

# 2015

INTEGRATED  
REPORT

**Popular**



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**2015**

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# Chairman's Letter

2015 consolidates the commitment of Popular with the corporate quality reporting: this is the third year in which we present the results and objectives achieved through an Integrated Report, highlighting our business model and our system of corporate governance, elements that comprise the economic, social and environmental performance of our Group.

A performance where respect, commitment and compliance go hand-in-hand with economic growth, is of particular importance to our renewed commitment to the United Nations Global Compact; the guidelines of this initiative establish business principles that we do not and will not forsake.

The experience in banking of over ninety years provides Popular with a learning which is central to the daily work of our organisation and to what we wish to achieve in the medium and long term: this Report reflects all the achievements that Popular has achieved throughout the year thanks to this learning.

These achievements have been able to reinforce a unique business model in the Spanish financial system, based on the attention and care of our customers, mainly small and medium-sized companies. For many years Popular has worked closely with business owners, knowing their requirements and attending to them as swiftly as possible. And this is not something that is achieved only with a good range of products. Proximity, integrity, service quality, rigour, commitment and efficiency are values which define our corporate culture and are reflected in the work of each of the people who comprise our organisation.

In 2015 we have transferred all that knowledge to the segment of individuals, through *Tenemos un Plan (We Have a Plan)*; a comprehensive commercial offering aimed at all of our customers and new individual and self-employed customers which includes both financial and non-financial benefits.

A year in which, aware that the crisis has had a disparate impact among citizens, Popular has maintained its policy of not carrying out the forced eviction of any family whose residence had been judged to be repossessed, always reaching agreements with its occupants. Thus, this year the bank entered into more than one thousand social rent contracts. And we will continue meeting the needs of these particularly vulnerable people, trying to provide a viable solution in every circumstance.

Fulfilling these objectives would not have been possible without a well-balanced management of our economic, human, intellectual and industrial capital. To fully capitalise all of them, in 2015 Popular decided to strengthen its brand with a new image which has already been established and is based on the same pillars which have made it always a banking reference for profitability, solvency and efficiency; but also for its ability to know how to combine business and managerial successes with a respectful and committed action to the environment.



**Ángel Ron**  
Chairman

# Banco Popular financial highlights

Total assets managed

**179,431,235**

thousand euros

Profit before taxes

**114,184**

thousand euros

Profit before provisions

**1,689,471**

thousand euros

Economic value generated

**3,470,288**

thousand euros

Data in thousand euros	31.12.2015*	31.12.2014	VAR %
<b>ECONOMIC DIMENSION</b>			
<b>BUSINESS VOLUME</b>			
Total assets managed	179,431,235	179,170,945	0.1
Total on-balance sheet assets	158,649,873	161,456,478	(1.7)
Own funds	12,719,992	12,783,396	(0.5)
Customer funds	85,420,921	82,904,641	3.0
Gross lending to customers	107,085,210	108,379,386	(1.2)
<b>SOLVENCY</b>			
Total capital ratio (%)	13.83	11.96	
Tier 1 ratio (%)	13.11	11.50	
CET 1 ratio (%)	13.11	11.50	
Fully loaded Basel III leverage ratio (%) <sup>(1)</sup>	6.07	5.54	
<b>RISK MANAGEMENT</b>			
Total risks	142,582,977	146,378,216	(2.6)
Non-performing loans	18,339,525	20,172,032	(9.1)
Credit loss allowances	7,793,422	8,357,863	(6.8)
Non-performing loans ratio (%)	12.86	13.78	
% coverage ratio of non-performing and not written-off balances	42.50	41.43	
% coverage ratio with guarantees <sup>(2)</sup>	103.17	99.62	
<b>EARNINGS</b>			
Net interest income	2,251,236	2,331,391	(3.4)
Gross income	3,430,911	3,876,033	(11.5)
Net operating income (pre-provision profit)	1,689,471	2,005,218	(15.8)
Profit/(loss) before tax	114,184	372,991	(69.4)
Profit attributable to the parent society	105,432	330,415	(68.1)
<b>PROFITABILITY AND EFFICIENCY</b>			
RORWA (%)	0.13	0.40	
ROA (%)	0.07	0.21	
ROTE (%)	1.17	3.61	
Operating efficiency (%)	46.74	44.54	
<b>CORPORATE GOVERNANCE</b>			
Number of Directors (%)	14	15	(7)
Executive Directors (%)	21	20	
Proprietary Directors (%)	43	47	
Independent Directors (%)	36	33	
Women on the Board of Directors (%)	21	20	

\* The Groups' consolidated financial statements at 31 December 2015 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 2014 Annual Report.

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

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

(3) Calculated using the average number of diluted shares.

(4) The decrease in the customers figure is attributable to structural changes undertaken in the Group in 2015, which has called for the implementation of a number of accounting adjustments. Among them, eliminating customers due to inactivity.



Gross lending  
to customers**107,085,210**

thousand euros

CET 1 ratio (%)

**13.11**Gross  
income**3,430,911**

thousand euros

RORWA (%)

**0.13**

Data in thousand euros	31.12.2015*	31.12.2014	VAR %
<b>ECONOMIC DIMENSION</b>			
<b>SHAREHOLDERS</b>			
Number of shareholders	270,114	272,237	(0.8)
Market capitalisation	6,588,323	8,906,090	(26.0)
Number of diluted shares	2,165,075	2,140,887	1.1
Earnings per share (euros)	0.049	0.157	(68.7)
Share book value (euros) <sup>(3)</sup>	5.88	5.98	(1.7)
Price/Earnings (annualised)	61.87	26.48	
Price/Book value	0.52	0.70	
<b>CUSTOMERS</b>			
Customer numbers <sup>(4)</sup>	4,757,748	5,515,122	(13.7)
Overall satisfaction index <sup>(5)</sup>	9	9	
Market share of credit (%)	7.6	7.4	
Credit share of companies (%)	12.18	11.95	
<b>SUPPLIERS</b>			
New suppliers evaluated using ESG criteria (%) <sup>(6)</sup>	100	100	
Supplier satisfaction index	8.3	8.4	
<b>SOCIAL DIMENSION</b>			
<b>EMPLOYEES</b>			
Employees <sup>(7)</sup>	15,079	15,321	(1.6)
Female employees (%) <sup>(7)</sup>	38	37	
Female executives (%) <sup>(8)</sup>	19	18	
Number of employees promoted <sup>(8)</sup>	971	1,242	(21.8)
Hours of training per employee <sup>(8)</sup>	36	28.15	
Turnover rate (%) <sup>(8)</sup>	0.36	1.25	
Absenteeism - GRI G4-LA6	3.1	2.96	
Investment in <i>Plan Concilia</i>	2,874	3,374	(14.8)
<b>COMMITMENT TO SOCIETY</b>			
Social investment	13,330	8,505	56.7
Economic value generated - GRI G4-EC1 <sup>(8)</sup>	3,470,288	4,322,085	(19.7)
<b>ENVIRONMENTAL DIMENSION</b>			
<b>ENVIRONMENTAL MANAGEMENT</b>			
Consumption of electricity (GJ/employee) <sup>(9)</sup>	20.02	21.9	(8.6)
Consumption of paper (tonnes/employee) <sup>(10)</sup>	0.09	0.10	
Consumption of water (m <sup>3</sup> /employee) <sup>(9)</sup>	9.34	9.3	0.4
CO <sub>2</sub> emitted (tonnes/employee) <sup>(9)</sup>	0.88	0.91	(3.2)
<b>ENVIRONMENTAL COMMITMENT</b>			
Environmental investment <sup>(10)</sup>	13.3	7.58	75.4

(5) 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.

(6) ESG: Environmental, Social and Good Governance

(7) These data correspond to employees of the Bank's Financial Group (14,760) and listed companies (319), excluding those belonging to Investees. For further details on the scope, please consult Appendix 2. Social dimension.

(8) These data apply to employees in Spain. For further details on the scope, please consult Appendix 2. Social dimension.

(9) These data apply to Spain and Portugal. For further details on the scope, please consult Appendix 3. Environmental dimension

(10) These data apply to Spain. For further details on the scope, please consult Appendix 3. Environmental dimension

Note: For further information regarding results, please refer to the 2015 Annual Report.

**1st** Bank  
by SME market share (\*)

(\*) Source: European Banking Authority  
Transparency exercise, data to June 2015

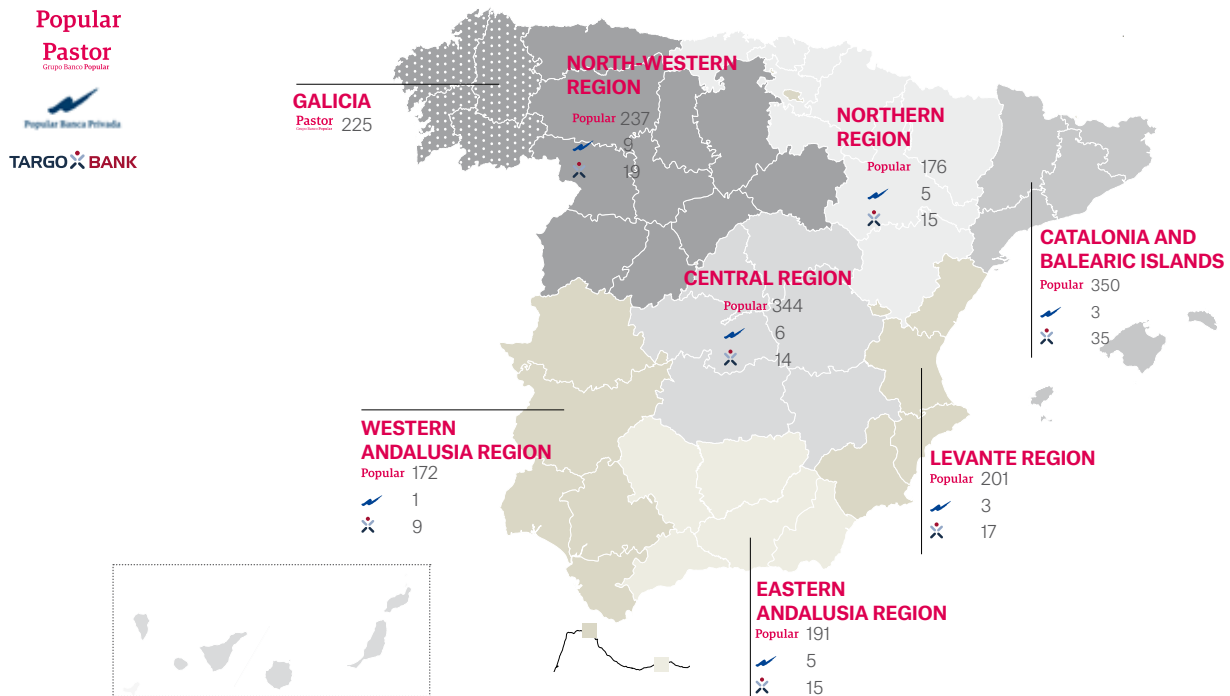
**1** parent bank  
Banco Popular Español

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

(\*) Percentage shareholding

**1** financial group  
Ve por Más  
(25%)\*

Banco Popular Group's national presence – 2015



- The division of the various Regional Offices applies only to the offices of Banco Popular. This same division has been used for the remaining entities, although their offices do not report to the Territorial Directorates under which they are grouped.
- All of the branches of Banco Pastor are exclusively located in the Autonomous Region of Galicia.
- The Canary Islands belong to the Central Region, while Ceuta and Melilla belong to Western and Eastern Andalusia respectively.
- The map shows the total number of branches for Popular, Banco Pastor and Popular Banca Privada which combined amounted to 1,928. Also it includes 124 branches which Targobank, an investee company 48.98% owned by Banco Popular, has in Spain but excludes those related to factoring (3), corporate banking (3) and special offices (2).

Awards and recognitions

- **Ángel Ron, chosen “Financier of the 2015 Year”** from the ECOFIN Forum, in recognition of the Banco Popular Chairman’s management during the crisis, as well as the support that the Entity has given during this period to SMEs and self-employed people.
- **Banco Popular, awarded “Best Support to SMEs”** sponsored by the magazine *Inversión y Finanzas* in recognition of the support offered by the Entity to SMEs and self-employed people throughout the crisis.
- **Allianz Popular, recognised as “Best Spanish medium sized asset manager” for the second consecutive year** at the European Funds Trophy 2015, organised by the european investment fund analysis society, Fundclass, together with the newspapers *La Stampa*, *Le Jeudi*, *Tageblatt*, *LCI* and *El País*.
- **Banco Popular recognised for its work in labour risk prevention** at the *Premios Xcellens* where *ASPY Prevención* recognises those companies that search for excellence in healthy working and risk prevention.



# 15,079

employees<sup>(1)</sup>

13,480 in Spain

1,599 abroad

# 4.8

million

clients in 16 countries:

Europe, Asia, America and Africa

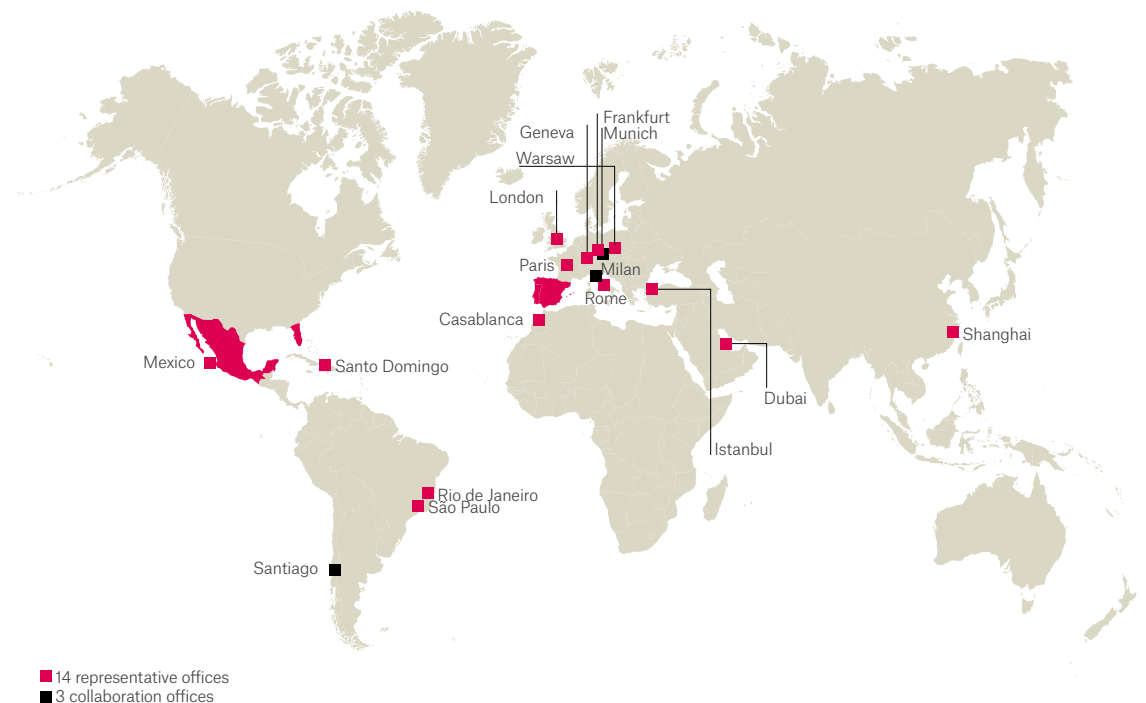
# 2,124

offices<sup>(2)</sup>

1,936 in Spain

188 abroad

## Banco Popular Group's international presence – 2015



(1) These figures do not include the employees that Targobank, an investee company 48.98% owned by Banco Popular, and bancopopular-e (49% owned), has in Spain.

(2) These figures do not include the branches that Targobank has in Spain. Neither does it include those of bancopopular-e given that it does not have a physical branch office network.

- **Banco Popular, honourable mention in the “Madrid Flexible Company Award in the large company category”,** awarded by the Community of Madrid through the General Directorate of Women from the Department of Social Policy and Family, which recognises companies which have implemented measures to promote professional and personal flexibility in order to increase their competitiveness and to retain their talent.
- **Renewal of the “Equality in the Company” distinction,** awarded by the Ministry of Health, Social Services and Equality, in recognition of Banco Popular's commitment to gender equality.
- **Banco Popular awarded for its social commitment,** awarded by *Fundación Konecta* which recognised the Entity's performance in this field and its commitment to the mission and objectives of the Foundation.
- **Banco Popular Portugal, awarded “Best Internal Communication Practices”** by the magazine *Recursos Humanos Portugal*, recognising the work done internally by the Entity to promote the flow of information amongst all its employees.



# Performance against 2015 challenges

	2015 Challenges	Qualitative Description
Structural	Application of new requirements of external regulators	New requirements set out by external regulators have been applied; worth particular mention are those related to the New Code of Good Governance.
	Include ESG criteria in the remuneration policy of the Board of Directors and Senior Management	ESG criteria have been included in the remuneration policy of the Board of Directors and Senior Management Also, this policy has been extended to the variable remuneration of all employees entitled to it and belonging to Banco Popular, Banco Pastor and Popular Banca Privada.
	Development of strategic alliances to strengthen business development	<ul style="list-style-type: none"> <li>Agreement signed between Popular Payments and UnionPay International which allows customers of the latter to accept payments on their POS with cards of the Asian issuer.</li> <li>Sale of 50% stake in UniversalPay, Entidad de Pago S.L.</li> <li>Sale of property assets business and other assets in Portugal to Recbus S.A. to allow profitability in the management of the real estate business in Portugal.</li> </ul>
	Deepening of the policy of proximity to shareholders and investors	<ul style="list-style-type: none"> <li>Compliance with the <i>Corporate Responsibility Action Plan – Shareholders 2014-2016</i> objectives in 2015.</li> <li>Improving the benefits aimed at shareholders linked to the Shareholders Club.</li> </ul>
Economic	Maintaining a healthy balance sheet: <ul style="list-style-type: none"> <li>Strong capital base</li> <li>Control over non-performing loans and the strength of their coverage</li> <li>Stable liquidity</li> </ul>	<ul style="list-style-type: none"> <li>Prudent management and capital allocation improving 161 basis points in the year. Carrying out scrip dividend.</li> <li>Segmentation and optimisation of the risk management framework with a view to minimising non-performing balances. Adaptation of procedures and procedures to regulatory changes regarding insolvency.</li> <li>An extraordinary provision was made in the final quarter of 2015 to cover a possible legal risk resulting from the potential removal of floor clauses retroactively from May 2013.</li> <li>Maintaining a loan to deposit ratio of around 110% and a conservative profile as regards liability maturity, maintaining liquidity buffers that can be applied in times of stress.</li> </ul>
	Adapt commercial offers for individual customers to the new business conditions	A new sales strategy named <i>Tenemos un Plan</i> has been developed. Aimed at individual clients, non-clients and SMEs, its objective is to move these groups to the Entity's SMEs management model.
	Deepening of economic personalisation for SMEs and self-employed persons	<ul style="list-style-type: none"> <li>Agreement signed with various national and international institutions to promote financing of the business sector.</li> <li>Establishment of a microcredits portfolio named Microcredits "Betting on you" aimed at promoting entrepreneurship and self-employment of micro enterprises and self-employed people.</li> </ul>
	Empowerment of Socially Responsible Investment products in the Entity's portfolio	Beginning the marking of a new investment fund named EURVALOR COMPROMISO ISR, FI whose portfolio is composed, in its entirety, of Socially Responsible Investment funds.
	Definition of the investment and funding policy using ESG criteria	The definition of the Responsible Investment and Financing Policy has begun and it will affect various areas of the Entity and will include ESG criteria. Allianz Popular, an investment fund manager marketed by Banco Popular, has implemented, following the directions of Allianz SE, an investment policy which includes social, environmental and good governance criteria.
	Minimising the risks from Banco Popular's supply chain in Spain	The Risk Management Model of the Supply Chain has been implemented. This Model allows suppliers who develop an activity in line with the Group's Corporate Responsibility strategy to be identified, as well as knowing the risk level of suppliers in order to establish timely mitigation mechanisms. Accordingly, 246 suppliers have been evaluated which represents 65.59% of the total sales volume of the Group.
Social	Personnel Management Model update	Throughout this year the Personnel Management Model has been updated through the execution of diagnostic phases and its development.
	Development of the <i>Transversal Corporate Responsibility Training Plan 2014-2016</i>	The Plan has been renewed in order to ensure that all its human resources, including Directors, are trained on the content and progress of the CR Master Plan <i>Horizon 2020</i> , engaging and being an active part of its development.
	Fostering of entrepreneurship and labour inclusion of groups at risk of exclusion	<ul style="list-style-type: none"> <li>Development of the fourth edition of <i>Planes y Proyectos Impulso</i> (Impulse Plans and Projects).</li> <li>Support for the inclusion into work of groups at risk of exclusion through microcredits: Paraguay and Guatemala.</li> </ul>
	Promotion of training and economic education of groups at risk of exclusion	<ul style="list-style-type: none"> <li>Training in economic education for groups with low levels of "bancarisation".</li> <li>Increase of 19.3% in the discounts under the Academic Excellence Loan Programme.</li> </ul>
Environmental	Implementation of the actions established in the <i>Eco-efficiency Plan</i>	All the actions established for the year in the <i>Eco-efficiency Plan</i> have been initiated, fulfilling the objectives, deadlines and planned investments for all of them. A system of monitoring and control of the Plan's key indicators has been implemented.
	Offset the direct emissions deriving from Banco Popular's activities in Spain	For the third consecutive year, Banco Popular has offset 100% of the direct CO <sub>2</sub> emissions generated by its activity in Spain.

# 2016 Challenges

	2016 Challenges	Planned date	Association with strategic line
Structural	Application of new requirements of external regulators	2016-2017	1 Make good Governance and regulatory compliance a priority
	Development of a new documentation platform for the Board of Directors	2016	
	Promotion of strategic alliances to strengthen business development	2016	6 Leverage opportunities for diversification and specialisation
	Deepening into the policy of approximation to shareholders and investors	2016	9 Encourage the creation of shared value
Economic	Maintaining a healthy balance sheet: <ul style="list-style-type: none"> <li>Strong capital base</li> <li>Control over non-performing loans and the strength of their coverage</li> <li>Stable liquidity</li> </ul>	2016	2 Reinforce economic strength
	Adapt commercial offers for individual customers to the new business conditions	2016	3 Be a customer's bank 5 Strengthen the business with private individuals and families
	Deepening of economic personalisation for SMEs and self-employed persons	2016	3 Be a customer's bank 4 Continue to be the bank of reference for SMEs and self-employed persons
	Empowerment of products with special social and environmental benefits	2016-2018	7 Ensure the responsible development of the activity
	Definition of the investment and funding policy using ESG criteria	2016	
	Minimising the risks from Banco Popular's supply chain in Spain	2016	
Social	Implementation of the Personnel Management Model	2016	8 Develop human capital
	Development of the <i>Transversal Corporate Responsibility Training Plan 2014-2016</i>	2016	
	Empowerment of the presence of women in management positions	2016	
	Fostering entrepreneurship and labour inclusion of groups at risk of exclusion	2016-2017	9 Encourage the creation of shared value
	Promotion of training and economic education of groups at risk of exclusion	2016-2017	
	Progress in measuring the impact of projects financed with the help of Banco Popular	2016	
Environmental	Implementation of the actions established in the <i>Eco-efficiency Plan</i>	2016-2017	10 Promote eco-efficient behaviour
	Offset the direct emissions deriving from Banco Popular's activities in Spain	2016	

# Banco Popular Group

Banco Popular Group, a supplier of financial and product services is the first Bank in terms of SMEs. Its business model focuses on the retail market in which commercial banking and, in particular, corporate banking account for a large part of operating income.

Banco Popular channels its business through almost 2,000 branches in Spain, nearly 200 abroad and more than 15,000 employees, who form a fundamental part of a business model that is characterised by its focus on customers and the high quality of the service provided. For decades Banco Popular has consolidated its position as a bank of reference for Spanish SMEs.

## 1.1. Vision, mission and values

Reference Entity  
for Spanish  
SMEs

Banco Popular considers that companies are major agents in the socio-economic transformation of the environment in which they operate, not only for what they do, but also how they do it. From this point of view, financial institutions are considered to be an important factor in making the Spanish economy more dynamic, due to the function they perform, but also through their business models.

Based on this conviction and on its corporate culture, Banco Popular aims to be a customers' bank, specialised in SMEs, able to provide solutions tailored to every need. To carry out this vision, it sees its mission as being an economic group characterized by its excellence, integrity and responsibility, in the provision of financial services and in the creation of added value for its shareholders.

Maintaining its focus on service quality, profitability and efficiency, Banco Popular conducts its business with the utmost respect for the corporate values and management principles which allow it to continue to enjoy the confidence of its stakeholders. Banco Popular Group comprises Banco Popular, its subsidiaries and all stakeholders that contribute to its progress. 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 part of its structure.

### Banco Popular Group's corporate culture

#### VISION

- To be a customers' bank, specialising in SMEs, able to provide solutions tailored to every need.

#### MISSION

- To be an economic group characterized by its excellence, integrity and responsibility, in the provision of financial services and in the creation of added value for its shareholders.

#### VALUES

- Proximity
- Integrity
- Quality of service
- Rigour
- Commitment
- Efficiency

## 1.2. Structure

### 1.2.1. Operating structure: banks and operating societies

The business strategy of the Banco Popular Group is aimed at SMEs, groups and families with a business model focused on the customer.

The Group is formed by a parent bank (Banco Popular Español) and six banks, four of which operate in Spain (Banco Pastor, Popular Banca Privada, Targobank and bancopopular-e, the latter two with stakes of 48.98% and 49% respectively), one in Portugal (Banco Popular Portugal), one in the United States (Totalbank) and a finance group in Mexico (Ve por Más, hereinafter also referred to as BX+) with a 25% stake.

Furthermore, the Group has securitisation vehicles, real estate companies and two insurance companies (Pastor Vida and Eurovida Portugal). In addition, it has other subsidiary companies and maintains shareholdings in other companies which complement the banking business.

At 31 December 2015, Banco Popular had a total of 14 representation offices and 3 collaboration offices in 16 countries and maintains agreements with different financial institutions with the aim of promoting external trade.

## Main agreements to promote business development

### Agreement between Popular Payments and UnionPay International

Popular Payments has signed an strategic agreement with the Chinese Company UnionPay International which will allow its clients to accept payments in its POS with the Asian issuer's cards.

Through this partnership, businesses from the Popular Payments network, a joint venture between Banco Popular and Evo Payments International, specialised in solutions for physical and digital payment, can perform transactions with UnionPay cards, used mostly by oriental tourists and foreign residents in Spain.

### Sale of 50% shareholding in UniversalPay, Entidad de Pago S.L.

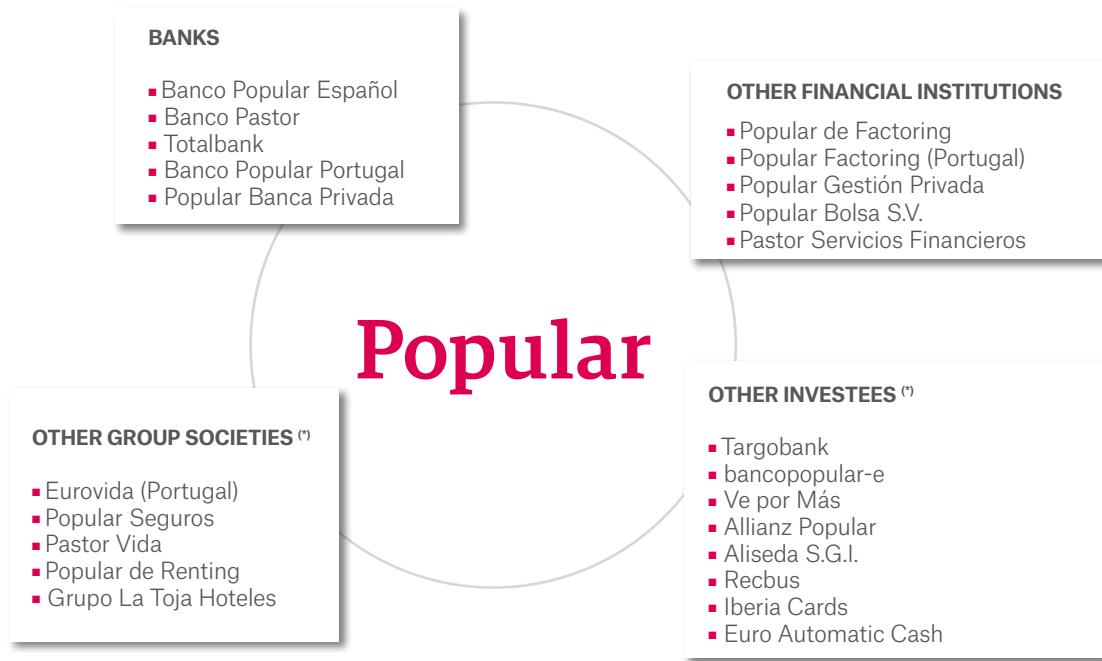
UniversalPay is a company created in October 2013 as a result of the agreement between the Banco Popular Group and Evo Payments International in December 2012 to sell the acquirer business.

In December 2015, Banco Popular Group agreed to sell its 50% of UniversalPay, Entidad de Pago, S.L. to EVO Payments International.

In this company Popular maintained its shareholding of 50% that it has agreed to sell, while Evo Payments International already owns the other 50% and has control of the company.

As a result of this agreement, UniversalPay no longer belongs to the Group as 100% control has been passed to the new buyer.

Structure of Banco Popular Group by society – 2015



(\*) Main societies



### Sale of the property assets business management and other assets in Portugal

On 9 June 2015, Banco Popular Portugal and Consulteam, investee companies 100% owned by the Banco Popular Group, agreed to sell the property assets business management unit and debt related to the real estate to Recbus - Recovery to business, S.A. company, which will develop this business and in which Quarteira, S.a.R.L., holds a majority stake of 80% and Banco Popular Español has a 20% stake.

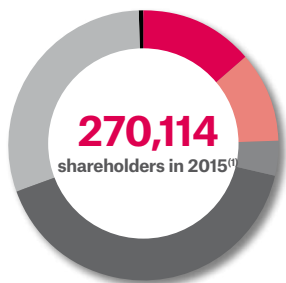
With this transaction, the Group has two objectives: first, to maximise profitability of the real estate management business in Portugal, taking advantage of the knowledge and expertise of a partner specialised in optimising the management of property assets, the recovery of defaults and the management of impaired assets; and on the other hand, separating the management of this business allows Banco Popular Portugal to focus on traditional commercial banking activity, aimed at savings management and financial services to individuals, families and businesses and, in particular, to SMEs.



## 1.2.2. Shareholding structure

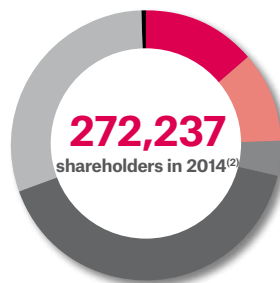
At 31 December 2015, the Group had 270,114 shareholders, compared with 272,237 in 2014.

### Shareholder composition – 2014/2015



Resident Board of Directors	13.52%
Non-resident Board of Directors	10.56%
Resident Institutional	3.69%
Non-resident Institutional	43.52%
Resident Retail	28.41%
Resident Non-retail	0.30%

(1) The figure for the Board of Directors includes the 4.116% of the group of Mexican shareholders, represented by Mr. Antonio del Valle: 3.349% of Allianz Group, represented by Mr. Vicente Tardío and 0.0194% corresponds to various families, usually represented by several Directors.



Resident Board of Directors	13.79%
Non-resident Board of Directors	10.77%
Resident Institutional	4.12%
Non-resident Institutional	40.77%
Resident Retail	30.24%
Resident Non-retail	0.31%

(2) The figure for the Board of Directors includes the 4.120% of the group of Mexican shareholders represented by Antonio del Valle; 4.026% of Grupo Crédito Mutuel, represented by Alain Fradin; 3.452% of Allianz Group, represented by Vicente Tardío and 0.232% which corresponds to the shareholding of various families, usually represented by several Directors.

The Bank's Board of managers controls 521.5 million shares, 24.08% of the share capital, including shares owned directly or indirectly by the Directors and those usually represented by them. A total of 11,603 shareholders are also employees of the Group, representing 4.30% of the total number of shareholders, and in aggregate own 1.10% of the capital share.

## General Shareholders' Meeting: prime example of the proximity to 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 Shareholder 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, Banco Popular makes a specific section of the corporate website available to shareholders and investors. It contains relevant information regarding the Group (economic information, presentations and Shareholder Reports, among others) and online access to the broadcast of quarterly results and Shareholders' Meetings.



## Minority shareholders

Through the Shareholders' Office, the Bank shares its strategy and strengths with these stakeholders. Its main purpose is to ensure a proper dialogue channel through which to provide information on the Entity on a regular, consistent and transparent manner. To do this, telephone service attention and email is 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. In 2015 the most frequent shareholders questions raised by these stakeholders involved the Bank's performance and dividends.

## Institutional shareholders

The Investor Relations Office is primarily engaged in channelling relations with both institutional investors and economic analysts. It is therefore responsible for generating confidence in the investment community through the development of an appropriate communications strategy. Accordingly, it is in constant contact with economic analysts and domestic and foreign institutional investors.

This contact takes the form of conferences, road shows and meetings, strengthening market interest in the Bank and communicating the feedback obtained internally. In 2015 the office participated in 17 conferences and 8 road shows in European, US and Asian cities. Furthermore, numerous meetings were called and held with more than 567 investors and the 20 analysts who cover Banco Popular shares.



## Proximity initiatives for shareholders

Banco Popular develops different proximity initiatives for shareholders amongst which the following are highlighted:



### 2014-2016 CR-Shareholders Action Plan

In 2014 this Plan was signed within the framework of *Horizon 2020*. It is a document which establishes the objectives and actions to be rolled out in 2014-2016 to continue the improvement of management with one of the main stakeholders as well as allowing them to participate in the CR strategy followed by the Group.

### Shareholders' Club

An exclusive space that Popular has created for its shareholders through which they can access to non-financial benefits enabling them to enjoy the best cultural offerings, attractive promotions for their free time and preferential conditions from some of the main health, home, travel, etc. companies.

Additionally, members of the Club have available a series of financial offerings with preferential conditions which they can take advantage by being shareholders of Banco Popular. The access is through the Group's corporate website: [www.grupobancopopular.com](http://www.grupobancopopular.com) in the Shareholders and Investors section where the Club's membership requirements can be consulted.

### Impulse Plans and Projects

In 2015 the Bank held the fourth 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 disabilities.

Through the Impulse Plans, financing was provided for training plans developed by the Randstad Foundation, 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. In 2015 the three winning entities and their respective projects were as follows:

- AMPANS Foundation "Social and labour integration within the municipality".
- Confederación Gallega de Personas con Discapacidad C.O.G.A.M.I. "Preparing young people for employment".
- Down Galicia "Promoting professional talent: labour integration of people with Down Syndrome and/or intellectual disabilities".



## 1.3. Banco Popular shares

### 1.3.1. Evolution of Banco Popular Shares

2015 ended with a mixed balance in the equity markets on both sides of the Atlantic. At European level, it highlights the behaviour of the Italian and German markets, which rose 12.66% and 9.56%, respectively. The Euro-Stoxx also closed positively, increasing 3.85%, as did the Stoxx-50 by 3.21%. In negative territory, though, were the UK index and the Spanish Ibex-35, which fell 4.93% and 7.15%, respectively. Meanwhile, the Nasdaq rose 5.73%, while the SPX-500 was down slightly by 0.73% and the Dow Jones was down 2.23%. With regard to Asian markets, Japan's Nikkei rose 9.07%, while the Hang Seng was down 7.16%.

Factors which affected markets throughout this year have been mixed. It should be noted that in the first half of the year Greece, until the signing of a third bailout for the country, made the news for both political and economic uncertainties.

With regard to the second half of the year, the focus was on the signs of economic slowdown in the emerging countries, the consequent impact on the evolution of oil prices, marking a 7-year low in December and the possible impact on economic growth worldwide.

Another factor that affected the behaviour of the indices was the monetary policy measures, established internationally. At the end of the year, the European Central Bank took the decision to lower deposit rates and to extend the asset purchase programme, a fact that was not picked up positively by the market and did not beat expectations. For its part, the American Federal Reserve may decide to raise US interest rates, based on the positive macro developments.

In this environment, the European financial sector, SX7P, closed 2015 with a loss of 3.25%; the average for Spanish banks experienced a decrease of 18.88% in the period.

Meanwhile, Popular closed the year with a price of 3.043 euros per share, representing a fall of 26.85%.



Throughout 2015 there were several events that impacted capital, as is shown in the table set out below:

#### Share capital – 2015

Date <sup>(1)</sup>	Transaction		Share Capital
	Type	No. of shares	No. of shares
<b>31/12/2014</b>			<b>2,100,768,976</b>
23/01/2015	Notes conversion (MCN IV/2012)	3,866,975	2,104,635,951
05/02/2015	3rd Interim dividend 2014	7,502,133	2,112,138,084
17/03/2015	Notes conversion (MCN II/2012)	29,620	2,112,167,704
06/05/2015	4th Final dividend 2014	6,622,974	2,118,790,678
22/06/2015	Notes conversion (MCN II/2012)	538,174	2,119,328,852
21/09/2015	Notes conversion (MCN II/2012)	74,657	2,119,403,509
02/10/2015	2nd Interim dividend 2015	9,658,743	2,129,062,252
07/12/2015	Notes conversion (MCN II/2012)	36,013,245	2,165,075,497
<b>31/12/2015</b>			<b>2,165,075,497</b>

(1) Dates when shares were registered.

## Dividends

Banco Popular's Board of Directors agreed, during 2015, the following distribution of dividends:

#### Paid dividends at 2014 (amounts in euros)

Type	Payment date	Ex coupon date	Exchange ratio	Gross amount	Net amount
3rd Interim	29/01/2015	09/01/2015	1x236	0.01800	0.01440
4th Final	06/05/2015	15/04/2015	1x263	0.01800	0.01440

#### Paid dividends at 2015 (amounts in euros)

Type	Payment date	Ex coupon date	Exchange ratio	Gross amount	Net amount
1st Interim	16/07/2015	15/07/2015	Not applicable	0.02000	0.01610
2nd Interim	30/09/2015	10/09/2015	1x181	0.02000	0.01610

The first interim dividend for 2015 was paid in cash. The remainder of dividends were made under the programme "Dividendo Banco Popular: Un dividendo a su medida" (Banco Popular dividend: A custom dividend) offers shareholders the option of receiving newly issued shares or an amount in cash equal to the interim dividend of each corresponding period.

At the beginning of 2016 the payment of a third interim dividend for 2015 was announced with the following characteristics.

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

### 1.3.2. Banco Popular's rating

If 2014 was characterised by the stability of ratings of financial institutions, 2015 has given way to a cautious improvement in vision by the rating agencies in the fundamentals of credit banking. Among the factors, according to the aforementioned ratings, underpinning this development that stand out are, on one hand, the strength of the economic recovery and improved growth prospects; and on the other, the regulatory developments which have resulted in stricter requirements and a strengthened supervisory process.

Throughout 2015 the agencies, like the bulk of economic agents, have progressively improved their growth forecasts for the Spanish economy to place them at the head of the Eurozone and developed countries. Thus, effective economic policy measures in response to the crisis, the structural reforms undertaken and the ECB's monetary policy have improved financing conditions and the return of confidence, laying the foundations for a sustained economic recovery. In 2015 the successive revisions of Spain's rating were closed with a net positive balance summarised in several confirmations, an increase in rating and a positive outlook on the ratings from two of the four main agencies.

The rate of correction in asset quality has accelerated, fuelled by the favourable macroeconomic environment. The agencies note that Spanish banks show some cushions to absorb losses after adequate sanitation of their balance sheets, recapitalisations and an increase in provisions in recent years. Nevertheless, the environment of low interest rates, deleveraging, competitive pressure on asset prices and the high volume of non-performing assets will weigh on banks' returns and focus the attention of ratings agencies over the coming quarters. Finally, the ratings and outlook also incorporate the fact that the activity of financial institutions has been directly impacted by the new supervisory mechanism and increasing regulatory requirements.

Although the ratings agencies agree in highlighting the benefits of the new regulation and its contribution to strengthening financial stability mainly by improving solvency, funding and liquidity position and greater transparency with regard to the quality of assets, they also consider that creditor banks are now more exposed to possible losses and will not enjoy the support of Governments. In this regard, the revision of the sovereign support which was included in the ratings of financial institutions has dominated the agencies' agenda in 2015.

2015 marked a turning point with regard to the evolution of Banco Popular's ratings. In this period there has been an improvement in vision by the agencies of Popular's fundamentals which has contributed towards eliminating pre-existing pressures associated with factors intrinsic to the Entity. Thus, if at the end of 2014 the ratings still looked threatened by negative outlook from the four agencies, a year later improved results have translated into an improvement of the ratings of individual strength; a positive outlook from two agencies and a stable outlook from the other two.

