b>MATERIAL ASPECT: EMISSIONS</b>			
G4-DMA	134-141	-	Emissions.
G4-EN15	141	-	Direct greenhouse gas (GHG) emissions (scope 1).
G4-EN16	141	-	Energy indirect greenhouse gas (GHG) emissions (scope 2).
G4-EN17	141	-	Other indirect greenhouse gas (GHG) emissions (scope 3).
G4-EN18	69, 141	-	Greenhouse gas (GHG) emissions intensity.
G4-EN19	141	-	Reduction of greenhouse gas (GHG) emissions.
G4-EN20	-	(b)see notes p.165	Emissions of ozone-depleting substances (ODS).
G4-EN21	-	(b)see notes p.165	NOx, SOx, and other significant air emissions.
<b>MATERIAL ASPECT: EFFLUENTS AND WASTE</b>			
G4-DMA	-	(*)see notes p.165	Effluents and waste.
G4-EN22	-	(*)see notes p.165	Total water discharged by quality and destination.
G4-EN23	142	(*)see notes p.165	Total weight of waste by type and disposal method.
G4-EN24	-	(*)see notes p.165	Total number and volume of significant spills.
G4-EN25	-	(*)see notes p.165	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of Annexes I, II, III and VIII of the Basel Convention, and percentage of transported waste shipped internationally.
G4-EN26	-	(*)see notes p.165	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff.
<b>MATERIAL ASPECT: PRODUCTS AND SERVICES</b>			
G4-DMA	137-140	-	Products and services.
G4-EN27	137-142	-	Extent of impact mitigation of environmental impacts of products and services.
G4-EN28	-	(c)see notes p.165	Percentage of products sold and their packaging materials that are reclaimed by product category.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

## Basic Specific Contents

Indicator	Pages	Omissions	Description
<b>MATERIAL ASPECT: REGULATORY COMPLIANCE</b>			
G4-DMA	134	-	Regulatory Compliance.
G4-EN29	134	-	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.
<b>MATERIAL ASPECT: TRANSPORT</b>			
G4-DMA	141	-	Transport.
G4-EN30	141	-	Significant environmental impacts of transporting products and other goods and materials for the organisation's operations, and transporting members of the workforce.
<b>MATERIAL ASPECT: GENERAL</b>			
G4-DMA	136, 142	-	General.
G4-EN31	69, 136, 142	-	Breakdown of environmental investments and expenses.
<b>MATERIAL ASPECT: SUPPLIER ENVIRONMENTAL ASSESSMENT</b>			
G4-DMA	100	-	Supplier environmental assessment.
G4-EN32	100-102	-	Percentage of new suppliers that were screened using environmental criteria.
G4-EN33	101	-	Significant actual and potential negative environmental impacts in the supply chain and actions taken.
<b>MATERIAL ASPECT: ENVIRONMENTAL GRIEVANCE MECHANISMS</b>			
G4-DMA	134	-	Environmental grievance mechanisms
G4-EN34	134	-	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms.
<b>CATEGORY: SOCIAL PERFORMANCE</b>			
<b>LABOUR PRACTICES AND DECENT WORK</b>			
<b>MATERIAL ASPECT: EMPLOYMENT</b>			
G4-DMA	119-123	-	Employment.
G4-LA1	107	-	Total number and rates of new employee hires and employee turnover by age group, gender and region.
G4-LA2	113, 115-117	-	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.
G4-LA3	123-124	-	Return to work and retention rates after parental leave, by gender.
<b>MATERIAL ASPECT: EMPLOYEE-MANAGEMENT RELATIONSHIPS</b>			
G4-DMA	120-121	-	Employee-management relationships.
G4-LA4	121	-	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.
<b>MATERIAL ASPECT: OCCUPATIONAL HEALTH AND SAFETY</b>			
G4-DMA	121-122, 124	-	Occupational health and safety.
G4-LA5	121	-	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.
G4-LA6	123-124	-	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.
G4-LA7	121-124	-	Workers with high incidence or high risk of diseases related to their occupation.
G4-LA8	121	-	Health and safety topics covered in formal agreements with trade unions.



Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

## Basic Specific Contents

Indicator	Pages	Omissions	Description
<b>MATERIAL ASPECT: TRAINING AND EDUCATION</b>			
G4-DMA	110, 118-120	-	Training and education
G4-LA9	118	-	Average hours of training per year per employee by gender, and by employee category.
G4-LA10	118-120	-	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
G4-LA11	110	-	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category.
<b>MATERIAL ASPECT: DIVERSITY AND EQUAL OPPORTUNITIES</b>			
G4-DMA	28, 111	-	Diversity and equal opportunities
G4-LA12	28, 111	-	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.
<b>MATERIAL ASPECT: EQUAL PAY FOR MEN AND WOMEN</b>			
G4-DMA	113-114	-	Equal pay for men and women
G4-LA13	113-114	-	Ratio of basic salary and remuneration of women to men by employee category and by significant locations of operation.
<b>MATERIAL ASPECT: SUPPLIER ASSESSMENT FOR LABOUR PRACTICES</b>			
G4-DMA	100-102	-	Supplier assessment for labour practices
G4-LA14	100-102	-	Percentage of new suppliers that were screened using labour practices criteria.
G4-LA15	101	-	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken.
<b>MATERIAL ASPECT: LABOUR PRACTICES GRIEVANCES MECHANISMS</b>			
G4-DMA	36-38	-	Labour practices grievances mechanisms.
G4-LA16	87	-	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms.
<b>HUMAN RIGHTS</b>			
<b>MATERIAL ASPECT: INVESTMENT</b>			
G4-DMA	90-91	-	Investment.
G4-HR1	90-91	-	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening.
G4-HR2	120	-	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.
<b>MATERIAL ASPECT: NON-DISCRIMINATION</b>			
G4-DMA	110-112	-	Non-discrimination.
G4-HR3	105-106	-	Total number of incidents of discrimination and corrective actions taken.
<b>MATERIAL ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>			
G4-DMA	121	-	Freedom of association and collective bargaining.
G4-HR4	121	-	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk and measures taken to support these rights.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

## Basic Specific Contents

Indicator	Pages	Omissions	Description
<b>MATERIAL ASPECT: CHILD LABOUR</b>			
G4-DMA	-	(*)see notes p.165	Child labour.
G4-HR5	-	(*)see notes p.165	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour.
<b>MATERIAL ASPECT: FORCED LABOUR</b>			
G4-DMA	-	(*)see notes p.165	Forced labour.
G4-HR6	-	(*)see notes p.165	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.
<b>MATERIAL ASPECT: SECURITY MEASURES</b>			
G4-DMA	-	(*)see notes p.165	Security measures.
G4-HR7	120	(*)see notes p.165	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations.
<b>MATERIAL ASPECT: INDIGENOUS POPULATION RIGHTS</b>			
G4-DMA	-	(*)see notes p.165	Indigenous population rights.
G4-HR8	-	(*)see notes p.165	Total number of incidents of violations involving rights of indigenous peoples and actions taken.
<b>MATERIAL ASPECT: EVALUATION</b>			
G4-DMA	98	-	Assessment.
G4-HR9	98	-	Total number and percentage of operations that have been subject to human rights reviews or impact assessments.
<b>MATERIAL ASPECT: SUPPLIER HUMAN RIGHTS ASSESSMENT</b>			
G4-DMA	100	-	Supplier human rights assessment.
G4-HR10	100-102	-	Percentage of new suppliers that were screened using human rights criteria.
G4-HR11	101	-	Significant actual and potential negative human rights impacts in the supply chain and actions taken.
<b>MATERIAL ASPECT: HUMAN RIGHTS GRIEVANCE MECHANISMS</b>			
G4-DMA	36-37	-	Human rights grievance mechanisms.
G4-HR12	87	-	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms.
<b>SOCIETY</b>			
<b>MATERIAL ASPECT: LOCAL COMMUNITIES</b>			
G4-DMA	81-82, 84, 126	-	Local communities.
G4-SO1	128	-	Percentage of operations with implemented local community development, impact evaluation and participation.
G4-SO2	96, 126	-	Operations with significant actual and potential negative impacts on local communities.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

