2014

ANNUAL REPORT

Popular

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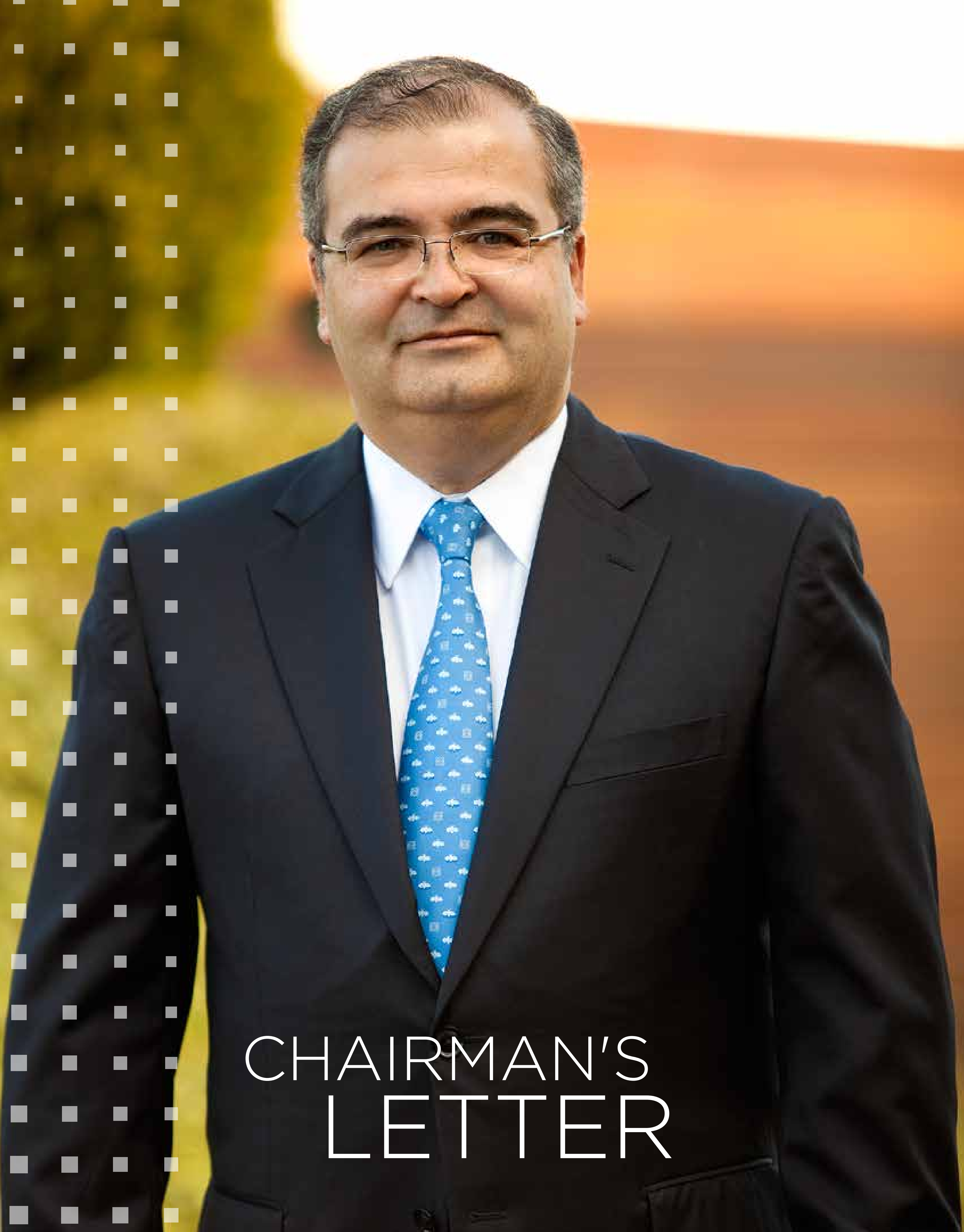


CHAIRMAN'S LETTER

For Spain, 2014 meant leaving behind a difficult, but necessary, period of transition. We now move forward towards a period of economic growth. The economy is, unequivocally, at the point of a gradual return to normality. The key issue will be to consolidate this positive trend and to ensure that the improvement which has come about in the main economic variables reaches everyone.

Throughout this year, Popular has significantly exceeded, as a result of its labours and the effort made by all the Group's professionals, a series of milestones that we had established as our objectives in the planning for the year.

The first of these was the good result obtained from both the asset quality review (AQR) and the stress test, which we passed with a capital surplus of €1,756 million in the most adverse scenario.

Popular has once again shown that it is the bank for SMEs, being for the third consecutive year the leader in drawdowns of ICO credit lines, with a market share of 20.9%. It has been highlighted by the European Banking Authority (EBA) as the Spanish bank with the greatest share of SMEs (17.1%). This business model allows us to continue being a reference in the return on investment.

2014 has also been another step in the strengthening and diversification of the business, with the aim of counteracting the impacts of the cycle change. Notable examples were the boost to our presence in Mexico, by taking a 25% stake in the financial group Bx+, and the acquisition of Citibank's retail and cards business in Spain, which was integrated with Popular's cards business in bancopopular-e. Subsequently, we agreed with Värde Partners on the sale of a 51% stake in the company, which thus became a joint venture; an operation that generated capital gains of over €400 million and which we are confident will provide a major boost to the cards business.

Also, at the start of 2014, Popular acquired the 40% stake which Dexia held in Popular Banca Privada for €49.2 million. As a result, Popular will have total control of the private banking subsidiary, created in 2001 as a joint venture between Banco Popular Español and Dexia Banque Internationale à Luxembourg.

It is in this environment that Popular has shown that it is a very consistent brand substantiated in its differentiated and forward-looking business model. Under these premises we have conducted a reinforcement of our brand image as a bank prepared for any contingency, solid, solvent, modern and in tune with its time.

Popular is adapting its image to the new social, political and economic situation: Spain is beginning to overcome a deep recession and Popular has surpassed the most demanding challenges in recent years. Today, Popular is a bank which is more agile, more flexible, more competitive; in short, much stronger and with a very clear future and long-term project in mind. Our brand promise is clear: to progress and to progress our customers.