Ratings assigned to Banco Popular by the various *rating* agencies – 2015

	Long-term	Short-term	Perspective
DBRS	BBB (high)	R1 (low)	Stable
Fitch	BB -	B	Positive
Moody's	Ba1	NP	Stable
Standard & Poor's	B+	B	Positive

## 1.4. Our operating environment

Below is an overview of Banco Popular's operating environment from an economic, 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. As regards economic information, further details can be found in the *2015 Annual Report*.

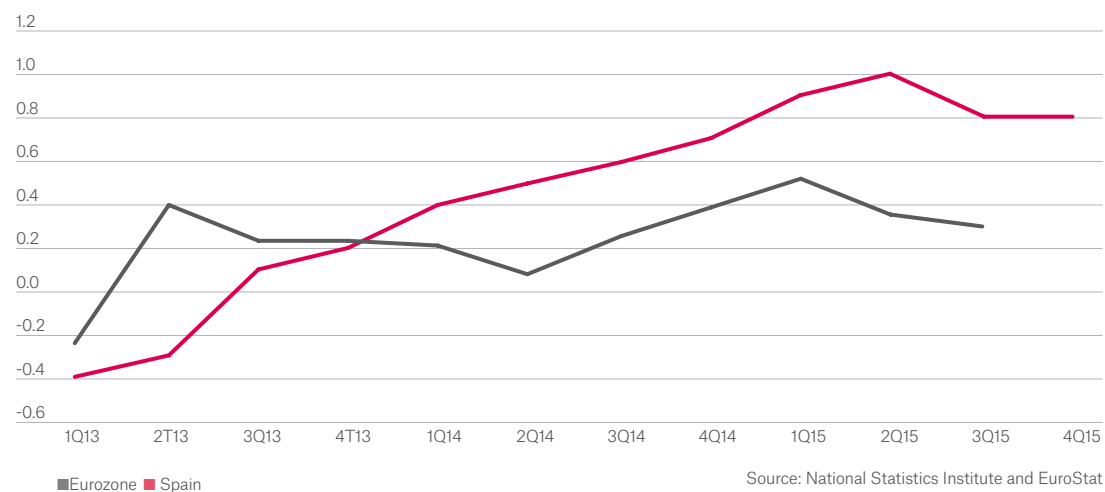
### 1.4.1. Economic and financial environment

#### Production

GDP has shown significant growth in 2015, with quarterly GDP growth of 0.9% in the first quarter, 1.0% in the second quarter and 0.8% in the third and fourth quarters. Overall, GDP grew by 3.2% in 2015, 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. Thus, the contribution of net external demand to the quarterly GDP annual growth was -0.5% in the third quarter, four tenths lower than that recorded in the previous quarter (-0.1 points).

Eurozone growth remains positive, but is below the historical trend. Specifically, GDP grew by 0.5% in the first quarter, 0.4% in the second quarter, 0.3% in the third quarter and it registered an estimated growth of 0.4% in the fourth quarter. Overall GDP grew by 1.6% in 2015, according to recent estimates by the European Commission.

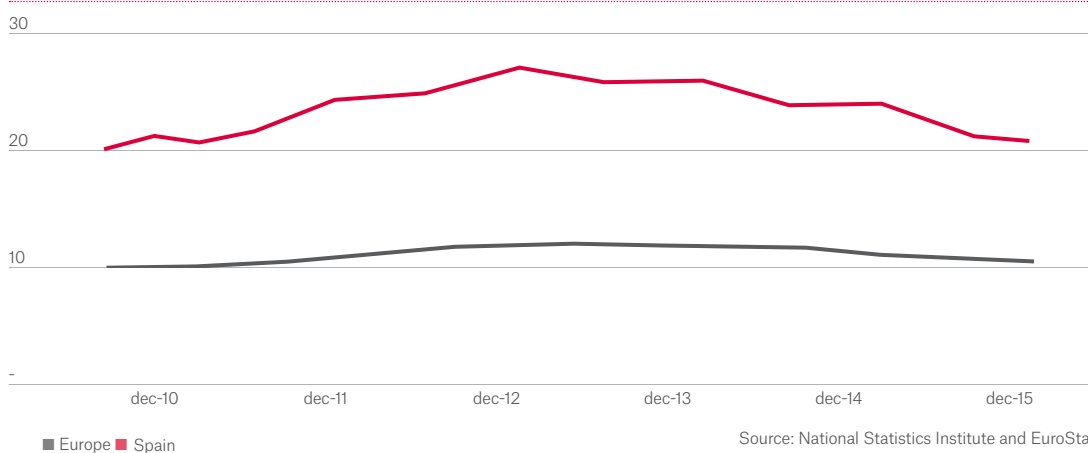
#### Quarterly evolution of the real Gross Domestic Product in Spain and the euro zone - 2013/2015



## Employment, salaries and costs

In 2015 the downward trend in the unemployment rate has continued. Since reaching highs in the first quarter of 2013 (26.9%), the rate has declined to stand at 20.9% in the fourth quarter of 2015. While the trend is indeed positive, the unemployment rate is still higher than in the great majority of advanced economies. The Eurozone unemployment rate stands at 10.7% in the fourth quarter, its lowest level in nearly four years.

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



Remuneration per employee has maintained a positive but contained evolution during 2015, with growth of 0.7% in the first quarter, 0.4% in the second quarter and 0.3% in the third quarter (data corrected for seasonal and calendar effects).

As for labour costs, 2015 was a turning point. While in 2014 the annual change was negative in every quarter, in 2015 there has been a slight increase thereof with accumulated growth until the third quarter of 0.1%.

## Price evolution

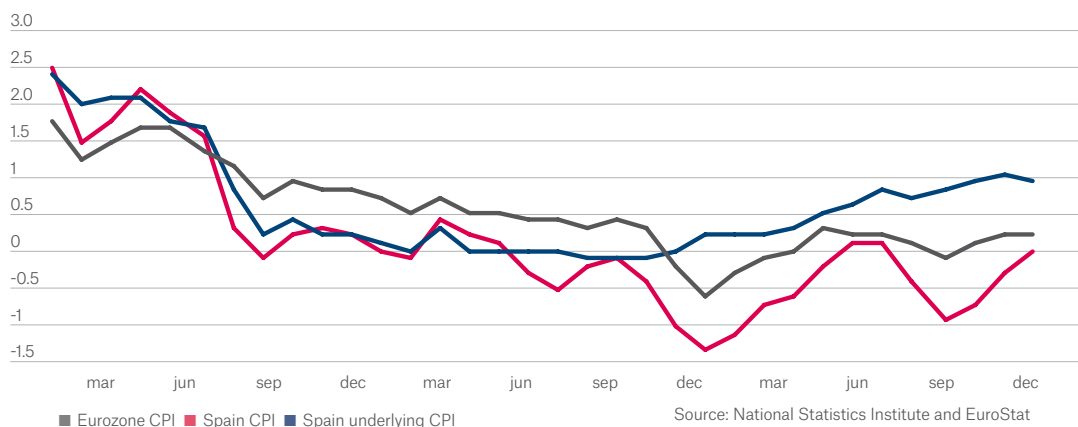
The CPI has maintained a downward trend in 2015, reaching negative rates in all months of the year, except for June, July and December, reaching its lowest level in January when it reached a variation to the general index of -1.3%. In December, the annual change in Spain stood at 0.0%. The evolution in the whole of the Eurozone has also been negative, although above that of Spain. In December, the annual change in the Eurozone stood at 0.2%.

However, the negative trend in prices was mainly produced by the effect of changes in energy prices (-34% in 2015 and -65% accumulated from 2014). Accordingly, based on the underlying CPI, which excludes energy prices and unprocessed foodstuffs, prices remained positive, ranging from 0.2% in January up to 0.9% in December.

In any case, low price levels led to further action by the European Central Bank and in December it decided to extend the asset purchase programme until March 2017 or until inflation reaches its 2% target, and to reduce the deposit facility by 10 basis points to -0.3%.



Annual evolution of CPI in Spain and the Eurozone - 2013/2015



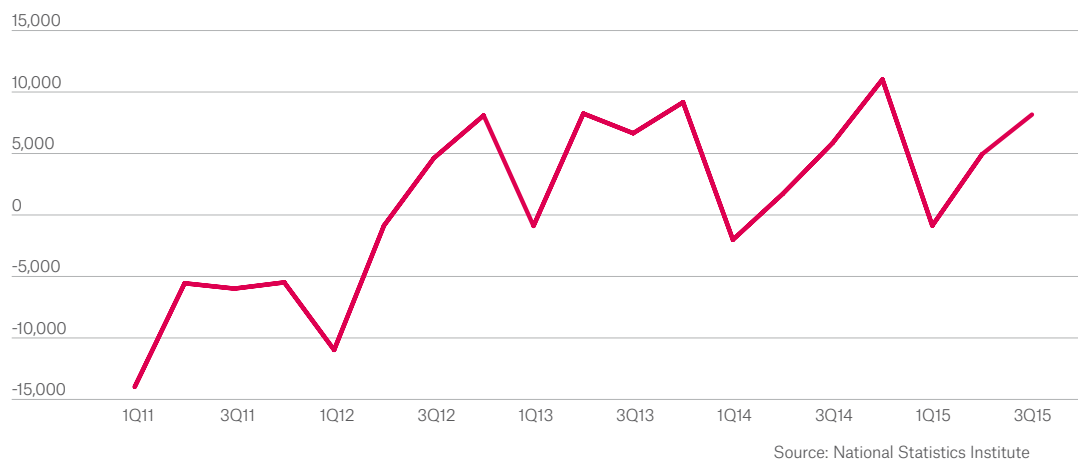
### Public accounts and the capacity to finance the economy

The deficit targets for Spain agreed with the European Commission stand at 4.2% in 2015 and 2.8% in 2016 and, according to the estimates of the International Monetary Fund and the European Commission, it could be breached. According to the latest information available, in November 2015, the deficit was 3.87%.

As regards Public Administration indebtedness, the indicator has shown an upward trend in recent years: in November 2015, the figure was 99.8%, above the target set for year-end.

The Spanish economy's financing capacity as a whole evolved positively in the year, even though it was lower than in previous years, as can be seen in the following graph.

Evolution of the financing need or capacity of the Spanish economy - 2011/2015



### Economic evolution

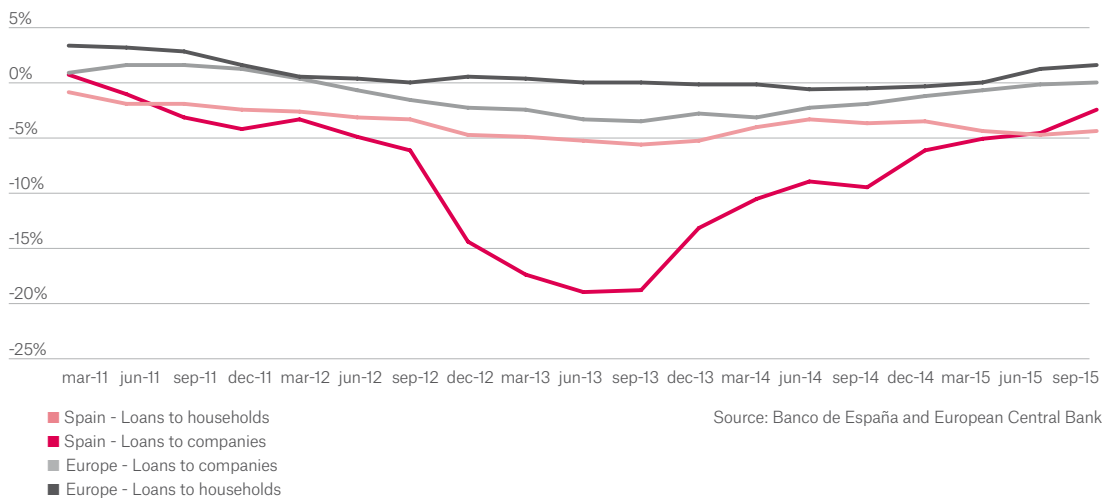
Deleveraging is easing, with a fall in lending of -3.2% year-on-year in November 2015 (compared with -5.8% in November 2014) and a monthly decrease of -0.5%. Lending to companies has moderated its fall in recent quarters to stand at -2.4% year-on-year in September, while the reduction in lending to private individuals stood at -4.4%.

However, the new cumulative production in 2015 (January to November) has increased over the same period last year. New lending to companies of less than one million euros grew 13.7%; housing for individuals 35.3% and consumer loans by 18.1%.

Non-performing balances peaked at 13.6% in December 2013. From this date the non-performing balances rate has been declining gradually to reach 10.4% in November 2015.

Lending developments in the Eurozone are positive. Lending to companies increased 0.9% year-on-year in November, while lending to private individuals showed an increase of 1.9%.

Recent evolution of private sector lending – 2011/2015



Spanish sovereign debt rates have remained low throughout 2015, mainly marked by the accommodative monetary policy of the European Central Bank and the existing confidence in the Spanish economy. Volatility in financial markets has been high, with the Spanish 10-year bond standing at 1.14% in March, reaching 2.41% in June. In December, the bond stood at figures close to those at the beginning of the year, around 1.77%.

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

### Evolution of the 10-year Spanish bond and the risk premium – 2015



## Political environment

Municipal and regional elections in 2015 were a preview of the changes in the Spanish political landscape that has occurred in the year. The two main parties, PP and PSOE, ceded ground to the new political forces, Ciudadanos and Podemos.

Of note is the result of the elections in Catalonia where, more than three months after the elections, on 10 January Junts Pel Si won a majority to head the Generalitat.

National elections confirmed the new stage in Spanish politics. Parliament has gone from a situation of absolute majority to another with four political forces: PP, PSOE, Podemos and Ciudadanos. In this sense, the year closed with an environment characterised by negotiations between the main political parties who have a period of two months from the first investiture vote to form a government.

Uncertainty about the national political landscape has impacted on the Spanish risk premium. In early December it stood at 103 basis points, reaching 122 basis points on 21 December following the general elections.

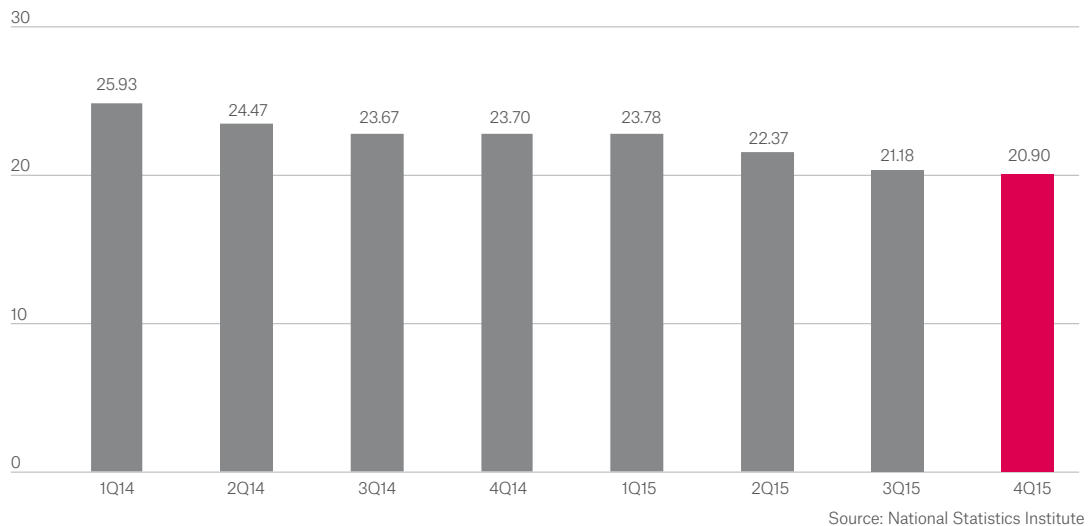


## 1.4.2. Social Environment

The barometer published by the CSR (Centre for Sociological Research) in December 2015 states the main causes of concerns in Spain as: primarily, unemployment (79.8%) followed by corruption and fraud (38.8%) and thirdly, economic issues (24.4%).

The strong macroeconomic growth in Spain during 2015 has seen a drop in unemployment levels. The unemployment rate in the fourth quarter of 2015 was 20.9%, a decrease of -2.80 percentage points with respect to the last year. In turn, the employment figure in the fourth quarter of 2015 rise to 2.99% higher with respect to 2014, according to data released by the National Statistics Institute.

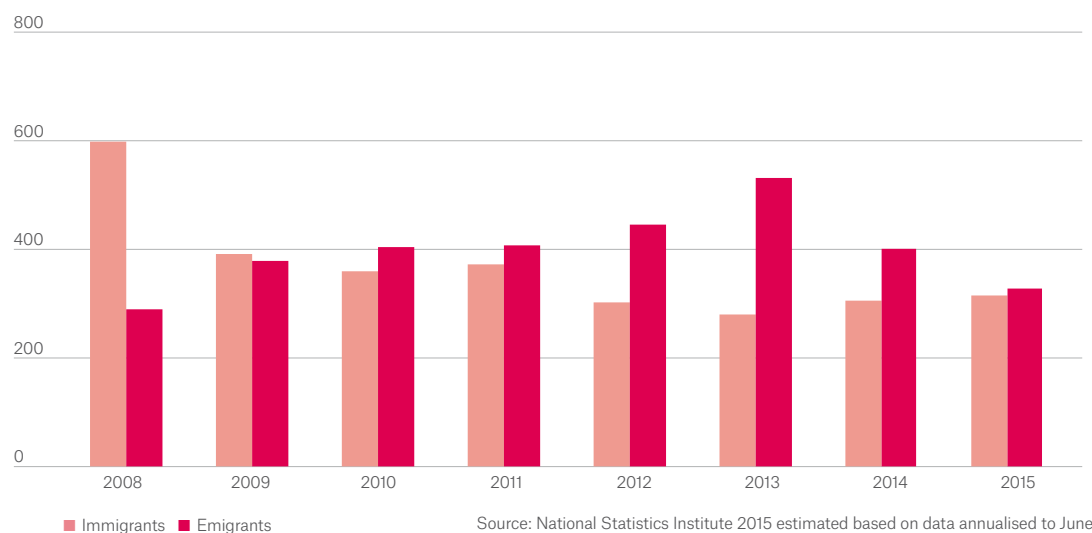
Evolution of the unemployment rate in Spain - 2014/2015



Furthermore, evictions have continued to be a matter of national concern. This phenomenon and certain court proceedings have harmed the image of the financial sector. However, the various measures adopted by financial institutions to mitigate the effects of the crisis, together with improvements in areas relating to consumer protection and the restructuring of the economic system, are contributing to strengthening the perception of the sector. In the third quarter of 2015, the number of mortgage foreclosures started and registered amounted to 19,403, representing an annual decline of 17.8%.

The Spanish population increased by just 0.10% between January 2010 and January 2015, according to data released by the National Statistics Institute. This stagnation in the population is mainly produced by the bulk of migrations that have been evolving since the beginning of the crisis, offsetting the high volume of immigration seen in previous years due to the good Spanish economic situation.

### Migratory flow in Spain (in thousands) – 2008/2015



### 1.4.3. Environmental scenario

At the climate summit in December 2015, stronger environmental commitments were established compared with previous meetings, highlighting the involvement of the United States and China, which did not occur previously. The universal agreement that has been reached on climate change remains the main objective to limit the increase in global temperature below 2°C, making a strong commitment to the green economy by considering it as the only possible future.

In terms of renewable energy, Spain has a target of 20% of total energy consumption in 2020 coming from clean sources. According to the monitoring report published by the European Commission, nine States, among which is Spain, will not meet this objective, which should lead to a review of the different national plans on the implementation of this type of energy.

During 2015, the financial sector continued to show a special interest in attracting funding from institutional investors through the issuance of so-called "green bonds" and whose money goes to friendly projects or projects which improve the environment. The market for this kind of economic product reached more than 41,000 million dollars and the outlook is very positive.

In this context, and despite the fact that Banco Popular Group does not participate in activities that implies a significant environmental risk, the entity is committed to defending and respecting the environment; it is the Group's objective to minimise the negative impact on the environment, as shown in Appendix 3. Environmental Dimension of this Report.

## 1.5. Positioning in the economic sector

The close of 2015 was characterised by a significant improvement in the Spanish economy's main macroeconomic variables. 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 2015, Banco Popular stood out for its reduction in non-performing balances, its recurrence in margins, increased lending, lower entries in default and the faster pace in sale of non-performing assets.

As a result, Banco Popular has ended a positive year, in which the most important management aspects undertaken can be found below:

- **Increased 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 November, it maintained a 16.7% 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 7.6% and 6.0%, respectively in November 2015, equivalent to a market share of 6.9%.
- **Excellent performance in Real Estate sales.** In 2015, it exceeded the property sales target set at 2,000 million euros, obtaining 2,109 million euros in December, which represents an improvement of 40.3% over 2014. This strong improvement has allowed Popular to benefit from its partners' far-reaching experience in managing real estate assets, 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: 2.50% in December 2015. Its management capacity is also evident in its cost-to-income ratio, which at 46.7% is one of the best in the economic sector, both in Spain and in Europe. Lastly, sound generation of income and capital gains has allowed the Bank to reinforce its coverage for another year.



- **Improvement in asset quality.** The downturn in non-performing loans has triggered a drop in the non-performing balance ratio in the four quarters of the year to 12.86%, consolidating the decrease reported in recent months. In turn, the NPL coverage ratio, without write-offs, stands at 42.5%, while the coverage ratio including write-offs is 55.2%. In recent years, Banco Popular has made significant efforts in provisioning every year, and this policy has continued in 2015, with over 1,400 million in provisions.
- **Strong capital base.** In 2015 Banco Popular improved its *phased in* CET1 capital ratio by 1.6 percentage points over the previous year, continuing to be one of the most solvent Spanish financial institutions, with a ratio of 13.11%, which allows it to maintain capital well in excess of the regulatory minimum. Its *fully-loaded* leverage ratio according to CRR (pro-forma) is one of the best in the sector, and stands at levels of 6.07%.
- **Continued improvement in financing structure.** Banco Popular is still strongly focused on our target of improving the loan to deposit ratio, which now stands at 109.0%. The Bank has also taken part in the ECB fund auction (known as the TLTRO). Between the March, June and September auctions, it requested 8,497 million, all of which will be earmarked for financing SMEs and self-employed workers. With regard to institutional financing, during 2015 the foundations have been laid to set up various important operations that demonstrate the market's backing. In January 2015, an issue of senior debt for a total amount of 500 million euros with a term of five years was successfully completed. This was extended by an additional 150 million euros in November 2015; an issue of *Additional Tier 1* (AT1) for 750 million euros in February 2015 and three issues of mortgage bonds for 3,000 million euros in instalments between five and ten years in March, July and September 2015.

In short, despite the fact that 2015 has been such a tough year, due to pressure on margins, regulatory pressure and the existence of economic challenges, Banco Popular has closed a year in which it has met its forecasts. The Bank has changed considerably over the last few years, demonstrating a strong capacity to adapt to meet customers' demands and simultaneously creating value for shareholders.



# 2 Corporate Governance

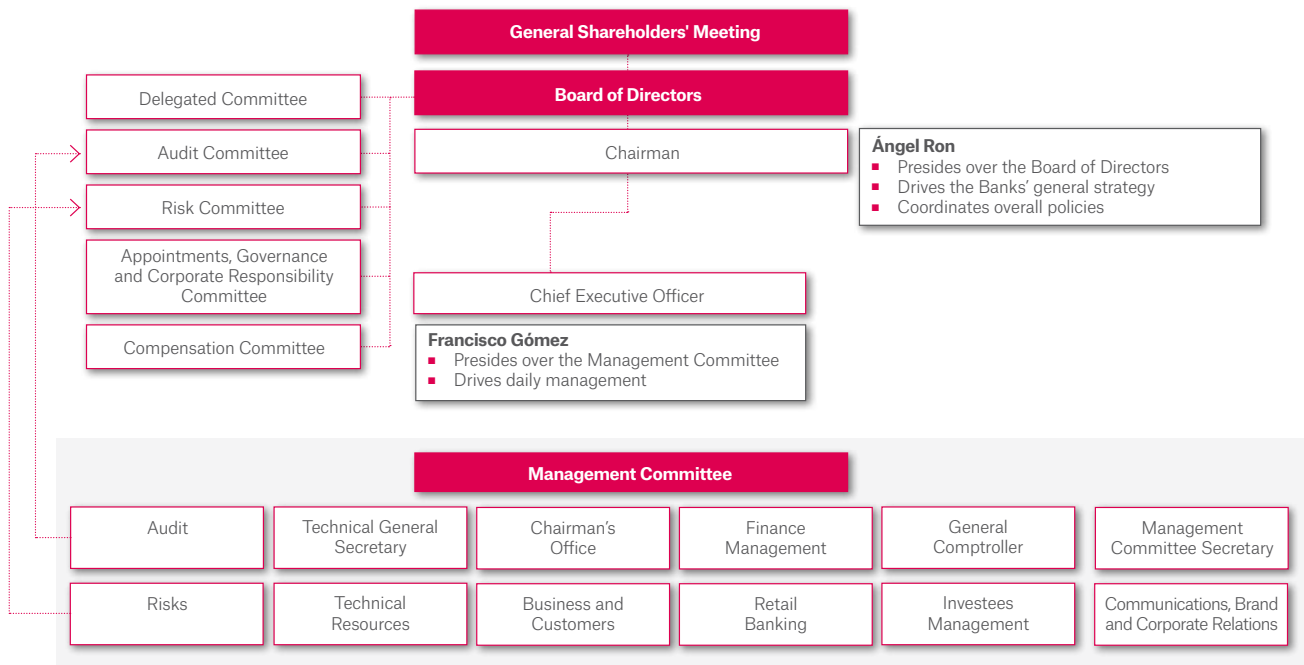
Banco Popular’s corporate culture, which is firmly rooted in a tradition which has developed from years of experience, has created its own corporate governance model that establishes the proper structure and operation of the governing bodies, safeguarding the interests of all stakeholders and maximising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

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

## 2.1. Corporate Governance bodies and mechanisms

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 five committees perform their tasks with total transparency, unity of purpose and criteria of independence.

Governing Bodies at Banco Popular – 2015





## 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 2015, 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.

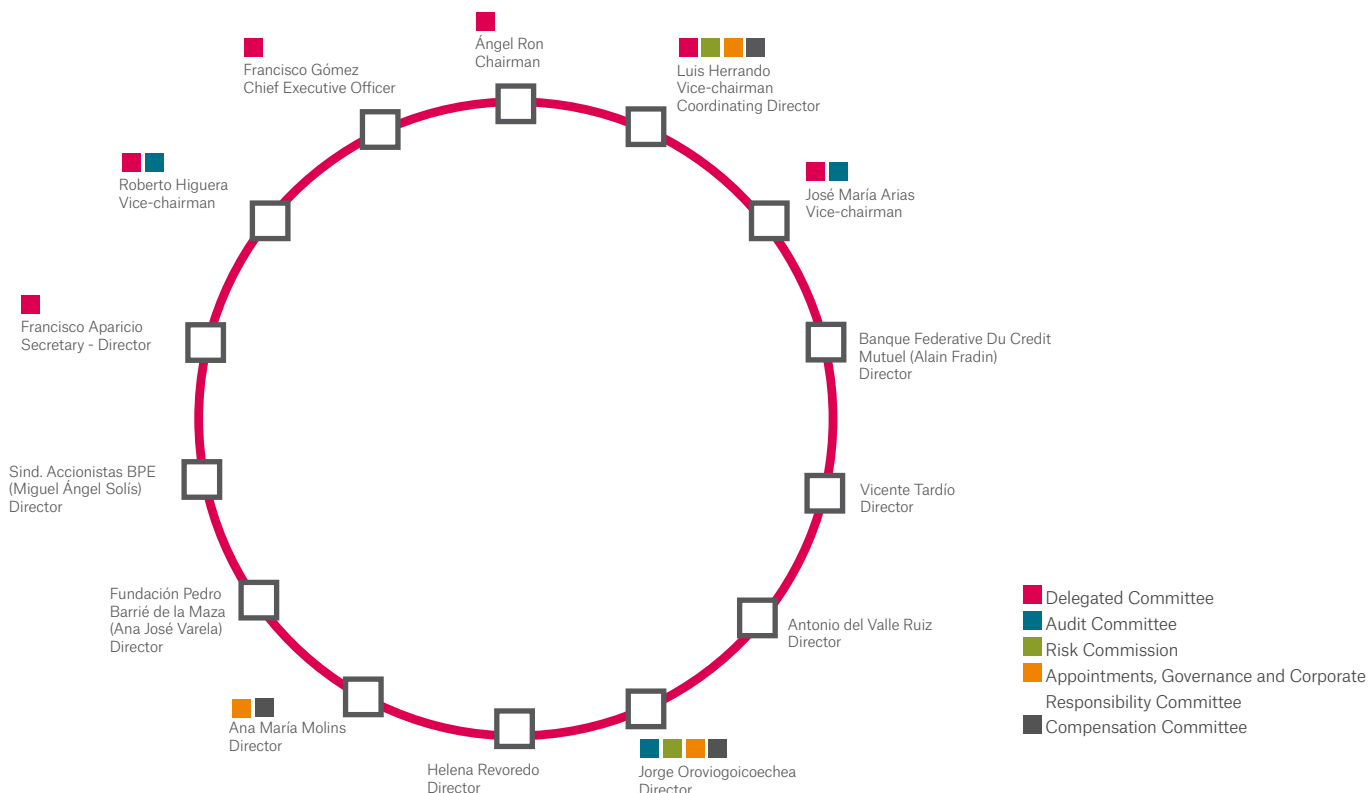
**14** members comprise the Board of Directors

## The Board of Directors

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

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 persons who, in addition to meeting the legal and statutory requirements that the position requires, possess the knowledge and professional experience that are suitable to the performance of their duties and good governance.

### Banco Popular Board of Directors – 2015



**21%**  
of the Board of Directors are women

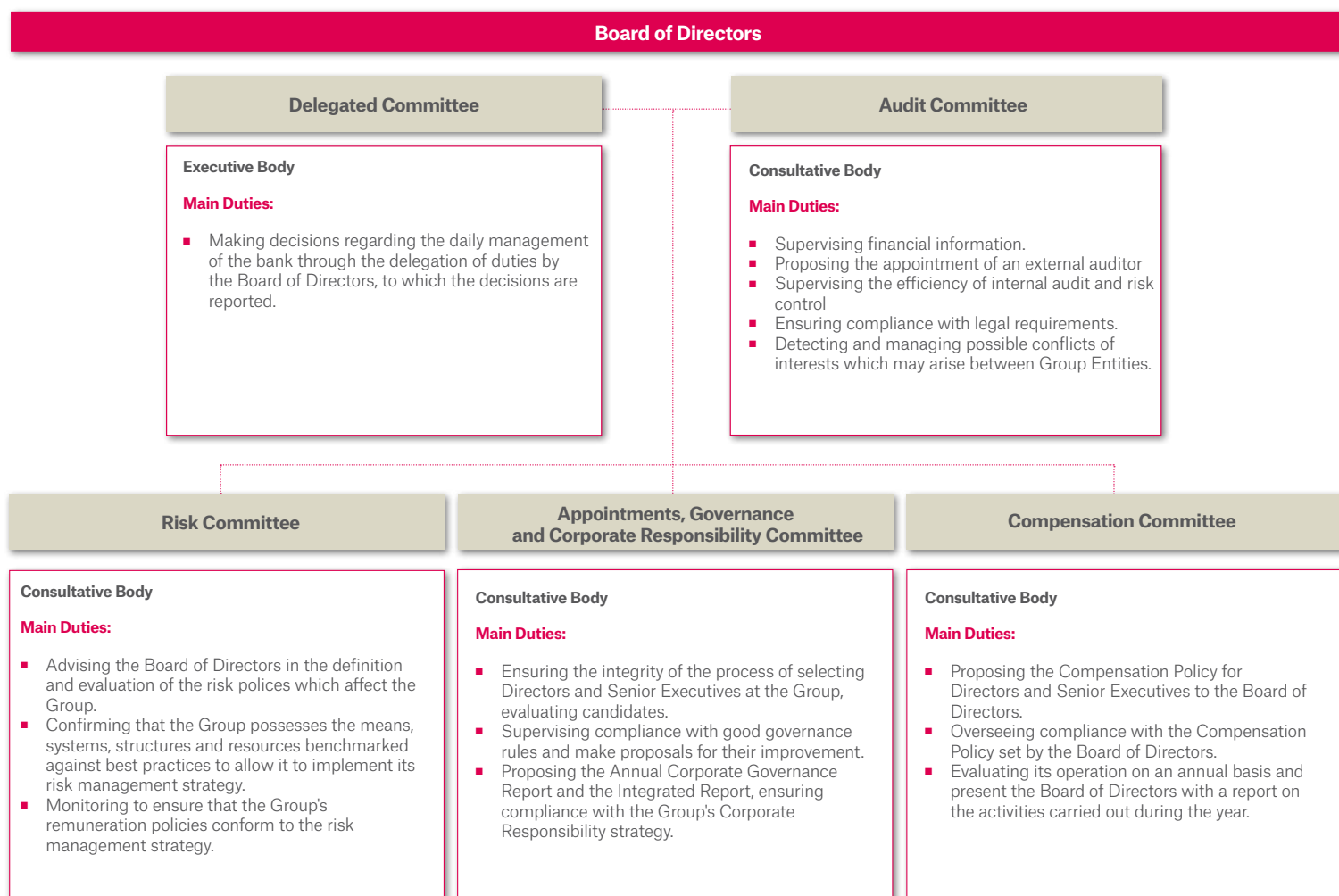
The Board of Directors consists of 14 members, 36% of whom are younger than 55, 43% of whom are between the age of 56 and 70 and the remaining 21% of whom are older than 71. 79% are men and 21% are women, while 21% are societies and 79% natural persons. Also, 7% of them are nationals of countries other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

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

- Delegated Committee
- Audit Committee
- Risk Committee
- 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 – 2015



## Classification of Banco Popular Directors and their participation in Board of Directors Committees – 2015

	Board of Directors	Delegated Committee	Audit Committee	Risk Committee	Appointments, Governance and Corporate Responsibility Committee	Compensation Committee
Executive Directors	Ángel Ron	■				
	Francisco Gómez	■				
	Francisco Aparicio	■				
Proprietary Directors	Antonio del Valle Ruiz					
	Banque Federative Du Credit Mutuel (Alain Fradin)					
	José María Arias	■	■			
	Fundación Barrié					
	Sindicatura de Accionistas BPE (Miguel Ángel Solís)					
	Vicente Tardío					
Independent Directors	Luis Herrando	■		■	■	■
	Ana María Molins				■	■
	Roberto Higuera	■	■			
	Jorge Oroviogioicoechea		■	■	■	■
	Helena Revoredo					
<b>Total</b>	<b>14</b>	<b>6</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>3</b>

## Evaluation

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

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

In line with the continuous evaluation by the Board and Senior Management, in 2015 the Board of Directors, with the intervention of the Appointments, Governance and Corporate Responsibility Committee, has continued to apply and oversee the policy regarding the evaluation of candidacies 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 the Delegated Commission Regulation EU 604/2014 of 4 March, from the European Commission. This policy is intended to establish the internal procedures and policies at Banco Popular to select and evaluate candidates for positions that are considered to be essential to its activity.

In this sense, in 2015 Banco Popular evaluated the suitability of the Board of Directors and its members. Pursuant to the reform of 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 Directos' website such as the Prevention of Money Laundering, the Personal Information Protection Act and Regulatory Compliance, or modules on general corporate training for new members of the Board. To this it should be added that Directors were given classroom training sessions in areas such as Asset Quality Review (AQR) and Stress Tests; New Code of Good Governance in listed companies; Recovery Plan; ECB supervision; scope and procedures; Digital Banking; Investees Management; New trends in investor protection: fundamentals for banking activity; Models and Capital or New trends in financial products.

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

## Compensation

In 2015, as a result of the amendment of the Corporate Enterprises Act to improve corporate governance introduced by Law 31/2014, of 3 December, the Board of Directors, acting on a proposal from the Remuneration Committee, submitted the proposal to update the Compensation Policy of Banco Popular to the Annual General Shareholders' Meeting held on 13 April 2015, deciding to reward the performance of the position of Director and maintaining the compensation system for Directors who carry out executive functions.

The Compensation Policy of Banco Popular for the years 2015-2018, adopted on 13 April by 98.43% of the vote, 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.

Within the Compensation Policy the approval of a system of bonuses in Banco Popular shares is included for the year 2015 for members of the management team of the Entity, including Executive directors and members of Senior Management.

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 variable compensation, the professional performance of the persons concerned, the attainment of previously established objectives and their alignment with prudent risk management, as well as the result of the offices concerned and the entire Group's business, are taken into account. In 2015, Popular included sustainability indicators based on ESG criteria in the calculation of Directors' and Senior Management's bonuses.

The weight of the Bank's performance when establishing compensation for Executive Directors is particularly reflected in the Bank'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 Bank incurs losses in any year included in the deferral period, the portion of the compensation not deferred will be subject to recovery clauses.

## Compensation received by members of the Board of Directors – 2015 (\*)

Executive directors	Amounts per bylaws	Compensation			Total
		Fixed compensation	Variable compensation	Other items	
Ángel Ron	-	1,470	-	6.5	1,476.5
Francisco Gómez	-	1,070	-	4.7	1,074.7
Francisco Aparicio	-	770	-	4.6	774.6
<b>Total</b>	<b>-</b>	<b>3,310</b>	<b>-</b>	<b>15.8</b>	<b>3,325.8</b>

(\*) Figures in thousands of euros

For further information in this regard the Director's Compensation Policy, the *Annual Report on Directors' Compensation* and information published in the consolidated financial statements may be consulted.

## 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, 6 deputy general managers and 5 assistant general managers. All of the 13 members of the Management Committee are Spanish nationals, 8% of them are women, and the average age is 51 years. The various members of the Management Committee come from the following areas:

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

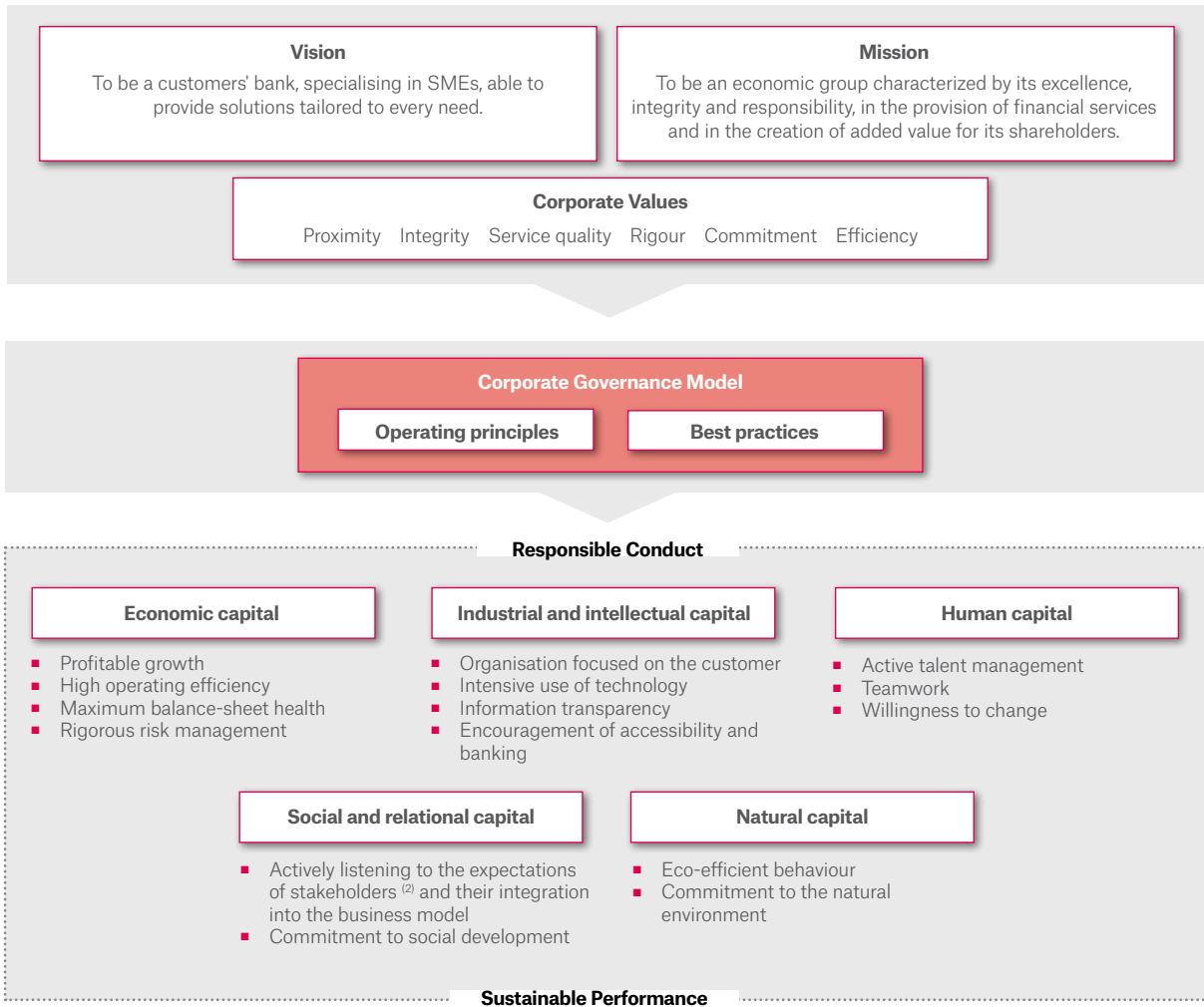
Each of the components of the Management Committee has been delegated broad authority within the area of their respective competencies. The Management Committee analyses and decides upon proposals made by the different business areas, giving the General Management a broader and more thorough view of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

**8%**  
of the Management  
Committee  
are women

## 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 in the figure set out 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) For further information regarding the definition of capital in Banco Popular's business model, see page 48.