## Basic Specific Contents

Indicator	Pages	Omissions	Description
FS13	66, 81-82, 84	-	Access points in low-populated or economically disadvantaged areas by type.
FS14	82-83	-	Initiatives to improve access to economic services for persons with disabilities.
<b>MATERIAL ASPECT: FIGHT AGAINST CORRUPTION</b>			
G4-DMA	34, 39	-	Fight against Corruption.
G4-SO3	37-38	-	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.
G4-SO4	36, 119	-	Communication and training on anti-corruption policies and procedures.
G4-SO5	36	-	Confirmed incidents of corruption and actions taken.
<b>MATERIAL ASPECT: PUBLIC POLICY</b>			
G4-DMA	79	-	Public policy.
G4-SO6	79	-	Total value of political contributions by country and recipient/beneficiary.
<b>MATERIAL ASPECT: UNFAIR COMPETITION PRACTICES</b>			
G4-DMA	39	-	Unfair competition practices.
G4-SO7	39	-	Number of grievances by unfair competition, monopoly practices and practices preventing free competition, along with their outcomes.
<b>MATERIAL ASPECT: REGULATORY COMPLIANCE</b>			
G4-DMA	36-38	-	Regulatory Compliance.
G4-SO8	39	-	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.
<b>MATERIAL ASPECT: SUPPLIER ASSESSMENT FOR IMPACTS ON SOCIETY</b>			
G4-DMA	100	-	Supplier assessment for impacts on society.
G4-SO9	100-102	-	Percentage of new suppliers that were screened using criteria for impacts on society.
G4-SO10	101	-	Significant negative and potential impacts on society in the supply chain and actions taken.
<b>MATERIAL ASPECT: SOCIAL IMPACT GRIEVANCE MECHANISMS</b>			
G4-DMA	87	-	Social impact grievance mechanisms
G4-SO11	87	(d)see notes p.165	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms.
<b>PRODUCT LIABILITY</b>			
<b>MATERIAL ASPECT: CUSTOMER HEALTH AND SAFETY</b>			
G4-DMA	74-75	-	Customer health and safety.
G4-PR1	75, 87	-	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.
G4-PR2	75	-	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.
<b>MATERIAL ASPECT: LABELLING OF PRODUCTS AND SERVICES</b>			
G4-DMA	101-102	-	Labelling of products and services.

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

### Basic Specific Contents

Indicator	Pages	Omissions	Description
G4-PR3	75, 87	-	Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements.
G4-PR4	75, 87	-	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.
G4-PR5	85-87	-	Results of surveys measuring customer satisfaction.
<b>MATERIAL ASPECT: MARKETING COMMUNICATIONS</b>			
G4-DMA	87	-	Marketing Communications.
G4-PR6	96	-	Sale of banned or disputed products.
G4-PR7	62, 75, 87	-	Total number of incidents of non-compliance with regulations or voluntary codes concerning marketing communications, such as advertising, promotion and sponsorship, by type of outcomes.
<b>MATERIAL ASPECT: CUSTOMER PRIVACY</b>			
G4-DMA	88	-	Customer privacy.
G4-PR8	88	-	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.
<b>MATERIAL ASPECT: REGULATORY COMPLIANCE</b>			
G4-DMA	88	-	Regulatory Compliance.
G4-PR9	75, 87	-	Cost of significant fines for non-compliance with regulations and laws concerning the supply and use of products and services.
<b>SIZE OF THE IMPACT ON PRODUCTS AND SERVICES</b>			
<b>MATERIAL ASPECT: PRODUCT LIST</b>			
G4-DMA	74, 124, 126, 134-136	-	Policies with specific environmental and social components applied to business lines (FS1).
G4-DMA	90-91	-	Procedures for assessing and screening environmental and social risks in business lines (FS2).
G4-DMA	90-91	-	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions (FS3).
G4-DMA	119-120, 144	-	Processes for improving staff competency to implement the environmental and social policies and procedures as applied to business lines (FS4).
G4-DMA	92, 144	-	Interactions with customers/investees/business partners regarding environmental and social risks and opportunities (FS5).
FS6	45-46	-	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/ large) and by sector.
FS7	66, 81, 92-96	-	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.
FS8	66, 92	-	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.
<b>MATERIAL ASPECT: AUDIT</b>			
G4-DMA	-	(e) see notes p.165	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures (FS9).