We face the future therefore with optimism, supported by our strengths, focusing our activity on businesses (especially SMEs), in attracting retail funds, in highly profitable businesses and a gradual international diversification. All this allows Popular to be one of the main players in the financial landscape in this new upcoming year.

Ángel Ron
Chairman

“

The real skill lies in using all known and available means; the art, the ingenuity consists in acting in spite of the difficulties and in finding little or nothing impossible.

Napoleon Bonaparte

GENERAL INFORMATION

Banco Popular Español, S.A ("Banco Popular", or "Bank") was founded on 14 July 1926, and is registered in the Madrid Companies Register in volume 174, folio 44, page 5,458, 1st entry. The Bank is a member of the Deposit Guarantee Fund for banking entities. 2014 was its 88th year of existence. The head office is located at Velázquez 34, 28001 Madrid.

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

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

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

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

1. POPULAR IDENTITY

NATIONAL AND INTERNATIONAL PRESENCE

5th banking group in Spain by capitalisation (*)

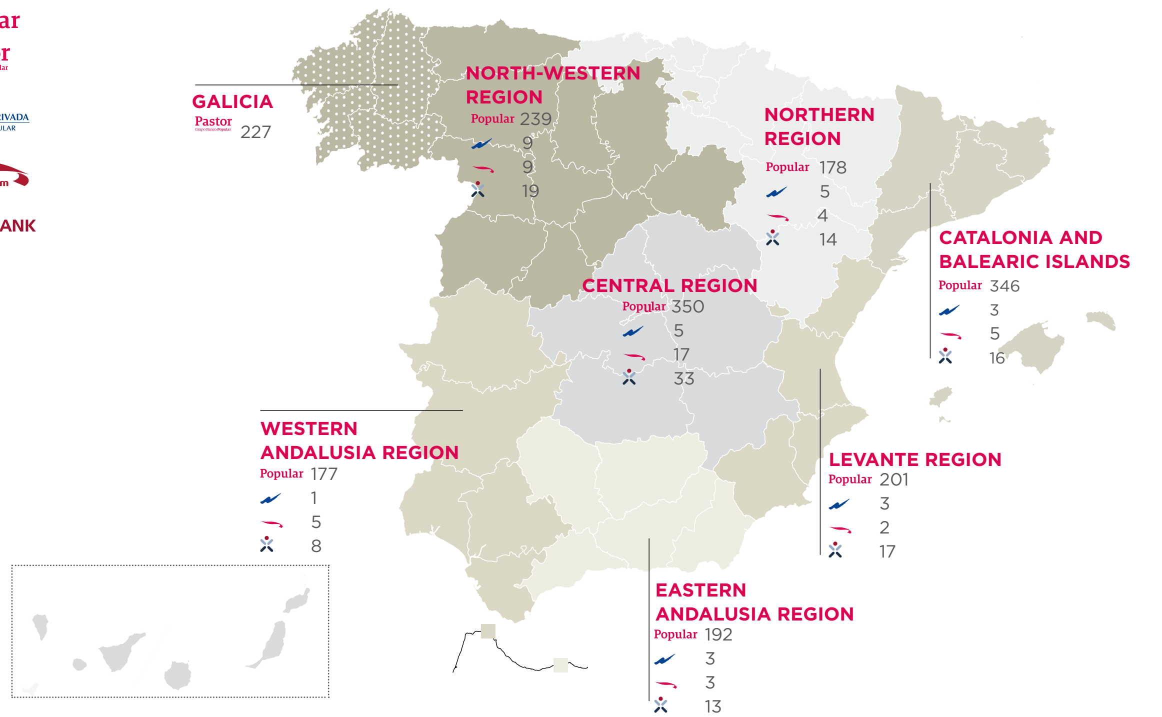
(*) Based on the average market capitalisation during 2014 of €10,168 million

1 parent bank
Banco Popular Español

7 banks
Banco Pastor
Popular Banca Privada
Banco Popular Portugal
Totalbank (Florida)
bancopopular-e (49%)*
Targobank (50%)*
Ve por Más (25%)*

(*) Percentage shareholding

Figure 1: Banco Popular Group's national presence – 2014



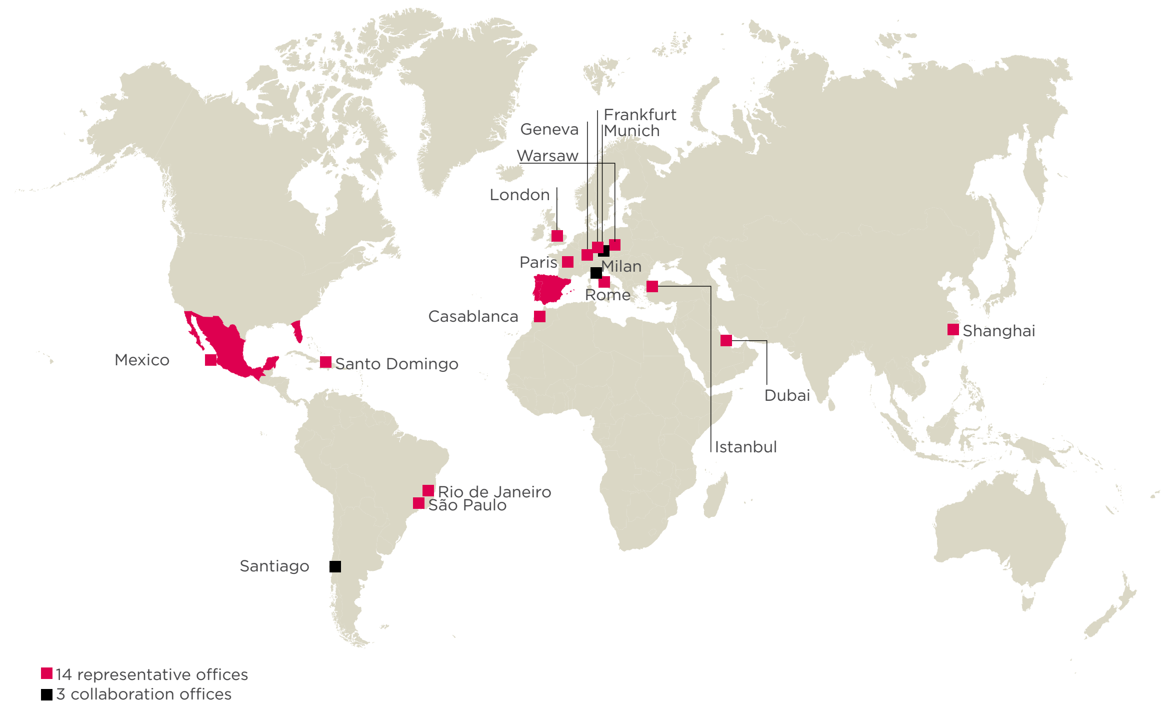
- The division of the various Regional Offices applies only to the offices of Banco Popular. This same division has been used for the remaining entities, although their offices do not report to the Regional Offices under which they are grouped.
- All of the branch offices of Banco Pastor are exclusively located in the Autonomous Region of Galicia.
- The Canary Islands belong to the Central Region, while Ceuta and Melilla belong to Western and Eastern Andalusia respectively.
- The map shows all the branch offices Targobank, an entity 50% owned by Banco Popular and 49% by bancopopular-e, has in Spain.