(2) Banco Popular considers that its stakeholders are shareholders, customers, employees and suppliers, together with the primary public-private social and environmental organisations in its locations. The stakeholders are an integral part of the Bank and influence the development of the banking activity as an important part of its structure.

## 2.3. Good Corporate Governance Practices

In 2015 Banco Popular has continued to consolidate its good corporate governance practices in accordance with its policy of continually adapting to meet the highest good governance standards. In this regard, it is noteworthy that the Bank complies with 97% of the recommendations of the New Code of Good Governance. During the year the following resolutions were adopted:

- **Change in name of the Appointments Committee.** The importance of Corporate Responsibility in companies is an increasingly established reality, which requires adequate attention from the systems of corporate governance in listed companies. Given the importance of the issues relating to Corporate Governance and Corporate Responsibility, Principle 23 of the New Corporate Governance Code recommends the identification and allocation of specific functions in this matter to a special committee, with the aim of promoting management of these issues in a more intense and committed manner. In this sense, the Appointments Committee, which already had the competence to propose the fixing of the Corporate Responsibility strategy and to carry out the verification of compliance, has changed its name to the Appointments, Governance and Corporate Responsibility Committee in order to strengthen their good practices in this field.
- **Verbal information to shareholders in the Annual General Meeting.** Such communication is made to complement the written dissemination of the *Annual Corporate Governance Report*, by the Chairman of the Board of Directors. It focuses on the most relevant aspects of the Bank's Corporate Governance and, in particular, on the developments since the previous Annual General Meeting.
- **Approval by the Board of Directors of the Policy on Communication and Contacts with shareholders, institutional investors and proxy advisors.** The policy is fully respectful of the rules against market abuse and treats shareholders who are in the same position with an homogeneous treatment. This policy has been made public via the Entity's corporate website, including information on how it is implemented and identifying the partners or persons responsible for carrying it out.
- **Approval by the Board of Directors of a concrete and verifiable Directors' Selection Policy.** This policy ensures that the proposals for the nomination or re-election of Directors are based on a preliminary analysis of the needs of the Board of Directors which promotes the diversity of knowledge, experience and gender. It also states that the result of the previous analysis of the needs of the Board of Directors will be reflected in the explanatory report from the Appointments, Governance and Corporate Responsibility Committee to be issued at the Shareholders' General Meeting at which the ratification, the nomination or the re-election of each director is submitted. It also promotes the goal that by 2020 the number of female directors represent at least 30% of members of the Board of Directors and provides that the Appointments, Governance and Corporate Responsibility Committee shall verify annually its compliance and will report such in the *Annual Corporate Governance Report*.
- **Strengthening the Programme of Training and Retraining.** This is offered to members of the Board of Directors, regardless of knowledge they have to exercise their functions. These training courses are conducted regularly in-person in days prior to the Board of Director's meetings, and in which various subjects are taught based on the financial news or legislative requirements. In addition, this training is completed with additional materials which remain available to members of the Board on the Directors' Portal.

# 97%

compliance with  
Good Governance  
recommendations

- **Strengthening the effective functioning of the Board of Directors.** The strengthening is carried out through the preparation and submission of a schedule of dates and matters to be discussed; periodic evaluation of the functioning of the Board, its Committees, diversity in the composition of the Board and the performance of the Chairman and chief executive of the Bank; verification that the Board of Directors devotes enough time for discussion on strategic issues and reviewing the programmes for updating the knowledge of the Directors.
- **Approval of the Compensation Policy for members of the Board of Directors.** The approval was made by the General Shareholders' Meeting held on 13 April 2015, by 98.43% of the vote and on the proposal of the Board of Directors, in accordance with the provisions of Article 529r and Transitory Provision of Law 31/2014, of 3 December, which modifies the Corporate Enterprises Act to improve Corporate Governance. Likewise, this policy has been reviewed by the Compensation Committee and the Risk Committee.

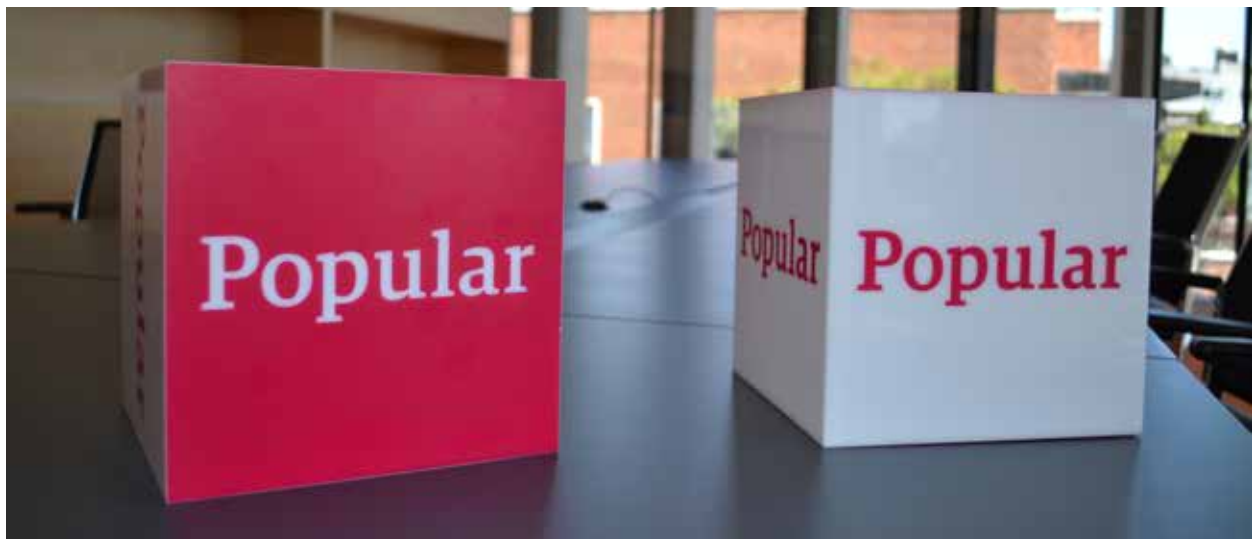
## Adequacy of Corporate Responsibility Policy to good Corporate Governance practices

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

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.

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, social, and environmental performance and good governance of the Entity.

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.





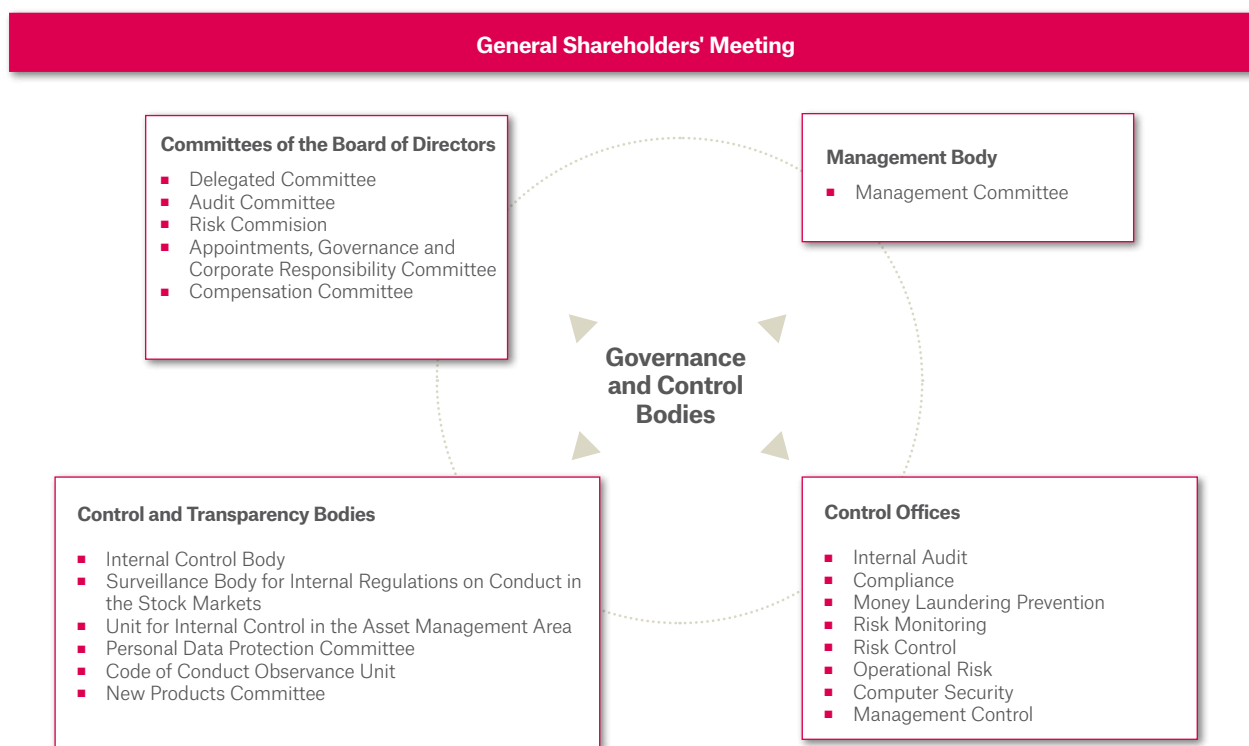
## 2.4. Compliance and control systems

### 2.4.1. Compliance and internal control systems

Popular conceived Internal Control as a transversal process promoted by the Board of Directors that involves the entire organisation. It 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, and is modelled on the "three lines of defence":

- The first line of defence is made up of branches, operating centres and units which perform management and risk control functions. All units are responsible in their field for day-to day operational management and are responsible for maintaining effective internal controls and the implementation and ongoing monitoring of risk procedures.
- The second line of defence has a cross-field responsibility. It is made up of the following units:
  - Risk Management/Risk Control
  - Regulatory Compliance
  - Internal Control Body/Prevention of Money Laundering
  - Assessment Committees of the Management Committee: the Capital Committee, ALCO Committee and the Operational Risk Committee perform control functions in their respective areas and therefore also act as a second line of defence
- The third line of defence is Internal Audit; a comprehensive and cross-field monitoring unit which reports directly to the Audit Committee, something which gives the area a special degree of independence.

#### Main governance and control bodies - 2015



## Risk monitoring and control

Banco Popular carries out prudent, disciplined and diversified risk management by empowering internal governance which promotes prudent control and management of risks and the qualification of the professionals in the Entity. It also establishes a risk policy aimed at achieving a Medium-Low risk profile, ensuring that the Group conducts its commercial activity and business expectations within the established risk limits and objectives at all times. For its business model, the main risks to which the Group is subject are credit and liquidity.

The principles governing risk management are:

- 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 loans and receivables and funds raised
- Systematisation and automation of processes

In addition, Banco Popular has established the main axes of the risk management policy, as detailed below:

- **Risk Culture.** Banco 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.
- **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.** The Risk Appetite Framework is an instrument of governance which contributes to an effective and comprehensive management of the Group's risk appetite. It identifies and defines the risks to which the Group is exposed. The 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 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.

In addition to top-level metrics or current Risk Appetite Framework metrics for all risks and Capital, each risk is managed with additional metrics or second-level monitoring which ensures that the risk profile is kept within levels of tolerance, integrating the Risk Appetite Framework in its management.

- **General Monitoring Model.** This model has been comprehensively designed to identify, monitor and manage all risks to which the Group is exposed, in order to provide reasonable assurance regarding the achievement of established corporate goals.

The *Annual Report* and the *Corporate Governance Report* set out further details of the policies and procedures established by the Group for risk monitoring and control.

## Regulatory Compliance

Regulatory Compliance are responsible for evaluating the control mechanisms over regulatory risks that affect all of the activities and businesses carried out by the Group. It is performed on a cross-disciplinary basis and under the principle of independence, without taking part in management decisions or the procedures for the activities it supervises. 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 Senior Management, the Audit Committee and the Board of Directors, 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 Human Resources.

In the Regulatory Compliance area, particularly noteworthy are the initiatives in the field of Prevention of Money Laundering, Data Protection, Corporate Conduct and Stock Market, among others.

- **Prevention of money laundering.** Banco Popular works with the competent authorities, analysing and reporting, if appropriate, any transactions that present indications of being related to such activities to SEPBLAC. Banco Popular also internally distributes the measures established against money laundering, including an intranet section that provides information and regulations regarding this topic. The documentation includes the Money Laundering and Terrorism Financing Prevention manual, which provides details as to obligations and procedures to prevent the use of Group societies and, in general, the economic system for money laundering purposes. Throughout this year, a compulsory course of conduct was issued in this area aimed at 100% of the workforce through the training platform *conoce+*. In 2015, 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 Money Laundering Prevention Office, which performs the duties of due diligence, record keeping, internal control, risk assessment and management, the ICB monitors and ensures the operation and updating of the systems and the proper application of procedures for the prevention of money laundering and terrorist financing.

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

Employees also have an area on the Intranet which presents 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.** Since 2011, Banco 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* (recently updated to adapt to the Criminal Code reforms), 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*, the Supervisory Unit is in charged of the supervision and setting of guidelines on *Corporate Defence* and coordinates the Whistleblower Channel.

This channel is the system through which management, Senior Management and employees in general may confidentially report to the Supervisory Unit any violations of the *Code of Conduct* on the part of any employee or entity subject to compliance. In 2015 the Supervisory Unit of the Code of Conduct produced the Whistleblower Channel Usage Policy where the procedures to follow from the start of the report until its conclusion are set out. In 2015, no complaints have been received through this channel.

A Suppliers' Code is also in place which is intended to guarantee that suppliers carry out their business activity respecting the stipulations of the Global Compact. Since 2005, Banco Popular has stated its commitment to the principles contained in the United Nations Global Compact, and has repeatedly expressed it.

- **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 Conduct Regulations Supervisory Body (ICR) is of particular interest as it ensures compliance by employees of the internal rules regarding stock markets.

## Internal Audit

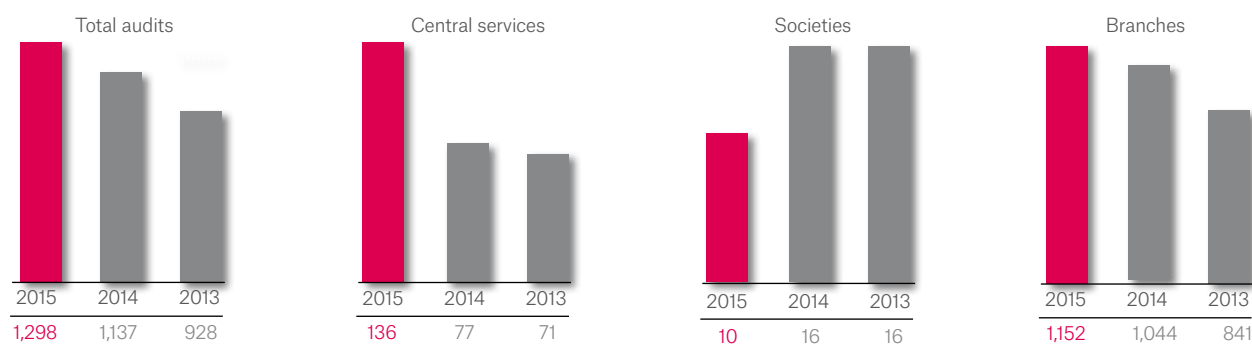
The internal audit area works based on the principles of independence, objectivity and impartiality. Its responsibility is channelled directly through the Audit Committee, and in carrying out its tasks it complies with the principles established by regulators. It is strategically focused on supervising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

Its main objective is to 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 2015, 54.24% of the total branches and 10.1% of total societies have been audited: 1,152 out of a total of 2,124 and 10 out of a total of 99, respectively. In addition, 136 audits have been performed on Central Services, 7 on Liquidity Risk, Market and Interest Rate Risk and 76 on Risk and IT. Through these last ones the Bank has supervised aspects such as internal Credit and Operational Risk models, Database and Systems Security, business continuity, as well as the BIS II technological environment of Credit and Operational Risk, among others.

**1,381**  
internal audits  
during 2015

## Type and number of audits - 2013/2015



## 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.

### 2.4.2. 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 2015 no significant sanctions were received deriving from any failure to comply with regulations governing competition and monopoly practices.

# 3 Business model

## 3.1. Unique and differentiating business model

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 the Banco Popular business model unique and difficult to replicate. The Bank's business model is characterised by its being:

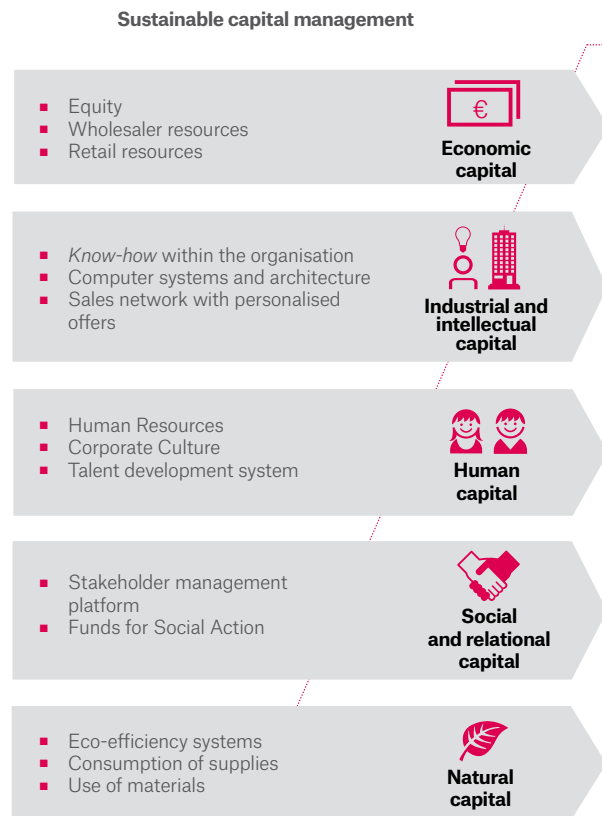
- **Purely retail.** Commercial operations are the Bank's forte, focussing its activity on financing, management of savings and economic services for individuals, families and companies.
- **An SME specialist.** Traditionally, the Bank has been committed to developing the productive systems of the economies 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.

Banco Popular business model in accordance with IIRC requirements

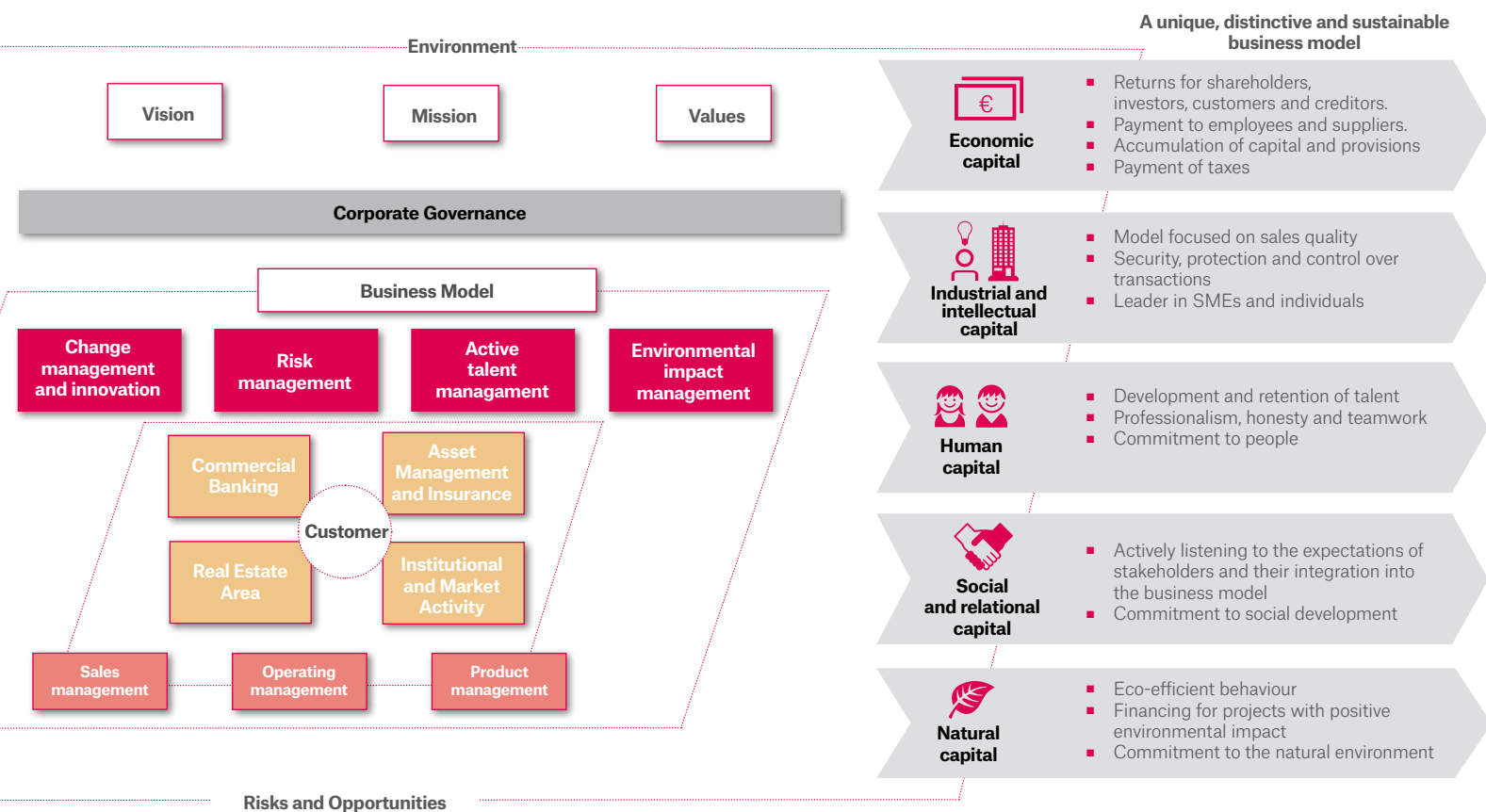
Banco Popular's business model reflects the Bank's corporate culture, transferring its values from the Corporate Governance of the organisation to its daily operations and its relationships with stakeholders.

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



- **Customer oriented.** Banco 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.
- **A leader in efficiency.** The culture of efficiency permeates the organisation, allowing the Entity to be one of the most efficient European banks historically.
- **Solvent and prudent as regards risk management.** Banco 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.



### 3.1.1. Capitals

Banco 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 Banco 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 that 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 Banco 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 that makes the Bank 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.

## Change management and innovation

Banco Popular Group remains committed to the activities of Research, Development and Technological Innovation. Accordingly, over the course of 2015 it made investments totalling 148 million euros for the development of both new projects and those started in prior years. The main projects carried out in 2015 revolve around six axes:

- Development of management applications
- Risk management models
- New infrastructure management model
- Integration of new business and management models
- Improvements to customer knowledge and reporting systems
- New information systems to ensure regulatory compliance

Among those undertaken in 2015, three strategic projects should be highlighted. These projects are being developed to improve both customer information and performing banking operations as well as to improve information and corporate reporting. These projects meet the requirements for recognition as intangible assets and will be amortised over their estimated useful life of 10 years.

- **Customer Platform Project.** In 2015 we continued working on Phase II of the project in which non-initially addressed front-end customer channels have been integrated into a new multichannel interface providing a full and shared online view of the customer's situation and transactions completed or in process. Investment in 2015 amounted to 15.1 million euros, of which internal expenses accounted for 4.8 million euros and external expenses represented 10.3 million euros.



### 3.1.2. Transversal management principles

Both the culture and the Corporate Governance model at Banco 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



##### Change management and innovation

The ability to adapt to change and innovation are two key aspects that allow Banco 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.



##### Risk management

Banco Popular has placed the emphasis on behaviour and decision-taking systems based mainly on sophisticated risk management and control processes, the strategy of proximity and knowledge of customers and the specialisation of the professionals employed by the Entity. This prudent behaviour allows it to identify, prevent and manage risks and opportunities in a disciplined and diversified manner. This management style allows the obvious to be put into practice: the permanent need to combine economic discipline with risk diversification.



##### Active talent management

Each person making up Banco 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.



##### Environmental impact management

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.

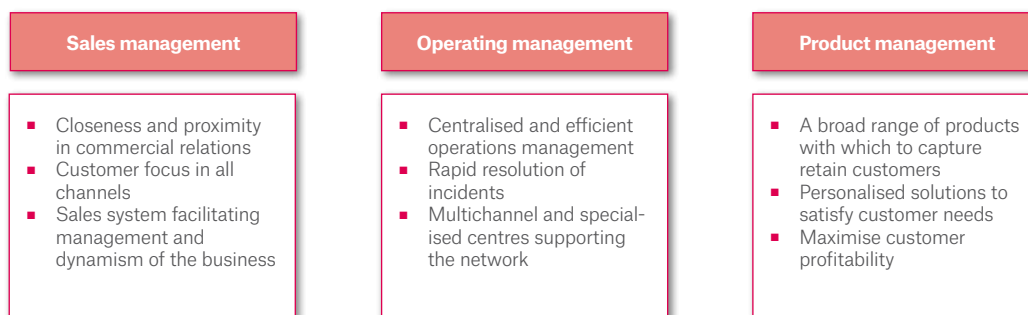
- SICYF Project.** It seeks to adapt and improve the existing accounting and management information systems to meet Banco Popular Group's new challenges and needs. It aims to do so by designing and developing a new information architecture that provides quality information that is reliable, relevant and timely. This will make it possible to ensure accuracy in the decision-making process and efficiency and control in generating and exploiting information that is critical to the Bank. This new architecture encompasses the implementation of new developments which modify all the Bank's processes and applications so that the overall functioning of the Entity's activities will be significantly different. Investment in 2015 amounted to 8.7 million euros, of which 2.3 million euros were internal expenses and 6.4 million euros external.
- RIM Project.** The RIM (Regulatory Information Model) project aims to renew the technology employed in the regulatory *reporting* model according to the Group's corporate guidelines and in line with the principles set by regulatory standards, as well as the automation and integration of reports generating systems required by the new regulations CIRBE, COREP, FINREP and Asset Encumbrance. Investment in 2015 amounted to 10.4 million euros, of which 1.5 million euros were internal expenses and 8.9 million euros external.



### 3.1.3. Specific management principles

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

#### Specific management principles



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

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.** Banco Popular's business model pursues centralised and efficient management of operations, making a quick response and the resolution of matters that may affect a customer a priority. In this regard, operating management within the business model consists of three parts:
  - Specialised centres in support of the branch office network. The Group has specialised units, such as the Business Centres, which carry out the appropriate actions for the identification, contact and capture of new customers.
  - Multichannel Banking. This is one of the main operating environments of Banco Popular. The multichannel 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.
  - Management of incidents and branch office network support. Quick and efficient responses relating to the resolution of queries at branch office level requires a firm commitment to provide a service that ensures the proper operation of branch offices and improves customer service quality in the event of any anomaly or query.

- **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 Banco Popular is focused on the creation of solutions that are personalised both in the variety of products offered and in their prices, always based on customer needs and risks.

In the case of the private individual segment, Banco 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 the company segment, 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.

### 3.1.4. Activity by business line

The activity carried out by Banco Popular may be segmented into four lines of business that cover all of the management activities carried out by the Entity. The main characteristics of each segment, which are described in further detail in the Annual Report, are set out below:

- **Commercial Banking.** This segment is the core of Banco Popular Group's business, whose activity focuses on the rendering of economic services to companies and private individuals. It includes the activities carried out by the branch office network with respect to typical investment transactions, obtaining resources, assuming off-balance sheet risks and supplying all types of economic services.
- **Asset Management and Insurance.** This includes the asset management activities as well as the administration of collective investment institutions - investment funds and pension fund portfolios. It also includes the activity involving life and general insurance carried out by the Portuguese societies Popular de Seguros, S.A. and Eurovida, S.A, and the insurance activity in Spain carried out through Allianz Popular, S.L., in which the Group has a 40% stake.
- **Real Estate Area.** This segment includes both the activity carried out by the Group's Real Estate societies and the Real Estate activity carried out by the financial institutions pertaining to Banco Popular Group. This activity is managed on an integrated basis in order to provide adequate handling of property assets.
- **Institutional and Market Activity.** This heading includes the rest of the activities carried out, among which the following are notable: asset and liability transactions with credit institutions, the trading and available-for-sale economic asset portfolios, asset and liability hedge derivatives, held-to-maturity investment and investment portfolio, pension-related asset and liability balances, and raising of funds through issues on wholesale markets.

As may be observed in the following table, compared with 2014 the weight of each line remains consistent with respect to the asset structure although the contribution made by the various areas has changed.

#### Segmentation by business area (%) – 2014/2015

	Commercial Banking		Asset Management and Insurance		Real Estate Area		Institutional and Markets	
	Weight 2015	Weight 2014	Weight 2015	Weight 2014	Weight 2015	Weight 2014	Weight 2015	Weight 2014
Net interest income	107.3	109.3	1.9	1.8	(17.4)	(16.1)	8.3	5.0
Gross income	91.6	82.1	2.0	3.1	(14.6)	(9.7)	20.9	24.6
Operating income before provisions	113.2	85.7	2.5	4.6	(41.6)	(23.8)	25.9	33.5
Net operating profit (*)	190.3	23.5	17.0	25.2	(239.6)	(139.9)	132.3	191.2
Profit/(loss) before taxes	548.8	153.9	44.4	23.0	(841.0)	(241.9)	347.8	164.9
<b>Total assets</b>	<b>62.3</b>	<b>60.6</b>	<b>1.1</b>	<b>0.9</b>	<b>7.6</b>	<b>6.6</b>	<b>29.0</b>	<b>31.9</b>

(\*) Weights shown in brackets indicate negative contributions.

Commercial Banking represents 62.3% of Total Assets and contributes 548.8% of Profit before taxes, which reflects the profile of the commercial banking activity, which is almost exclusively focused on typical banking transactions. The second important area is Institutional and Markets, both in terms of relative weight compared with Total Assets, 29.0%, as well as in the contribution to the result which this year had a weight of 347.8%.

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



## 3.2. Creation of shared value

### 3.2.1. Contribution of value through business development

The main contribution made by Banco 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) – 2013/2015 <sup>(1)</sup>

	2015	2014	2013
<b>Economic Value Generated (EVG)</b>			
Gross margin	3,430,911	3,876,033	3,551,251
Result on disposal of assets	127,875	498,039	947,092
Gains on non-current assets	(88,498)	(51,987)	14,928
<b>Total</b>	<b>3,470,288</b>	<b>4,322,085</b>	<b>4,513,271</b>
<b>Economic Value Distributed (EVD)</b>			
Employees: personnel expenses	935,833	946,235	946,661
Suppliers: general administration expenses	518,656	645,812	518,477
Public Administrations: corporate income tax and other taxes	70,283	271,425	213,772
Shareholders: dividends <sup>(2)</sup>	160,606	150,765	0
Society	13,330	8,505	5,489
<b>Total</b>	<b>1,698,708</b>	<b>2,022,742</b>	<b>1,684,399</b>
<b>Economic Value Retained (EVR)</b>			
EVR = EVG - EVD	1,771,580	2,299,343	2,828,872
Provisions and depreciation and amortisation	1,614,664	2,078,279	2,436,153
<b>Total</b>	<b>156,916</b>	<b>221,064</b>	<b>392,719</b>

(1) Calculation performed in accordance with the GRI G4 requirements for the EC1 indicator.

(2) The calculation of this indicator has been adjusted to GRI requirements. This data considers total amounts (including amounts in cash and shares) at the time of payment.

Conscious of the direct impact of its activity, Banco 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 them will continue to be one of the priorities of the Banco Popular business model in 2016. For further information on these activities, please consult Appendix 1. Economic dimension of this Report.

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 that stimulates its customers to contribution to the strength and dynamism of the economic system through support for the country's social fabric or environmental protection. For further information on these issues, please consult Appendix 2. Social dimension and Appendix 3. Environmental Dimension of this Report.

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

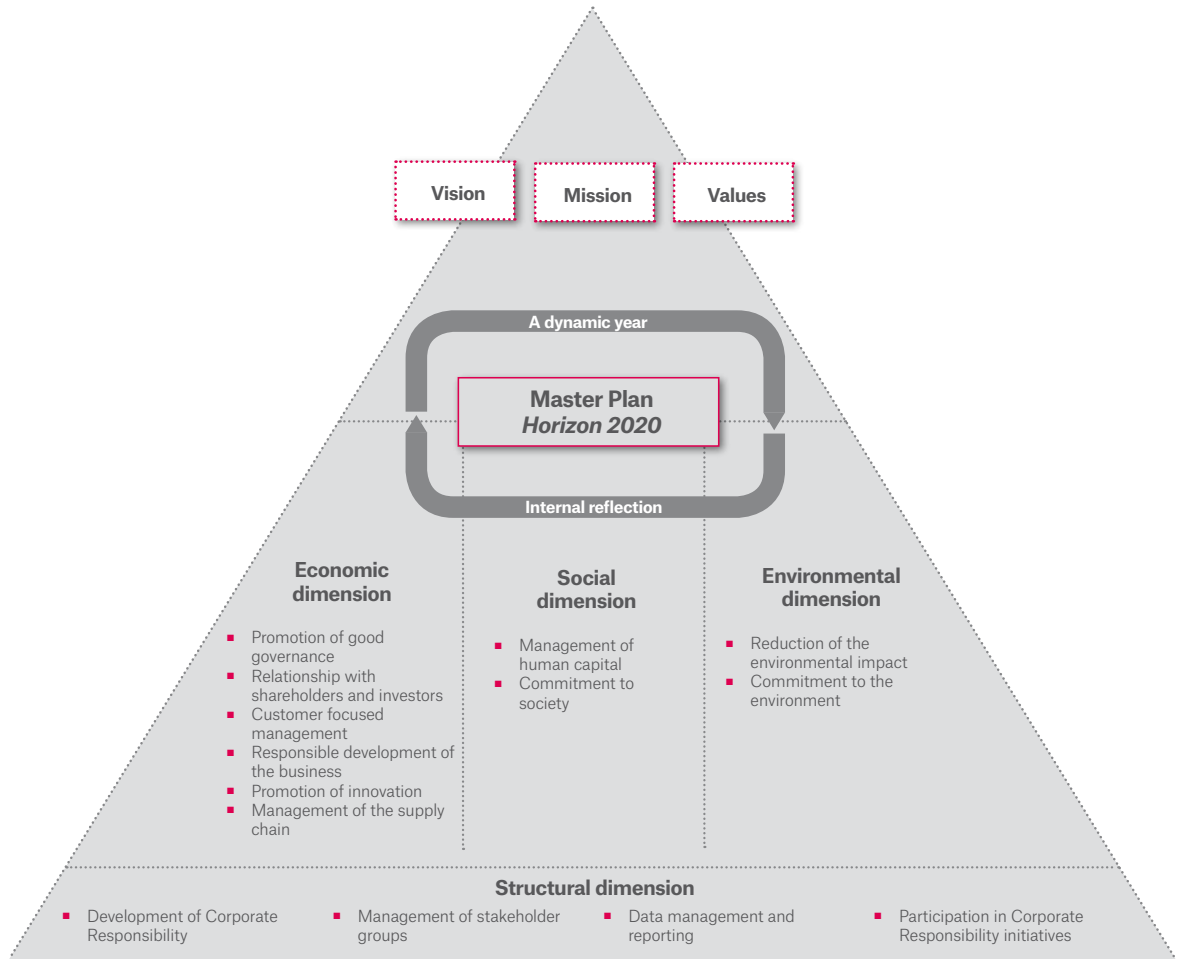
Based on the Bank’s mission and vision, the CR Master Plan *Horizon 2020* has been defined as a roadmap that will allow the Group’s Corporate Responsibility strategy to be rolled out through a multi-annual programme encompassing all of its business management. Thus the Bank’s business model is anchored 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, taking into account the needs of the Bank and the expectations of its stakeholders.

Furthermore, the Bank’s Delegated Committee has resolved that, in relation to the Bank’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 Corporate Responsibility Master Plan *Horizon 2020*.

Structure of the Corporate Responsibility Master Plan *Horizon 2020*



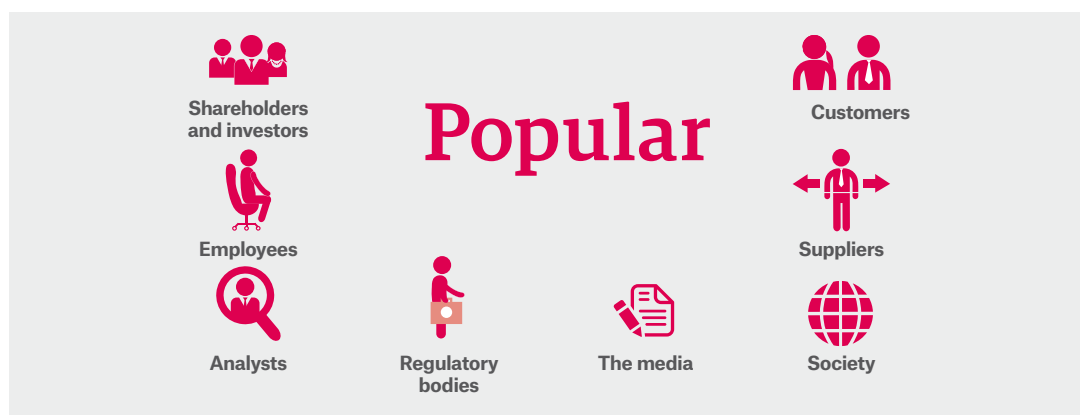
### 3.2.3. Contribution of value through the management of stakeholders

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.

Banco Popular Group is made up of Banco Popular, its subsidiaries and its stakeholders. In this regard, the Entity believes that to add value to these groups, their management must follow a set of guidelines:

- **Be proactive.** Helping to create a competitive advantage for Popular and simultaneously allowing it to differentiate itself from competitors by improving the relationship with stakeholders.
- **Having a global scope.** Under the policy framework of the CR Master Plan *Horizon 2020* it has set the standards to include all parties involved in the management of stakeholders.
- **Be supported by monitoring and controlling activities.** Popular has a system of reporting (*CR Information System*) which includes the main variables of management for the existing stakeholders where the Bank maintains its activity.

#### Identification of stakeholders



All these stakeholders, considered an integral part of the Entity, influence the development of the banking activity and represent a relevant part of the Group's structure. On one hand, they express expectations and demands aimed at achieving sustainable development of the Bank's activities and its own benefits. On the other, the Bank seeks to incorporate these expectations into the Entity's business strategy in order to build a sustainable and lasting relationship with them.

In this sense, a series of actions have been established to increase the contribution of value through the management of stakeholders that are detailed below:

- Strengthen relationships with stakeholders
- Following a roadmap which allows focusing resources on the most interesting relations for the Group's business
- Measuring the relationships and impacts that the Bank has with each of them

In 2015, Banco Popular identified, segmented and prioritised its stakeholders. Based on the specific characteristics of each group it has thus established several objectives and has defined the different actions that the Group takes to respond to the demands of each of those groups.