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	

## Basic Specific Contents

Indicator	Pages	Omissions	Description
<b>MATERIAL ASPECT: ACTIVE OWNERSHIP</b>			
G4-DMA	134-135	-	Voting policies applied to environmental or social dimension for shares over which the reporting organisation holds the right to vote shares or advises on voting (FS12).
FS10	92-95	-	Percentage and number of companies held in the Entity's portfolio with which the reporting organisation has interacted on environmental or Social dimension.
FS11	92, 94-95	-	Percentage of assets subject to positive and negative environmental or social screening.
<b>MATERIAL ASPECT: LABELLING OF PRODUCTS AND SERVICES</b>			
G4-DMA	74-75	-	Policies for the fair design and sale of financial products and services (FS15).
G4-DMA	97-98	-	Initiatives to enhance financial literacy by type of beneficiary (FS16).

## Notes

(\*) Not applicable - Information relates to an immaterial aspect for the organisation.

(a) Confidentiality restrictions - Part of the information concerning claimants of the grievances cannot be revealed due to specific confidentiality issues.

(b) Not applicable - The Group does not emit any substances that destroy the ozone layer, as listed in the annexes to the Montreal Protocol.

(c) Not applicable - The information is irrelevant given the Group's financial activities.

(d) Currently unavailable - The Group will establish the appropriate measures to move forward in the identification of social complaints.

(e) Currently unavailable - The information is not available and the Group will establish procedures to evaluate these risks and the relevant audits.

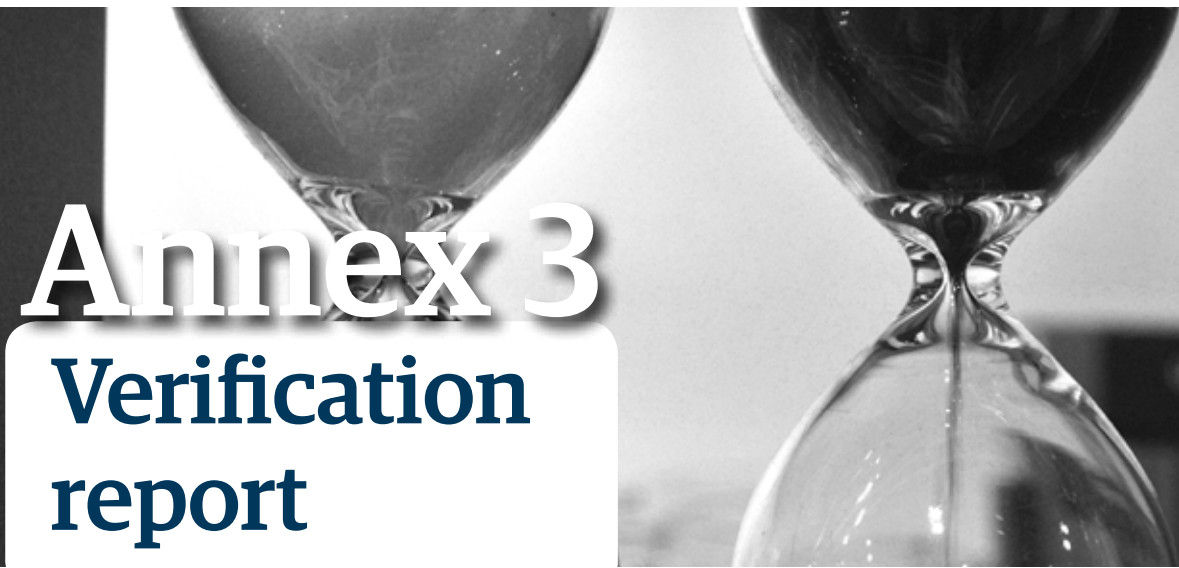
## Publications of interest

2016 Annual Report

## Nomenclature

AR: Annual Report

Chairman's Letter	Banco Popular financial highlights	Awards and recognitions	Main initiatives developed	Performance against 2016 challenges	2017 Challenges
<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	



# Annex 3

## Verification report



Free translation from the original in Spanish. In the event of a discrepancy, the Spanish language version prevails.