15,321
employees*
13,501 in Spain
1,820 abroad

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

2,140
offices*
1,946 in Spain
194 abroad

Figure 2: Banco Popular Group's international presence – 2014



(*) These figures do not include employees nor branches that Targobank, an entity owned 50% by Banco Popular and 49% by bancopopular-e, has in Spain.

HISTORY

Popular is a bank which has worked with its customers since 1926, when it was founded under its initial name: Banco Popular de los Previsores del Porvenir. It was founded with a capital of ten million pesetas.

Its purpose was "to provide anyone who uses its services with the greatest facilities in all kinds of economic and banking matters", performing "all transactions, which being typical of credit companies, are set forth in the Code of Commerce currently in force." The Bank opened its doors for the first time on 14 October of that year, in an official ceremony attended by H.M. Alfonso XIII and the Spanish Government in full.

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

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

In 1975, Banco Popular prepared a plan to expand its network. it began to implement this plan in 1976 across the whole of Spain, and increased its branches twofold within the space of four years. This sharp growth in the branch network would continue until 1985.

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

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

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

1929
Listing on the Madrid Stock Market

1947
Change in name to Banco Popular Español

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

1988
Strategic alliance with Allianz

2000
Development of the asset management business

2003
Acquisition of Banco Nacional de Crédito in Portugal

2007
Acquisition of Totalbank (Florida)

2010
Creation of Targobank

2012
Acquisition of Banco Pastor

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

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

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

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

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

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

Figure 3: Evolution of the logo over time

ORGANISATIONAL STRUCTURE

Figure 4: Banco Popular Board of Directors – 2014

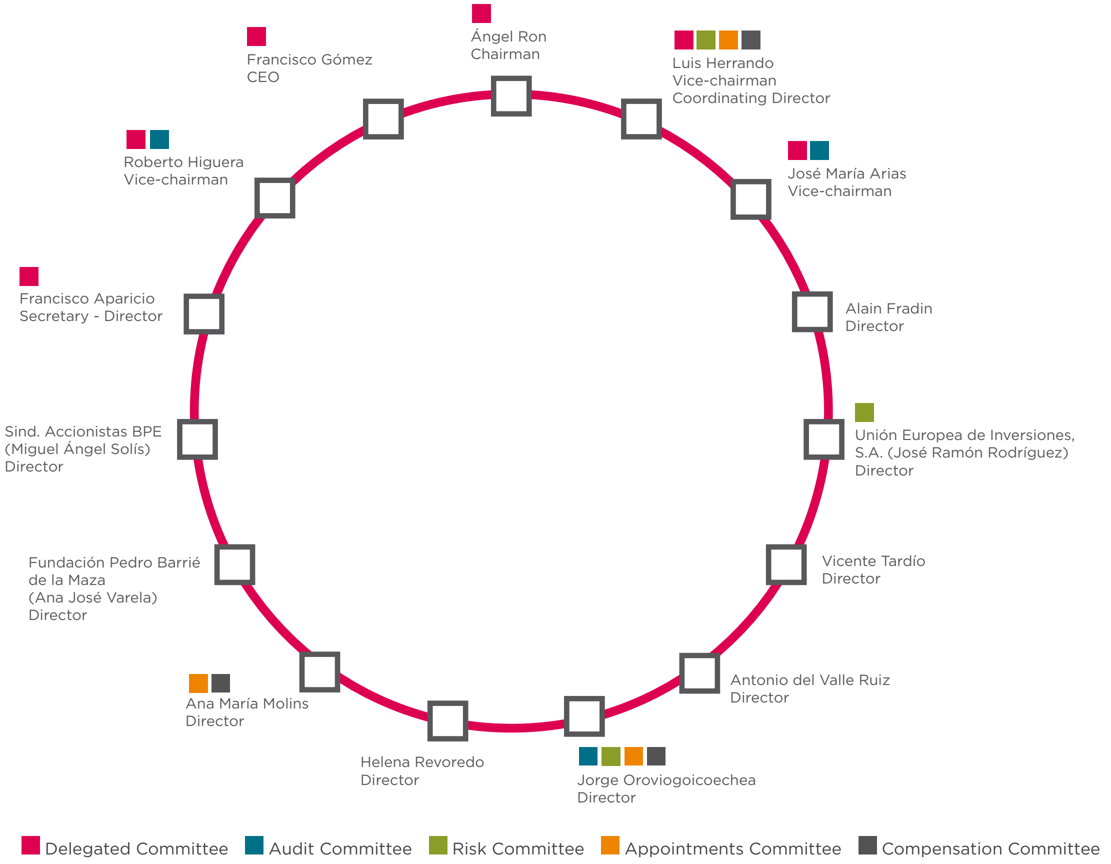


Table 1: Management Committee – 2014

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

Table 2: Commercial Network – 2014

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

Banks outside Spain	
Totalbank	Jorge Rossell
Banco Popular Portugal	Rui Manuel Semedo
Banks in Spain	
bancopopular-e	Iñaki Perkins Antonio Ramírez
Popular Banca Privada	Carmen Ortiz
Targobank	Juan Pérez Javier Gefaell
Other units	
Commercial Banking Management	José Ángel Amor
Origination and Markets	Santiago Armada
Models and Capital	José María Arroyo
Investor Relations	Diego Barrón
International Banking	Pablo de la Torre
Institutional Relations and Supranational Bodies	Juan Echanojáuregui
Wholesale and Corporate Banking	Miguel Angel Franco
Other Subsidiaries and Investees	Rafael Galán
Corporate Responsibility	Ana Gascón
Customer Care	Antonio González
International Advisory Board	Jacobo González-Robatto
Shareholders' Office	Sara López
Customer Banking	Miguel Ángel Luna
Human Resources	Rafael Muñoz
Restructuring and Default	Alberto Marchante
Regulatory Compliance	Juan Antonio Montero
Social Responsibility and Fundación GBP	Raúl Moreno
Legal and Compliance Services	Tomás Pereira
Real Estate Businesses and E.Com	José Manuel Piñeiro
Investee and JV strategy and operations	Susana Quintás
International Business Development	Telesforo Veiga
Control of Risks	María Raga
Deputy Comptroller	José Manuel Sáenz María Villanueva
Treasury	Mónica Sánchez
Corporate Development	Samuel Serrano
Vice-Secretary of the Board and Regulatory Compliance	Francisco Javier Zapata
Specialist Companies	