## Stakeholders: objectives and main actions and communications

Stakeholders	Type	Objectives
 <b>Shareholders and investors</b>	<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>Societies</li> </ul>	<ul style="list-style-type: none"> <li>Provide close and personalised services</li> <li>Support SMEs development</li> <li>Offer products and services suitable to their needs</li> <li>Support international expansion</li> </ul>
 <b>Employees</b>	<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>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>
 <b>Analysts</b>	<ul style="list-style-type: none"> <li>Economic</li> <li>Sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Transmit all relevant economic information to the market in a transparent manner</li> <li>Demonstrate the Bank's responsible behaviour so that analysts improve their evaluations</li> <li>Establish a fluid, constant and permanent relationship with analysts</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>
 <b>The media</b>	<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 environment, with impacts on the Bank's activity and reputation</li> <li>Permanent 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>
 <b>Society</b>	<ul style="list-style-type: none"> <li>Spanish socio-economic environment</li> <li>Communities in emerging economies</li> </ul>	<ul style="list-style-type: none"> <li>Create economic value and maintain employment</li> <li>Support development cooperation in economically depressed countries</li> </ul>
	<ul style="list-style-type: none"> <li>Groups at risk of exclusion</li> </ul>	<ul style="list-style-type: none"> <li>Encourage the social and economic integration of groups with specific needs</li> </ul>
	<ul style="list-style-type: none"> <li>Environment</li> </ul>	<ul style="list-style-type: none"> <li>Preserve and care for the environment</li> </ul>
	<ul style="list-style-type: none"> <li>Third sector</li> </ul>	<ul style="list-style-type: none"> <li>Participate in forums and associations associated with the business</li> </ul>
		<ul style="list-style-type: none"> <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 <i>con tu ayuda</i> programme</li> </ul>



Main actions		Communication	
		Periodic	Permanent
<ul style="list-style-type: none"> <li>Economic 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>Road shows</li> <li>Shareholders' Report</li> <li>Half-yearly 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>Popular <i>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>Sales announcements</li> <li>Contractual notices</li> </ul>	<ul style="list-style-type: none"> <li>Office 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: ICO, ICEX, BEI, FEI</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><i>Code of Conduct for Employees</i></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> <li>Executive development programme</li> </ul>	<ul style="list-style-type: none"> <li>Training portal</li> <li>Employee portal</li> <li><i>Social benefits guide</i></li> <li>Corporate Volunteering Programme</li> </ul>	<ul style="list-style-type: none"> <li>Special conventions</li> <li>e-Bulletin + <i>Informados</i></li> </ul>	<ul style="list-style-type: none"> <li>Intranet</li> <li>Employee portal</li> <li>Suggestion box and employee mailbox</li> <li>Corporate Volunteer Portal <i>con tu ayuda</i></li> </ul>
<ul style="list-style-type: none"> <li>Popular Club</li> <li><i>Social benefits guide</i></li> <li>Corporate Volunteering Programme <i>con tu ayuda</i> (with your help)</li> </ul>		<ul style="list-style-type: none"> <li>Special conventions</li> <li>e-Bulletin + <i>Informados</i></li> </ul>	<ul style="list-style-type: none"> <li>Intranet</li> <li>Employee portal</li> <li>Suggestion box and employee mailbox</li> <li>Corporate volunteer portal <i>con tu ayuda</i></li> <li>Popular Club</li> </ul>
<ul style="list-style-type: none"> <li><i>Code of Conduct for Suppliers</i></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>Satisfaction surveys</li> </ul>	<ul style="list-style-type: none"> <li>Evaluation sheets</li> <li>Forums</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 road shows</li> </ul>	<ul style="list-style-type: none"> <li>Specific meetings</li> <li>Road Show</li> <li>Quarterly reports</li> <li>Questionnaires</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> </ul>	<ul style="list-style-type: none"> <li>FTSE4Good - Ibx35, Euronext Vigeo Eurozone 120, Euronext Vigeo Europe 120, Ethibel Pioneer and Ethibel Excellence</li> <li>Signatory to the <i>Carbon Disclosure Project</i> (CDP)</li> </ul>		
<ul style="list-style-type: none"> <li>Analyse proposed legislation and evaluate impacts in order to define action plans</li> <li>Control over regulatory compliance and participation in transversal projects: EMIR, Dodd Frank, FATCA and Volcker Rule</li> </ul>	<ul style="list-style-type: none"> <li><i>Code of Good Tax Practices</i></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>Specific notices</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: <i>Twitter</i> and <i>Facebook</i></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>Social networks</li> <li>Corporate blog</li> <li>Website</li> </ul>
<ul style="list-style-type: none"> <li>Economic value generated: 3,470 million euros</li> </ul>	<ul style="list-style-type: none"> <li>Economic 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>Corporate volunteer portal <i>con tu ayuda</i></li> <li>CR inbox</li> <li>Website</li> </ul>
<ul style="list-style-type: none"> <li>Micro-credits 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>13.3 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</li> <li><i>Eco-efficiency Plan 2014-2020</i></li> </ul>	<ul style="list-style-type: none"> <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>Fundación de Estudios de Economía Aplicada (Foundation for Applied Economic Studies)</li> </ul>	<ul style="list-style-type: none"> <li>Spanish Quality Association</li> <li>AENOR</li> <li>RefereMte Foundation</li> <li>INVERCO</li> <li>AERCE</li> </ul>		
<ul style="list-style-type: none"> <li>Global Compact</li> </ul>	<ul style="list-style-type: none"> <li>Specialised entities in 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

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.

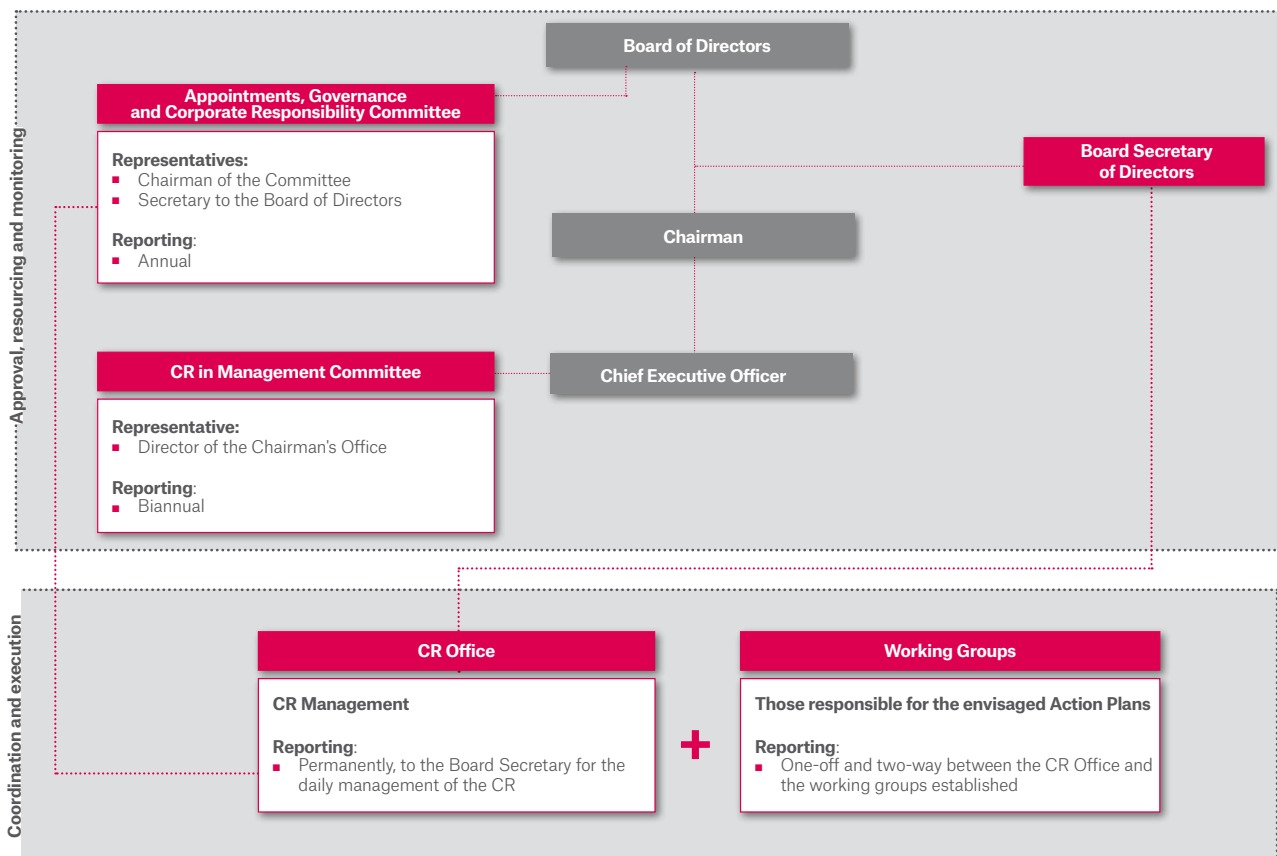
The Corporate Responsibility Office, which reports directly to the Secretary to the Board of Directors, is in charge of defining the strategy in this area and promoting its implementation as a transversal element of all of the organisation. To this end, activities undertaken to identify environmental,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

The implementation of the actions under *Horizon 2020* is carried out unilaterally by the CR Office or through the development of specific Working Groups to develop specific Action Plans. The CR Office reports on progress as following:

- Annually 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 Chairman of the Appointments, Governance and Corporate Responsibility Committee is the member responsible for representing matters of Corporate Responsibility on the Board of Directors.
- Biannually, to the Management Committee through the Director of the Chairman's Office, 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



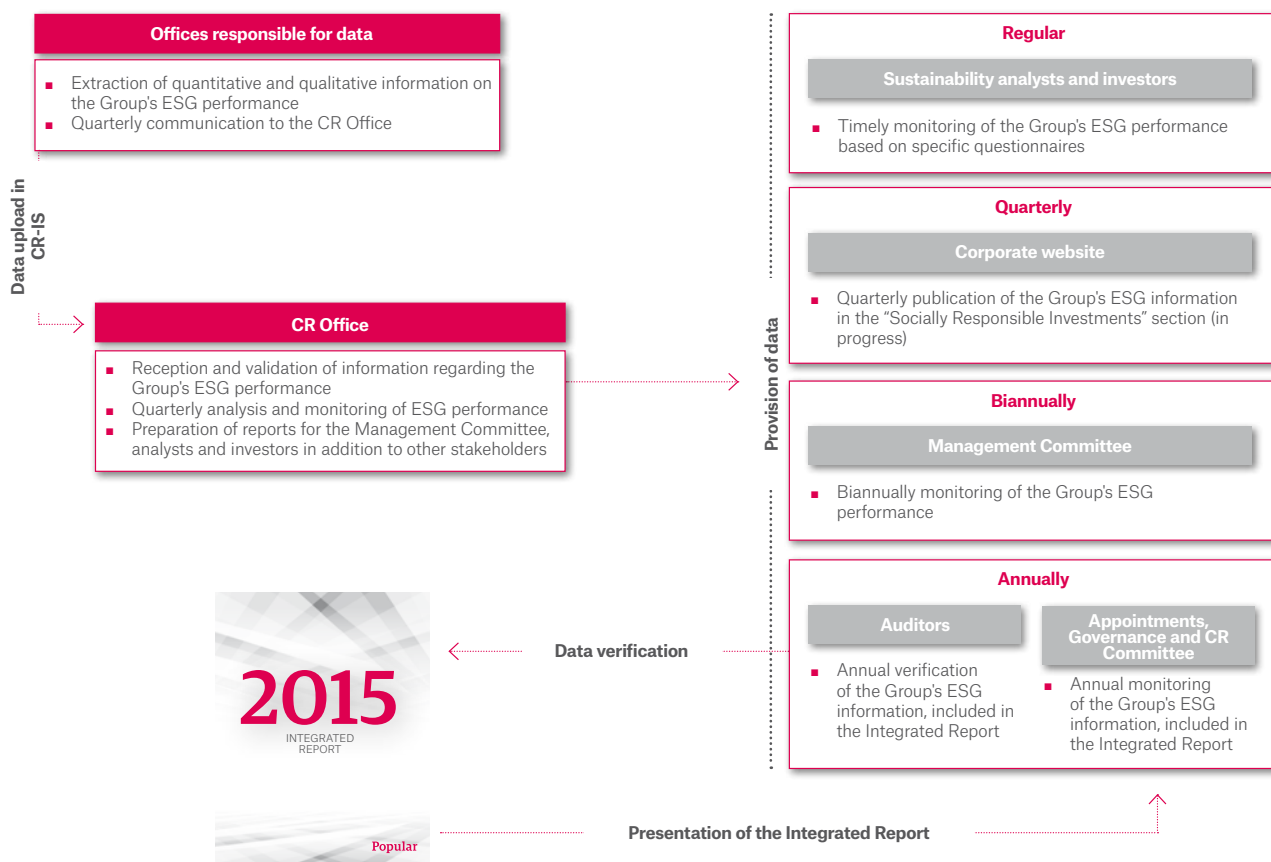
Additionally, the Corporate Responsibility Office, in its aim of improving the management of its activity, has the CR Information System *CR-IS*, an online platform which serves to optimise data capture and analyse processes, regardless of source. In doing so, information relating to the Group's economic, social, environmental and corporate governance performance has been centralised, making it easier to measure and regularly assess progress made against the key performance indicators defined.

The tool has been set up as a dashboard that makes it possible to extract up-to-date, detailed information on a quarterly basis, thus improving the quality of information submitted to the Management Committee, Appointments, Governance and Corporate Responsibility Committee, analysts, investors and other stakeholders. Thus, dialogue between these groups is more efficient and seamless, as it makes it possible to include and monitor aspects relevant to both the Bank and stakeholders.

Furthermore, it is worth noting that by implementing the *CR-IS* tool, the process of creating the Integrated Report is somewhat easier; it facilitates the provision of information by the corresponding departments and enhances the precision of the information verification process undertaken by external auditors.

Thus, *CR-IS* opens up a new 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*



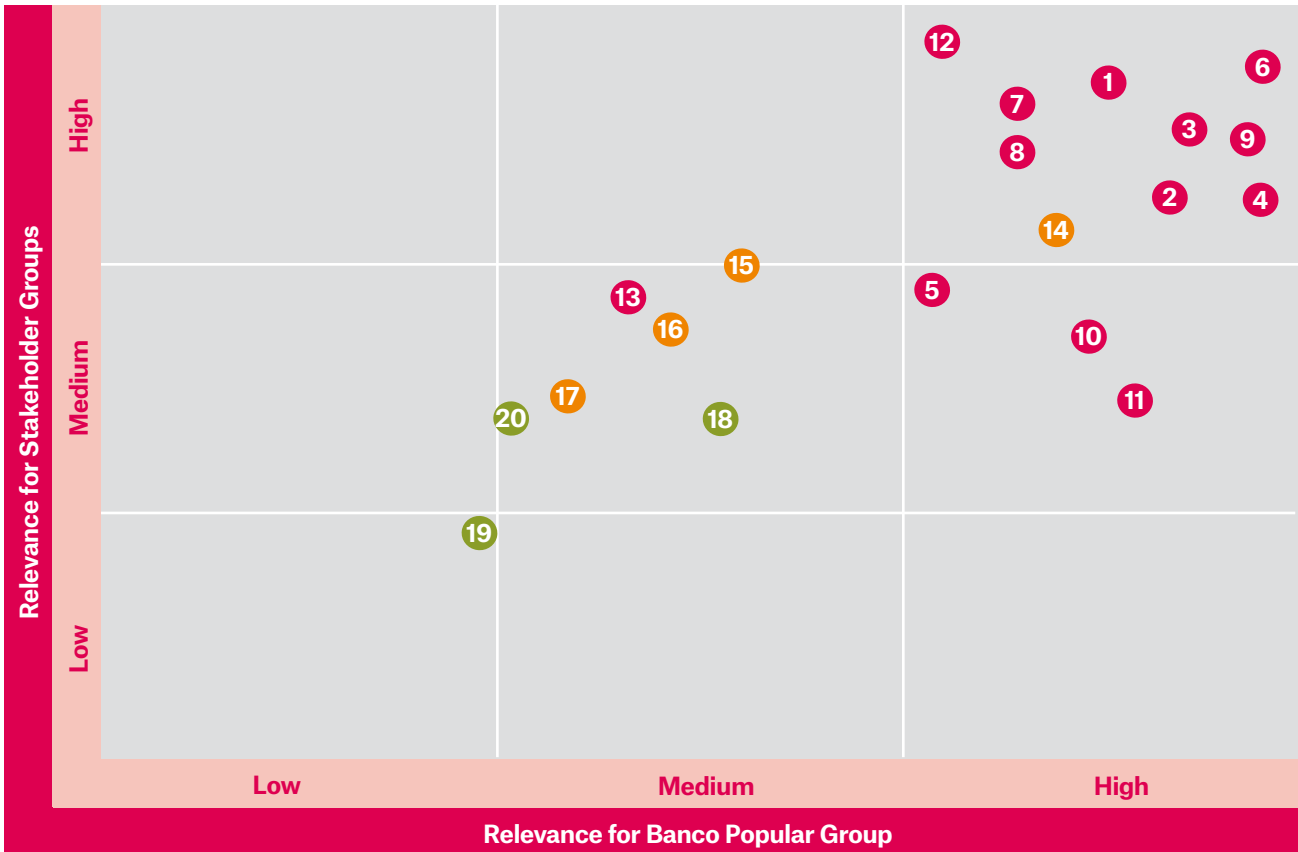
# 4 Strategic lines and performance

Banco Popular's corporate strategy reflects the corporate culture and the business model which have made the Entity a leader in profitability, solvency, and efficiency. 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.

## 4.1. Materiality Analysis

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

Materiality matrix for Banco Popular – 2015



This is a dynamic exercise that allows Banco 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 was then performed to know the importance that Banco 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, as shown on the preceding page.

## 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

## 4.2. Risk management model

Banco 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. Accordingly, the risks exclusively involving banking activity are set out in detail in the policies and procedures established by the Group for risk monitoring and control, and are published in the Annual Report and the Annual Corporate Governance Report.

### 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 2015 has resulted in the identification of a total of 14 potential risks, none of them serious.

Risk map for Banco Popular – 2015



The map set out below places the risks identified for the Bank taking into account the following criteria:

- **Likelihood of occurrence:** shows the likelihood that the risk will materialise.
- **Impact on 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, Banco Popular implements a series of actions described in the tables of pages 64 and 65.

## 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 environment
- 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

## Banco 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><i>Commercial Management Master Plan</i></li> <li><i>Customer Platform Project</i> 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, road shows, 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 environment	<ul style="list-style-type: none"> <li>Demographic and social changes</li> <li>Low 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> </ul>	<ul style="list-style-type: none"> <li>Development of products and services with special environmental benefits</li> <li>Support for the development of environmental initiatives</li> <li>Analysis of the Entity suppliers' activities</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>Planning routines that include 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 agents	<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 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 specific road shows and 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>



## Banco 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 economic risks: credit, external, balance sheet, market, liquidity and regulatory structures</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>

### 4.3. Our business strategy

The development of the strategic lines described below offers an integrated and concise view of the Bank's economic, social, environmental and corporate governance 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 stakeholder groups affected by these as well as their key performance indicators are given.

#### Identification of the main strategic lines

- 1** Prioritise Good Governance and regulatory compliance
- 2** Reinforce economic strength
- 3** Be a customer's bank
- 4** Continue to be the bank of reference for SMEs and self-employed persons
- 5** Strengthen business with private individuals and families
- 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

## 1

## Prioritise Good Governance and regulatory compliance

### Actions

- Promotion of the organisation's Good Governance and adaptation to best practices
- Active response to new regulatory requirements
- Focus on risk management
- Progress in the development of control systems
- Spreading the organisation's Good Governance to the supply chain

### Capitals involved

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

### Stakeholder Groups

- Shareholders and investors
- Analysts
- Regulatory bodies
- Employees
- Suppliers
- Media

### Materiality

- 1 Culture and Corporate Governance
- 2 Compliance and control

### Related risks

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

### Key Performance Indicators

- Number of Directors: 14
- Independent Directors: 36%
- Women on the Board of Directors: 21%
- Branches audited: 54%

During 2015, Banco Popular continued its constant pursuit of the highest standards of good governance and complied with 97% of the recommendations of the New Code of Good Governance for Listed Companies. It reduced the number of members of the Board of Directors to 14, with 79% being external Directors, divided into six proprietary Directors and five independent Directors, the remaining 21% being executive Directors. In the same manner, the number of women on the Board of Directors has increased to reach 21% representation.

In line with the continuous evaluation by the governing bodies and Senior Management, it has continued to implement and monitor the evaluation policy of the suitability of Directors, General Managers or similar, responsible for internal control functions and other holders of key positions for the daily development of the banking activity. The objective is to establish the internal procedures and planned criteria for Banco Popular to select and evaluate candidates for positions that are considered to be essential to its activity.

Banco Popular, in adapting to the recommendations and principles of the New Code of Good Governance, proceeded to change the name of its Appointments Committee. In 2015 it became to be named as the Appointments, Governance and Corporate Responsibility Committee. While this Committee already had the competence to propose the fixing of the Corporate Responsibility strategy and to carry out the verification of compliance, this amendment conforms to Principle 23 of the New Code of Good Governance in which the identification and allocation of these functions to a specialist is recommended with the aim of promoting the management of these issues in a more intense and committed manner.

Also, in line with these recommendations, the Corporate Responsibility Policy has been made suitable to good corporate governance practices. The primary objective of this Policy is to create shared value, taking into account the expectations of the different stakeholders and managing business risks and opportunities from the environment.

Since 2012, Banco 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 *Employee Code of Conduct*, establishes the principles, general rules and action guidelines, as well as their practical application. The Whistleblower Channel, a system through which the knowledge of any breach in the *Code of Conduct* can be made confidentially, received no reports in 2015.

Banco Popular has extended its corporate values and commitment to developing Good Governance to the organisation of its supply chain. Its business relationship with suppliers and their acceptance of the *Supplier Code of Conduct* has assisted the Bank in imparting this sense of accountability. That code 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.

In an environment characterised by a trend change and a slow return to normality in the major macroeconomic variables, Banco Popular has shown once again its ability to manage its balance sheet and generate recurrent revenues.

Thus, Popular's net profit achieved in 2015 was 350 million euros, an increase of 6.1% over the previous year. In the fourth quarter, to cover a possible legal risk from the potential elimination of floor clauses retroactively to May 2013, the bank considered it prudent to provide, in an extraordinary manner, provisions amounting to 350 million euros and, consequently, the profit amounted to 105 million euros.

Regarding the income statement, net interest income stood at 2,251 million euros, 3.4% less than in 2014. Compared with the rest of Spanish banks and despite the strong competition and the complexity of the environment, Popular's net interest income is the one who has a greater weight of income from retail banking.

Meanwhile, the ROF, with 517 million euros, decreased 37% compared with 2014. Mainly due to this decline, gross income stood at 3,431 million euros, 11.5% less than the previous year. This lower ROF contribution to the income statement was offset in two ways; on one hand, with the incomes from the pure banking activity. And on the other, the efficient management of costs, one of the pillars on which the bank's strategy rests. As a result, operating income stood at 1,689 million euros, 15.7% less than in 2014. This last margin of the income statement has increased by 8.4% if results from financial operations and extraordinary items are not taken into account.

In regard to commercial development, new lending amounted to 23,411 million euros, which represents an increase of 7.2% over the previous year. In this regard, it is noteworthy that lending to SMEs and self-employed persons increased by 13% and to individuals by 0.4%. The bank improved its market share in lending by 21 basis points, reaching 7.64%, and by 29 basis points in deposits, up to 6%.

In 2015, the bank has increased credit accounts by 59%, trade discount by 9%, *factoring* by 32% and *confirming* by 17%. In addition, *leasing* has increased by 39% and it should also be noted that since the introduction last October of *Tenemos un Plan*, Popular increased its linked customers by more than 142,000.

The NPL ratio was down for the eighth consecutive quarter, standing at 12.86%, 92 basis points less than in the previous year. Gross NPL showed a decreasing trend throughout the year and decreased by 33.38% compared with the same period in 2014.

Finally, at the end of 2015, Popular's CET1 ratio stood at 13.11%, well above the SREP regulatory requirements of 10.25%. The CET1 *fully loaded* ratio stood at 10.86% and the *fully loaded* leverage ratio according to CRR reached 6.07%. Since 2008, the LTD ratio has decreased 64.7% and stands very close to the 100% objective at 109%. In this sense, Popular has achieved this capital ratio on its own, with a business model primarily linked to companies without receiving public aids and without transferring property assets to SAREB.

## 2

### Reinforce economic strength

#### Actions

- Profitability improvement and recurrent revenue generation
- Maintenance of efficiency levels
- Active management of margins
- Maintenance of solid financing and liquidity position
- Proactive management and containment of non-performing assets and provisions

#### Capitals involved

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

#### Stakeholder Groups

- Shareholders and investors
- Analysts
- Regulatory bodies
- Customers
- Media

#### Materiality

- 3 Economic strength
- 4 Risk Management

#### Related risks

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

#### Key Performance Indicators

- Total assets managed: 179,431,235 million euros
- Profit before taxes: 114,184 million euros
- Profit before provisions: 1,689,471 million euros
- Gross income: 3,430,911 million euros
- RORWA: 0.13%

## 3

**Be a customer's bank****Actions**

- Increase personalised commercial offering centred on the customer
- Promoting excellence, innovation and quality in the commercial relationship
- Increase the business's multichannel offering

**Capitals involved**

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

**Stakeholder Groups**

- Customers
- Employees

**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

**Key Performance Indicators**

- Market share of loans: 7.6%
- Loans and advances to customers: 107,085,210 million euros
- Investment in R&D+I: 148 million euros
- Perceived quality index: 8
- Objective quality index: 7
- Multichannel bank clients: 68%

Banco Popular puts customers at the centre of its business model, allowing it to attend to their changing demands and ensuring the competitiveness and efficiency that are characteristic of 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.

The Group makes its more than 15,000 employees available to its 4.8 million customers who render their services at 2,124 branches operated by the Group and the multichannel banking service that is available 24 hours a day throughout the year.

Since October 2015, Popular has had an offering for its private individuals called *Tenemos un Plan* aimed at capturing and linking individuals and self-employed people. In its quest to provide personalised service, different offers have been created depending on the specific segment to which the individuals belong, focusing on, among other criteria, the volume of resources available to them, their age or their funding needs. All customers included in each of these offers may also benefit from financial and non-financial benefits, including discounts free of charge or on preferential terms, discounts on the purchase of products and services needed, or even customer payment exemptions offered with some of the fees associated with the most common financial products and services. With this new commercial offer, Popular seeks to transfer to the group of individuals, the expertise and leadership that currently holds in the SME sector.

Banco Popular is committed to providing transparent and accurate information regarding the characteristics and conditions of its products and services. 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. In this regard, the association responsible for managing the advertising self-regulation system in Spain, Autocontrol, has granted Banco Popular a certificate that attests to ethical and responsible action on the part of the Bank with respect to advertising information.

All of this allows the services offered by Banco Popular to its customers to be carried out to certain quality levels that seek to obtain maximum customer satisfaction. In order to make progress in this respect, the Commercial Quality Model pursues the identification and improvement of the perception of the Bank's image and its services from current and potential customers. The satisfaction of the customer with the service can be ascertained, evaluated and quantified through the measurement of different variables, such as, the treatment and advice received, professionalism and the commercial performance of employees.

With regard to the Multichannel Banking Service, the Bank has made progress in the monitoring of the quality of the services rendered and the mobile and Internet channels have received an "A" rating, the maximum awarded by Aqmetrix. The Customer Service Department channels all customer complaints and claims, which are monitored and evaluated to define the corrective steps necessary.

Within the framework of Banco Popular's commercial strategy, which places the customer at the centre of its business, a noteworthy characteristic is the high level of specialisation in serving a very specific type of customer: SMEs. One year on and the Bank has maintained its position in this area that is reflected in the business figures, the most important being:

- More than 1 million SMEs and self-employed persons are customers
- Almost 32,000 million euros in financing has been granted to SMEs and the self-employed in Spain.
- More than 367 million euros have been granted to SMEs and the self-employed through micro-financing in the form of credits, loans, leasing and renting.
- High specialisation of professionals – a total of 39 Business Centres, one in every Regional Directorate – and more than 817 managers throughout all branches.

The Bank boasts both human capital and an organisational structure that are aimed at satisfying its customers' needs. In this way, the Bank enjoys a distribution model that is respected: the Business Centres. The aim is to facilitate access to the Bank by new companies through 189 highly qualified managers whose only purpose is to attend to the needs of potential SME and self-employed customers.

The Agri-food and agricultural sectors maintained a strong relevance for Banco Popular in 2015. In this sense, it has kept the structure which supports these businesses and through the position of Agri-food Business Directors in all eight Territorial Directorates. Their function is to attract and build a relationship with customers from this sector. Its work is supported by 679 "Agri-Managers" distributed in 650 branches specialised in the agri-food business. In 2015, Popular signed an agreement with the European Investment Bank (EIB), under which a specific line of funding for this sector was created, and endowed with 50 million euros with those who have already signed 519 projects around the country.

As part of the advantages that the Bank offers SMEs, it makes available several lines of preferred financing through collaboration agreements with entities such as the ECB, ICEX, EIB, FEI, and CESCE. It also has various retirement products, such as Employment Pension Plans for SMEs and the group life insurance Euroriesgo Plus that assists with customer tax planning.

It is worthy of note that, in 2015, Banco Popular made available for its customers foundations for the creation of a microcredit line aimed at the promotion of entrepreneurship and self-employment among groups at risk of exclusion. The goal is to increase the level of banking among groups with difficulty in accessing credit so that they may be better integrated socially and economically.

Finally, in collaboration with Cadena SER and El País, Popular has organised the first edition of the *Somos Empresa (We are Business)* awards, which aim to recognise the ability of Spanish entrepreneurs, create value and generate employment. These awards have been granted in response to several categories: *Somos Innovadores (We are Innovators)*, *Somos Internacionales (We are International)*, *Somos Conciliadores (We are Conciliators)*, *Somos Sostenibles (We are Sustainable)*, *Somos Futuro (We are Future)* and *PYME (SME) 2015: Somos Inspiradores (We are Inspirers)*.

## 4

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

#### Actions

- Specialised service for SMEs and self-employed persons
- Help companies internationalise
- Increase agreements to support SMEs and self-employed persons
- Promote the commercial relationship with professional groups
- Support for entrepreneurs

#### Capitals involved

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

#### Stakeholder Groups

- Customers
- Society

#### Materiality

- 9 Commercial strategy for SMEs and self-employed persons

#### Related risks

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

#### Key Performance Indicators

- SMEs and self-employed clients: 1,038,000
- Credit share of companies: 12.18%
- Financing for SMEs and self-employed persons: 31,947 million euros
- Micro-financing for SMEs and self-employed persons: 367 million euros

## 5

**Strengthen business with private individuals and families****Actions**

- Offers specifically aimed at private individuals
- Attracting retail liabilities
- Adapting the specific offer of families to the changing environment

**Capitals involved**

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

**Stakeholder Groups**

- Customers
- Society

**Materiality**

- 10 Commercial strategy for individuals

**Related risks**

- 3 New customer demands
- 5 Changes in the social environment

**Key Performance Indicators**

- Private individual clients 4,207,681
- Óptima (Optimum) clients 103,934
- Private Banking clients: 6,873

Historically, Banco Popular has focused its activities on financing, savings management and economic services for private individuals, families and companies, which has allowed it to become one of the leading commercial banks in Spain.

Even taking into account the reduction in retail deposits over the past year, the Bank has consolidated itself as one of the primary savings channels for private individuals. Obtaining retail liability is one of its management priorities. For this reason the Bank has entered into 161 national agreements with various groups of private individuals and professionals to which special conditions are offered, particularly for savings products, which has produced a business volume of more than 15,000 million euros.

During 2015 it rolled out a series of actions to reinforce its private individual customer base, notably the following:

- Greater links with private individuals so that Banco Popular becomes their bank of reference. The Group considers this to be a condition associated with the concept of a customer, to which it must aspire and, once obtained, maintain and consolidate. This action was reinforced in 2015 with the marketing of the *Tenemos un Plan* offering.
- Increase in *Óptima* customers, an area aimed at customers with a net worth of between 150,000 euros and 750,000 euros, in order to position Banco Popular as their Entity of reference. This segment has its own brand, a specific commercial portfolio appropriate to their profile as well as specific space in branches and a distinctive website. In order to optimally manage their equity, a personal manager with expertise in large equity positions also provides professional advisory services.
- Popular, through the tender held by Social Security in 2015, was the Entity chosen to make payment of pensions in Spain. This therefore reflects the confidence that the public body has placed in the quality and management of the service offered by the Group. The result, through this agreement, is a greater linking of these customers who, over the next three years, may opt not only to collect their pensions but also to combine it with all the offers that Popular provides to this segment.

Finally, through Popular Banca Privada, more than 7,000 customers with a high net worth count on a wide range of products and services, as well as a team of expert assessors, which allows them to optimise the profitability of their investments. In addition, the Bank has 32 branches located in the main Spanish cities, through which it provides services both to clients from the Group's network and to direct clients.

Banco Popular has continued developing appropriate measures to increase its expansion in the medium term through prudent geographical diversification, exploiting the competitive advantages of the Bank, particularly in the SME and self-employed segments.

In this regard, the consolidation of the strategic alliance entered into with the Mexican economic group Ve Por Más (BX+) is particularly noteworthy. This alliance culminated in 2014 with the acquisition of 24.9% of the Mexican economic group, the appointment of Antonio del Valle to Banco Popular's Board of Directors and the commitment to open 50 branches in Mexico during 2015 and 2016.

In addition, as a result of the objective to maintain its international presence, the Group has 14 representative offices, 3 collaboration offices and 188 branches in 16 countries.

In 2015 Popular Payments signed a strategic agreement with the Chinese company UnionPay International which will allow its clients to accept payments in its POS with the Asian issuer's cards. Through this partnership, businesses from the Popular Payments network, a *joint venture* between Banco Popular and Evo Payments International, specialised in solutions for physical and digital payment, can perform transactions with UnionPay cards, used mostly by Oriental tourists and foreign residents in Spain.

Additionally, in December 2015, Banco Popular Group agreed to sell to its 50% shareholding in UniversalPay, Entidad de Pago, S.L. to EVO Payments International. In that company, Popular maintained the 50% that it has agreed to sell, while Evo Payments International already owns the other 50% and has control of the company. As a result of this agreement, UniversalPay no longer belongs to the Group as 100% control has been passed to the new buyer.

Finally, Banco Popular Portugal and Consulteam, investee companies 100% owned by the Banco Popular Group, agreed to sell the property assets business management unit and debt related to the real estate sector to the company Reclus S.A. With this transaction, the Group has two objectives: first, to maximise profitability of the real estate management business in Portugal, taking advantage of the knowledge and expertise of a partner specialised in optimising the management of property assets management, the recovery of defaults and the management of impaired assets; on the other hand, separating the management of this business allows Banco Popular Portugal to focus on traditional commercial banking activity, aimed at savings management and financial services to individuals, families and businesses and, in particular, to SMEs.

## 6

### Leverage opportunities for diversification and specialisation

#### Actions

- Develop the business's diversification plans
- Take advantage of the business model's competitive advantages

#### Capitals involved

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

#### Stakeholder Groups

- Shareholders and investors
- Employees
- Customers
- Society

#### Materiality

- 11 Business diversification

#### Related risks

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

#### Key Performance Indicators

- Branches in Spain: 1,936
- Branches overseas: 188
- Representative offices: 14
- Collaboration offices: 3
- Countries with Group presence: 16

## 7

**Ensure the responsible development of the activity****Actions**

- Development of a commercial offering with a positive social and environmental impact
- Increase Socially Responsible Investment
- Promotion of 'bancaisation' and accessibility
- Economic education and entrepreneurship

**Capitals involved**

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

**Stakeholder Groups**

- Shareholders and investors
- Employees
- Analysts
- Society
- Customers
- Media

**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 environment
- 6 Changes in the environmental scenario
- 9 Shareholder and investor requirements

**Key Performance Indicators**

- Monetary value of products with special social and environmental benefits: 2,379 million euros
- Branches in low population density areas: 26%<sup>(1)</sup>

Harmonising business success with action that is respectful of and committed to the environment is a responsibility that Banco Popular assumes. Therefore its action with respect to Corporate Responsibility entails a constant innovation exercise allowing new initiatives to be developed that favour the creation of shared value through business.

The Group has several economic instruments whose primary objectives are to generate a positive social and environmental impact, in addition to attaining an economic benefit. Among these, the following are notable:

- Investment funds that take into consideration social, environmental and good governance criteria: FONEMPORIUM, GAWA MICROFINANCE FUND SCA SICAR, InC INCLUSIÓN GLOBAL FUND SCA SICAR, PBP BIOGEN and PIONEER GLOBAL ECOLOGY. Also, in 2015, Popular began to market a new investment fund named EUROVALOR COMPROMISO ISR, FI whose portfolio is composed, in its entirety, of Socially Responsible Investment funds.
- Means of payment where a percentage of spending is donated to a social entity: Visa Domund, Visa Aldeas Infantiles, Visa Misiones Salesianas and Visa Alter.
- Insurance with special social benefits: Euroriesgo Plus, Payment protection, Creditshield and Ahorro Bonificado Creciente (ABC - Increased Savings Bond).
- Financing of quality studies on preferential conditions for students who lack the necessary resources through the "Programa de Créditos a la Excelencia Académica" (Academic Excellence Loan Programme).
- Financing of social projects and energy infrastructures with positive social and environmental impacts.

In addition, SRI criteria also applies to 83% of the Bank's Employee Pension fund portfolio. Investments made in this portfolio are managed according to more demanding evaluative and exclusion criteria, which means that ESG criteria are taken into account both the entire fixed and variable income portfolio.

On the other hand, 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. To this end, 507<sup>(1)</sup> branches are maintained in low-density areas, thus avoiding the likely negative effects caused by branch closures in these communities.

Furthermore, facilities have been adapted to allow easier access for disabled people and thereby reaffirming the Group's commitment to offering equal opportunities access of products and services to groups with particular needs. Also, it is working on making the channels more accessible to all users, regardless of their circumstances..

Finally, 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 economic knowledge, several actions were implemented with the intention of encouraging entrepreneurship, economic education and micro-loans. These measures are explained in detail in Annex 1. Economic dimension and Annex 2. Social dimension.

(1) Calculation based on branches in Spain owned by Banco Popular and Banco Pastor and on data from the Spanish National Statistics Institute (NSI) whose last available data is at December 2014.



The importance placed on the management of human capital by Banco Popular evidences the link between the professionalism of its human resources and the Bank's success, as well as its commitment to the social environment in which it operates. Regarding its employees, Banco Popular has the mission of attracting professionals with potential and contributing to their development through training and teamwork experience. Based on merits and capacities, people management is governed by criteria of professionalism and independence with maximum respect for non-discrimination and equal opportunities. The employees at the Group learn by quickly assuming responsibility and acquiring a high degree of autonomy in their daily work, committing to projects and attaining results.

During 2015, the Human Resources department 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. The implementation phase will take place during the first half of 2016 and aims to enhance the contribution of Human Resources to the business through better identification, development and implementation of people's talent.

It should also be noted that the culmination of the integration of Citibank staff has been completed preserving as much as possible the human capital of the entity. In this regard and due to its commitment to its employees, Banco Popular is one of the financial institutions that has not carried out any downsizing since the start of the economic crisis.

In terms of training, the actions defined in the *Transversal Corporate Responsibility Training Plan 2014-2016* have been implemented. The Plan, aimed at all personnel including members of the Board of Directors, serves the dual purpose of promoting CR training as well as awareness of the implications of responsible development of the Bank's activity. Thus, it is intended that the whole organisation is trained on the content and progress of the CR Master Plan *Horizon 2020*, involving everyone and their active participation in its development.

In 2015, Popular included sustainability indicators based on ESG criteria in the calculation of employees' bonuses. These criteria represent a 10% of the total variable compensation each worker is entitled to receive from Banco Popular, Banco Pastor and Popular Banca Privada.

Finally, due to the result of internal progress that is being carried out on equality, Popular has signed a Cooperation Agreement with the Ministry of Health, Social Services and Equality by virtue of which it is committed to taking measures to increase the presence of women in management positions and management committees.

In addition, the Community of Madrid has given Banco Popular an honourable mention in the Madrid Flexible Company Award in the large company category for the implementation of measures to promote professional and personal flexibility as a management tool to increase competitiveness and retain talent.

## 8

### Develop and manage the organisation's human capital

#### Actions

- Attracting and selection of talent
- Personnel management
- Compensation, benefits and innovation
- Training and development
- Employee communication and participation

#### Capitals involved

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

#### Stakeholder Groups

- Employees

#### Materiality

- 14 Human capital management

#### Related risks

- 14 Changes in professional performance

#### Key Performance Indicators

- Number of employees: 15,079
- Female employees: 38%
- Female executives: 19%
- Number of employees promoted: 971
- Turnover rate: 0.36%
- Hours of training per employee: 36
- Investment in *Plan Concilia*: 2,874 million euros

## 9

**Encourage the creation of shared value****Actions**

- Generation of direct and indirect value through the development of the banking activity
- Integration and management of stakeholder groups' expectations
- Contribution of value through the CR Plan *Horizon 2020*
- Implementation of the Supply Chain Risk Management Model
- Positioning of CR initiatives
- Promotion of the Corporate Volunteering Programme

**Capitals involved**

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

**Stakeholder Groups**

- Shareholders and investors
- Employees
- Analysts
- Society
- Customers
- Suppliers
- Media

**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 environment
- 6 Changes in the environmental scenario

**Key Performance Indicators**

- Economic value generated: 3,470 million euros
- Economic value distributed: 1,698 million euros
- Volume of purchases from ESG criteria approved suppliers: 92%
- Social investment: 13,3 million euros
- Volunteer work opportunities: 12
- Active volunteers: 201

The Group has built its business culture based on the development of its activity in a manner that is responsible and committed to all those persons that in some way influence or are influenced by its activity. Accordingly, the development of the banking activity generates a series of direct and indirect impacts on the environment in which the Bank operates.

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 Corporate Responsibility strategy is the creation of tangible and intangible shared value. For that reason, the Group has launched its Corporate Responsibility Master Plan *Horizon 2020*, in order to frame its strategy in this area in a multi-year plan that covers all of its business management and introduces it into the Management Committee's agenda.