**INDEPENDENT LIMITED ASSURANCE REPORT  
ON THE CORPORATE RESPONSIBILITY INDICATORS**

To the Management of Banco Popular S.A.:

We have carried out our work to provide limited assurance on the Corporate Responsibility indicators contained in "Annex 2" of the 2016 Integrated Report (hereinafter "CR Indicators") of Banco Popular S.A. and its corporate group (hereinafter "Popular") for the year ended 31 December 2016, prepared in accordance with the general basic and specific content proposed in the Guidelines for the Preparation of the Sustainability Report of the Global Reporting Initiative (GRI) version G4 (hereinafter GRI G4 Guidelines) and its Financial Services Sector Supplement.

**Responsibility of the Management**

The Management is responsible for the preparation, content and presentation of the Integrated Report and the CR indicators in accordance with the Comprehensive option of the GRI G4 Guidelines and its Financial Services Sector Supplement. Management's responsibility includes establishing, implementing and maintaining the internal control required to ensure that the CR indicators are free from any material misstatement due to fraud or error.

The Management of Popular is also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the CR indicators, is obtained.

**Our responsibility**

Our responsibility is to issue a limited assurance report based on the procedures that we have carried out and the evidence obtained. Our limited assurance engagement was done in accordance with the International Standard on Assurance Engagements 3000 (Reviewed) "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

The scope of a limited assurance engagement is substantially less extensive than the scope of a reasonable assurance engagement and thus, less security is provided.

The procedures that we have carried out are based on our professional judgment and have included consultations, observation of processes, document inspection, analytical procedures and random sampling tests. The general procedures employed are described below:

- Meetings with Popular's personnel from various units who have been involved in the preparation of the Integrated Report.
- Analysis of the procedures used for obtaining and validating the data presented in the CR indicators.

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Inscrita en el R.O.A.C. con el número 50242 - CIF: B-79 031290

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<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	
Structural Dimension	Economic Dimension	Social Dimension	Environmental Dimension	<b>Annexes</b>	



- Analysis of the CR indicators adaptation to the requirements established by the GRI G4 Guidelines for the preparation of reports and to the Financial Services Sector Supplement.
- Verification, through random sampling tests revisions and analytical and substantive tests on the quantitative and qualitative information used to determine Popular's CR indicators. We have also verified whether they have been appropriately compiled from the data provided by Popular's sources of information.

#### **Our Independence and Quality Control**

We have fulfilled our work in accordance with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA), which are based on basic principles of integrity, objectivity, professional competence and diligence, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and thus employs an exhaustive quality control system which includes documented policies and procedures on the compliance of ethical requirements, professional standards, statutory laws and applicable regulations.

#### **Limited assurance conclusion**

As a result of the procedures carried out and the evidence obtained, no matters have come to our attention which may lead us to believe that Popular's CR indicators, for the financial year ending 31<sup>st</sup> December 2016, contain significant errors or have not been prepared, in all of their significant matters, in accordance with the G4 GRI Guidelines and its Financial Services Sector Supplement.

#### **Use and Distribution**

Our report is only issued to the Management of Popular, in accordance with the terms and conditions of our engagement letter. We do not assume any liability to third parties other than Popular's Management.

PricewaterhouseCoopers Auditores S.L.

M<sup>a</sup> Luz Castilla Porquet  
23<sup>rd</sup> February 2016

# Popular

In the event of any doubts, suggestions or opinions, please contact:

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#### Acknowledgements:

We would like to give special thanks to all employees for their participation in sending photographs to illustrate this Report through the photography competition "Take part in the Integrated Report!"