Popular de Factoring	César Araujo
Aliseda SGI	Pedro Berlinches
Popular de Mediación	Ángel Blázquez
Popular Bolsa	Carlos Ramos
Eurovida Portugal	Francisco Valério

Banco Popular Group is the fifth largest banking group in Spain by average market capitalisation in 2014. Its business strategy is focused on SMEs, groups and families with a customer-centric business model.

This chapter provides details of the Group's most significant aspects. Chapter 1 of the Integrated Report for 2014 provides further details of the entity's organisational structure.

The Group is formed by a parent bank (Banco Popular Español) and seven banks, four of which operate in Spain (Banco Pastor, Popular Banca Privada, Targobank and bancopopular-e, the latter two with stakes of 50% and 49% respectively), one in Portugal (Banco Popular Portugal), one in the United States (Totalbank) and another in Mexico (Ve por Más, hereinafter also referred to as Bx+) with a 25% stake. Finally, the Group also includes two insurance companies (Pastor Vida and Eurovida Portugal).

At 31 December 2014, Banco Popular has a total of 14 representative and 3 collaboration offices in 14 countries and has concluded agreements with several financial institutions in order to promote foreign trade.

The Group also has other subsidiaries and maintains interests in other companies that supplement the banking business. The Bank continued to seek strategic partners in 2014. One of its most important deals was the acquisition of a 25% holding in the Bx+ Mexican financial group, which will help it to introduce and develop the business model in Mexico. It also reached an agreement to sell its investment fund depositary and custody, pension plans, SICAVs and EPSVs (Voluntary Social Welfare Entity) business in Spain to BNP Paribas.

In 2014, in order to boost its competitive position in the Spanish cards market, Banco Popular acquired Citibank's cards business, opening the door to new segments and distribution channels. This integration not only created new opportunities for expansion and consolidation in this market, but also significant operating synergies. As a result, bancopopular-e, the company which owns the Group's entire card issue business, became the fourth-ranking company in the sector with a market share of 7.5%.

Furthermore, with the aim of continuing to grow and improve in the sector, Popular forged an alliance with an international partner, Värde Partners, to exploit the card business together. This American company boasts considerable expertise in the financial sector as it is specialised in investments in financial markets and assets, and also in providing services to restricted groups of international investors.

Through this, the two companies have combined their areas of expertise: on one hand, Citibank's experience in revolving and direct sales channels, as well as its diversified customer portfolio, and, on the other, Popular's large branch network. In addition, the innovation and common brand products point towards prospects of higher income for the joint venture.

In short, this transaction materialises the value of the card business and is expected to provide future synergies.

Figure 5: Structure of Banco Popular Group by company – 2014

BANKS

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

OTHER FINANCIAL INSTITUTIONS

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

Popular

OTHER GROUP COMPANIES (*)

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

OTHER ASSOCIATES (*)

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

(*) Main companies

CORPORATE GOVERNANCE

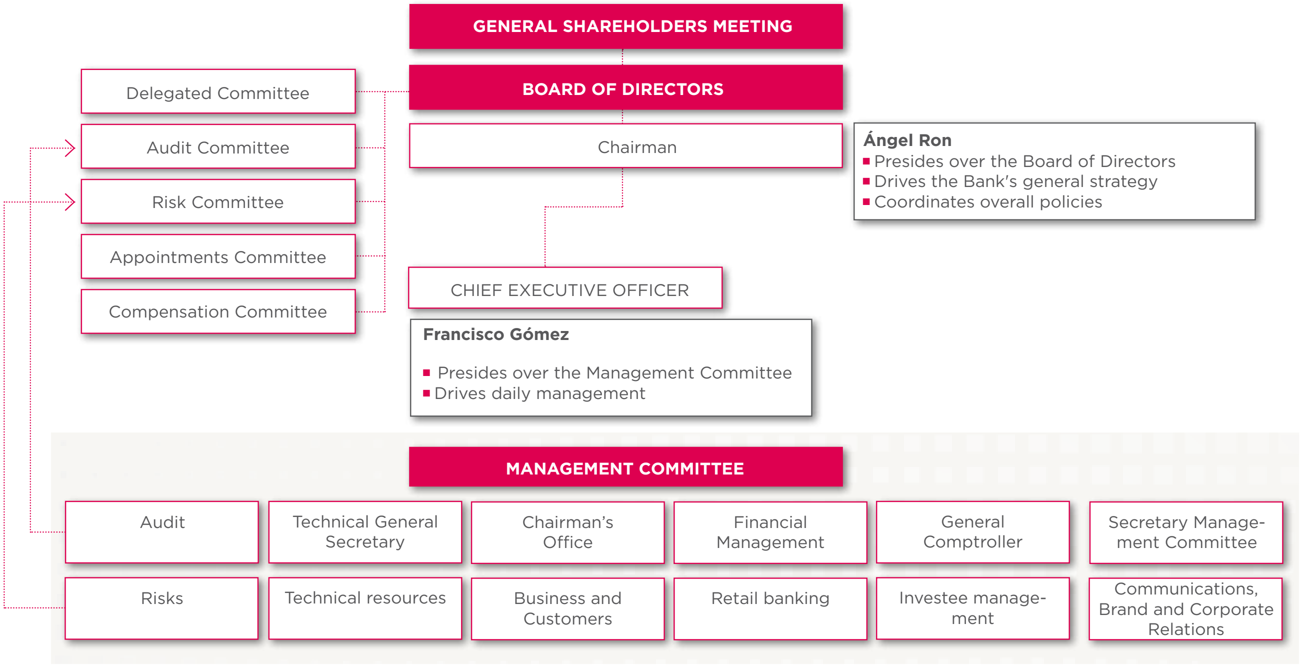
Banco Popular's corporate culture, which is firmly rooted in a tradition which has developed from years of experience, has created its own corporate governance model that establishes the proper structure and operation of the governing bodies, safeguarding the interests of all stakeholders and maximising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