The Group is extending this accountability to its supply chain through the *Supplier Code of Conduct*. Under this code, suppliers accept the selection and operation criteria that the Group applies before approving a supplier, in accordance with its corporate culture and Corporate Responsibility strategy.

Furthermore, the Bank is a signatory to the United Nations Global Compact, thereby ratifying that its activity is carried out in accordance with the ten principles established by this initiative. The Bank carries out its activity in an ethical manner that respects the principles established in the Universal Declaration of Human Rights and in 2015 no issues arose that gave rise to any violation of those principles. Additionally, in 2015, the Group participated in several Corporate Responsibility initiatives to strengthen its position in this area:

- Presence in sustainability indexes: FTSE4Good-Ibex35, Euronext Vigeo Eurozone 120, Euronext Vigeo Europe 120, Ethibel Pioneer and Ethibel Excellence.
- Participation in the Carbon Disclosure Project.
- Collaboration with other organisations and associations in the economic area, notably:
  - Spanish Bankers Association
  - Foundation for Applied Economic Studies
  - Asociación Española de Profesionales de Compras, Contratación y Aprovisionamientos (AERCE - Association of Purchasing, Contracting and Supply Professionals in Spain)
  - Asociación de Instituciones de Inversión Colectiva y Fondos de Pensiones (Spanish Association of Mutual and Pension Funds)
  - Asociación Española para la Calidad (AECE - Spanish Association for Quality)
  - Inserta Responsible Forum - ONCE Foundation
  - RefereMte Foundation

Lastly, employees have the opportunity of participating in charitable initiatives through the Corporate Volunteering Programme. All actions are coordinated through "*con tu ayuda*" (*with your help*), a web portal created to channel part of the Group's solidarity commitment. The Bank considers corporate volunteering as a tool for promoting economic education; therefore, a number of Bank employees devote their free time to training groups with a low level of banking.

Based on the Corporate Responsibility strategy approved in *Horizon 2020* and in keeping with the principles established in the Group's environmental policy, a commitment was made to develop the *2014-2020 Eco-efficiency Plan*, the cornerstone of the internal environmental policy.

This plan 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 CO<sub>2</sub> direct 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.

The *Eco-Efficiency Plan* combines a long-term vision, extending until 2020, with a practical approach in the short term. To do this, two periods of action that include objectives, actions and concrete monitoring indicators exclusively affecting the operational and functional activities of the Bank, mainly in Spain but also on an ad hoc basis Portugal and the United States, are set.

The objectives established in the Plan for the two defined periods are:

- Reduce the consumption of electricity, paper and water, as well as CO<sub>2</sub> emissions, by 6% by 2020.
- Maintain the offset of the direct emissions of Banco Popular in Spain.
- Implement sustainability criteria in purchasing processes.
- Reduce the Bank's environmental impact in other areas: waste management and recycling.

Furthermore, the Group shows its commitment to the environment by supporting various initiatives: it is a signatory to the CDP, participates annually in the WWF Earth Hour and provides information to its employees about World Water Day. Also in this year, Popular has obtained the "CALCULO" seal from Ministry of Agriculture, Food and Environment (MAGRAMA) for registering the calculation of the carbon footprint it generated in 2014. The Bank has joined the *1 million for climate* initiative driven by the ECODES Foundation recording a series of commitments and actions in order to mitigate the impact that climate change is having on the planet.

Finally, between 2014 and 2015, it has been implemented a course in environmental awareness aimed at all employees to allow them to develop their daily activity in a manner that is respectful towards their environment and that causes the least possible impact on it.

## 10

### Promote eco-efficient behaviour

#### Actions

- Development of the *2014-2020 Eco-efficiency Plan*
- Promotion of environmental commitments

#### Capitals involved

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

#### Stakeholder Groups

- Shareholders and investors
- Employees
- Analysts
- Society
- Customers
- Suppliers
- Media

#### Materiality

- 18 Environmental management
- 20 Commitment to the environment

#### Related risks

- 6 Changes in the environmental scenario

#### Key Performance Indicators

- Consumption of electricity: 20.02 GJ/employee
- Consumption of water: 9.34 m<sup>3</sup>/employee
- CO<sub>2</sub> emitted: 0.88 Tn/employee
- Consumption of paper: 0.09 Tn/employee
- Environmental investment: 13,3 million euros

# 5 Banco Popular Group for the future

## 5.1. Evolution of the Spanish economic system

As in 2015, 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.

Certain signs of improvement detected in the economy during 2014 have continued in 2015, indicating that the Spanish economy is on the road to recovery. Among those signs are GDP growth, which has now risen for ten consecutive quarters, the continued drop in unemployment and the reduction in the deficit of approximately 28,000 million euros in the first 11 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 2016. 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 – 2015/2016 (\*)

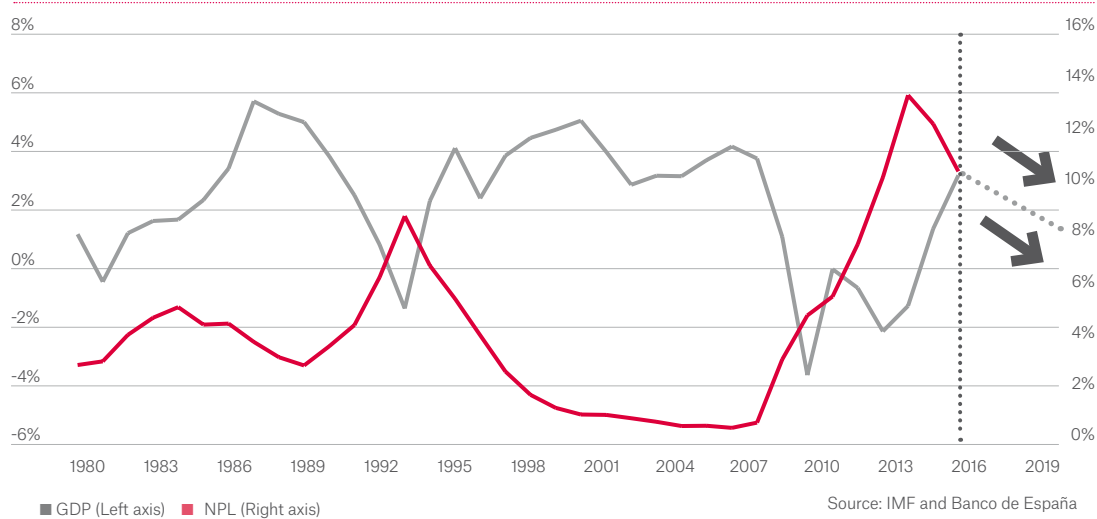
	2015	2016
Real GDP	2.1	2.7
Consumer spending	2.5	3.0
Public spending	0.5	1.0
Gross fixed capital formation	4.1	5.0
Domestic demand (contribution to growth)	2.4	3.0
Exports	5.0	5.5
Imports	6.5	6.8
Employment	1.7	2.4
Unemployment rate	25.6	20.4

Source: FUNCAS, *Panel of forecasts for the Spanish economy*, January 2016

(\*) 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 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 ratio



The projected unemployment rate in Spain for 2016 is around 20%. Due to the high correlation between unemployment and default, this information requires the Bank to remain prudent.

However, in this context of difficulties and uncertainties, the recent changes in the Spanish economy invites to a moderate optimism for 2016. It is consequently expected that conditions continue improving for the relaxation in lending.

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, the main financial institutions are adapting to the Banking Union. Firstly, to supervision from the European Central Bank. In 2016, entities will be subjected to new asset quality reviews and stress tests, following those conducted in 2014, according to which Spanish banks are in a strong position.

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 stable and uniform regulations so that the economic sector may carry out its primary business: transferring financing to the real economy. Looking ahead, endeavours for the development of the Banking Union will continue. These will be focused on the Single Resolution Mechanism for Entities in 2016.

These factors, depressing the profitability of financial institutions, along with the process of construction of the Banking Union, could cause bank concentration processes, both in Spain and in other countries of the Eurozone.

## 5.2. Banco 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.

Under these circumstances, Banco Popular continued its reinforcement during 2015 to confront 2016 from a position of strength, retaining its position of leadership in solvency, profitability and efficiency.

Link 2016 challenges to strategic lines, materiality, risks and capitals

	2016 Challenges	Planned date	Association with strategic line
Structural	Application of new requirements of external regulators	2016-2017	<b>1</b> Make good Governance and regulatory compliance a priority
	Development of a new documentation platform for the Board of Directors	2016	
	Promotion of strategic alliances to strengthen business development	2016	<b>6</b> Leverage opportunities for diversification and specialisation
	Deepening into the policy of approximation to shareholders and investors	2016	<b>9</b> Encourage the creation of shared value
Economic	Maintaining a healthy balance sheet: <ul style="list-style-type: none"> <li>Strong capital base</li> <li>Control over non-performing loans and the strength of their coverage</li> <li>Stable liquidity</li> </ul>	2016	<b>2</b> Reinforce economic strength
	Adapt commercial offers for individual customers to the new business conditions	2016	<b>3</b> Be a customer's bank <b>5</b> Strengthen the business with private individuals and families
	Deepening of economic personalisation for SMEs and self-employed persons	2016	<b>3</b> Be a customer's bank <b>4</b> Continue to be the bank of reference for SMEs and self-employed persons
	Empowerment of products with special social and environmental benefits	2016-2018	<b>7</b> Ensure the responsible development of the activity
	Definition of the investment and funding policy using ESG criteria	2016	
	Minimising the risks from Banco Popular's supply chain in Spain	2016	
	Social	Implementation of the Personnel Management Model	2016
Development of the <i>Transversal Corporate Responsibility Training Plan 2014-2016</i>		2016	
Empowerment of the presence of women in management positions		2016	
Fostering entrepreneurship and labour inclusion of groups at risk of exclusion		2016-2017	<b>9</b> Encourage the creation of shared value
Promotion of training and economic education of groups at risk of exclusion		2016-2017	
Progress in measuring the impact of projects financed with the help of Banco Popular		2016	
Environmental	Implementation of the actions established in the <i>Eco-efficiency Plan</i>	2016-2017	<b>10</b> Promote eco-efficient behaviour
	Offset the direct emissions deriving from Banco Popular's activities in Spain	2016	

Banco Popular will retain its retail banking model focused on the customer and specialised on SMEs. Furthermore, the Bank will continue developing its internationalisation strategy and placing the focus on highly profitable business.

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
Structural	<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 environment</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>
Economic	<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 environment</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 environment</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 environment</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>
Social	<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 environment</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>
Environmental	<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>

# 6 About this Report

## 6.1. 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 2015. In this regard, it is noteworthy that during this period there were no significant structural changes in the Group, although there have been certain agreements to promote business development.

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 5, the information contained in this report for 2015 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 2016.

## 6.2. Principles and focus of the Report

As with the last Integrated Report published by the Group in 2014, 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 the establishment of the content of integrated reports.
- The *Global Reporting Initiative* (GRI) in its G4 guide and the supplement for the economic sector.

For this reason, this Integrated Report's principles and focus conform to the guidelines of the IIRC and GRI both with respect to the scope of its contents as well as the definition and quality of the information. Both aspects are described in detail in the following table.





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		<b>Materiality:</b> Present issues that reflect the significant social, environmental and economic impacts of the organisation.	→	Information regarding policies, strategies and data that affect the organisation and its environment in a transcendental way.	←	<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.
		<b>Participation of stakeholder groups:</b> Identify its stakeholder groups and describe how it has responded to their reasonable expectations and interests.	→	Balance between the information presented to the various stakeholder groups: shareholders, customers, employees, suppliers and the social and environmental community.	←	
		<b>Sustainability:</b> Report performance within the broadest context of sustainability.	→	Presentation of the measures that contribute to preserving the social and environmental context in the Group's area of influence.		
		<b>Exhaustiveness:</b> Indicate the scope, coverage and timing of the report.	→	Disclosure of the activities carried out by the Group in as much detail as possible with respect to their content and timing.		
Quality		<b>Balance:</b> Disclose positive and negative aspects of the organisation's performance to provide an overall evaluation.	→	Presentation that allows an appreciation of data trends and an analysis of the changes experienced by the organisation over time.	←	<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.
		<b>Punctuality:</b> Disclose information on a timely basis and following a regular schedule.	→	Publication of the report during the first quarter of the year following the year being reported.		
		<b>Comparability:</b> Present information in a consistent manner, facilitating comparability.	→	Information prepared in a consistent manner and presented by calendar year.		
		<b>Clarity:</b> Present information to stakeholders in an understandable and accessible manner.	→	Systematically ordered content of the various Group initiatives.	←	<b>Reliability and integrity:</b> Include all relevant positive and negative matters in a balanced manner without significant errors.
		<b>Precision:</b> Report precise and sufficiently detailed information such that the organisation's performance may be evaluated.	→	Detailed and precise description of the information, making reference to other public documents issued by the organisation to obtain further information.	←	<b>Relevance and conciseness:</b> Provide concise and relevant information to evaluate a company's capacity to create value in the short, medium and long-term.
		<b>Reliability:</b> Ensure that the information has been gathered, recorded, compiled, analysed and presented in a manner that may be subject to examination.	→	Accurate and precise information in the report certified by external auditor verification.		

### 6.3. 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.

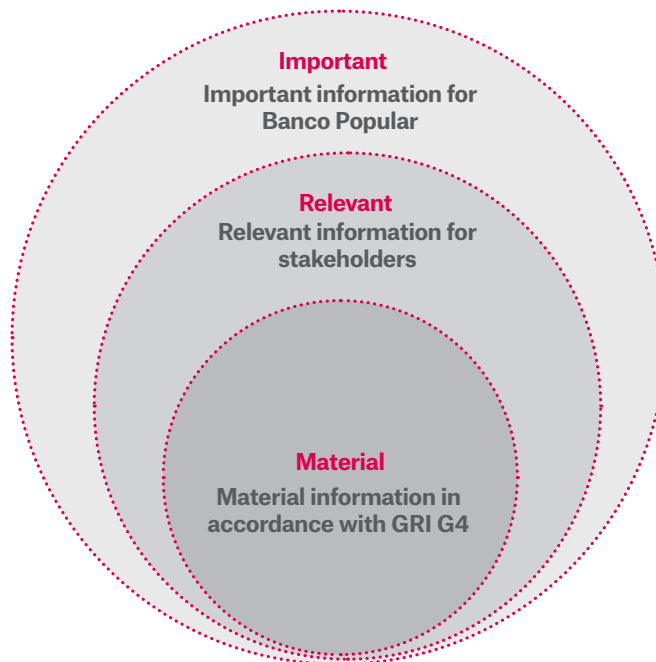
This way, each *Disclosure on Management Approach* (DMA) which comprises relevant issues for the Group has been linked to the material aspects identified in the corporate materiality matrix included in Chapter 4 of this Report. For each DMA a “coverage” level has also been established, specifying whether 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 2015 Integrated Report

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#### Integrated Report



Association of corporate material aspects with GRI G4 DMA

Category	Disclosures on Management Approach (DMA)	Corporate material aspect	Coverage	Scope
Impact of products and services	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
Economic dimension	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
Environmental performance	Materials	18	Internal	Group - Spain
	Energy	18	Internal	Group - Spain and Portugal
	Water	18	Internal	Group - Spain and Portugal
	Biodiversity	Not material	Not applicable	Not applicable
	Emissions	18	External	Group - Spain and Portugal
	Effluents and waste	18	External	Group - Spain
	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	
Labour practices and decent work	Employment	14	Internal	Group
	Employee-management relationships	14	Internal	Group
	Occupational health and safety	14	Internal	Group - Spain
	Training and education	14	Internal	Group - Spain
	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	
Human Rights	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	
Society	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
Product liability	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	

## 6.4. 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	8-14
	Vision, mission and values	14
	Structure	15-18
	Positioning in the economic sector	30-31
	Description of the environment	23-29
<b>Corporate Governance</b>	Governance bodies and mechanisms	32-37
	Decision-taking processes	32-45
	Reflection of the culture in the use of the various types of capital and their effect	38
	Remuneration and value creation	36-37
<b>Business Model</b>	Value chain	46-52
	Materiality	60-61
	Stakeholders: identification, selection and management	55-58
	Creation of shared value	53-58
<b>Opportunities and risks</b>	Identification of opportunities and risks	62-65
	Probability and occurrence and opportunities for improvement	62-65
<b>Strategy and assignment of resources: performance</b>	Objectives and actions taken to attain them	65-75
	Allocation of resources	65-75
	Measurement of attainments and challenges	12-13
<b>Future outlook</b>	The organisation's expectations regarding the environment and their effect	76-77
	Readiness of the organisation with respect to the future outlook	78-79
	Objectives set for each type of capital	78-79



## 6.5. 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 Report by integrating 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

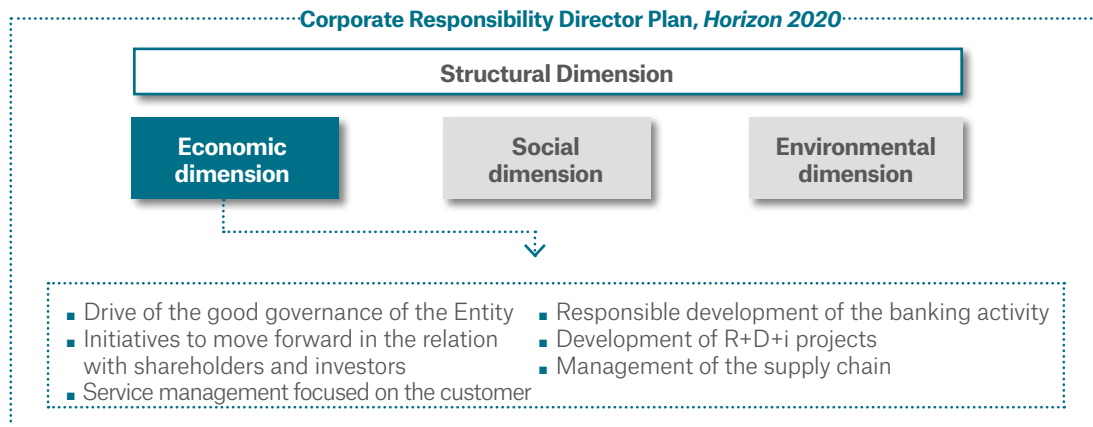
	Requested issues	Pages	Equivalent in GRI
Human Rights	1. Companies should support and respect the protection of fundamental Human Rights, recognised internationally, within their scope of action.	95, 96, 101, 104, 105, 119, 134, 139, 141, 142	G4-HR1, G4-HR3, G4-HR4, G4-HR12, G4-SO1, G4-SO2
	2. Societies must ensure that they are not involved with the violation of human rights.	101, 104, 105	G4-HR1, G4-HR12
Employment legislation	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.	74, 112	G4-HR6, G4-HR8
	5. Societies must support the eradication of child labour.	74, 112	G4-HR5
	6. Societies must support the abolition of employment and job discrimination practices.	34, 119, 120, 121, 124, 126, 137	G4-10, G4-HR3, G4-LA1, G4-LA3, G4-LA12, G4-LA13
Environment	7. Societies must maintain a preventive focus that benefits the environment.	75, 146, 147, 148, 150, 151, 152	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.	75, 146, 147, 148, 150, 151, 152	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.	75, 146, 147, 148, 150, 151, 152	G4-EN2, G4-EN6, G4-EN7, G4-EN19, G4-EN29, G4-EN30, G4-EN31, G4-EN34
Anti-corruption	10. Societies must work against all forms of corruption, including extortion and bribery.	43, 44, 45, 93, 131	G4-SO3, G4-SO4, G4-SO6

# Economic dimension

# 1

The economic performance of the Group takes into account certain guidelines set in the CR Director Plan Director *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. Annex 1 shows the most relevant results achieved through the course of actions defined in the Economic dimension, while those connected to the drive of the good governance of the Entity are detailed in Chapter 2 of this Report.

## Economic dimension of the CR Director Plan *Horizon 2020*



## 1.1. Popular, a customers' bank

### 1.1.1. The customer, the centre of the business model

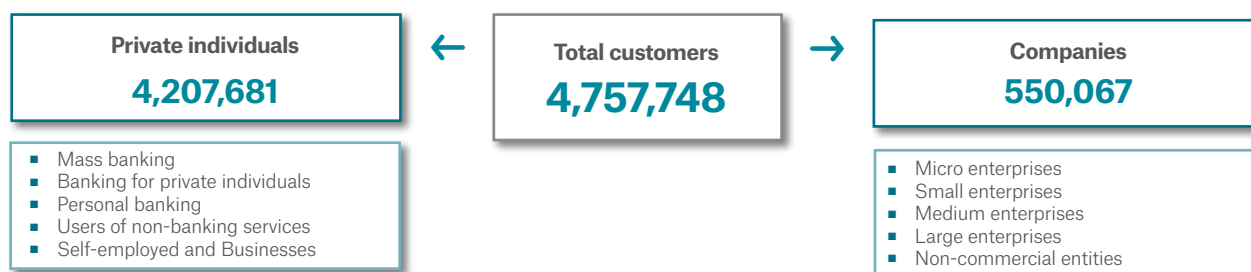
**4.8**  
millions of customers in  
Banco Popular Group

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. Through the commercial strategy and the integral management of customers, Banco Popular has achieved obtaining a larger knowledge of its needs. This has allowed it to develop commercial policies that better address offering customers quality services. In addition to excellence in those services, proximity and efficiency are priorities in customer relationships and they help maintain customer confidence.

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. 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.

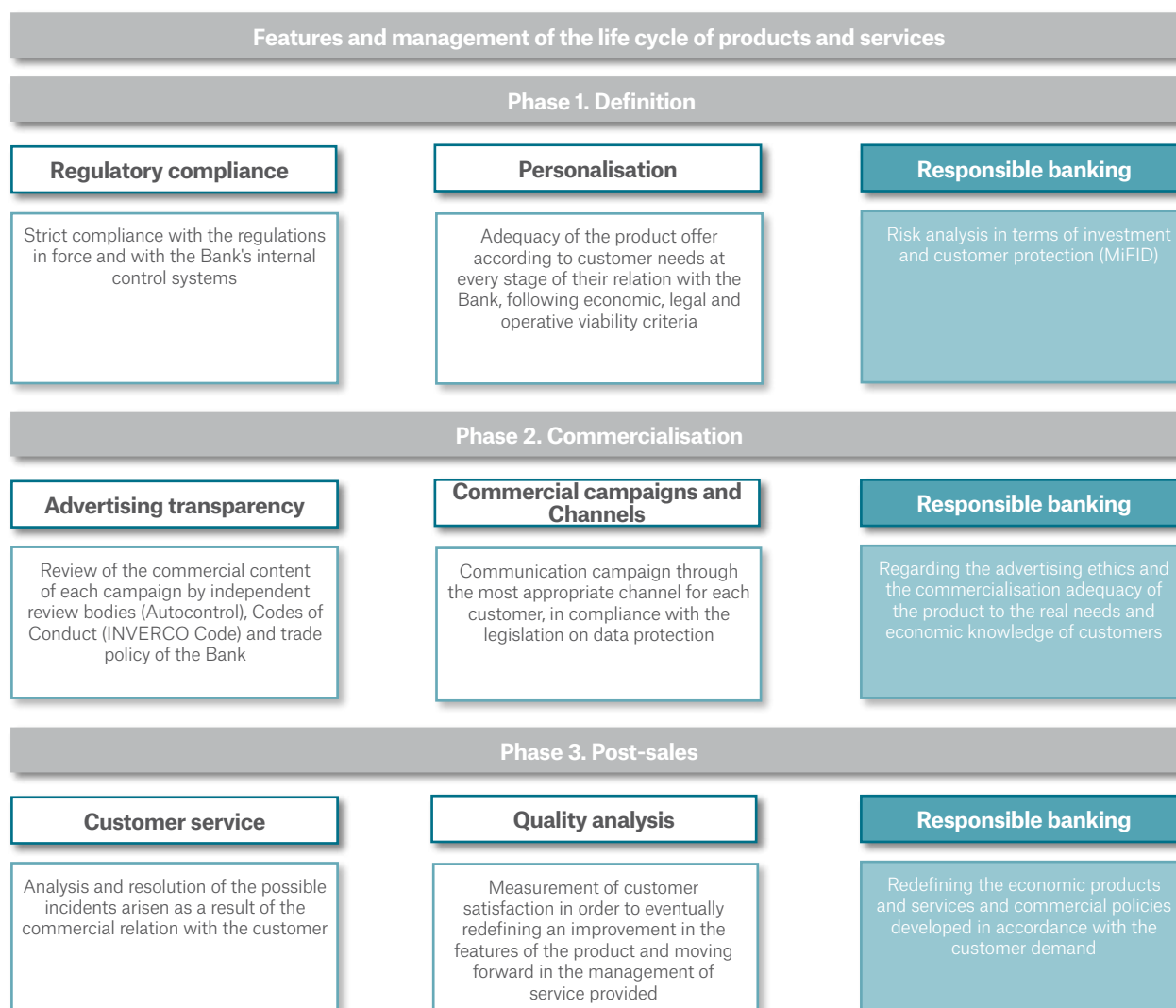
In 2015, the total number of customers of the Group amounted to 4.8 million between natural and legal persons, almost 700,000 customers fewer than in 2014. This decline was caused by structural changes in the Group in 2015, whose implementation has led to the development of certain adjustments such as removing customers by criteria of inactivity.

Segmentation of Banco Popular Group customers in Spain, Portugal and USA - 2015



In order to maintain customer confidence it is also important to efficiently manage key aspects such as data protection, advertising transparency and responsible financing. Accordingly, from the time the various products or services are conceived until they are marketed 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 2015.

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



## 1.1.2. Support for companies

More than  
**1,000,000**  
Spanish companies  
are clients of Popular

Corporate banking is one of Banco Popular's main core business: it manages more than 1,038,000 customers. This segment includes large companies, SMEs, self-employed persons, businesses and non-trading companies; the segment of SMEs, self-employed and businesses being the most significant in the Bank's results. During 2015, Banco Popular has kept almost 32,000 million euros available to finance this segment.

It is in the companies segment where the Group has a higher specialisation, reaching a credit market share of 12.18% in Spain and 22.30% in Galicia, the Autonomous Community where the presence of the Group is most significant.

Criteria to qualify for Micro, Small and Medium Enterprises as SMEs (Basel II) – 2015

Segment	Total assets	Income	CIRBE <sup>(*)</sup>
Micro Enterprise	≤ €1 million	≤ €1 million	≤ €0.7 million
Small Enterprise	> €1 million and ≤ €10 million	> €1 million and ≤ €10 million	> €0.7 million and ≤ €7 million
Medium Enterprise	> €10 million and ≤ €100 million	> €10 million and ≤ €100 million	> €7 million and ≤ €70 million

(\*) This source is taken into account if accounting data relating to total assets and income are not available.

Even taking into account the deleveraging process that is taking place in the sector, Banco Popular has maintained its commitment to remain at the side of SMEs, intensifying its commercial efforts and dedicating more resources to increase its customer base while maintaining loan levels above those in the sector. In this regard, in 2015 Banco Popular made almost 16,000 million euros available to its SME and self-employed customers.

## Popular rewards the development of Spanish companies

In 2015, Banco Popular and Banco Pastor showed 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 País, Popular has organised the first edition of We are Business Awards, which aims to recognise the ability of Spanish entrepreneurs, create value and generate employment. We are Business 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. In the first edition, six prizes in the following categories were awarded which recognise the work of these companies:

- **Somos Innovadores (We are Innovators).** Values the development of a new idea, service or production process of advanced science.
- **Somos Internacionales (We are International).** Recognising the management companies which boost their business beyond our borders, especially valuing their internationalisation strategy.
- **Somos Conciliadores (We are Conciliators).** Rewards the best initiative related to policies of reconciliation, integration and training of workers.





## Management model for SMEs

Banco Popular has a management model for SMEs and self-employed persons that allows it to make progress with respect to those banking solutions that are most valued by an SME: financing and personalised services, efficiency in daily 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 through a highly autonomous commercial network that channels all operations with SMEs and self-employed persons 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, their needs and the best economic solutions.
- **A customer-orientated product management** that covers your economic needs in order to maximise your overall satisfaction and profitability. This personalisation arises after analysing in detail customers' economic needs, their risk and the specific characteristics of the sector of operations.
- **A conservative, quick and precise risk management** partially thanks to the specialisation of the commercial teams of the Entity and also to the attribution system that has been designed and automated at the branch office, territorial and central services level.
- **Centralised and efficient management of operations** in order to provide quick and specialised responses to the issues affecting SMEs and self-employed persons.
- **A team of SME managers specialised** through a career and training plan that has been created as a key tool for talent management within the Bank.

- **Somos Sostenibles (We are Sustainable).** Evaluates eco-efficient management and the development of ideas or products which contribute to environmental protection.
- **Somos Futuro (We are Future).** Values companies formed by entrepreneurs under 35 which are focused on originality, sustainability and innovation.
- **SME 2015: Somos Inspiradores (We are Inspirers).** It rewards the company, trading for more than 15 years, that has been an example of business excellence.

## My Business Awards

Banco Pastor, supported by *La Voz de Galicia*, has promoted the first edition of My Business Awards through which the work, effort and talent of entrepreneurs in the Autonomous Community of Galicia is recognised. They are split into the following categories:

- **PYME joven (Young SME).** Recognises the activity of newly created companies.
- **PYME con historia (SME with background).** Highlights the work of family companies based in Galicia.
- **PYME innovadora (SME Innovator).** Honours those who have shown commitment to product innovation in the last 24 months.
- **PYME internacionalización (SME Internationalisation).** Aimed at companies which, in the last two years, have launched a project abroad to strengthen their consolidation in the international market.
- **PYME Gallega (SME Galicia).** Highlights the Galician company which encompasses the best business practices and also stands out for their positive results, their involvement in Galicia and their social reputation.



## An organisational structure at the service of SMEs

Popular has created a distinctive organisational structure to provide the best service to the companies segment and become the financial entity of reference for this sector. This structure highlights the positive result of the personal attention model that is being developed through the 817 Corporate Banking Managers distributed among the various branches of Banco Popular. They are the first service and management line of this segment. In addition, the Agri Business Manager, founded in 2014, has been kept in order to seek greater specialisation and customer development within the Agri-food sector.

This structure coexists with a network of specialised centres dedicated to facilitating access of new businesses to Banco Popular: the Business Centres. In 2015, this network was composed of 39 Centres, one in each of the Bank's Regional Directorates. The 39 current Business Centres have 189 Corporate Banking Managers, 5% more than in 2014, with a highly qualified profile and whose sole purpose is to care for potential SMEs and self-employed customers.

All this has helped this segment becoming the benchmark of the Group's activities, which, in recent years, has widely experienced the phenomenon of divestment in real estate activities in favour of other productive activities. In this regard, it has boosted investment in certain sectors and groups, through the creation of key products linked to the commercial activity of enterprises and it has improved the positioning of the Bank in certain sectors, particularly in agri-food.

## Agreements and cooperation agreements with national and European entities

During 2015, Popular has entered into several cooperation agreements with various national and European entities in order to enable the development and expansion of the business segment through various financing instruments.

### Ministry of Industry and CEGAR

Popular, the Ministry of Industry through CERSA (Compañía Española de Reafianzamiento, S.A.) and the Spanish Confederation of Mutual Guarantee Societies (SCR CEGAR), have signed an agreement through which a finance facility is intended to benefit more than 6,300 companies around the country.

The amount allocated to this facility amounts to 500 million euros, which will be channelled through different products and financial services including credit facilities, loans, leasing, advances on public subsidies, advances and commercial discounting operations, factoring, confirming and international financing.

With this triple alliance, the signatories strengthen this group composed of small companies, self-employed people and entrepreneurs in order to boost their business and give better facilities to their internationalisation. All these initiatives are a testament to the commitment of Banco Popular to the entrepreneurial sector and the reactivation of the Spanish economy.

### Agreements to boost international business

In 2015, two collaboration agreements were in force with different organisations which have the objective of supporting Spanish enterprises in their international expansion:

- **Export Credit (CESCE - Spanish Company for Export Credit Insurance):** whose objective is to provide coverage against non-payment risks deriving from the sale of products and services by companies.
- **Instituto Español de Comercio Exterior (ICEX - Spanish Institute for External Trade):** the agreement is aimed at boosting external growth for Spanish SMEs.

Finally, SME financing has been encouraged through agreements with Mutual Guarantee Societies (SGR), with Banco Popular being one of the most active Spanish financial institutions in supporting Spanish business through such guarantee systems.

## Financing for the agri-food and agricultural sectors

During this year, Popular has continued its efforts to maintain financial support for these sectors because, for the Entity, it has special economic and social development relevance to rural areas which have historically had major difficulties to progress economically.

In 2015, it kept the organisational structure which supports both sectors and has Agri-food Business Directors appointed in each of the 8 Territorial Directorates, 149 "Agri Managers" and 530 skilled employees. All of them are distributed throughout the 650 branches that are specialised in agri-food business. The managers deal with the financial and non-financial needs of these customers.

During 2015, 47 new collaboration agreements were signed with associations, organisations and cooperatives distributed throughout Spain. At the end of the year, the Bank had written over 120 agreements with these entities benefiting more than 100,000 active customers and boosting trade in this sector with more than 8,500 million euros, 6.4% more than in 2014. On the other hand, the agreement signed by Popular with the European Investment Bank (EIB) in 2015, whereby a finance facility was created specifically aimed at the agri-food sector and endowed with 50 million euros, should be highlighted. This finance facility, which has been used up in full, has financed 519 projects throughout the country.

# 149

"Agri Managers"

# 650

specialised branches

## European Investment Bank (EIB)

Popular and the EIB have signed an agreement whereby they will make available more than 650 million euros to self-employed people, SMEs and MIDCAPS, of which 50% comes from the EIB and the other 50% from Banco Popular. This joint contribution, which will run until 31 December 2016 or until all funds have been allocated, includes several specific finance facilities for sectors such as agri-food, technology and automotive. With this operation, the collaboration between the two institutions is reinforced and the special effort that both are developing to facilitate access to finance for self-employed and enterprises is demonstrated.

## European Investment Fund (EIF)

- SMEs Initiative:** As part of this agreement, a line of hedging risks for a portfolio of new lending and leasing operations aimed at SMEs is enabled. The amount of the guarantee assumed by Popular amounts to 500 million euros, allowing operations to be formalised for a maximum amount of 1,000 million euros. The line is aimed at self-employed people, businesses, micro companies and medium-sized companies with fewer than 250 employees and annual sales under 50 million euros.
- Microcredits "Betting on you":** This agreement with the EIF 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, relating to the European Union Programme for Employment and Social Innovation (EaSI). Microcredits "Betting on you" allow the marketing of a portfolio of microcredits under preferential conditions aimed at promoting entrepreneurship and the self-employment of micro enterprises and self-employed people. The portfolio has 8,750,000 euros allocated to it encompassed within a line of 10,000,000 euros named Microcredits "Betting on you". This portfolio includes the guarantee of 960,000 euros from the EIF and offers preferential conditions associated with each of the operations. The recipients of the financing will be micro enterprises (including *startups* and ongoing businesses) and self-employed people. These groups can count on the support of one of the Bank's business managers, who will give financial advice during the first years of the operation.



## Allocation of over 5,700 million euros from the ECB

In 2014, Banco Popular made two requests for over 5,700 million euros to the European Central Bank in a TLTRO auction which were granted in the last quarter of 2014. A large part of this acquisition of liquidity in 2015 went to help finance SMEs, self-employed and entrepreneurs.

## Proximity and communication with the business community

Aware of the need to support the business environment the *basepyme* initiative has been remained. It is a portal designed for entrepreneurs to consult and clarify issues relating to their business as well as to provide expert articles or analysis of the sector, among others.

The Foro PYMEs (SMEs Forum) initiative, which aims to promote the exchange of ideas and discussions, adding value to entrepreneurs through the speeches of experts in management and economy and the participation of renowned regional entrepreneurs, has also been maintained. In 2015, Popular held 27 forums where more than 5,600 employers attended.

## Other agreements

The Bank promotes signing agreements with certain groups with homogeneous activities with the purpose of increasing commercial relations with the group of companies. At the closing of 2015, 54 national agreements for companies and self-employed persons were either created or renewed, with a business volume of more than 4.6 million euros.

In addition, the Territorial Directorates managed 126 agreements with various associations, business organisations and agricultural cooperatives. Throughout 2015, significant commercial agreements have been executed with leading companies with the objective of achieving a higher profitability in transactions developed jointly with the Bank. These companies are economically consolidated and have great influence among their customers.

## ICO loans

Popular has been one of the four entities granting the most ICO loans in 2015 with a total of 42,409 operations and an amount of more than 1,200 million euros; a market share of 12.76% and benefiting 14,522 enterprises. Three master agreements that finance investments in sectors contributing to the development of society or the environment are particularly relevant.

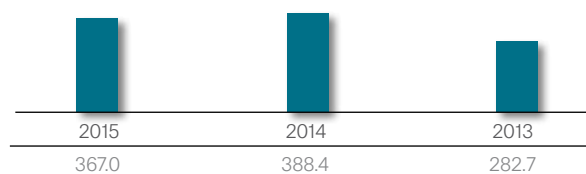
### ICO agreements made with sustainable criteria-2015

Agreements	No. of operations	Amount
ICO Companies and Entrepreneurs	15,172	761,929,293€
ICO - Exporters	27,220	468,606,587€
ICO - International	17	4,928,897€

## Microcredits given to SMEs and self-employed people

During 2015, Popular has continued supporting the retail business as the centre of its financial strategy. In this year a total of 29,778 microcredits have been granted with a limit of up to 25,000 euros for businesses and self-employed and of up to 40,000 euros for SMEs. These transactions, which 22,662 customers benefited from, amounted to 367 million euros.

### Amount of the micro-finance products granted to SMEs, self-employed and businesses - 2013/2015



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

The activity of Banco Popular is supplemented by private individual banking, to which 4.2 million customers pertain. The management policy for this business segment focuses on satisfying the needs of each customer based on their economic situation.

In this sense, the Bank has consolidated itself as one of the primary savings channels for private individuals. Obtaining retail customer funds is one of its management priorities. For this reason the Bank has entered into 161 national agreements with various groups of private individuals and professionals to which special conditions are offered, particularly for savings products, which has produced a business volume of more than 15,000 million euros.

In line with the deep commitment to customer service, the Group has developed a personalised service model through a personal manager to assist those customers that require individual attention. This approach improves and increases the loyalty of individual customers, raises awareness of them and allows the Bank to provide an offer that is more consistent with their needs.

Finally, regarding the economic transactions signed by the Bank 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.

#### Óptima Customers

This segment, created in 2014, encompasses individuals whose net worth is estimated at between 150,000 and 750,000 euros. In 2015, it had a total of 103,934 customers who have brought business of more than 21,000 million euros.

Each *Óptima* customer has the professional advice of a personal manager available who is an expert in high net worth, as well as an exclusive area at branches intended for personal attention. Clients also have a website with an exclusive economic offer, links of interest and other advantages.

*Óptima* customers have benefited from the various commercial initiatives falling under the new business model designed by Popular to link and engage individual customers named *Tenemos un Plan*. Thus, the Entity remains committed to achieving further growth in the market share of high income customers based on a unique model and differentiated management.

#### Popular Banca Privada

The almost 7,000 Popular Banca Privada customers with high income have a broad range of investment products and services that are managed by a team of experts in tax, legal, real estate, corporate finance issues and other non-conventional investments. This therefore covers their asset management needs and allows them to optimise their profitability and the tax impact of their decisions.

Popular Banca Privada manages nearly 8,000 million euros of this segment and to that end it has a network of 29 own branches located in the main cities of Spain, through which it provides its services both to customers of the Group network and to direct customers.

More than  
**21,000**  
million euros managed for  
*Óptima* customers

## Promoting the savings and services for individuals and self-employed people: *Tenemos un Plan*

Since October 2015, Popular has had an offering for its private individuals named *Tenemos un Plan* aimed at capturing and natural persons and self-employed people through the development of an automated and transparent marketing plan.

To greater personalise this service there have been created different deals depending on the specific segment to which individuals belong:

- **Óptima:** customers with resources greater than 150,000 euros.
- **Oferta Premium:** customers with resources greater than 60,000 euros and their salary paid into their account.
- **Oferta Nómina:** customers with their salary paid into their account.
- **Oferta Ahorro:** customers with resources greater than 60,000 euros and without their salary paid into their account.
- **Oferta Jóvenes:** customers aged between 18 and 28 inclusive.
- **Oferta Menores:** underage customers who are supervised by a parent or guardian.
- **Oferta Autónomos:** self-employed people, holders of demand deposits.

Customers covered by each of the offers described above can take advantage of the financial and non-financial benefits included in the three sales plans that Popular has designed into this new strategy for private individuals:

- **Plan Cero:** exempt from some of the most common fees on financial products and services.
- **Plan Para Mí:** provides services free, or at preferential rates, which aid their well-being.
- **Plan Descuentos:** provides discounts on the purchase of products and services necessary for a person such as food, energy, telephone or fuel.