This is a corporate governance model that respects good practices and is 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.

Corporate governance bodies and mechanisms

The Bank's Corporate Governance is exercised by the Board of Directors and its four committees, in addition to shareholders, and the Board'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 four committees therefore perform their duties with complete transparency, unity of purpose and independence.

Figure 6: Governing Bodies at Banco Popular - 2014



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

In 2014, a single General Shareholders' Meeting was held which could be attended in person by shareholders owning at least 200 shares, when the legally stipulated minimum is 1,000 shares. Those shareholders with a lower number of shares may be represented by another person, even if not a shareholder, and may remotely exercise their voting and representation rights.

The Board of Directors

In 2014, the Board of Directors was reduced from 17 to 15 members. They include 3 executive Directors (20%) and a large majority of external Directors (12 members who represent 80%) who do not form part of the management team. External Directors are divided into 7 proprietary Directors and 5 independent Directors.

Candidacies for the nomination and re-election of Directors are made at the proposal of the Appointments Committee and are submitted by the Board of Directors for consideration at a 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.

The Board of Directors consists of 15 members, 27% of whom are younger than 55, 53% of whom are between the age of 56 and 70 and the remaining 20% of whom are older than 71. 80% are men and 20% are women, while 20% are companies and 80% 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 Committee
- Compensation Committee

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

Figure 7: Governance Structure of the Board of Directors - 2014

BOARD OF DIRECTORS

Delegated Committee

EXECUTIVE BODY

MAIN DUTIES:

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

Audit Committee

CONSULTATIVE BODY

MAIN DUTIES:

- Supervision of financial information..
- Propose the appointment of the external auditor
- Supervision of the efficacy of risk control and internal audit.
- Monitor compliance with legal requirements.
- Detect and manage possible conflicts of interest between Directors or Senior Management and the Bank.

Risk Committee

CONSULTATIVE BODY

MAIN DUTIES:

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

Appointments Committee

CONSULTATIVE BODY

MAIN DUTIES:

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

Compensation Committee

CONSULTATIVE BODY

MAIN DUTIES:

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

Evaluation

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

Upon the approval of the Annual Corporate Governance Report, after receiving a report from the Appointments 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 2014 the Board of Directors 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. 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 2014 Banco Popular evaluated the suitability of the Board of Directors and its members. Pursuant to the reform of Law 10/2014 of June 26th on the organisation, supervision and solvency of credit institutions, the incompatibilities of Directors and senior managers of the Bank with regard to the positions held in different companies of the Banco Popular Group have been reviewed.

In order to continue furthering the ongoing training of Board Members, the Directors' website has included training modules regarding several subjects 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. Furthermore, face-to-face training workshops have been provided for Directors in subjects such as the Single Supervisory Mechanism, the Capital Self-Assessment Report, and regulations for the Prevention of Money Laundering and Terrorism Financing. 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

The Compensation policy for Executive Directors, Senior Executives and those employees that perform professional activities that may have an important influence on the Bank's risk profile is in line with corporate values, the business strategy and the Bank's long-term objectives. The application of this policy means that compensation is established using principles of moderation, transparency and proportionality between fixed and variable compensation.

Banco Popular has established systems for medium and long-term variable compensation that is are paid out gradually over the course of 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 all taken into account.

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 in the financial sector. In the event the Bank incurs losses in any year included in the deferral period, the portion of the compensation not deferred will be subject to recovery clauses.

Finally, it should be noted that the performance of duties by Directors is not directly compensated, nor through specific per diems for participating in the Board of Directors and its Committees. Only Executive Directors are compensated because they perform other duties and services at the Bank.

With regard to the procedure for approving the compensation policy for Directors and senior management at the Bank, the Board of Directors, at the proposal of the Compensation Committee, assumes responsibility for their annual approval. It should be noted that the Annual Report on Directors' Compensation is submitted to a vote at the General Shareholders' Meeting as a separate item on the agenda and with an advisory nature.

In this way, the amount of the fixed components is established, together with the variable compensation, the primary characteristics of the applicable retirement systems and any conditions that establish the possibility of occurrence. This approval procedure ensues the complete transparency of the information relating to Board Member compensation.

Executive Management

In January 2013 Banco Popular recovered the position of CEO and appointed Francisco Gómez to that post. This allows for a clear separation of duties between the Chairman and the CEO; the former is the Chairman of the Board of Directors and is responsible for the Bank's overall strategy, while the latter focuses mainly on the daily management of the business. The existence of two positions and their different duties is in line with the best corporate governance standards and 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, consisting 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.

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

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

Operating principles

Based on the values of Banco Popular, the corporate governance model includes the several types of capital and relationships with stakeholders. The management of these capitals based on corporate culture and values has resulted in a sustainable and environmentally-friendly business model. (For further details and information refer to section 2.2. Operating Principles in the 2014 Integrated Report).

Good corporate governance practices

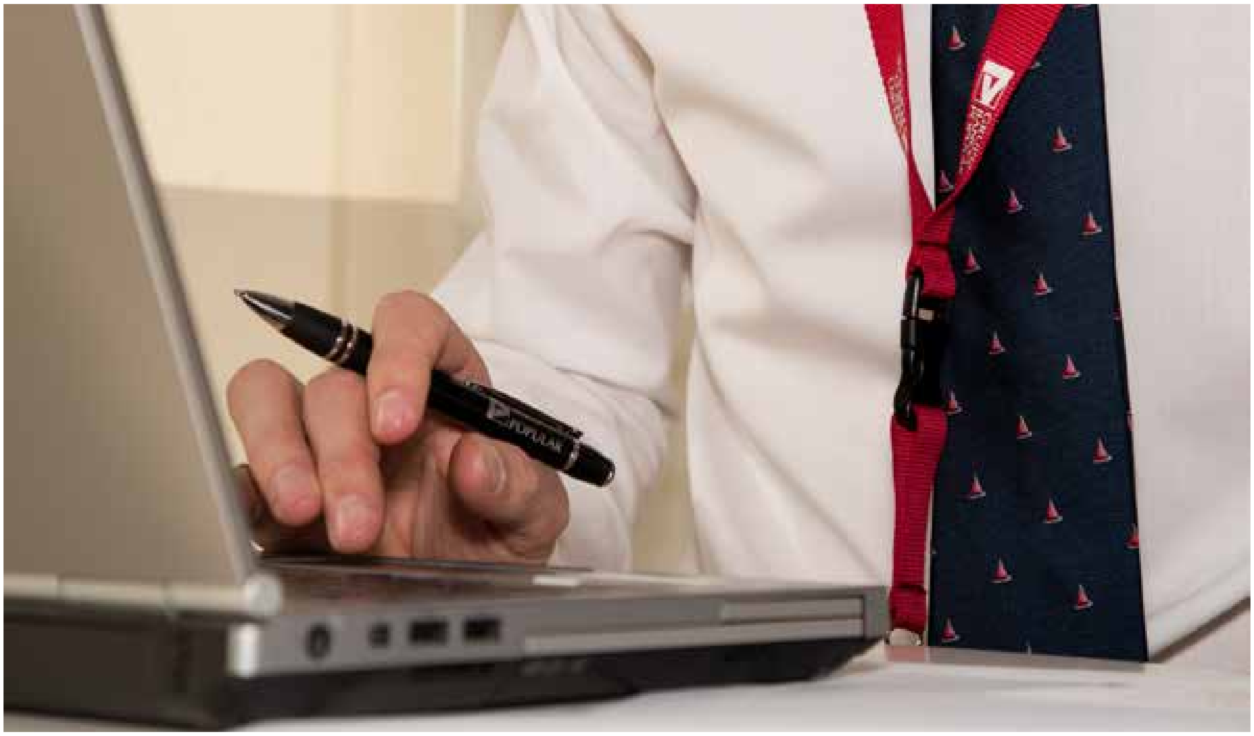
In 2014 Banco Popular has continued to consolidate its good corporate governance practices in accordance with its policy of continually adapting to meet the highest good governance standards. During the year the following resolutions were adopted:

- **Size of the Board of Directors.** The Bank reduced the maximum number of members of the Board of Directors to 15. This decrease in the number of Directors was instrumented through the General Shareholders' Meeting of 2014. Executive Directors make up 20% of the Board while non-executive Directors account for 80%.

- **Restructuring of the Board of Directors' Committees.** In order to adapt to new regulatory and supervision requirements, the Bank has split the Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee into: 1) an Appointments Committee, and 2) a Compensation Committee. Additionally, a new advisory Risk Committee composed solely of non-executive Directors has been created. The number of proprietary Directors in the Audit Committee has been reduced to one.

- **Appointing of the Coordinating Director of the Board of Directors.** In 2014, the Board resolved to appoint Luis Herrando, independent Director and current Vice-Chairman of the Board of Directors, to be the Coordinating Director of the Board. This figure is authorised to convene the Board of Directors or to include new points in the agenda for a Board meeting which has already been convened, coordinate and arrange meetings between non-executive Directors and direct the regular evaluation of the Chairman of the Board of Directors.

- **Reinforcing of the International Advisory Board.** After it was created in 2013, the International Advisory Board has been significantly reinforced through the recruitment of Reyes Calderón and Tomás García, two professionals who have long-standing expertise in the field of international expansion.



MAIN CHARACTERISTICS OF THE CORPORATE GOVERNANCE MODEL

The Banco Popular corporate governance model establishes the proper structure and operation of the governing bodies, safeguarding the interests of all stakeholders and maximising the financial value of the company in a sustained manner. It has the following main characteristics:

- **Separation of duties between the Chairman and the CEO.** The former is responsible for the Bank's overall strategy, while the latter focuses mainly on the daily management of the business.
- **Reinforcing the presence of independent Directors.** Independent Directors account for 33% of the Board of Directors, and the advisory committees are, in the main, made up of these types of Directors. The Appointments and Compensation Committees are made up in their entirety of independent Directors, while these same Directors account for 66% of the members of the Audit and Risks Committees and occupy both Chairs.
- **Progress the diversity in the composition of the Board of Directors.** The Bank strives to achieve a diversity of professional profiles, gender and nationality in the composition of the highest governing bodies.
- **Supporting shareholder participation.** Given the Bank's commitment to the principle of "one share, one vote", shareholders with 200 shares - five times less than the minimum established by law - are allowed to attend the Shareholders' Meetings.

Banco Popular currently complies with 98% of the Code of Good Governance for Listed Companies recommendations, and recommendation 37 is the only one which, in the Bank's opinion, is only partially complied with. According to this recommendation, when there is a Delegated Committee, the structure of participation for the different categories of Directors should be similar to that of the Board and its Secretary should be the Secretary to the Board. Given that the Delegated Committee is a decision-making body with delegated powers from the Board of Directors, the Board considers it appropriate to give considerable weight to the criteria of efficiency and knowledge of the inner workings of the entity, which is why three executive Directors from the Board of Directors are included.