Depending on the segment to which customers belong, they will have access to the advantages described in one or more plans. Thus, a customer may participate as an individual and self-employed person in terms of their financial profile.

The aim of this new business model aimed at private individuals is to transfer the expertise and leadership Popular has today with SMEs to them.



## Popular: the entity chosen by Social Security for the payment of pensions

In 2015, Popular won the tender held by Social Security to choose a financial entity to make the payment of pensions in Spain. The contract came into force in October, lasts for three years, and may be extended to a maximum of six at the mutual agreement of both entities.

Popular has undertaken to pay the first instalment of the new pension which in the following month, and the following, could be paid through another entity if so designated by the pensioner.

This therefore reflects the confidence that the public body has placed in the quality and management of the service offered by Popular.



## 1.2. 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.

### 1.2.1. Branch network

The Group has 2,124 branches, of which 1,936 are located in Spain and 188 are located abroad, to which the representation and collaboration offices in a further 16 countries must be included.

In Spain, the Bank has a solid organisational structure to support the network and has 8 Territorial Directorates to which an average of 6 Regional Directorates report. Their primary activity is in turn to support the branches that operate in their respective areas.

### 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.

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.

**2,124**  
branches  
1,936 in Spain  
188 abroad

## Elimination of economic barriers: Bancarisation

**26%**  
of branches are located  
in low population  
density areas

The Group understands bancarisation as part of its contribution to the socio-economic insertion of groups with access difficulties. In this regard, the Bank has increased to 507 its branches located in low population density areas, which represents 26% of the total number of branches of the Group. 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 – 2015

Location	Number of branches	Percentage regarding the total amount of branches in Spain <sup>(1)</sup>
Between 10,000 and 5,000 inhabitants	233	12.0%
Less than 5,000 inhabitants	274	14.2%
<b>TOTAL</b>	<b>507</b>	<b>26.2%</b>

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

Also, Banco Popular has extensive experience attending to the needs of foreigners. An example of this is the *Trabex Programme* that 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. At the end of 2015 the Group had more than 850,000 foreign customers that generate an annual business volume exceeding 5,170 million euros.

The Trabex cash transfer service is notable for bancarisation in the countries of origin of the immigrant population, as it establishes preferential conditions for cash transfer fees if a user opens a current account at any of the banks with which the Group has an agreement. In 2015, 53% of foreign customers sent cash payments to current accounts in their countries of origin. The amount of these transactions exceeded 14.8 million euros.

On the other hand, various foreign entities have also entrusted Banco Popular to manage the payment of almost 1.4 million pensions annually, totalling 835 million euros, to beneficiaries residing in Spain, Portugal and various South American countries. This intermediary service bears out the Bank's capacity to render its services in Spain and abroad.

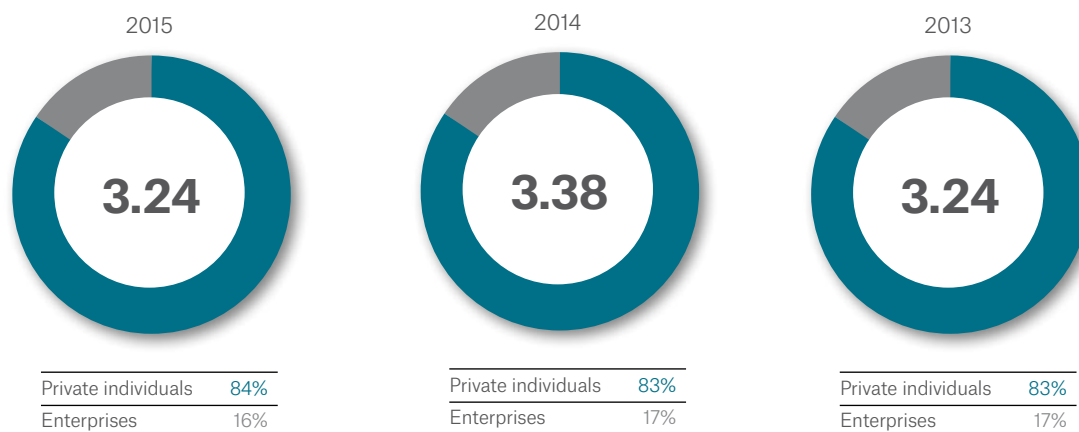




## 1.2.2. Multichannel Banking

Banco 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 Entity's channels which aims to give the customer the same user experience with quality as a reference.

Distribution of Multichannel Customers (millions) – 2013/2015



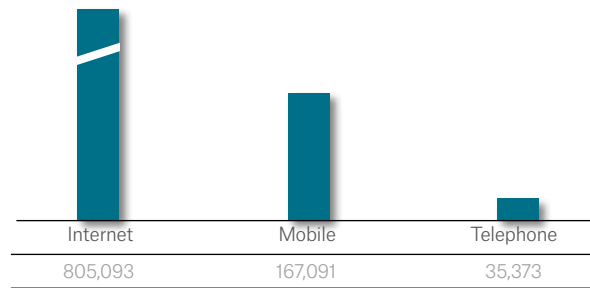
In addition, accessibility and ease of use are critical to allow customers to adapt to the digital reality. Therefore, it is important to have accessible channels regardless of the customer and that processes facilitate a correct user experience by eliminating functional barriers through simple and effective designs. As a result, the Bank has undertaken the following indicatives:

- Accessibility.** Popular's aim is to make its web environments more accessible to all users regardless of the circumstances or device used at the time the service is accessed. For this reason, during 2015 it carried out necessary actions to adapt the environment and comply with "Double-A Technosite + Euracert WCAG 2.0".
- Usability.** Understanding the use of the channels by customers and the way to interact with them is vital to keep them focused on their needs. In this sense, Popular has developed several lines of research that have allowed them to know when, how and to what end users access the services offered by the Bank. This research model has enabled it to improve the different processes in order to make the operations performed by customers, especially those related to remote services, easier and more intuitive.
- Ideas Laboratory.** This initiative is aimed at finding and generating new solutions to critical issues in Multichannel Banking. It is about finding different answers to those normally given and allows remote channels to be optimised and enriched. Once identified, discussed, and evaluated, the most relevant ideas are validated with real customers in focus groups. This process helps to improve the functioning and organisation of remote channels collaboratively between different customer roles.



Web environments accessible to all users

Distribution of Multichannel Banking active customers by channels – 2015



Continuing with the line taken in previous years, during 2015 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.

## Launch of a new transactional website for customers

In January 2015 Popular launched a new public website with an information architecture aimed at satisfying the needs of the customer and to help their understanding of the different contents.

The new website has important improvements compared with the previous version, amongst which are:

- Inclusion of a help-zone named “Centro de ayuda” (Help centre). Here customers can find FAQs as well as their respective answers. Video tutorials and various transaction simulators are also available.
- Inclusion of a web analytics tool to understand and analyse navigation and user behaviour, in order to provide continuous improvements aimed at retaining customers and capturing leads.

Complementing the development of the new public website, improvements in privacy have been included giving new security measures aimed at improving customer perception and protection when performing transactions. To do so, the channel has been adapted to new European Central Bank Internet Payment Security guidelines.



### 1.2.3. Quality and Satisfaction

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

Also, Banco Popular is a member of the Spanish Quality Association (SQA), which is the principal forum for debating and exchanging experiences relating to promoting a culture of quality and sustainable development within companies.

#### 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 2015, we carried out a *Measurement Plan* that envisaged 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.
- **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, the average score being 8 points.

On the other hand, Banco Popular Portugal was appointed in 2015 "Escolha do Consumidor" in the category of small and medium-sized banks for the second consecutive year. "Escolha do Consumidor" is an assessment and classification system of brands where users value their perception of the different entities in each segment of activity.

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

##### Telephone Channel

The service rendered through this channel allows the quality of services rendered to be monitored through telephone surveys and, therefore, to identify opportunities for improvement in order to increase the quality of the service, its availability and its performance. In 2015, 109,483 surveys were performed through two telephone call-centres located in Madrid and Coruña: 30,215 more than the year before. The results of which are shown in the table below:

Results of telephone quality surveys - 2015 (\*)

	Madrid call-centre	Coruña call-centre	Total and averages
Total number of surveys	69,516	39,967	109,483
Overall service quality index	9.36	9.30	9.33
Overall satisfaction index	9.16	9.00	9.08

(\*) Scale from 0 to 10

## Commitment to multichannel: advances in service

During 2015, several initiatives in the telephone channel have been implemented aimed at improving the service offered to customers. The most important initiatives developed throughout the year were:

- **Telephone Support Groups.** With the aim of maintaining quality levels, various telephone support groups have been designed specialised in high-impact standards and corporate transactions with a dual purpose: to protect the service levels and service quality and offer a specialised solution in every case. Specifically, specific services for consultation and regulations related to *SecurePay* and document scanning or missing data issues have been created.

Also, in the case of corporate transactions, specialised support groups have been created which have resolved the issues raised by customers after the technological segregation of Targobank and the integration of Citi Retail España.

- **Analysis of conversations.** During 2015 an analysis of customer conversations was performed using *Speech Analytics* tools. This analysis allowed the detection of the moments where customers showed the greatest disagreement with the solutions offered by the Contact Centre agents.
- **Assessment of the Telephone Agents.** As part of everyday activity, the process of certification and assessment of the agents' knowledge has continued to be performed through biannual exams. This process allows Popular to guarantee a uniform service which is in line with the Bank's procedures.

### Internet Channel and Mobile Channel

The commitment with the quality of the service offered is still a priority, placing Banco 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 measurement system through social networks

During 2015, quality surveys were performed to analyse customers' degree of satisfaction attended to through Twitter @PopularResponde. The results on a scale from 1 to 5 (1 being the lowest rate of assessment and 5 the highest), were as follows:

- Attention received: 4.14
- Reply time: 4.35
- Usefulness of the answer: 3.54

Additionally, since September a new tool, *Social CRM* (Chrysalis), has been put into use which allows cases which arrive through Twitter to be managed with greater efficiency. This application has allowed the following actions to be developed: a more direct relation with the customer, to follow-up issues, store histories and user data, create detailed reports of the main key performance indicators and generate satisfaction surveys aimed at measuring the social channel quality index.

## Customer Service Office

The Customer Service Office 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 2015 the Customer Service Department has answered to a total of 11,464 claims, complaints and queries: 8,653 fewer than the previous year. This decrease has been, in large part, due to the reduction of the number of floor clause claims received through Banco de España. 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.

### Matters resolved by the Customer Service Office – 2013/2015

	2015	2014	2013
Claims	10,395	18,045	14,150
Complaints	387	1,110	1,553
Queries	682	962	856
<b>TOTAL</b>	<b>11,464</b>	<b>20,117</b>	<b>16,559</b>

Of note is the quick response that the Customer Service Office to the various complaints and inquiries received in 2015. The average time frame for the resolution of complaints was 9 days; 7 days for queries and 17 for claims, although those originating from Banco de España, CNMV (National Securities Market Commission) and the Directorate General of Insurance are not included.

### 1.2.4. Transparent information

Banco Popular is committed to providing transparent and accurate information regarding the characteristics and conditions of its products and services. The Bank'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 2015 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.

Upon joining Autocontrol, an association which is responsible for managing the Spanish self-regulating advertising system, the Bank is making use of the advanced advisory service *copy advice* as a tool that contributes to the preventive control of advertising correctness. In accordance with habitual procedures, and when such prior advisory services are necessary, all advertising campaigns are reviewed by Autocontrol.

Banco Popular establishes all the necessary internal procedures and controls over advertising campaigns for products and services to guarantee that all commercial communications are rigorous and meet applicable internal and external roles. To do so, the various advertising elements are created in accordance with the procedures established by the Bank's commercial policy and are reviewed by the Legal Services Department. Also noteworthy is that Autocontrol has granted Banco Popular a Corporate Responsibility Certificate, which attests to the Bank's ethical and responsible actions with respect to advertising information.

The "Commercial communications Policy for advertising of banking products and services" has been developed in the interests of both the Bank and the various domestic and international regulators to ensure the accuracy of the economic advertising published in the media.

Corporate  
Responsibility  
Certificate awarded  
by Autocontrol

In addition, the Group is subject to INVERCO's *Advertising Code of Conduct* which establishes the ethical standards for advertising, and it voluntarily assumes the commitment to rigorously guarantee the accuracy of all of its commercial communications.

On the other hand, advertising published in any media by credit institutions pertaining to the Group and regarding economic transactions, products or services that refer to their cost or yield for the public are subject to both the internal implementation of the MiFID Directive, as well as the supervisory system established by the relevant public institutions.

### 1.2.5. 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. As the culmination of this Policy, which was designed to minimise non-compliance risks and ensure the coordination between the various affected areas, the Personal Data Protection Committee was created.

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.

During 2015, Banco Popular Español has received three firm economic sanctions by final judgement related to the Personal Data Protection Act for the amount of 70,000 euros.

### 1.2.6. 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 bank takes measures to detect and review any incidents detected in transactions carried out over the Internet in order to prevent fraudulent transactions. To reduce their effects and to reinforce available measures, there is a specific team whose primary purpose is to detect, 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.** The Bank participates, in collaboration with other entities in the sector, in commissions and working groups to prevent fraud such as:
  - Servicio de Prevención del Fraude (SEPFRA - Fraud Prevention Service)
  - Centro de Cooperación Interbancaria (Interbank Cooperation Centre)
  - Centro de Observación del Delito Económico (Financial Crime Observation Centre)
  - Asociación Nacional de Establecimientos Financieros (ASNEF - National Association of Credit Financial Establishments)
  - Documentos Extraviados y Robados (DER - Lost and Stolen Documents Initiative) to prevent fraud through identity theft.

## 1.2.7. 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 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

Given that it is a Plan which involves the entire organisation, the response to incidents is divided into three organisational levels:

- **Strategic.** Made up of the Business Continuity Committee which is the executive body responsible for making decisions in the event of serious incidents.
- **Tactical.** Formed by the Incident Management Teams, which support the Committee by providing technical, business and operational solutions.
- **Operative.** Composed of the organisation's business responsible for deploying and implementing plans for business process recovery.

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.

Business Continuity Plan, ensuring the activity against any threat



### 1.3. Responsible development of the business

The Group carries out its activity in a responsible manner and it is committed to 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.

#### 1.3.1. Inclusion of ESG criteria in business operations

##### Equator Principles

In 2013, Banco 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 set of 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 potential social and environmental risks.

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

Although the Bank has ratified its commitment to the Equator Principles in 2013, since 2008 it has executed a total of 19 projects that take into consideration the Equator Principles. In 2015, four operations were signed in accordance with the Equator Principles, which represents 67% of the *Project Finance* executed during the year by the Investment Banking area.

Banco Popular, a  
subscribing entity of the  
Equator Principles

Classification of *Project Finance* in accordance with the Equator Principles – 2008/2015

<i>Project Finance</i>							
Category	No. of operations	Sector	No. of operations	Region	No. of operations	Designated country	Independent evaluation
A	1	Energy	1	Europe	1	1	-
B	13	Infrastructures	9	Europe	7	9	9
				North America	2		
		Energy	3	Europe	2	3	3
				North America	1		
Others	1	Europe	1	1	1		
C	5	Infrastructures	3	Europe	5	5	5
		Energy	2				



Classification of *Project Finance* in accordance with the Equator Principles – 2015

Project Finance								
Category	No. of operations	Sector	No. of operations	Region	No. of operations	Designated country		Independent evaluation
						Designated	Not Designated	
A	1	Energy	1	Europe	1	1	-	-
B	3	Infrastructures	1	Europe	3	3	-	3
		Energy	1					
		Others	1					

In the framework of the *CR Transversal Training Plan 2014–2016*, all the responsables 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 different areas whose activity had a direct relationship with the guidelines defined in the Equator Principles.

## Integration of ESG criteria in investment and financing activities

In 2015 Allianz Popular, an investment fund manager marketed by Popular, has implemented, following the directions of Allianz SE, 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, will be 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.

On the other hand, during 2015, Popular set the base for the definition of its Responsible Investment and Financing Policy which will affect various areas of the Entity and which will include ESG criteria. The main objective will be to identify and manage non-financial risks associated with the company being invested in or financed.

With the development of the different guidelines in the Investments and Financing Policy, Popular will effectively develop its business model in a responsible way regarding investing and financing activities performed by the Group entities.

Allianz Popular Asset Management



## Socially Responsible Investment

In 2015 the Group has managed the following investment funds, which take into consideration social and environmental criteria:

- **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% of the value). This fund has a dual objective: obtain an economic return for investors and include disadvantaged groups in the economic system.
- **InC INCLUSIÓN 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% of the value). 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.
- **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.
- **FONEMPORIUM.** This is a mixed global investment fund managed by Popular Gestión Privada. It invests 40% in variable income 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*.

## New fund EUROVALOR COMPROMISO ISR

In 2015, Popular started with the marketing of a new investment fund named EUROVALOR COMPROMISO ISR, FI whose portfolio is composed, in its entirety, 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:** based on indicators which value policies related to energy, water, forestry, biodiversity and compliance with the Kyoto Protocol, 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.

EUROVALOR COMPROMISO ISR, FI therefore invests 100% of its portfolio in assets which comply with SRI criteria and adhere to the Entity's investment philosophy based on greater transparency and a greater and wider risk management.

In 2015, EUROVALOR COMPROMISO ISR, FI held equity of over 6 million euros.

## Employee Pension Fund with SRI criteria

The Pensiones Europopular Integral Fund, which encompasses the Employee Pension Plans of Banco Popular, Targobank and bancopopular-e, includes Socially Responsible Investment criteria in its portfolio. Investments made in 2015 were managed under stringent evaluative and exclusion criteria. Thus, in addition to strict financial criteria, those related to the environment, social and good governance were taken into account in both the Fund's fixed and variable income portfolios.

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.

At 2015 year-end, this fund had a total of 14,651 participants and assets of 1,029.2 million euros. SRI criteria are applied to 83% of the Fund's current portfolio.

## Recognition of SRI performance in various sustainability indicators

The performance that Popular has developed in terms of CR has been recognised by various international sustainability indexes which have positively evaluated the conduct of the Group with respect to its SRI:

- Ethibel Pioneer and Ethibel Excellence Investment Register:** Popular has been included in both indexes recognising its performance in terms of Corporate Social Responsibility (CSR). Ethibel Forum has analysed Popular's commitment in respect to its ethical and sustainable investments, positively evaluating the balance it has managed between economic progress, social equality and the environment.
- EURONEXT VIGEO EUROZONE 120 and EURONEXT VIGEO EUROPE 120:** Both indexes have recognised Popular's implementation of substantial improvements in social, environmental and good governance aspects, achieving one of the highest scores within the framework under study (companies in the Eurozone and Europe respectively), the evaluation by Vigeo involved the review of 330 indicators with 38 sustainability factors.
- FTSE4Good:** Popular maintains its inclusion in the FTSE4Good index resulting from its continued implementation of best practices regarding its environmental, social and good governance performance. The FTSE indexes measure the profitability of those international companies which manage to minimise their environmental impact, their ability to develop positive relationships with stakeholders and protect Universal Human Rights.
- Carbon Disclosure Project (CDP):** Compared with 2014, Popular has increased its rating on this index by 19 points, reaching 99 points. This places it amongst the 5 best Spanish financial sector companies. CDP analyses the progress of the major Spanish and Portuguese companies by market capitalisation in the management of carbon emissions, the risks and opportunities linked to climate change, as well as their performance and transparency.



FTSE4Good



### 1.3.2. International Operation Centres

Finally, with reference to the International Operational Centres, the commitment to gradually reduce their activity prior to their elimination where viable continues since the Bank's Executive Committee (now the Delegated Committee) established this policy relating to *off-shore* establishments in 2004. At the close of 2015, there was only one *off-shore* establishment left, whose assets represent 0.005% with respect to that of the whole Group.

### 1.3.3. Products with special social and environmental benefits

The Group has several economic instruments whose principal purpose is to enhance their social and environmental usefulness, in addition to generating an economic benefit. In this respect, it has the following products and services that it makes available to its customers.

#### Lines of business classified by product with special social and environmental benefits – 2015

Commercial Banking					
Area	Name of the product/service	Description	Beneficiary	Value monetary	% of total area
Preferred financing	ICO Agreements	Preferred lines of financing for SMEs and specific sectors	SMEs and self-employed persons	1,235,464,778	1.154%
	Academic Excellence Loan Programme	Financing of studies under special conditions	Students	2,892,332	0.003%
	Finance with an environmental component	Finance in projects related with energy infrastructures	Private individuals and companies	954,338,567	0.891%
Means of payment	Visa Domund Visa Alcer Visa Aldeas Infantiles Visa Misiones Salesianas	Affinity credit cards for which a percentage of spending is donated to an NGO	Private individuals and companies	11,726,236	0.356%

Asset management					
Area	Name of the product/service	Description	Beneficiary	Value monetary	% of total area
Investment funds	GAWA MICROFINANCE FUND SCA SICAR	Micro-finance investment fund that favours the inclusion of disadvantaged groups in the banking system	Micro-finance and similar institutions	14,100,000	0.123%
	InC INCLUSIÓN GLOBAL FUND SCA SCAR	Investment fund in microfinancing that favours inclusion in the banking system of disadvantaged groups	Foundations, Associations and Religious Institutions	7,300,000	0.064%
	PBP BIOGEN, FI	Investment fund that donates its commissions to scientific research	Scientific research companies, particularly those in the pharmaceutical industry	7,639,960	0.066%
	FONEMPORIUM	Solidarity investment fund	Associations and Foundations	14,643,436	0.127%
	EUROVALOR COMPROMISO ISR,FI	Investment fund whose portfolio is comprised of funds which comply with SRI criteria	Private individuals and companies	6,232,498	0.054%
	Pioneer Funds - Global Ecology	Investment fund whose portfolio is comprised of companies which preserve the environment	Private individuals and companies	1,136,960	0.010%
Pension plans	Employment Pension Plans for SMEs	Occupational pension plans for SMEs	SMEs	50,660,627	0.953%

Insurance activity					
Area	Name of the product/service	Description	Beneficiary	Value monetary	% of total area
Insurance	Euroriesgo Plus	Life insurance with additional coverage free-of-charge	Private individuals	3,192,755	0.139%
	Payment Protection	Insurance guaranteeing the repayment of a loan in the event of unemployment or temporary disability	Private individuals	15,698,714	0.686%
	Growing Savings Deposits (GSD)	Growing Savings Deposits and Growing Savings Deposits for the Youth, that guarantee the invested money and reward periodic contributions	Private individuals	25,101,393	1.096%
	Creditshield	Insurance linked to a credit card which offers different coverage levels	Private individuals	28,770,826	1.257%

On the occasion of integrating the retail business of Citibank in Spain, bancopopular-e makes the following products with special social benefits available to customers of the Group:

- **Pioneer Funds – Global Ecology.** Investment Fund that invests mainly in companies that offer products promoting a cleaner and healthier environment. Investment in companies related with alcohol, tobacco, gambling, nuclear energy, arms, pornography, violation of Human Rights and child exploitation are excluded.
- **Creditshield.** This is an insurance linked to a credit card that offers cover for death, temporary or permanent total disability, unemployment and hospitalisation due to illness and/or accident.

On the other hand, in 2015, Banco Popular supported the development of infrastructures that provide healthcare assistance by contributing to their finance with 3,180,315 euros.

## 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, Banco Popular signed the Treaty for the Creation of a Social Home Fund, under which it assigned 336 properties. 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 end of 2015, Banco Popular had awarded the 336 homes that it had initially made available to applicants and therefore decided to increase the initial number of homes by 335 to a total of 671.
- **Code of Good Practice for the restructuring of the mortgage debt.** Banco 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 1,012 contracts for social rent have been formalised.

## 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 2015 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.

## Financing of projects with a positive environmental impact

Banco Popular has consolidated its support to the development of initiatives that favour the generation of energy from renewable sources. This is why, during the last years we have financed projects related with energy infrastructures both at the national and at the international level. In 2015, the total amount of finance intended for this type of project with an environmental component amounted to 954.3 million euros, almost 105 million more than the previous year.

**954.3**  
million euros aimed  
at financing projects  
with an environmental  
component.

Financed projects with an environmental component (thousands of euros) - 2001/2015

Type of project	Number	Amount Financed	Percentage
Solar Energy	13	360,830	37.8%
Wind Energy	18	303,905	31.8%
Photovoltaic Energy	14	216,436	22.7%
Biomass	2	18,424	1.9%
Infrastructures <sup>(1)</sup>	2	22,069	2.3%
Recycling	2	7,674	0.8%
Waste	2	25,000	2.6%
<b>TOTAL</b>	<b>53</b>	<b>954,338</b>	<b>100%</b>

(1) Projects related with the construction of infrastructures that favour environmental conservation.

### 1.3.4. Support for entrepreneurs and economic education

In 2015, Banco 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 four editions more than 3,000 high school and higher education students and 200 teachers participated in more than 700 teams pertaining to nearly 500 schools.
  - Collaboration with CECE (Confederación Española de Centros de Enseñanza) in the *IX Jornada de Emprender* (9th 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 2015, 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.

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

This 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).

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.

The recipients of funding will be micro enterprises (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 will have the advice of a specialist in entrepreneurship from that Entity which will perform *mentoring* and *training* during the early years of the project.

The implementation of this project has enjoyed the cooperation of Accenture Foundation as part of the “Together for employment of the most vulnerable”, which aims to promote the bancarisation of groups with difficulties in accessing to credit as a way to achieve socio-economic integration.



- **Increasing financial education.** The economic education of groups with low bancarisation 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 2015, 32 economic education working days were carried out in different entities of the tertiary sector, benefiting more than 346 students.

### *Tus finanzas, tu futuro* (Your finances, your future), supporting financial education amongst young people

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 2015 and the National Plan for Financial Education.

“Your finances, your future” has been developed over several months in 2015 in more than 100 schools across Spain and has enjoyed the participation of more than 400 volunteers from 15 financial institutions adhering to the SBA, including Banco Popular. This action has managed to train more than 5,500 young people helping them to be more financially responsible. To this end, there have been various training sessions aimed at:

- Producing a budget correctly
- Understanding basic financial concepts
- Discovering the importance of saving, payment methods and financial products

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.

### 1.3.5. 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 contribute to the compliance of the United Nations Millenium Development, several actions have been taken to eradicate poverty and hunger by participating in microcredits programmes in Latin America, driving the improvement of the health of mothers and reducing infant mortality. The Bank has collaborated with the construction and operation of hospitals in emerging countries and promotes equality between genders and universal education.



## 1.4. 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.

### 1.4.1. Supplier profile and purchasing volume

In 2015, the Group contracted products and services from significant suppliers, which are those with which contracts are concluded relating to key aspects of the business and whose payment is managed by the Purchasing Office, totalling over 575 million euros. In addition, the Bank carries out most of its activity in Spain and 93.8% of suppliers are residents, i.e. domiciled for tax purposes in Spain.

Information regarding resident suppliers of Banco Popular Group – 2015

**833**

Resident suppliers  
93.8% of the total

**560.82**

millions of euros invoiced  
97.5% of the amount invoiced

### Payment Commitment

One of the Group's main priorities with reference to its supply chain is to meet with the commitment to make the payment of its invoices within the deadline agreed with each supplier. For this reason, in 2015, the Average Payment Time to Suppliers (APT) has been 25 days, a period lower than the 60 days established by Law 15/2010 of 5 July, which established measures to fight against debt in commercial transactions.

### 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 2015 has allowed the Group to take the following actions, among others:

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

Promoting the contracting of products and services from Special Employment Centres

## 1.4.2. Management of Suppliers

### Suppliers Management Plan 2014-2016

In line with the Corporate Responsibility strategy and the CR Director 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, social and environmental point of view.

The actions within the *Suppliers Management Plan 2014-2016* include series of milestones which have been managed during 2015 and are the followings:

- Implementing the Risk Management Model of the Supply Chain
- Improving the satisfaction of suppliers
- 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 Banco 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.

### Code of Conduct and Evaluation Form

The Group's purchasing management model guarantees accessibility and transparency in accordance with the action principles established in the *Supplier Code of Conduct*. 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 *Evaluation 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*. The Purchasing Office has requested that 100% of new suppliers complete the Evaluation Form and in 2015 95 suppliers did so. Currently 91.93% of the Group's turnover comes from resident suppliers approved under ESG criteria, based on information on the *Evaluation Scorecard*.

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 *Evaluation Form* or in the *Code of Conduct*.

## Supply chain risk management model

During 2015 *Risk Management Model of the Supply Chain* was implemented; an initiative included in the *Suppliers Management Plan*. 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/good governance, social, and environmental criteria.

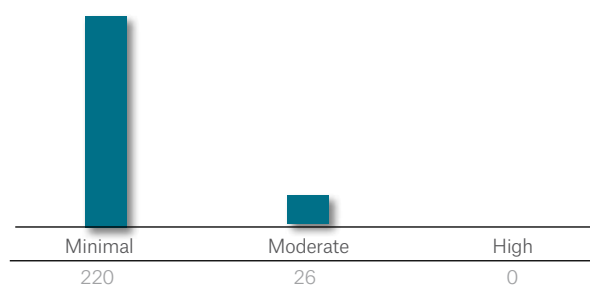
On the one hand, the Model allows suppliers who develop an activity in line with the Group's Corporate Responsibility strategy to be identified and to know the risk level of suppliers in order to establish the timely mitigation systems.

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

- **Diagnostics Phase.** 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 for this level are Minimal, Moderate and High.
- **Analysis Phase.** This takes a deeper insight into the good governance criteria taken by suppliers to perform their activity. Having analysed this, this phase helps to identify aspects for improvement and follow these up in the medium term.
- **Monitoring Phase.** Based on the results of the previous phases, the management of suppliers qualified as high risk are revised. They will all be monitored specifically, and where appropriate an independent third party will establish if the supplier is suitable or not to maintain a trading relationship with the Bank.

During 2015 the *Diagnostics Phase* was developed evaluating 246 suppliers which represent 65.59% of the total sales volume of the Group. The results of this phase are shown in the following chart:

Number of suppliers identified in terms of their risk level – 2015



## 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.

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 - 2015



#### Services

Response capacity



#### Treatment

Degree of supplier confidence  
Attention and treatment received  
Equal opportunities



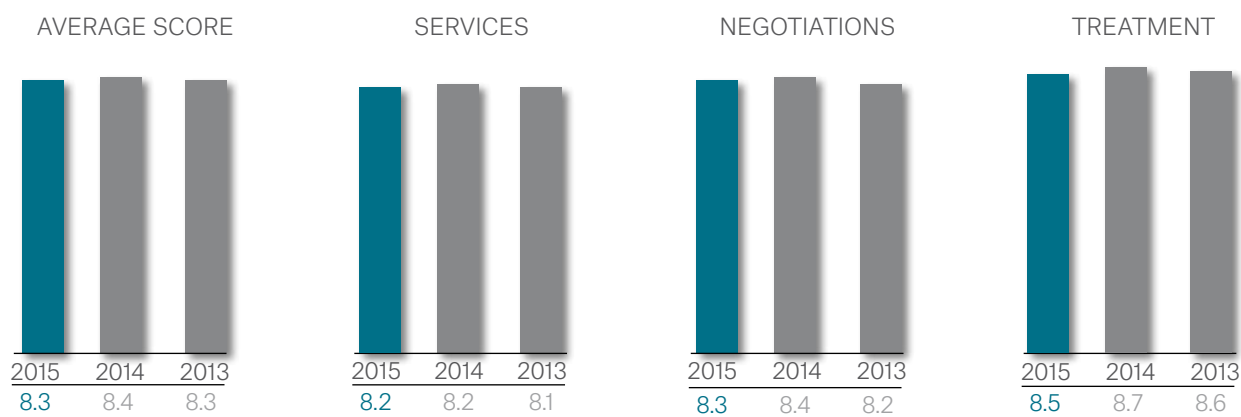
#### Negotiations

Confidence in the Group  
Listening during negotiations  
Observance of payment terms



As may be observed in the graphs shown as follows, in 2015 the evaluation of suppliers has remained similar in all indicators compared with 2014, and high satisfaction levels remain. Given the current market situation, Banco Popular concerns itself with making relationships with suppliers progressively more direct and transparent. This thus anticipates possible contingencies and establishes the measures to be taken by mutual agreement with suppliers with an attitude of collaboration and dialogue.

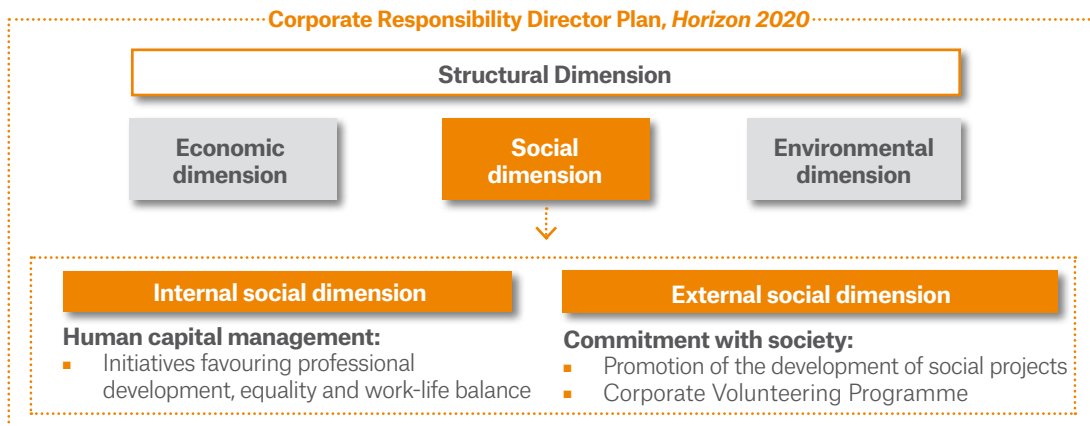
Evaluation of Banco Popular Group in the supplier satisfactions survey - 2013/2015



# Social dimension

In line with the CR Director 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 environment in which it operates. Throughout this Annex, the main results achieved by the action lines defined in both dimensions will be shown.

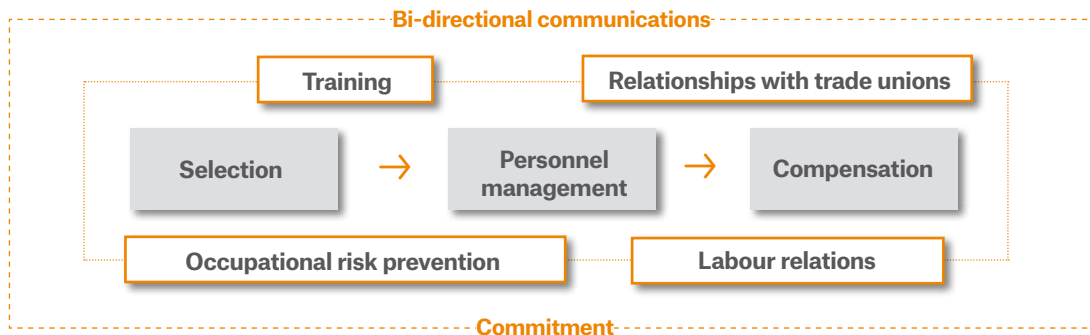
## Social dimension of the CR Director Plan *Horizon 2020*



### 2.1. Internal social dimension: our human capital

The mission of human resources is to align the policies intended to manage human capital at the Bank with the Entity's corporate strategy. To 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 Human Resources Area



## 2.1.1. Selection and hiring

The Selection Office exercises its duties based on a model of selection by competency with maximum respect for the principle of non-discrimination and equal opportunities. In this regard, in 2015 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 2015 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 ONCE Foundation and co-financed with the European Social Fund.
- **Publication of vacancies on various job boards.** Of particular note are those published in *Fundosa* and *disJob*, two web environment job search programmes for people with disabilities.
- **Integration of people with disabilities in highly-qualified positions.** For this, it has reached an agreement with Seeliger y Conde Foundation which, since the second half of 2015, has established a channel for receiving professional profiles to assess their inclusion in various selection processes.

### Profile and breakdown of the workforce

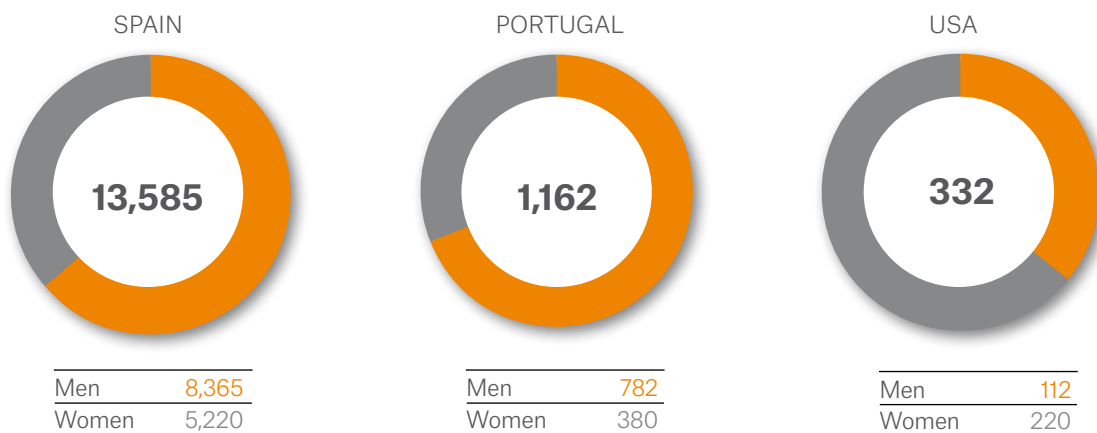
In 2015, the Group had 15,079 employees. The Group's financial institutions concentrate 98% of human capital and it should also be noted that 100% are full-time employees and 98% have indefinite employment contracts.

Despite the economic backdrop, the Bank stills does its utmost to retain staffing levels, deriving in large part from the decline in headcount resulting from non-traumatic processes, such as retirement, early retirement and employees transferred as a result of corporate operations.

Due to its commitment to people, Banco Popular has preserved the maximum of the Group's human capital, managing to be one of the financial institutions that has not carried out any Downsizing Plan since the beginning of the economic crisis, despite, in 2015, continuing with the integration of part of Citibank Spain's staff into its human capital.

**15,079**  
employees in the Banco Popular Group

Distribution of employees by region and gender - 2015



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 13,266 employees belonging to financial institutions in Spain, 680 Targobank employees and 50 bancopopular-e employees, given that they have all been managed under the Group's Human Resources system throughout the whole of 2015. Therefore, the scope of *employees in Spain* reached the figure of 13,996.

For the scope of the Group, (hereinafter, *employees of the Group*), it has been considered 13,996 *employees in Spain*, and employees from financial institutions in Portugal (1,162) and USA (332). Thus, the scope *employees of the Group* reached the figure of 15,490.

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.

Distribution of *employees in the Group* by region and gender – 2013/2015

Region	2015		2014		2013	
	M	W	M	W	M	W
Spain	8,655	5,341	8,698	5,186	8,915	5,144
Portugal	782	380	904	395	913	387
USA	112	220	154	264	160	284
<b>TOTAL</b>	<b>15,490</b>		<b>15,601</b>		<b>15,803</b>	

Distribution of *employees in the Group* by gender and work contract – 2013/2015

Gender	2015		2014		2013	
	Indefinite contract	Temporary contract	Indefinite contract	Temporary contract	Indefinite contract	Temporary contract
Men	9,406	143	9,594	162	9,936	52
Women	5,820	121	5,710	135	5,730	85
<b>TOTAL</b>	<b>15,226</b>	<b>264</b>	<b>15,304</b>	<b>297</b>	<b>15,666</b>	<b>137</b>

Distribution of *employees in the Group* by professional category, age and gender – 2012/2015

Professional Category	<30 YEARS		BETWEEN 30 AND 50		>50 YEARS		TOTAL
	M	W	M	W	M	W	
Administrative staff	243	236	311	418	800	168	2,176
Technician	125	162	3,890	4,093	1,989	341	10,600
Executive	12	4	1,681	494	498	25	2,714
<b>TOTAL</b>	<b>380</b>	<b>402</b>	<b>5,882</b>	<b>5,005</b>	<b>3,287</b>	<b>534</b>	<b>15,490</b>



Number and rate of new contracts of *employees in the Group* distributed by region, age and gender – 2015

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	58	15.22%	27	6.99%	46	0.89%	18	0.41%	-	-	-	-	104	1.20%	45	0.87%
Portugal	4	12.90%	4	6.35%	6	0.79%	11	3.48%	2	1.77%	-	-	12	1.33%	15	3.80%
USA	5	12.50%	7	17.95%	8	9.88%	16	11.76%	2	6.06%	9	10.11%	15	9.74%	32	12.12%
<b>TOTAL</b>	<b>67</b>	<b>14.82%</b>	<b>38</b>	<b>7.79%</b>	<b>60</b>	<b>1.00%</b>	<b>45</b>	<b>0.93%</b>	<b>4</b>	<b>0.12%</b>	<b>9</b>	<b>1.77%</b>	<b>131</b>	<b>1.34%</b>	<b>92</b>	<b>1.57%</b>

Number and turnover rate of *employees in the Group* distributed by region, age and gender – 2015

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	5	1.31%	5	1.30%	26	0.50%	7	0.16%	8	0.26%	-	-	39	0.45%	12	0.23%
Portugal	1	3.23%	4	6.35%	96	12.63%	22	6.96%	37	32.74%	4	25.00%	134	14.82%	30	7.59%
USA	21	52.50%	15	38.46%	28	34.57%	34	25.00%	13	39.39%	29	32.58%	62	40.26%	78	29.55%
<b>TOTAL</b>	<b>27</b>	<b>5.97%</b>	<b>24</b>	<b>4.92%</b>	<b>150</b>	<b>2.49%</b>	<b>63</b>	<b>1.30%</b>	<b>58</b>	<b>1.77%</b>	<b>33</b>	<b>6.48%</b>	<b>235</b>	<b>2.41%</b>	<b>120</b>	<b>2.05%</b>

## 2.1.2. Personnel management

Personnel management 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 2015, 5,116 management interviews were held; this represents 37% of the workforce which are part of the *employees in Spain*.