Compliance and control systems

Supervision and external control

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

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

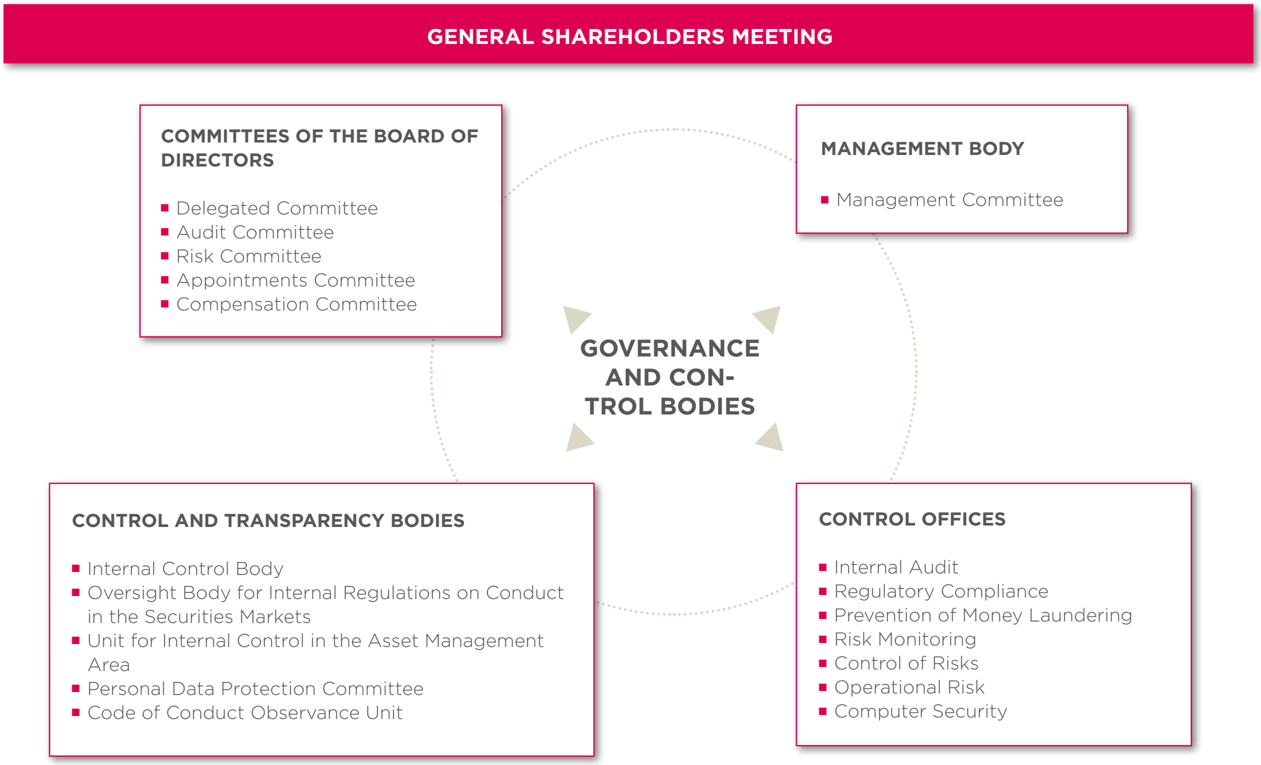
In 2014 no sanctions were received deriving from any failure to comply with regulations governing competition and monopoly practices.

Compliance and internal control systems

To ensure that all activities strictly comply with the law and the business criteria established by Management, the Group has a compliance and control model in place, which establishes three lines of defence:

- The first line refers to the risk identification and management functions, which are carried out by the Bank's business units.
- The second line includes the independent control functions of the different risks. It supervises control of the different units, defines the necessary measures of improvement and seeks to ensure that they are correctly implemented.
- The third line relates to the Internal Audit function which reviews the other two lines of defence and evaluates the efficacy of the management and control of risks and the governance processes.

Figure 8: Main governance and control bodies - 2014



Risk monitoring and control

The various risks implicit to the banking activities carried out by Banco Popular Group are managed with criteria of prudence, permanently safeguarding the basic objectives of solvency, profitability, efficiency and adequate liquidity. The risk policy is a synthesis of strictly professional criteria for the study, assessment, assumption and monitoring of risks by all the entities forming the financial group, which are conducive to the maximisation of the risk/profitability ratio inherent to credit and market risk, and the minimisation of all other financial and operating risks.

The internal risk monitoring and control procedures that are known and applied by all of the Group's business areas to achieve integrated risk management and control are set out in the Investment Policy Manual approved by the Board of Directors, and are intended to ensure effective compliance.

Two of the most important initiatives carried in 2014 are the creation of the new Risk Committee of the Board of Directors and the setting-up of the Risk Committee for the review and approval of particularly important operations. 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.

In the Regulatory Compliance area, particularly noteworthy are the initiatives in the field of prevention of money laundering, data protection and corporate conduct and stock market, inter alia.

- **Prevention of money laundering.** Banco Popular works with the competent authorities, analysing and reporting, if appropriate, any transactions that present indications of being related to such activities to SEPBLAC. Banco Popular also internally distributes the measures established against money laundering, including an intranet section that provides information and regulations regarding this topic. The documentation includes the Money Laundering and Terrorism Financing Prevention manual, which provides details as to obligations and procedures to prevent the use of Group companies and, in general, the financial system for money laundering purposes. In 2014, Banco Popular was not subject to any penalty with respect to money laundering prevention.

  The Internal Control Body (OCI) is responsible for applying the prevention of money laundering policies and procedures. With the support of the Prevention of money laundering office, which carries out the tasks of due diligence, safeguarding of documents, internal control, risk assessment and management, the Internal Control Body oversees and guarantees compliance with the pertinent laws.

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

- **Corporate Conduct.** Since 2012, Banco Popular has operated an overall corporate conduct programme to establish an analysis of risks in this area, together with the implementation of measures and controls to validate compliance. This programme, which is included in the Code of Conduct, establishes the principles, general rules and action guidelines, as well as their practical application.