**5,116**  
management interviews

### Personnel management model

During 2015, the Human Resources department 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.

The Diagnostic Phase was completed in April 2015 which involved all levels of the organisation to various degrees; the job of defining the new model was in development from that date until the end of September.

The implementation phase will be performed during the first half of 2016, having the following as its main milestones:

- **Update the Jobs Map in accordance with the new model.** This will allow a more simple and effective management of professional careers.

- **Implementation of a new Performance Evaluation Model.** More guidance on the development of professionals will be available through setting and monitoring of specific improvement plans. This process will have an annual periodicity.
- **Modification of certain lines of the Remuneration System.** It will help to align it to a greater extent with business objectives.

The overall objective of the project is to enhance the contribution of Human Resources to the business, primarily through the better identification, development and implementation of the talent of the people who are part of the organisation which, in a changing and uncertain environment as the present, is necessary.

## 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 *employees in Spain* with promotion by gender – 2015

Professional category	Workforce		Promotions	
	Number	%	Number	%
Men	8,655	61.84%	562	57.88%
Women	5,341	38.16%	409	42.12%
<b>Total</b>	<b>13,996</b>	<b>100%</b>	<b>971</b>	<b>100%</b>

All senior executives operating in Spain have a national origin. At 31 December 2015, Banco Popular had a total of 5 General Managers, 7 Deputy General Managers and 24 General Sub-managers, all of whom have Spanish nationality. At Banco Popular Portugal, the chief executive is Portuguese, while at Totalbank he is Spanish.

Internal promotions are the result of individualised proposals agreed upon by the person responsible for the business and Human Resources, who 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 Banco 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: Personnel Management, the persons responsible for Regional/ Territorial Human Resources, as well as Training and Development. Banco 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.

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. This programme is intended for recent university graduates with postgraduate degrees and no professional experience, originating from various universities and business schools with excellent academic records and a high level of language knowledge. These individuals start their careers with the Bank after undergoing a more demanding selection process than normal.

Notably, since January 2015, Totalbank has launched a professional development initiative for employees called "Career Path" which aims to identify the areas of interest of the employee and their professional growth perspective to adjust the needs of the Entity to the perspectives of the employee.

## Performance Evaluation System

Banco Popular has a Competency Evaluation Performance Model which represents an important communication tool oriented to the knowledge of people, their concerns and their professional development paths. This system allows the level of performance of each employee to be evaluated, adjusting their level of contribution to the objectives of the organisation and thus differentiate their remuneration. In 2015, 6,269 employees were evaluated, which is 44.7% of the total number of *employees in Spain*.

Distribution of *employees in Spain* evaluated through the Performance Evaluation System by professional category and gender - 2015<sup>(\*)</sup>

Professional category	Men		Women	
	Evaluations	%	Evaluations	%
Administrative staff	601	49.63%	282	46.38%
Technician	2,434	45.59%	2,149	50.65%
Executive	633	30.07%	170	34.69%
<b>Total</b>	<b>3,668</b>	<b>42.38%</b>	<b>2,601</b>	<b>48.70%</b>

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

The competencies analysed in the Performance Evaluation System have different weights with respect to the impact they have on the results of the evaluation, but the knowledge of the different areas at the Bank held by the employee and their functional and geographical mobility, as well as their potential, are taken into account.

The competency performance evaluation that is carried out through the Employee Portal is not only an important communication tool for the teams at the Group, but also 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.

## 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. Accordingly four lines of action have been defined: gender equality, support for disabilities, different generations and diverse nationalities.

Distribution of *employees of the Group* with a nationality other than local by region, professional category, age and gender - 2015<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	0.46%	1	0.56%	3	1.41%	14	4.68%	-	-	2	1.54%	4	0.33%	17	2.80%
	Technician	-	-	2	1.31%	23	0.69%	40	1.05%	9	0.47%	4	1.38%	32	0.60%	46	1.08%
	Executive	-	-	-	-	8	0.49%	3	0.64%	3	0.64%	1	6.67%	11	0.52%	4	0.82%
Portugal	Administrative staff	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Technician	-	-	-	-	1	0.19%	1	0.42%	-	-	-	-	1	0.16%	1	0.40%
	Executive	-	-	-	-	2	4.88%	1	6.67%	-	-	-	-	2	3.13%	1	5.88%
USA	Administrative staff	1	7.69%	7	31.82%	2	11.11%	7	14.29%	2	4.65%	3	9.09%	5	11.63%	17	16.35%
	Technician	1	100%	-	-	5	14.71%	3	5.45%	-	-	1	2.38%	6	12.77%	4	4.00%
	Executive	-	-	-	-	6	33.33%	2	25.00%	-	-	-	-	6	27.27%	2	12.50%
<b>TOTAL</b>	<b>3</b>	<b>0.79%</b>	<b>10</b>	<b>2.49%</b>	<b>50</b>	<b>0.85%</b>	<b>71</b>	<b>1.42%</b>	<b>14</b>	<b>0.43%</b>	<b>11</b>	<b>2.06%</b>	<b>67</b>	<b>0.70%</b>	<b>92</b>	<b>1.55%</b>	

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

The Bank is also a signatory of the "Diversity Charter", a 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.

## Progress towards equality

At the end of 2015, the Bank signed a Cooperation Agreement with the Ministry of Health, Social Services and Equality linked to taking measures to increase the presence of women in management positions and management committees. This initiative takes part in the project "More women, better companies", aimed at promoting the presence of women in positions of high responsibility. With this, Popular aligns with the measures that international and European Union framework are taking in this field, relying on attracting people with greater capacity and better educated to senior positions, promoting a balanced representation of men and women.

Under the Agreement, a clause has been signed in which Banco Popular agrees to raise, for deliberation at the Board of Directors, the Cooperation Agreement with the aim of promoting the balanced participation of men and women.

The signed Agreement is voluntary and lasts for four years. With its signature, the Bank proposes increasing the participation of women in leadership positions and Management Committees by five percentage points during the validity period. In addition, it adheres to the commitments established under the Agreement and incorporates a number of specific actions that the Bank will implement to achieve the goal, mainly related to the field of internal communication and their policies for selection, training and promotion.

## 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.

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.



Seal of Equality in the Company by the Ministry of Health, Social Services and Equality since 2010

### 2.1.3. 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.

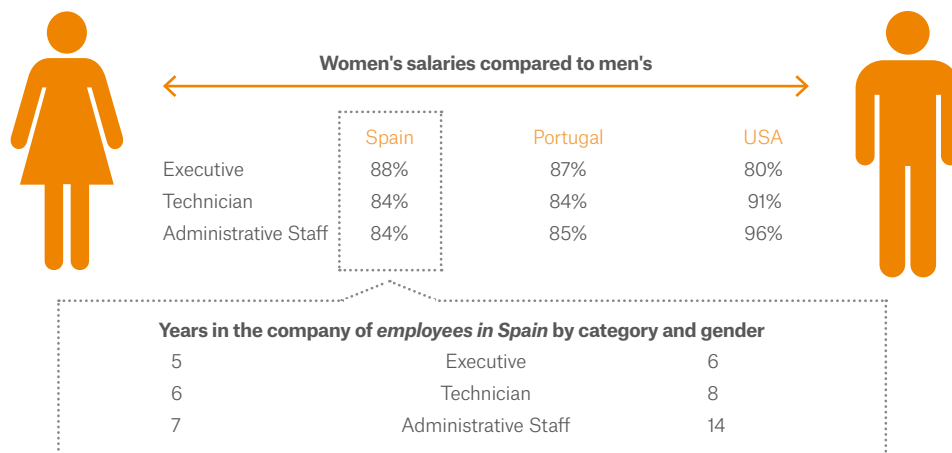
Characteristics of the remuneration system



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 as it can be observed in the *Development* and *Environment* section of the previous figure.

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

The salary ratio female/male of employees of the Group by professional category and region – 2015



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 1,366.6 euros (gross) per month: 2.10 times higher than the minimum wage levels (648.60 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. This equality relationship is maintained in all locations where Banco Popular Group carries out its activity.

## Popular links its employees' bonuses to sustainable criteria

In 2015, Popular has included sustainability indicators based on ESG 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.

Thus, employees' bonuses are linked for the first time, with both non-financial and financial indicators, including among the latter the policies associated with reputation, good governance and corporate responsibility.

## Flexible compensation

The flexible compensation system, which is available to all *Group employees in Spain* with a permanent employment contract has been very positively received since it was launched in November 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 Compensation 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. The mass contracting period opens in November of each year for the products – Health Insurance and Daycare – for which an extensive internal communications campaign is set up. Throughout the year it is possible to sign on for the Daycare product, linked to the work-life balance measure "Daycare voucher". In 2015, 4,457 employees joined the different measures of the *Flexible Compensation Plan*.

### 2.1.4. Benefits and environment

In regard to social benefits, there is a *Group Employee and Family Guide to Social Benefits* that is updated and revised regularly indicating each benefit provided by Banco Popular.

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.

## New Employee Portal

In 2015, the Employee Portal was updated, giving it a new look and feel, incorporating easier navigation and adding new user functionalities.

It is a tailor-made multichannel space which takes into account the characteristics of the workforce, with the best options for the employee considering their preferences and location.

In addition, the new Employee Portal has incorporated 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.

Since its launch in the middle of September almost 7,715 employees have registered.



## Pension plans

### Integration of SRI criteria in the Employee Pension Plan

Pension plans and commitments in respect of the retirement, death and disability of employees of Group banks in Spain have been wholly externalised and structured through Employee Pension Plans and insurance policies.

The existence of the employee pension plans in Banco Popular, Banco Pastor and Popular Banca Privada included in the *Banco Popular Joint Promotion Plan* involves the participation of workers in its management; through the Control Committee. Europopular Integral is the fund in which the Group's Employee Pension Plans are included. At the end of 2015, it had worth totalling 1,029.2 million euros, 14,651 participants and 3,931 beneficiaries.

The investments of the Europopular Integral Fund into which the Pension Plans of Employees of Banco Popular Español, Banco Pastor and Popular Banca Privada are integrated, are managed with Socially Responsible Investment (SRI) criteria and in turn incorporate stringent exclusion and evaluative criteria, which means that in addition to the strictly financial criteria, those related to environmental, social and good governance, are also taken into account in the fixed and variable income portfolio.

## Reconciliation of personal and working lives: *Concilia Plan*

Anticipating the Equality Act of 2008 and promoted by Senior Management, in 2005 the Bank created the *Concilia Plan*, 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 a work-life balance measure 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 Benefits and Compensation Office and in most cases are granted immediately due to the automation of the process.

Since 2005 almost 34,000 requests have been processed and this year 4,596 were handled. The *Concilia Plan* in 2015 has supposed an investment of almost 3 million euros and more than 26 million euros since it was first launched. The most requested benefits are as follows:

- Days off due to length of service
- Day-care 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.



## Recognition of labour flexibility measures implemented by Popular

In 2015, the Community of Madrid, through the Directorate General of Women of the Ministry of Family and Social Policies, gave Banco Popular an honourable mention in the Flexible Company Madrid Award in the large company category. It is an acknowledgement addressed to companies which have implemented measures to promote professional and personal flexibility as a management tool to increase competitiveness and retain talent.

To be qualified for the nomination, in addition to presenting a comprehensive diagnosis on reconciliation policies and flexibility of the Bank, more than 100 randomly selected employees answered an anonymous questionnaire on the subject, which was a requirement of the documentation to be submitted.



### Main reconciliation measures included in the *Concilia Plan*



- 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



Equality training



- 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

## 2.1.5. Training

The training of Banco Popular professionals has always enjoyed a prominence within the Entity's talent management.

Banco Popular sees the training and development processes as a resource to administer and manage the talent which the employees have; it is applied in their performance to achieve corporate objectives and to grow personally and professionally.

Thus, beyond teaching and learning, training in Banco Popular is a resource for people management which allows for better performance, a dynamic development of professional careers, a relay in positions and adequate coverage needs, efficiently contributing to the internal career and the commitment to corporate values. The main areas of action of the Training Office are as follows:

- 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 2015, total investment in training of the Group reached 3.1 million euros, which means an average of 226.26 euros per employee. Likewise, the subsidy received this year from the Fundación Tripartita para la Formación en el Empleo (FTFE) (Training at Work), a State Public Sector entity totalled 1.65 million euros, compared with the 1.77 million euros of the previous year, having used up until December, 0.86 million euros as training assistance.

Training hours *employees in Spain* by professional category and gender – 2014/2015

		2015		2014	
		Average hours	Total hours of training	Average hours	Total hours of training
Professional category	Administrative staff	28.74	52,286	31.57	60,549
	Technician	36.84	353,027	23.07	218,463
	Executive	37.12	96,328	65.95	164,742
Gender	Men	31.72	274,520	31.56	274,541
	Women	42.52	227,120	32.63	169,213
<b>TOTAL</b>		<b>501,640</b>		<b>443,754</b>	

### Development of a new training platform

In 2015, Banco Popular's new training platform named *conoce+* reached 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, etc.), 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

In 2010 Banco Popular defined the first *Transversal Corporate Responsibility Training Plan* for the period 2011-2013 with the objective of framing all training initiatives that had been carried out, as well as those planned for the future, within a systematic multi-year programme that applies the content associated with Corporate Responsibility policies to most of the Group's employees. In order to continue with this action, the *Transversal CR Training Plan 2014-2016* has been defined and is addressed to all the employees of the Group. The Bank thus intends to keep employees 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 2015 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 Banco Popular Group, plus an *Action Principles Guide to prevent criminal risks*. In order to facilitate awareness among employees, a training module is kept in this respect.
- **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 corporate responsibility so that this group is informed and participates in the Group's commitment to develop its business in accordance with corporate responsibility principles, emphasizing 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.** In this area, training materials have been made available throughout the workforce on the *Learning Management System* (LMS) training platform *conoce+* and a mandatory course on the obligations on the prevention of money laundering is available to 100% of staff where the most important aspects of this area are disseminated.

The Prevention of Money Laundering course has been disseminated to 100% of the workforce

Distribution of *employees in Spain* who received training in the subject by professional category - 2014/2015

Professional category	2015		2014	
	Number	Total	Number	Total
Administrative staff	1,811	99.56%	197	3.93%
Technician	8,699	90.78%	1,210	16.42%
Executive	2,220	85.55%	510	21.73%
<b>TOTAL</b>	<b>12,730</b>	<b>90.95%</b>	<b>1,917</b>	<b>14.03%</b>

- **Observance of Human Rights.** Training action has been developed for 445 employees: 3.2% of all *employees in Spain* totalling 15,595 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.** In 2015, all the modules that compose the training course named *Baldomero's Challenge* were given, aiming to achieve environmental awareness generated by development in daily activities. Through Baldomero, an imaginary employee of Banco Popular, staff are shown which behavioural habits are most suitable to reduce this impact.
- **Economic education course given by employees.** The objective is to train groups that have low bancarisation levels, primarily disabled persons or those at risk of exclusion, and covers general topics regarding the banking activity. Training action have been developed under the Corporate Volunteering Programme; volunteers have prepared the content of the courses and given them to beneficiaries.

Furthermore, Banco Popular Portugal has participated in several projects promoted by GRACE, Grupo de Reflexão 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.



## 2.1.6. Communications and participation

### Internal communication

Contact with Group employees is direct, fluid and constant. Communication is therefore encouraged through the internal corporate channels – Employee Portal, *+Informados*, Employee Box, etc. – and also through bi-directional communications within teams.

Promoting employee communication and participation.



#### **Intranets**

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. The portal also has a specific section on corporate responsibility, which has been expanded since 2010 with the initiative *"Somos Diversidad"*.



#### **+ 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 human resources, training and personnel management. In 2015, 201 suggestions were received in this box.



#### **Club del Popular (Popular Club)**

It is an internet space addressed at the group of retired and early-retired group of *employees of the Group*. It also includes a specific Corporate Responsibility section whose objective is to inform and participate.

**contuayuda**

#### **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.

## Union relations

Everyone has the right to freedom of association and affiliation is a right of every person. Banco Popular Group is aware of the respect that its employees deserve and it provides the elements that are necessary for them to exercise their employee rights in all countries in which it operates.

The Collective Agreement for Banking, which is applicable to all employees, 99.75%, 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 470 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 96% of the Group's employees in Spain.

### 2.1.7. Safety and health

The Occupational Risk Prevention Service manages all issues relating to the identification of these risk at work centres, employee training, monitoring of health issues and the preparation of emergency and evacuation plans.

In 2013 the *Occupational Risk Prevention Plan 2013-2018* was approved and is intended to include all actions relating to this area within a framework defined by the Group's preventive policy. This policy is supplemented by the creation of a *Prevention Management Manual*, which includes working procedures and operating instructions relating to the prevention of occupational risks. All new employees are provided with a copy of this manual which, likewise, is also available on the Employee Portal.

During 2015, the task of training the various emergency evacuation teams of the buildings and making mandatory evacuation drills has continued. This is intended to accustom employees to using emergency exits and teach them the appropriate conduct which, in an emergency, will allow them to quickly evacuate the premises in an orderly fashion, and to verify the application of the emergency plans and the proper operation of available measures.

## Ensuring preventive management in the Banco Popular Group

During 2015, an external audit was carried out on the management of Occupational Risk Management in the Banco Popular Group, in compliance with current regulations.

Numerous parameters and related processes related to activity in this area were analysed and all of them passed the suitability tests; there were no incidents or events to prevent the granting of the corresponding certificate.

The company which performed this audit was AUDELCO, a corporation that has Final Administrative Accreditation to operate as an auditor of Prevention Systems throughout Spain in accordance with RD 39/1997 and is also accredited by ENAC (Entidad Nacional de Acreditación - National Accreditation Body) for the certification of management systems for safety and health at work (OHSAS 18001).



## 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 various workplaces 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.

## Risk evaluation

In 2015, 340 risk evaluations 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, 3,193 evaluations have been performed.

## Occupational Risk Prevention Training

The Training Occupational Health and Safety Plan includes a series of courses both in the classroom and on-line to employees aimed at train and prevent against possible risks in the workplace.

In this regard, the following classroom training actions performed in 2015 were:

- Refresher courses for members of the emergency teams of the singular buildings of the Group. This course was attended by 259 employees.
- Training on emergency measures and evacuation of the workplace. Given to 10 employees.
- Specific first aid courses and the use of defibrillators. 77 employees participated.
- Distance course to obtain the Title of Basic Occupational Risk Prevention Technician. This qualification was obtained by 5 employees.
- Special classroom training for maintenance personnel in order to obtain the necessary qualifications according to RD 614/2001 for working with low-voltage electrical hazards. There were 24 employees enrolled for this course.

The training in Occupational Risk Prevention is complemented by the following documents which each employee can find in the various platforms that Banco Popular offers:

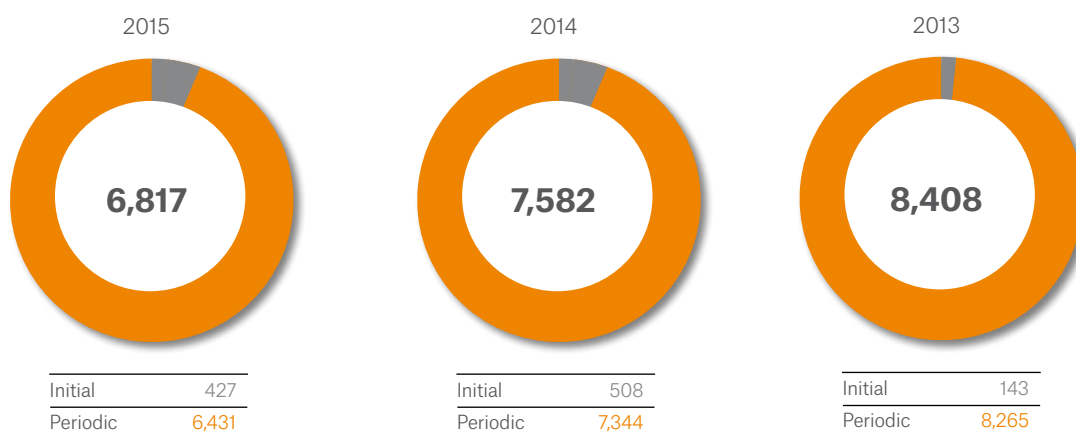
- Operational Risk Prevention Plan and specifics Manual of each office
- Information sheets on occupational risks during pregnancy
- Information about emergency, general and specific measures for each building, names of the emergency teams' members and the meeting point
- Informative articles regarding health and the most common problems affecting employees

To complete this training, five specific courses were designed to be given depending on the position of the employee: branch controllers, branch sales team, cashiers, central services employees and new employees of the Group. In the fourth quarter of 2015 these new courses began through the platform *conoce+* up until 31 December, almost 900 employees had received training.

## 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 made to *employees in Spain* – 2013/2015

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 – 2015

	Men	Women
Number of employees entitled to parental leave	392	400
Number of employees that exercised this right	371	395
Number of employees that returned to work after exercising the right	369	370
Return to work rate after exercising the right to parental leave	99.46%	93.67%
Number of employees that remain in the organisation one year after parental leave	353	416
Employee retention rate	96.45%	93.69%

Occupational accidents of *employees in Spain* by gender – 2015

	Men	Women	TOTAL
Total accidents	148	125	273
Accidents – no leave	86	69	155
Accidents – with leave	62	56	118
Total working days lost	1,192	800	1,992

Amount and type of absenteeism of *employees in Spain* by gender – 2015

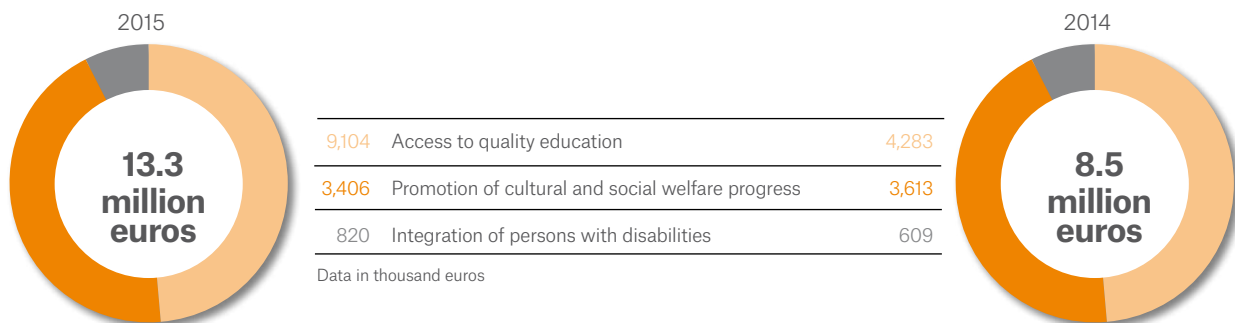
	Men	Women	TOTAL
Total leave	1,782	1,910	3,692
New leave	1,645	1,764	3,409
Additions	1,584	1,713	3,297
Total working days lost	48,529	48,176	96,705
Accident rate	0.000	0.000	0.000
Index of days lost	0.338	0.539	0.415
Absenteeism	2,534	4,045	3,111

## 2.2. External social dimension: social investment

With regard to social investment, Banco Popular believes its work consists of contributing to the development of viable projects as part of its economic and technical operation, aimed at repairing the business fabric and providing access to education to people who could not otherwise afford it, given that they will be the ones to pick up the baton of future economic development.

The Bank invests in non-profit organisations and foundations of recognised prestige in the beneficiaries' local areas with a view to ensuring its social initiatives and the effectiveness of its contribution benefit reach as many people as possible. Banco Popular's social initiatives are channelled pursuant to the principle of assisting those that promote the initiatives. The Bank is most active where it directly pursues its activities and where assistance with development is most needed, regardless of whether commercial relationships exist with the benefiting area.

Distribution of the social action of Banco Popular – 2015/2014



### 2.2.1. Banco Popular Foundation

The Banco Popular Foundation channels and organises the Bank's social initiatives with total separation from its commercial activity and in the manner that the Bank considers they should be carried out: without promoting any initiative but helping those who promote it. It only acts upon request, as a last resort and without publicity. Accordingly, it does not consider acts of sponsorship or patronage and does not sustain any initiative or activity on an ongoing basis, seeking to avoid reliance on systematic assistance.

The Bank makes contributions voluntarily and the social investment formulas partake of their own management style, based on the principles of professionalism, transparency and responsibility, selecting exclusively sustainable projects. The endowments received by the Foundation are managed independently and are entirely earmarked for the pursuit of its social aims, since it does not bear any management or operating expenses.

The Agreement signed by the Bank and the Foundation in 2008, renewed in 2013, has ratified the general lines followed in recent years in terms of social action, guaranteeing that it will have sufficient resources to carry on.

The Banco Popular Foundation's lines of social initiatives



**Access to quality education**

Targeted at providing access to education to people who 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**

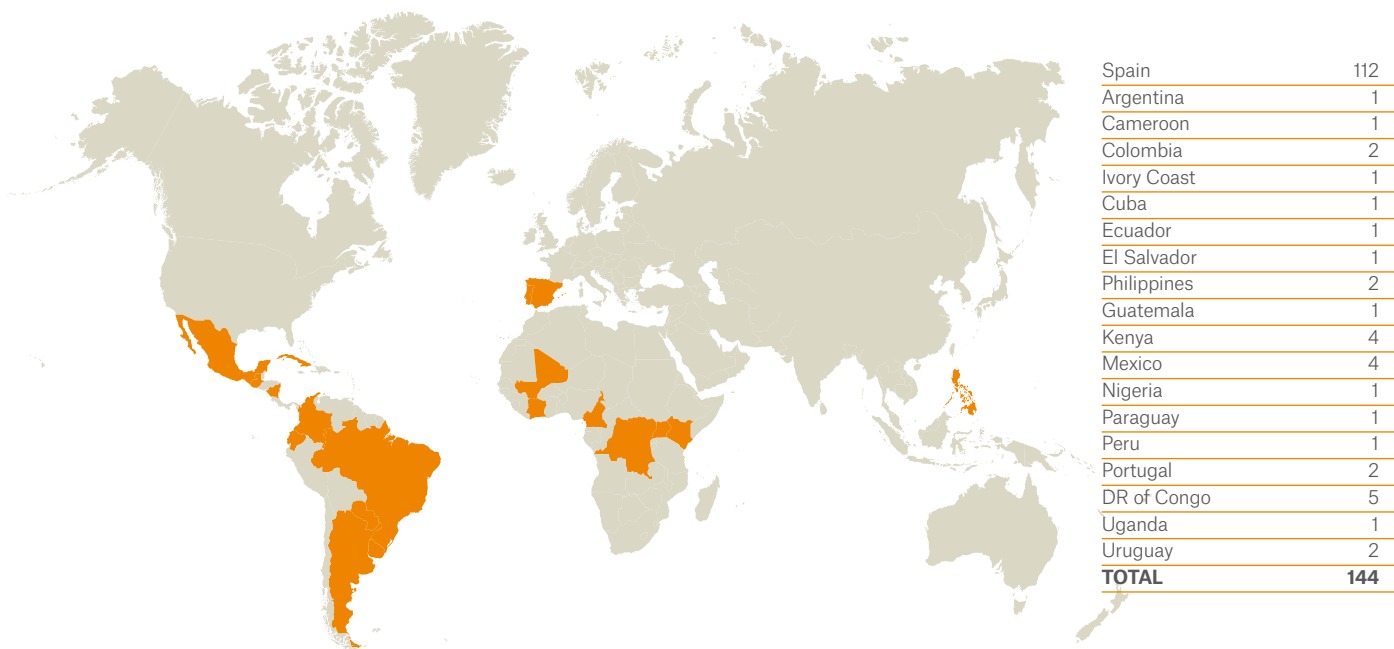
Established to boost the inclusion in the labour market of people with different levels of ability through assistance projects, training of volunteers and raising the awareness of social partners.

2.2.2. Most significant projects

In 2015 the Banco Popular Foundation assisted in the start-up of 144 different projects, 112 of which were implemented in Spain and 32 abroad; the cooperation and development programmes were mainly carried out in Africa and Latin America. In total, these projects have resulted in more than 10,737 direct beneficiaries and 204,151 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, etc. - the amount of indirect beneficiaries is exceptionally significant.

On the other hand, Banco Popular Portugal has continued collaborating in Portugal on projects ranging from the granting of aid to students, endowment of equipment and volunteer activities for welfare organisations. Meanwhile, Totalbank made donations for more than \$36,155, which were intended for different charities in the State of Florida (USA), participating in projects related to financial education, environmental entrepreneurship development and the defence of childhood, ethnic minorities and young entrepreneurs. Totalbank is an active member of more than a dozen non-profit organisations which, among other aims, work for economic development, health and equal opportunities in various counties in southern Florida.

Map of the Banco Popular Foundation's social investment - 2015



## Education and training

# 9.1

million euros for education

Banco Popular considers that one of the major contributions that it can make to society is achieving that people with skills and expertise should not be forced to interrupt their training due to a lack of resources. In 2015, the total amount of economic support contributing to enable access to studies and training was of 9.1 million euros.

The *Academic Excellence Loan Programme* developed in conjunction with Spanish and foreign universities is particularly remarkable. Students who benefit from this programme must have a grade in high school that is above average and must provide evidence that they do not have the economic means to pay for their studies. As far as grants are concerned, the Bank assumes all the costs derived from the execution of credits and also subsidises 100% of the interests of the amounts granted to students who pass all their subjects. Depending on the average grade in each year and the degree that is studied, when the academic year ends, the loan is partially repaid in a percentage ranging from 25% to 75%. During the 2014/2015 academic year, the programme had a total of 824 beneficiaries and their loans were repaid in the amount of 2.8 million euros.

## Bancarisation through microcredits

Banco Popular supports bancarisation to various groups at risk of exclusion through microcredits, as shown in the following supported projects in 2015:

- **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 small credits give many 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 4 to 6 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.

#### Summary of the microcredits granted by Banco Popular – 2015

Description	Communal banks for women	Labour integration of people without access to the economic system	TOTAL
Country	Guatemala	Paraguay	
Number of Communal Banks	6	1	7
Number of beneficiaries	136	2,174	2,310
Number of women beneficiaries	136	1,001	1,137
Number of microcredits	136	5,742	5,878
Equivalent value microcredits (euros)	43,508	1,407,547	1,451,055
Number of times that the portfolio rotated	2	2	4
Average loan amount (euros)	320	336	328
Average term (months)	6	6	6
Non-performing ratio (%)	0	5.98	2.99

# 1.4

million euros for social microcredits

Thus, Banco Popular supports efforts to provide banking services to groups at risk of exclusion through microcredits and has allocated 1,451,055 euros, accounting for 10.98% of the social investment in 2015. This endowment represents an increase of almost 1.2 million compared with 2014.



## More cohesive Christmas

During 2015, Banco Popular carried out several solidarity actions targeting people at risk of exclusion, highlighting those in the last month of the year coinciding with the Christmas season.

### Fourth food donation campaign

In 2015, Banco Popular coordinated its fourth food collection campaign at Christmas time in order to help people without resources celebrate the holidays. This initiative permitted employees to contribute in two ways: one by donating non-perishable products at the main Madrid buildings and the other by making economic contributions intended to purchase food. Thanks to the employees' enthusiastic participation in the campaign, the Bank managed to collect almost 5 tonnes of food (2 tonnes more than in 2014) which were donated to social dining halls of Cáritas organisation.

In addition, Banco Popular Portugal also promoted a campaign for donations of food staples to help babies from disadvantaged families. This action collected more than one tonne of these items.

### Christmas Competition

For the second consecutive year, Popular organised its Christmas Competition aimed at the Group's entire workforce in Spain in which more than 1,500 employees participated. The competition was to decorate a styrofoam ball and make it into a Christmas decoration using the participants' creativity.

A supply of these Christmas balls were used to decorate several unique buildings that the Group has in Madrid. In addition, many other Christmas Competition balls went to decorate various centres that third sector organisations have in the Community of Madrid:

- **Down Madrid Foundation**

In a voluntary action organised by Banco Popular, several employees and youths with disabilities from the Foundation, participated in the Christmas decoration of the venues Down Madrid Foundation has in the capital.

- **Mensajeros de la Paz (Messengers of Peace)**

Another provision of the balls from the Group's Christmas Competition served to decorate several soup kitchens and homes that the Mensajeros de la Paz Association has spread throughout the Community of Madrid.



## Support to disabled persons

Banco 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 Responsable* Forum, a space for participation and social innovation relating to Corporate Responsibility and to Disabilities promoted by the ONCE Foundation.

## Other collaboration projects

In addition, in 2015 other significant projects have been developed which have received support from the Banco Popular Foundation, among which the following stand out:

- **Social inclusion of people with autism spectrum disorders (Madrid, Spain)**

Aleph is an association formed in 2002 by a group of families with children with autism spectrum disorder and with the help of specialised professionals. It aims to provide support and give opportunities to these people as well as help the development of their lives to be as normal as possible, ensuring their social inclusion at all levels. Today it serves more than 120 families, a good part of whom have great needs. Banco Popular has worked with Aleph providing the necessary resources to enable them to continue the development of its activity, and by providing liquidity support to meet real receipts and payments.

- **Professionalisation of volunteering (Pamplona, Spain)**

In recent years, the Professional Solidarity Foundation has experienced significant growth in the number of volunteers, activities, projects and collaborations with other institutions. In 2014, it began a campaign coinciding with a new tutoring programme, which promoted the Senior Citizen Companion Programme. Due to its success, it decided to open its own centre, expanding the space for ease of operation and to find people, professionals and organizations. In 2015, with the support of Banco Popular, it created the Runa Centre, a facility which aims to be a meeting place for the 110 volunteers of the Foundation where internal and external training can develop, and in which activities, lectures and meetings on solidarity and volunteering are organised.

- **Integral education of children and young people (Kamazu, Rwanda)**

Kamazu is a village in the Muhanga district, a rural area in south-western Rwanda. In this village La Salle Guadalupana Sisters have been established who work in the education of disadvantaged children and young people. They began their activity with peasant families, visiting their homes and learning their needs, which are linked to agriculture subsistence with little opportunity for development without access to quality education. Families showed the need to set up a school in the village and the Sisters decided to make the necessary efforts to build it. Banco Popular has supported the construction of the building in which Primary Education will be taught and which will serve more than 200 children.

- **Extension of multi-purpose medical centre (Bukavu, DR Congo)**

The Heri Kwetu Centre's ("Happy in our house" in Swahili) mission is to contribute to the defence of the fundamental rights of children. It is a multi-purpose medical centre located in Kadutu, one of the poorest and most marginalised areas of the city. The main activities are hospitalisation, rehabilitation and outpatient care, physiotherapy activities and manufacture of prosthetics. In addition, it deals with the education and training of more than 2,000 students and their schooling, including children with disabilities. They have a boarding school with about 100 children and provide food assistance to the needy. Furthermore, they deal with the training of women and young people through various workshops. In the Centre the necessary values to build peace and coexistence are instilled. Banco Popular has helped fund the development of infrastructure that will allow them to have 80 beds, serve 180 patients and host other hospital services.

- **Provision of orthopaedic equipment for senior citizens (Havana, Cuba)**

Cuba has a high number of senior citizens, being one of the most aged nations. The neighbourhood of "San Antonio" has the greatest percentage of senior citizens per square kilometre on the island. Since the 90s, the Santo Domingo Congregation has developed a food aid project for a large group of senior citizens. The aid has increased more and more, but at the same time the material needs of these people have also increased because of the health problems associated with old age. Popular has tried to fill these gaps, attending to the demand for wheelchairs, crutches, walking frames and walking sticks, which are as necessary as the food itself, to increase and sustain the quality of life and dignity of these people.

### 2.2.3. Corporate Volunteering

Since 2010 Banco Popular has had an extensive volunteer programme through which it encourages its professionals to participate, in person or online, in charitable initiatives organised by both the Bank and by the main NGOs and noteworthy associations from the third sector.

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 the Bank's support for the initiatives of different non-profit organisations.

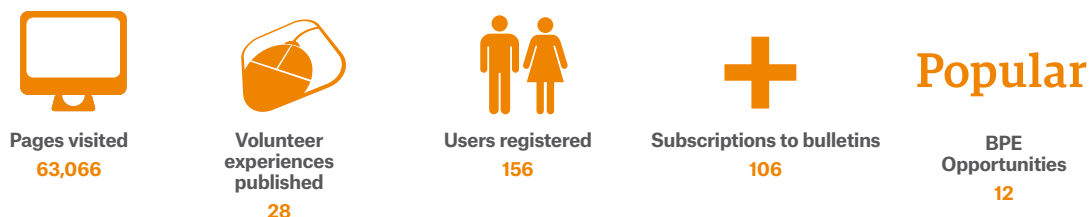
Since 2014, Popular has had a specific space in the *con tu ayuda* portal for early retirees and retirees of the Group, which aims to offer the possibility of allocating part of their time to provide financial education to low bancarisation groups at risk of exclusion.

*con tu ayuda*,  
website of  
the Corporate  
Volunteering  
Programme





Figures for *con tu ayuda*, Banco Popular Group's website for volunteers – 2015



During 2015, Banco Popular Portugal has also conducted volunteering actions. A large part of them were promoted by the Bank itself and others in collaboration with different solidarity institutions from the third sector.

All these volunteering opportunities are published in the Corporate Volunteering Programme of Banco Popular Portugal, whose employees have actively participated in initiatives such as the collection school materials families in need or maintenance of the natural heritage of protected areas of the country.

#### 2.2.4. 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.



**Contributions in kind.** Donation of products, computer materials and furniture, as well as technical assistance to develop and maintain websites.



**Campaigns.** Participation of the branch office network in campaigns to raise funds to finance organisations from the third sector.



**[www.ayudaaemergencias.org](http://www.ayudaaemergencias.org).** Private individuals can make their donations via wire transfer, with no expenses or fees, to more than twenty humanitarian organisations.

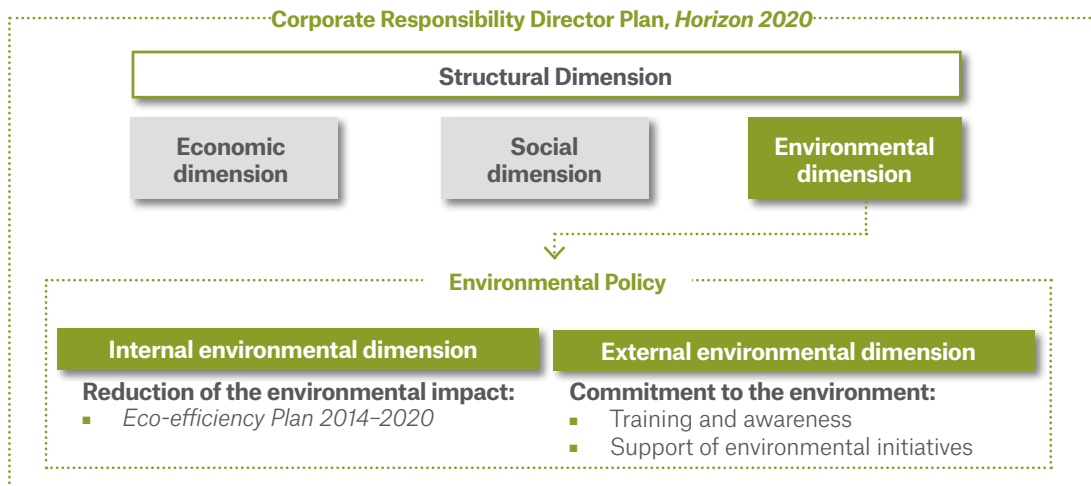


**Awareness-raising.** Banco Popular Group provides space free of charge in its communication channels to publicise the work performed by many entities such as Action Against Hunger, Entreculturas Foundation and Red Cross, among others.

# Environmental dimension

The environmental performance of Banco Popular is conducted in line with its Environmental Policy and the CR Director Plan *Horizon 2020*, which establishes two action dimensions: internal and external. The actions set out in the internal environmental dimension have the purpose of reducing and managing the environmental print derived from the Group's activity. Meanwhile, the issues observed inside the external environmental dimension have the purpose of showing the Bank's commitment with the preservation of the environment. Throughout this Annex, the main results achieved by the action lines defined in both dimensions will be shown.

## Environmental dimension of the CR Director 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 each year and for ensuring that they are met, performing the task of promoting and supervising the environmental management of the Bank's activities. In 2015, no significant sanctions were received deriving from any failure to comply with environmental legislation or regulation.

### 3.1. Internal environmental dimension

#### *Eco-efficiency Plan 2014-2020*

Based on the Corporate Responsibility strategy approved in CR Master Plan *Horizon 2020* and in keeping with the principles established in the Group's Environmental Policy, a commitment was made to develop the *Eco-efficiency Plan 2014-2020*, which is the cornerstone of the Internal environmental dimension.

During 2015, Popular has developed a model for monitoring each of the actions set out in the *Eco-efficiency Plan*, in order to review and monitor all environmental indicators being assessed. In that sense, no significant incident or relevant event has been detected which might hinder the development of each action. This monitoring ensures that the Bank generates the least possible impact on the environment by reducing energy consumption and optimising waste management; actions which encourage emission reductions by the Entity.

Each of the current actions from the *Eco-Efficiency Plan* have contributed to the implementation of the 2015 environmental objectives established by the Group. These objectives are shown in the following tables:

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 2015			
Electricity	6	1	8.82%	29,383.94 Gj	2,693.53
Paper	6	1	10.19%	144.81 Tn	430.75
Water	6	1	-2.30%	-3,275.00 m <sup>3</sup>	--
Direct and indirect emissions	6	1	2.50%	314 Tn co <sub>2</sub>	314

Performance	Savings target (%) <sup>(1)</sup>		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 2015	Percentage/ total amount of purchases	Amount (thousands of euros)	
Implementation of sustainability criteria in purchase processes <sup>(2)</sup>	20	2.8	2.33%	13,390	24,876.92

The following tables show the accumulated implementation of the Groups' environmental objectives since the beginning of the Plan in 2014 up to the current year:

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 2015			
Electricity	6	2	37.07%	178,854.94 Gj	16,395.04
Paper	6	2	11.44%	164.81 Tn	490.24
Water	6	2	50.67%	149,816.00 m <sup>3</sup>	--
Direct and indirect emissions	6	2	54.75%	14,791 Tn co <sub>2</sub>	14,791

Performance	Savings target (%) <sup>(1)</sup>		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 2015	Percentage/ total amount of purchases	Amount (thousands of euros)	
Implementation of sustainability criteria in purchase processes <sup>(2)</sup>	20	5.6	2.91%	31,672	54,193.92

(1) The "savings target in 2015" 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) The implementation of the criteria represents the purchase of environmentally friendly products and services.

(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.

The implementation of actions in relation to electricity, paper, water and emissions during 2015 have represented an investment of almost 300,000 euros and an emissions saving of 1,130 tonnes of CO<sub>2</sub>. Other actions included in the *Eco-efficiency Plan* will be progressively and modularly implemented between 2015 and 2020. Until now, the scheduled terms, investment and costs have been fulfilled for each one of them.

On the other hand, the CR Master Plan, *Horizon 2020*, establishes in its Internal environmental dimension on lines of action to be pursued in order to reduce the bank's environmental impact. To this end, the Bank's initiatives in 2015 focused mainly on three areas: resource consumption, waste management and emissions produced.

For calculations who respond to indicators of this Annex, we have taken into account data referring to consumption in the scope *employees in Spain* (13,996) except for electric consumption which also includes employees of the financial entity Banco Popular Portugal (1,162). The sum of all these employees (15,158) represent 98% of the staff defined for the scope of *employees of the Group* (15,490).

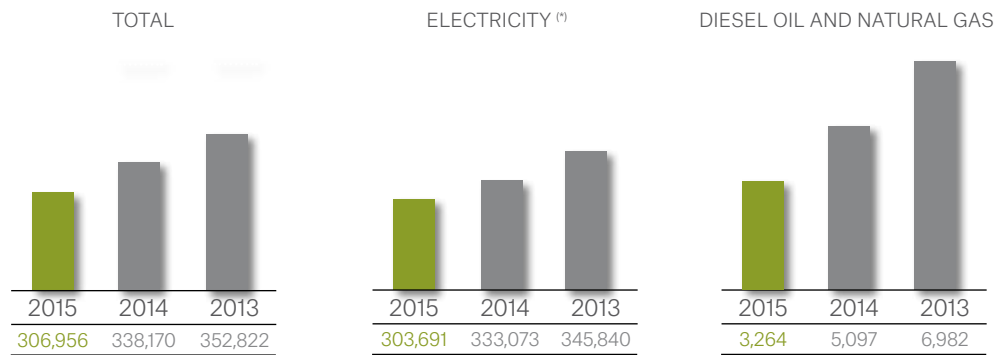
## Energy

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.

9%

less energy consumed in 2015

Internal energy consumption (figures in Gj) – 2013/2015



(\*) The electricity consumption figures refer to Spain and Portugal.

The 9% reduction in internal electricity consumption in 2015 was due, among others, to the following:

- Unique buildings.** The 1,700 employees who work in Abelias Building, represent 12.1% 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.

Abelias Building achieved LEED Gold certification in 2013 as a sustainable building that complies with the most innovative energy efficiency measures.

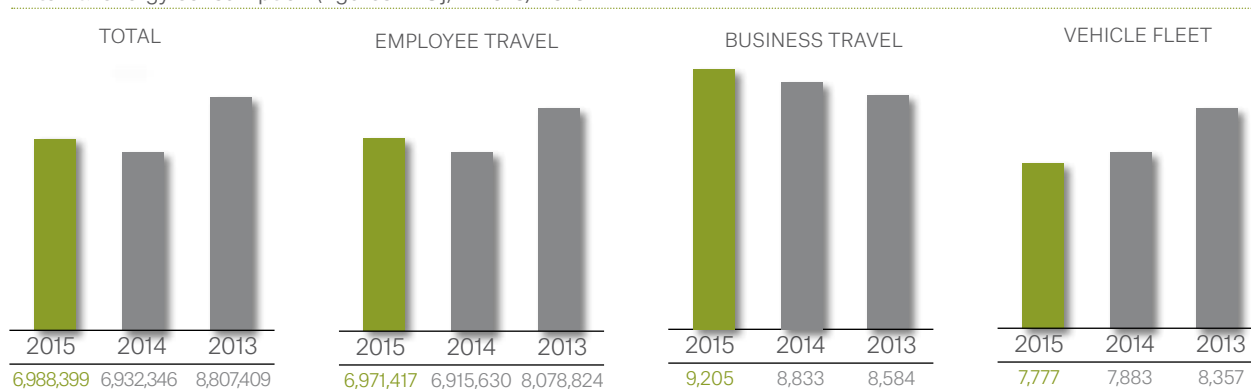
Pursuant to the Group's commitment to promoting sustainable buildings, the future construction in Madrid of the Luca de Tena Building, which will have twice the capacity of the Abelias Building, complies with the LEED Gold certification process. Under this regulatory framework, in 2015, the construction work has continued causing the least possible impact on the environment and meeting deadlines. The inauguration of the new headquarters is planned for 2017.

In the headquarters of Banco Popular Portugal several initiatives to achieve lower energy consumption have also been developed. These actions have meant a saving of 2,385,515 Kw compared with 2014, 21% less, causing an emission reduction of 1,293 tonnes of CO<sub>2</sub>.

- **Lighting systems.** The LED lighting systems located in the Bank's various single buildings and offices, in addition to the installation of building automation systems have managed to reduce electricity consumption. In addition, reflective vinyl or low solar radiation glass was used to improve the quality of each workstation.
- **Efficient office equipment.** In 2015, equipment was introduced into various branches and single buildings to manage energy consumption more efficiently. For example, air conditioning units have been installed with a heat exchange efficiency of 60%.

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:

External energy consumption (figures in Gj) – 2013/2015



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 271,385 Gj consumed in Spain are acquired from a single operator that certifies their renewable source, thereby clearly minimising the Bank's environmental footprint. In the case of Portugal, 72.3% of the electricity consumed in branches and 39.5% in buildings comes from renewable energy sources. In 2015, the total electric energy consumption by Banco Popular Portugal reached 32,307 Gj.

**100%**  
of electricity consumed  
in Spain comes from  
renewable sources

Intensity of internal and external electricity consumption (figures in Gj/employee) – 2013/2015

	2015	2014	2013
<b>Internal energy intensity</b>			
Electricity <sup>(1)</sup>	20.02	21.9	22.2
Diesel oil <sup>(2)</sup>	0.09	0.4	0.4
Natural gas <sup>(2)</sup>	0.14	-	-
<b>TOTAL</b>	<b>20.25</b>	<b>22.3</b>	<b>22.6</b>
<b>External energy intensity</b>			
<b>TOTAL</b>	<b>499.31</b>	<b>499.3</b>	<b>504.7</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.

## Paper

Banco Popular Group puts various initiatives into practice at its facilities in Spain in order to reduce its paper and cardboard consumption. Of note in 2015 were the following:

- **Paper consumption.** In 2015 1,276 tonnes of paper was consumed including envelopes, sheets of paper and cardboard; 81% of this came from recycled sources.

In this sense, the Bank continues to place a priority on environmental standards in its purchase of paper and envelopes in their different formats:

- Paper. 100% of the photocopying and recycled paper purchased by the Bank is PEFC/FSC or ECF certified.
- Envelopes. 93% of the envelopes used by the Bank are PEFC/FSC certified, meanwhile 87% are carbon neutral.

- **Reduction in grammage of paper consumed.** In 2015, 98.85% of the white photocopier paper consumed had a grammage of 75gr, representing a saving of 24 tonnes of CO<sub>2</sub>.

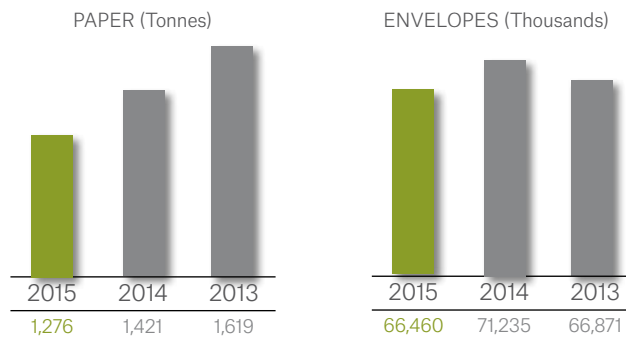
- **Lower amount of envelopes sent.** Saving in envelopes sent in 2015 was achieved in two different ways:
  - Envelopes sent to customers. The grouping of communications sent to customers has made it possible to save over 181 million envelopes compared with the non-integrated communication practice that was followed in prior years.
  - Multipurpose envelopes. On the other hand, the use by employees of 526,250 multipurpose envelopes in communications between offices of the Group has resulted in a saving of 12 million single-use envelopes.

- **Centralised printing and employee awareness.** The establishment at various unique buildings of centralised printing systems, which entail having one printer per work area, has also led to less paper consumption in 2015.

- **Recycling.** In 2015, the recycling rate reached 62%, which means that 793 tonnes of paper were recycled. This implies a reduction of 7 percentage points compared to 2014.

**193**  
million envelopes  
saved in 2015

Paper consumption at Banco Popular – 2013/2015



## Emissions

Total direct and indirect emissions in 2015 amounted to 12,222 tonnes of CO<sub>2</sub>, down 2.5 % compared to 2014. The steps that made this reduction possible were the following:

- **Green energy.** The Banco Popular commitment to consuming exclusively renewable energy has enabled reducing emissions from electricity consumption in Spain to zero, thereby preventing the emission into the atmosphere of 24,877 tonnes of CO<sub>2</sub>. In the case of Popular Portugal, 72.3% of the electricity consumed in branches and 39.5% consumed in buildings comes from renewable energy sources. This fact has resulted in a reduction in emissions of another 2,028 tonnes of CO<sub>2</sub>. These actions have resulted in a reduction in emissions in both Entities of 26,905 tonnes of CO<sub>2</sub>.
- **Employee travel.** The Bank promotes various steps that avoid CO<sub>2</sub> emissions:
  - Use of conference calls. Thanks to their use, employees avoided making numerous trips by road, rail or air, achieving a saving of 239 tonnes of CO<sub>2</sub>.
  - *Car sharing.* A programme is available at the Abelas Building whereby employees of the building share a car for their trips to and from the workplace. Thanks to this system, 4.21 tonnes of CO<sub>2</sub> were no longer emitted.
- **Paper consumption.** The reduction in paper consumption entails a saving of 3,038 tonnes of CO<sub>2</sub> from which 2,666 concern to the integration of documents in a single envelope and 113 correspond to the use of multi-use envelopes. The remaining 259 tonnes come from reducing paper consumption by other concepts. Moreover, the use of carbon neutral envelopes has allowed the emission of 913 tonnes of CO<sub>2</sub> to be stopped, while the use of recycled paper has caused a reduction of 742 tonnes of CO<sub>2</sub>.
- **Offset.** The offset in 2015 of 812.03 tonnes of CO<sub>2</sub> direct emissions in Spain has enabled Banco Popular to be neutral in the two main emission levels (Scopes 1 and 2), giving it a ZeroCO<sub>2</sub> label as noted at the end of this Annex.

**2.5 %**  
less CO<sub>2</sub> emissions

### Direct and indirect CO<sub>2</sub> emissions generated - 2013/2015

Emissions	Scope	Concept	Tonnes of CO <sub>2</sub>		
			2015	2014	2013
Direct	Scope 1	Diesel oil <sup>(1)</sup>	94.14	374	513
		Natural gas <sup>(1)</sup>	103.30		
		BPE vehicle fleet	614.59	574	610
		Total direct emissions	812.03	948	1,123
Indirect	Scope 2	Electricity <sup>(2)</sup>	933.39	1,200	3,307
	Scope 3	Employee travel <sup>(3)</sup>	9,820	9,741	11,365
		Business travel (air and rail)	657	647	623
		Total Indirect Emissions	10,477	11,588	15,295
<b>TOTAL</b>			<b>12,222</b>	<b>12,536</b>	<b>16,418</b>

(1) In 2015, the data on consumption of Diesel oil and Natural gas corresponds only to Spain as Popular Portugal consumed neither of these resources.  
 (2) The 933.39 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) In 2014 and 2015, the information only corresponds to Spain as the collection of information was only possible for this region. For 2013, the data refers to Spain, Portugal and the United States.

### Intensity of direct and indirect CO<sub>2</sub> emissions generated - 2013/2015

Emissions	Scope	Tonnes of CO <sub>2</sub> /employee		
		2015	2014	2013
Direct	Scope 1	0.06	0.07	0.08
Indirect	Scope 2	0.07	0.09	0.20
	Scope 3	0.75	0.75	0.76
<b>TOTAL</b>		<b>0.88</b>	<b>0.91</b>	<b>1.04</b>

## For the third consecutive year, Banco Popular offsets 100% of its CO<sub>2</sub> direct emissions in Spain

In 2015, Banco Popular again offset 100% of its CO<sub>2</sub> direct emissions in Spain, as it did in 2013 and 2014, therefore becoming a neutral Entity in emissions from Scopes 1 and 2.

As the result of its continuing commitment to the environment, Popular has again enforced the two actions which led to these achievements: on one hand, all electricity purchased and consumed in Spain has come from renewable sources and, on the other, it has offset 100% of CO<sub>2</sub> direct emissions generated in Spain.

Offsetting these emissions has contributed to the REDD Project - Conservation of Madre de Dios, which takes place in the Peruvian Amazon and it has a two-fold objective: reduce deforestation in the vast area of South America and contribute to the sustainable development of rural producers and the indigenous communities living in the area of the project's influence.

Thus, Banco Popular has won for the third consecutive year the ZeroCO<sub>2</sub> label promoted by the Ecology and Development Foundation (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 130,829 m<sup>3</sup>, while in Portugal it amounted to 14,999 m<sup>3</sup>. Total consumption was 145,828 m<sup>3</sup>.
- **Toners.** 35,399 toners were consumed, of which 55% 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. 22.70% of plastic bags are oxo-biodegradable / photo-degradable.
- **Waste.** In total, 124,549 kg of waste were managed in the proper manner. The investment made in all these recycling processes amounted to more than 80,000 euros.



## Waste managed at Banco Popular (kg) – 2013/2015



## 3.2. External environmental dimension

### 3.2.1. Training and awareness-raising

With environmental training and awareness actions, Banco Popular seeks to involve all its staff in following practices aimed at sustainable development in their day-to-day activity. To this end, Intranet, *+Informados* newsletter and the Corporate Volunteer Portal *con tu ayuda* are being used. Among the initiatives carried out in 2015, the following stand out:

- Dissemination and promotion of sustainable initiatives among employees.** Among these initiatives, we can highlight the recycling of bottle caps by the Group employees. In total, over 1.6 tonnes of bottle caps have been collected since the beginning of the campaign in Spain. Another type of environmental initiative has also been disseminated through the Corporate Volunteering Programme *con tu ayuda* such as the World Water Day.
- Turning-off of lighting of the Bank's most emblematic buildings.** As in prior years, this initiative was carried out as part of Earth Hour WWF 2015. Almost 10,000 cities in 172 countries switched off the lights of their main monuments and emblematic buildings. With this the belief in becoming more efficient and self-sufficient in the use of energy and clean energy throughout the year is promoted, thus reducing the level of CO<sub>2</sub> emissions on the planet.
- Suppliers' environmental awareness.** In the framework of the Suppliers' Approval System, in 2015 all new suppliers were required environmental information on their activity, with a completion percentage of 100%. Furthermore, during 2015, 91.93% of the purchase volume came from significant suppliers who had completed this environmental information.



## Environmental training for employees

During 2015, three training activities within the *Ecoefficiency Plan* were developed. These activities aimed to raise awareness of environmental matters among Group employees.

The three training modules plus a fourth released in 2014 are in the course named *Baldomero's Challenge* in which, through an imaginary employee of Banco Popular, the targets the Entity has fixed on environmental issues are passed to the workforce:

- To report on the actions that the Bank is developing in its *Ecoefficiency Plan*
- To raise awareness of the impact our habits have on the environment
- To recommend behaviours to negate that impact
- To emphasise the importance that small actions carried out by the employees, help to reduce Popular's environmental impact

The learning content of each one of them consists of a training video, specific texts for each subject and a test consisting of 10 questions to evaluate the knowledge of employees after viewing each module.

### 3.2.2. Environmental initiatives

Banco Popular works together with agencies and bodies that evaluate and assess the Bank's activity in the environmental sphere. By way of example, the Bank is a signatory to the CDP *Carbon Disclosure Project*.

On the other hand, Banco Popular actively participated in the special programme from CADENA SER "Hoy por hoy" dedicated to the celebration of World Water Day. In this forum, Popular renewed its commitment to the agri-food sector which is so dependent on water resources and, added that increasing irrigation communities adhere to the special conditions of credits, loans, agri-credit accounts and direct funding arrangements offered by the Bank.



## Advancing commitment to the environment

In 2015, Popular reaffirmed its involvement with the environment in which it operates by participating in environmental initiatives promoted by the Ministry of Agriculture, Food and Environment (MAGRAMA) and the ECODES Foundation respectively.

### Census-taking of the Carbon Footprint in MAGRAMA

Banco Popular Español, Banco Pastor, Popular Banca Privada, bancopopular-e and Targobank; all entities belonging to the Banco Popular Group, have obtained the "calculo" seal of the Ministry of Agriculture, Food and Environment (MAGRAMA) by having registered in this Organism the calculation of the carbon footprint it generated in 2014.

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.

The five Group entities have performed the calculation and offset of their direct CO<sub>2</sub> emissions in Spain since 2013. In the same year, the organisation developed its *Eco-efficiency Plan 2014-2020* which aims to reduce emissions from its Scope 1 and 2 by 9% during the period.

### Commitment to 1 million for the climate

This initiative by the ECODES 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 and has signed a number of actions and commitments that are running today, and which are aimed at reducing CO<sub>2</sub> emissions and maintain their active participation against the change.

Among the most notable actions and commitments that Popular has listed on the website [www.unmillonporelclima.es](http://www.unmillonporelclima.es) are, contracting renewable electrical energy, optimising the use of paper or the offset of its carbon footprint. These and other actions that the Entity has developed since 2014 are defined in its *Eco-efficiency Plan 2014-2020*.



# GRI G4 Content Index

# 4

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 is mentioned in section 6.3 Application of the materiality principles in accordance with GRI G4, 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.



Banco Popular's integrated report is prepared on the basis of the GRI G4 "in accordance-COMPREHENSIVE" option

Once again, the Bank 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 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 Banco 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.



GENERAL STANDARD DISCLOSURES			
	PAGE	OMISSIONS	
<b>STRATEGY AND ANALYSIS</b>			
G4-1	7	-	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	80	-	Report the name of the organisation.
G4-4	15-16, 108-109	-	Report the primary brands, products, and services.
G4-5	AR 2015 (9)	-	Report the location of the organisation's headquarters.
G4-6	10-11, 15	-	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, 80	-	Provide a description of the nature of ownership and legal form.
G4-8	10-11, 15-16	-	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).
G4-9	8-11, 15-17	-	Report the size of the organisation.
G4-10	119-120	-	<ul style="list-style-type: none"> <li>a) Report the total number of employees by employment contract and gender.</li> <li>b) Report the total number of permanent employees by employment type and gender.</li> <li>c) Report the total workforce by employees, external workers and by gender.</li> <li>d) Report the total workforce by region and gender.</li> <li>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 external workers, such as employees and subcontracted employees by contractors.</li> <li>f) Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).</li> </ul>
G4-11	134	-	Report the percentage of total employees covered by collective bargaining agreements.
G4-12	113-116	-	Describe the organisation's supply chain.
G4-13	80, 113-116	-	Report any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain.
G4-14	104-105	-	Report whether and how the precautionary approach or principle is addressed by the organisation.
G4-15	56-57, 74	-	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.
G4-16	56-57, 74	-	List memberships of associations (such as industry associations) and national or international advocacy organisations to which the organisation pertains.
<b>MATERIAL AND COVERAGE</b>			
G4-17	15-16	-	<ul style="list-style-type: none"> <li>a) List all entities included in the organisation's consolidated financial statements or equivalent documents.</li> <li>b) Report whether any entity included in the organisation's consolidated financial statements or equivalent documents is not covered by the report.</li> </ul>
G4-18	60-61	-	<ul style="list-style-type: none"> <li>a) Explain the process for defining the report Content and the Aspect Boundaries.</li> <li>b) Explain how the organisation has implemented the Reporting Principles for Defining Report Content.</li> </ul>
G4-19	82-83	-	List all the material Aspects identified in the process for defining report content.
G4-20	82-83	-	For each material Aspect, report the Aspect Boundary within the organisation.
G4-21	82-83	-	For each material Aspect, report the limit beyond the organisation.
G4-22	80-81	-	Report the effect of any restatements of information from previous reports, and the reasons for such restatements.
G4-23	80-81	-	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.

GENERAL STANDARD DISCLOSURES			
	PAGE	OMISSIONS	
<b>STAKEHOLDER ENGAGEMENT</b>			
G4-24	56-57	-	Provide a list of stakeholder groups engaged by the organisation.
G4-25	56-57	-	Report the basis for identification and selection of stakeholders with whom to engage.
G4-26	56-57	-	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	56-57	-	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	80	-	Reporting period (such as fiscal or calendar year) for information provided.
G4-29	80	-	Date of most recent previous report (if any).
G4-30	80	-	Reporting cycle (such as annual, biennial).
G4-31	168	-	Provide the contact point for questions regarding the report or its contents.
G4-32	156	-	<ul style="list-style-type: none"> <li>a) Report the 'in accordance' option the organisation has chosen.</li> <li>b) Report the GRI Content Index for the chosen option (see tables below).</li> <li>c) Provide reference to the external Verification Report, if applicable. GRI recommends external verification, although this is not compulsory, to ensure the report is "in accordance" with the Guidelines.</li> </ul>
G4-33	80	-	<ul style="list-style-type: none"> <li>a) Report the organisation's policy and current practice with regard to seeking external assurance for the report.</li> <li>b) If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided.</li> <li>c) Report the relationship between the organisation and the assurance providers.</li> <li>d) Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report.</li> </ul>
<b>GOVERNANCE</b>			
G4-34	32-34	-	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	32-34	-	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	146	-	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	56-57	-	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	32-34	-	Report the composition of the highest governance body and its committees.
G4-39	37, AR 2015 (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	33	-	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	41, 43	-	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	58-59, 138, 146-147	-	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	36	-	Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.
G4-44	AR 2015 (171-173)	-	<ul style="list-style-type: none"> <li>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. Report whether such evaluation is a self-assessment.</li> <li>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.</li> </ul>
G4-45	AR 2015 (195-206)	-	<ul style="list-style-type: none"> <li>a) Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes.</li> <li>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.</li> </ul>

GENERAL STANDARD DISCLOSURES			
	PAGE	OMISSIONS	
G4-46	41-43, 146, AR 2015 (201-202, 205-211)	-	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	60-65, AR 2015 (193-195)	-	Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.
G4-48	80	-	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	56-57	-	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	36-37, AR 2015 (169)	-	<ul style="list-style-type: none"> <li>a) Report the remuneration policies for the highest governance body and senior executives for the below types of remuneration.</li> <li>b) Report how performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives.</li> </ul>
G4-52	36-37, AR 2015 (169)	-	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	56-57	-	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	14, 38	-	Describe the organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.
G4-57	66	-	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	66, 101-102	-	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.

SPECIFIC STANDARD DISCLOSURES			
INFORMATION ON MANAGEMENT APPROACH AND PERFORMANCE INDICATORS			
	PAGE	OMISSIONS	
<b>CATEGORY: ECONOMY</b>			
<b>MATERIAL ASPECT: ECONOMIC PERFORMANCE</b>			
G4-DMA	53-55	-	Economic performance
G4-EC1	53, 74	-	Direct economic value generated and distributed.
G4-EC2	110	-	Financial implications and other risks and opportunities for the organisation's activities due to climate change.
G4-EC3	106-107, 128	-	Coverage of the organisation's defined benefit plan obligations.
G4-EC4	130	-	Economic assistance received from government.
<b>MATERIAL ASPECT: MARKET PRESENCE</b>			
G4-DMA	10-11, 15-16, 53-55	-	Market presence
G4-EC5	126	-	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.
G4-EC6	122	-	Proportion of senior management hired from the local community at significant locations of operation.
<b>MATERIAL ASPECT: INDIRECT ECONOMIC IMPACTS</b>			
G4-DMA	54-55	-	Indirect economic impacts
G4-EC7	138-141, 143-144	-	Development and impact of infrastructure investments and services supported.
G4-EC8	53, 110	-	Significant indirect economic impacts, including the extent of impacts.
<b>MATERIAL ASPECT: PROCUREMENT PRACTICES</b>			
G4-DMA	114	-	Procurement practices
G4-EC9	113	-	Proportion of spending on local suppliers at significant locations of operation.
<b>CATEGORY: ENVIRONMENT</b>			
<b>MATERIAL ASPECT: MATERIALS</b>			
G4-DMA	146-150	-	Materials
G4-EN1	75, 150, 152	-	Materials used by weight or volume.
G4-EN2	150, 152	-	Percentage of materials used that are recycled input materials.
<b>MATERIAL ASPECT: ENERGY</b>			
G4-DMA	146-149	-	Energy
G4-EN3	75, 148	-	Energy consumption within the organisation.
G4-EN4	149	-	Energy consumption outside of the organisation.
G4-EN5	149	-	Energy intensity.
G4-EN6	148-149	-	Reductions of energy consumption.
G4-EN7	148-149	-	Reductions in energy requirements of products and services.
<b>MATERIAL ASPECT: WATER</b>			
G4-DMA	152-153	-	Water
G4-EN8	75, 152	-	Total water withdrawal by source.
G4-EN9	-	(c) see notes p.165	Water sources significantly affected by withdrawal of water.
G4-EN10	-	(c) 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.



SPECIFIC STANDARD DISCLOSURES			
INFORMATION ON MANAGEMENT APPROACH AND PERFORMANCE INDICATORS			
	PAGE	OMISSIONS	
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	146-151	-	Emissions
G4-EN15	151	-	Direct greenhouse gas (GHG) emissions (scope 1).
G4-EN16	151	-	Energy indirect greenhouse gas (GHG) emissions (scope 2).
G4-EN17	151	-	Other indirect greenhouse gas (GHG) emissions (scope 3).
G4-EN18	75, 151	-	Greenhouse gas (GHG) emissions intensity.
G4-EN19	151	-	Reduction of greenhouse gas (GHG) emissions.
G4-EN20	-	(d) see notes p.165	Emissions of ozone-depleting substances (ODS).
G4-EN21	-	(d) see notes p.165	NOx, SOx, and other significant air emissions.
<b>MATERIAL ASPECT: EFFLUENTS AND WASTE</b>			
G4-DMA	152-153	-	Effluents and waste
G4-EN22	-	(c) see notes p.165	Total water discharged by quality and destination.
G4-EN23	152-153	-	Total weight of waste by type and disposal method.
G4-EN24	-	(e) see notes p.165	Total number and volume of significant spills.
G4-EN25	-	(e) 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	-	(e) 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	110, 147, 152	-	Products and services
G4-EN27	148-153	-	Extent of impact mitigation of environmental impacts of products and services.
G4-EN28	-	(e) see notes p.165	Percentage of products sold and their packaging materials that are reclaimed by product category.
<b>MATERIAL ASPECT: REGULATORY COMPLIANCE</b>			
G4-DMA	146	-	Regulatory compliance
G4-EN29	146	(h) see notes p.165	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	151	-	Transport
G4-EN30	151	-	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	147	-	General
G4-EN31	75, 147, 152	-	Breakdown of environmental investments and expenses.
<b>MATERIAL ASPECT: SUPPLIER ENVIRONMENTAL ASSESSMENT</b>			
G4-DMA	114	-	Supplier environmental assessment
G4-EN32	114-115, 153	-	Percentage of new suppliers that were screened using environmental criteria.
G4-EN33	-	(f) see notes p.165	Significant actual and potential negative environmental impacts in the supply chain and actions taken.
<b>MATERIAL ASPECT: ENVIRONMENTAL GRIEVANCE MECHANISMS</b>			
G4-DMA	101	-	Environmental grievance mechanisms
G4-EN34	146	-	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms.

SPECIFIC STANDARD DISCLOSURES			
INFORMATION ON MANAGEMENT APPROACH AND PERFORMANCE INDICATORS			
	PAGE	OMISSIONS	
<b>CATEGORÍA: SOCIAL PERFORMANCE</b>			
<b>LABOUR PRACTICES AND DECENT WORK</b>			
<b>MATERIAL ASPECT: EMPLOYMENT</b>			
G4-DMA	119-123	-	Employment
G4-LA1	121	-	Total number and rates of new employee hires and employee turnover by age group, gender and region.
G4-LA2	125, 127-128	-	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.
G4-LA3	137	-	Return to work and retention rates after parental leave, by gender.
<b>MATERIAL ASPECT: EMPLOYEE-MANAGEMENT RELATIONSHIPS</b>			
G4-DMA	133-134	-	Employee-management relationships
G4-LA4	134	-	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.
<b>MATERIAL ASPECT: OCCUPATIONAL HEALTH AND SAFETY</b>			
G4-DMA	134-135	-	Occupational health and safety
G4-LA5	134	-	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	137	-	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	134-137	-	Workers with high incidence or high risk of diseases related to their occupation.
G4-LA8	134	-	Health and safety topics covered in formal agreements with trade unions.
<b>MATERIAL ASPECT: TRAINING AND EDUCATION</b>			
G4-DMA	130-132	-	Training and education
G4-LA9	130	-	Average hours of training per year per employee by gender, and by employee category.
G4-LA10	130-132	-	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
G4-LA11	123	-	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	123-125	-	Diversity and equal opportunities
G4-LA12	34,124	-	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	126	-	Equal pay for men and women
G4-LA13	126	-	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	114-115	-	Supplier assessment for labour practices
G4-LA14	114-115	-	Percentage of new suppliers that were screened using labour practices criteria.
G4-LA15	-	(f) see notes p.165	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	43-44	-	Labour practices grievances mechanisms
G4-LA16	101	-	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms.

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<b>HUMAN RIGHTS</b>			
<b>MATERIAL ASPECT: INVESTMENT</b>			
G4-DMA	104-105	-	Investment
G4-HR1	104-105	-	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening.
G4-HR2	132	-	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	123-124	-	Non-discrimination
G4-HR3	119	-	Total number of incidents of discrimination and corrective actions taken.
<b>MATERIAL ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>			
G4-DMA	134	-	Freedom of association and collective bargaining
G4-HR4	134	-	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.
<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	-	(*) 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	112	-	Evaluation
G4-HR9	112	-	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	114	-	Supplier human rights assessment
G4-HR10	114-115	-	Percentage of new suppliers that were screened using human rights criteria.
G4-HR11	-	(f) see notes p.165	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	43-44	-	Human rights grievance mechanisms
G4-HR12	101	-	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms.

SPECIFIC STANDARD DISCLOSURES			
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	PAGE	OMISSIONS	
<b>SOCIETY</b>			
<b>MATERIAL ASPECT: LOCAL COMMUNITIES</b>			
G4-DMA	53, 95-96, 138	-	Local communities
G4-SO1	141-142	-	Percentage of operations with implemented local community development, impact evaluation and participation.
G4-SO2	95-96, 139	-	Operations with significant actual and potential negative impacts on local communities.
FS13	72, 95-96	-	Access points in low-populated or economically disadvantaged areas by type.
FS14	97-98	-	Initiatives to improve access to economic services for persons with disabilities.
<b>MATERIAL ASPECT: FIGHT AGAINST CORRUPTION</b>			
G4-DMA	41,45	-	Fight against corruption
G4-SO3	44-45	-	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.
G4-SO4	43, 131	-	Communication and training on anti-corruption policies and procedures.
G4-SO5	43	-	Confirmed incidents of corruption and actions taken.
<b>MATERIAL ASPECT: PUBLIC POLICY</b>			
G4-DMA	93	-	Public policy
G4-SO6	93	-	Total value of political contributions by country and recipient/beneficiary.
<b>MATERIAL ASPECT: UNFAIR COMPETITION PRACTICES</b>			
G4-DMA	45	-	Unfair competition practices
G4-SO7	45	-	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	43-44	-	Regulatory Compliance
G4-SO8	45	(h) see notes p.165	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	114	-	Supplier assessment for impacts on society
G4-SO9	114-115	-	Percentage of new suppliers that were screened using criteria for impacts on society.
G4-SO10	-	(f) see notes p.165	Significant negative and potential impacts on society in the supply chain and actions taken.
<b>MATERIAL ASPECT: SOCIAL IMPACT GRIEVANCE MECHANISMS</b>			
G4-DMA	100-101	-	Social impact grievance mechanisms
G4-SO11	101	(g) 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	86-87	-	Customer health and safety
G4-PR1	87, 101	-	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.
G4-PR2	87	-	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
G4-PR3	101	-	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	101	-	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	99-101	-	Results of surveys measuring customer satisfaction.
<b>MATERIAL ASPECT: MARKETING COMMUNICATIONS</b>			
G4-DMA	101	-	Marketing Communications
G4-PR6	109	-	Sale of banned or disputed products.
G4-PR7	68, 101	-	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.

## SPECIFIC STANDARD DISCLOSURES

## INFORMATION ON MANAGEMENT APPROACH AND PERFORMANCE INDICATORS

	PAGE	OMISSIONS	
<b>MATERIAL ASPECT: CUSTOMER PRIVACY</b>			
G4-DMA	102	-	Customer privacy
G4-PR8	102	(h) see notes p.165	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.
<b>MATERIAL ASPECT: REGULATORY COMPLIANCE</b>			
G4-DMA	102	-	Regulatory compliance
G4-PR9	101	(h) see notes p.165	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	138-139	-	Policies with specific environmental and social components applied to business lines (FS1).
G4-DMA	104-105	-	Procedures for assessing and screening environmental and social risks in business lines (FS2).
G4-DMA	104-105	-	Procedures for assessing and screening environmental and social risks in business lines (FS2).
G4-DMA	104-105	-	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions (FS3).
G4-DMA	131-132, 153	-	Processes for improving staff competency to implement the environmental and social policies and procedures as applied to business lines (FS4).
G4-DMA	92, 153-154	-	Interactions with customers/investees/business partners regarding environmental and social risks and opportunities (FS5).
FS6	51-52, AR 2015 (66-73)	-	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/ large) and by sector.
FS7	72, 92, 96, 106-108	-	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.
FS8	72, 110	-	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	-	(b) see notes p.165	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures (FS9).
<b>MATERIAL ASPECT: ACTIVE OWNERSHIP</b>			
FS10	108, 110	-	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or Social dimension.
FS11	106-107, 110	-	Percentage of assets subject to positive and negative environmental or social screening.
G4-DMA	146	-	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).
<b>MATERIAL ASPECT: LABELLING OF PRODUCTS AND SERVICES</b>			
G4-DMA	86-87	-	Policies for the fair design and sale of financial products and services (FS15).
G4-DMA	110-112	-	Initiatives to enhance financial literacy by type of beneficiary (FS16).

## Notes

(\*) Not applicable - Information relates to an immaterial aspect for the organisation.

(a) Currently unavailable - The information is not available due to technical impossibility at the time of the publication of this report. In the medium-term the Group will establish the appropriate procedures to facilitate its publication in the future.

(b) Currently unavailable - The information is not available and in the medium-term the Group will establish procedures to evaluate these risks and the relevant audits.

(c) Not applicable - The Group has its headquarters in urban areas and therefore both water inflows and outflows take place through urban water supply networks.

(d) Not applicable - The Group does not emit any substances that destroy the ozone layer, as listed in the annexes to the Montreal Protocol.

(e) Not applicable - The information is irrelevant given the Group's financial activities.

(f) Currently unavailable - The information is not available and in the medium-term the Group will establish internal procedures to evaluate these impacts and any appropriate measures to be taken in this respect.

(g) Confidentiality restrictions - Part of the qualitative information concerning claimants of the grievances cannot be revealed due to specific confidentiality issues.

(h) Currently unavailable - The information related to the material aspect considered refers to sentences dictated by final judgement.

## Nomenclature

AR: 2015 Annual Report

## Publications of interest

2015 Annual Report  
2015 Corporate Governance Report

# Verification report

# 5



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 Board of Directors of Banco Popular Español, S.A.:

We have carried out our work to provide limited assurance on the Corporate Responsibility indicators contained in "Appendix 4" of the 2015 Integrated Report (hereinafter "CR Indicators") of Banco Popular Español, S.A. and its Corporate Group (hereinafter "Popular") for the year ended 31 December 2015, 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 Sector Supplement of Financial Services.

### Responsibility of the Directors

The Directors of Popular are responsible for the preparation, content and presentation of the Integrated Report in accordance with the GRI G4 Guidelines and Sector Supplement of Financial Services, according to the Comprehensive option "in accordance" with the Guidelines. This responsibility includes designing, implementing and maintaining the internal control considered necessary to ensure that the CR indicators are free of material misstatement due to fraud or error.

The Directors of Popular are also responsible for defining, implementing, adapting and maintaining the management systems from which the necessary information is obtained to prepare the CR indicators.

### Our responsibility

Our responsibility is to issue a limited assurance report based on the procedures that we have carried out and on the evidence that we have obtained. We have carried out our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (ISAE 3000) (Revised), "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement. Therefore the assurance provided is also less.

The procedures carried out are based on our professional judgement and included enquiries, observation of processes, inspection of documentation, analytical procedures and tests of review, based on sampling, which have generally been as follows:

- Meetings with the personnel of several units of Popular involved in the preparation of the Integrated Report.
- Analysis of the procedures used to compile and validate the data and information presented in the CR indicators.

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- Analysis of the adaptation of the CR indicators of Popular to the GRI G4 Guidelines on the preparation of reports and Sector Supplement of Financial Services.
- Verification, by review tests applied to a selected sample, on the quantitative and qualitative information of the CR indicators of Popular. We have also verified that the information has been adequately compiled from the data provided by Popular's sources of information.

#### **Our Independence and Quality Control**

We have complied with the requirement of independence and other requirements of the Code of Ethics for Accountants issued by the International Ethics Standard Board for Accountants (IESBA), based on the main principles of integrity, professional competence and due care, confidentiality and professional conduct.

PwC applies International Standard on Quality Control (ISQC 1) and consequently, our firm has a global quality control system which includes policies and procedures on the compliance of ethical requirements, professional standards and applicable statutory requirements.

#### **Limited assurance conclusion**

As a result of the procedures carried out and evidence obtained, nothing has come to our attention that causes us to believe that the CR indicators of Popular for the year ended 31 December 2015, contain significant errors or have not been prepared, in all material respects, in accordance with GRI G4 Guidelines and Sector Supplement of Financial Services.

#### **Use and Distribution**

Our report is issued solely for the Directors of Popular, in accordance with the terms and conditions of our engagement letter. We accept no responsibility to third parties other than the Directors of Popular.

PricewaterhouseCoopers Auditores S.L.

Mª Luz Castilla  
11th march 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 by sending photographs to illustrate this Report through the photographic contest "Take part in the Integrated Report!"