  In order to guarantee compliance with the Code of Conduct, Banco Popular has a Control Body that is responsible for supervising and establishing lines of action regarding corporate defence. Directly reporting to that Body is the Code of Conduct Supervisory Unit that 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 2014, two reports were made through this channel,, although neither of them directly affected the Code of Conduct and they were resolved in due time and form in accordance with the relevant regulations.

  A Suppliers' Code is also in place which is intended to ensure that suppliers carry out their business activity respecting the stipulations of the Global Compact. At the proposal of the Chairman, since 2005 Banco Popular has stated its commitment to the principles of the United Nations Global Compact.

- **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 (RIC) 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 objectives are to contribute to the good governance of the Bank by evaluating the adequacy of the procedures established in the various Group units, for managing risks and carrying out pertinent recommendations for improvement. It keeps the Senior Management and Board of Directors permanently apprised of the results of its tasks and of the degree of implementation of the recommended improvement measures, by the respective audited offices. It proposes an Annual Audit Plan to the Audit Committee, for the latter's approval, which it draws up based on the coverage of the Risks Map, the concerns of the Board and the Senior Management and regulatory requirements.

In 2014, 45.29% of the total branches and 17.98% of total companies have been audited: 1,044 out of a total of 2,305 and 16 out of a total of 89, respectively. In addition, 77 audits have been performed on Central Services, 3 on Liquidity Risk and 44 Risks and IT audits. Through these last ones the Bank has supervised aspects such as internal Credit and Operational Risk models, Security in mobile Platforms or Security in Internet Banking, as well as the BIS II technological environment of Credit and Operational Risk, among others.

BANCO POPULAR GROUP

2. FINANCIAL HIGHLIGHTS

Total on-balance sheet assets
161,456,478
(thousands of euros)

Gross lending to customers (ex repos)
101,792,903
(thousands of euros)

Retail funds
82,904,641
(thousands of euros)

Net operating income (pre-provision profit)
2,005,218
(thousands of euros)

Non-performing loan coverage (*)
41.43%
(*) excluding written-off

CET 1 ratio (%)
11.51%
(data in %, change in p.p.)

Explanatory notes:

1. From January 1st, 2014, as a result of the coming into force of IFRS 11, the consolidation of joint venture companies has been performed using the equity method. For the sake of comparison, this criterion has been applied to the information for 2013.

2. The interpretation of the IFRS 21 standard means levies have to be posted to accounts at the time the obligation is acquired. Availing itself of what is indicated in the current norm of Banco de España Circular 4/2004 and the possibility of the option of early application of IFRS 21, the financial statements of this year include the payment obligations pending settlement to the Deposit Guarantee Fund for Credit Institutions, both those referring to the extraordinary contribution and the ordinary annual contribution on deposits at the close of 2014. The ordinary contribution to deposits at 31 December 2014 will be registered and charged against the result of 2014. The other commitments referring to the end of 2013 settled in 2014 will be treated as a change of accounting principle in accordance with Regulation 8 of Banco de España Circular 4/204 and IAS 8.

For the sake of comparison and in view of the impact of adopting IFRS 21, 2013 is expressed with the same accounting criteria applied in 2014:

2013 (Data in thousands of euros)	PUBLISHED	ADJUSTMENT	RESTATED
Deposit Guarantee Fund Contribution	120,866	105,367	226,233
Tax effect		(31,611)	
Impact on Net Results		73,756	
Adjustment in reserves 2013		77,267	
Total impact on Reserves at close of 2013		**151,023**	

	31.12.2014	31.12.2013	VAR. %
BUSINESS VOLUME			
Total assets managed	179,170,945	162,662,713	10.1
Total on-balance sheet assets	161,456,478	146,709,478	10.1
Own funds	12,783,396	11,774,471	8.6
Retail funds	82,904,641	85,237,046	(2.7)
Gross lending to customers	108,379,386	109,017,430	(0.6)
SOLVENCY			
CET 1 ratio (%)	11.51	11.18	
Tier 1 ratio (%)	11.51	11.18	
Total capital ratio (%)	11.96	11.61	
Fully loaded Basel 3 leverage ratio (%)	5.54 [1]	6.08	
RISK MANAGEMENT			
Total risks	146,378,216	147,466,231	(0.7)
Non-performing loans	20,172,032	21,216,003	(4.9)
Credit loss allowances	8,357,863	8,525,999	(2.0)
Non-performing loans ratio (%)	13.78	14.39	
% coverage of non-performing and written-off balances	53.28	50.97	
% coverage of non-performing and not written-off balances	41.43	40.19	
% coverage with guarantees	99.62 [2]	99.21	
EARNINGS			
Net interest income	2,331,391	2,411,465	(3.3)
Gross margin	3,876,033	3,551,251	9.1
Net operating income (pre-provision profit)	2,005,218	1,828,070	9.7
Profit /(loss) before tax	372,991	353,937	5.4
Consolidated profit for the year	329,901	254,393	29.7
Profit attributable to the parent company	330,415	251,543	31.4
PROFITABILITY AND EFFICIENCY			
Average total assets	153,655,547	153,687,042	(0.0)
Average risk weighted assets (ARWA)	82,915,639	89,380,966	(7.2)
Average equity	12,589,255	10,932,727	15.2
ROA (%)	0.21	0.17	
RORWA (%)	0.40	0.28	
ROE (%)	2.62	2.30	
Operating efficiency (%)	44.54	44.28	
DETAILS PER SHARE			
Final number of shares diluted (thousands)	2,140,887 [3]	2,120,025	1.0
Average number of shares (thousands)	2,115,205 [3]	1,928,032	9.7
Share closing market price (euros)	4.16	4.39	(5.2)
Market capitalisation	8,906,088 [4]	9,296,310	(4.2)
Share book value (euros)	5.97	5.94	0.5
Earnings per share (euros)	0.157 [3 5]	0.137	14.6
Price/Book value	0.70	0.74	
Price/Earnings (annualised)	26.47	32.04	
OTHER DATA			
Number of shareholders	272,237	265,060	2.7
Employees	15,321	15,613	(1.9)
Spain:	13,501	13,765	(1.9)
Men	8,430	8,693	(3.0)
Women	5,071	5,072	(0.0)
Abroad:	1,820	1,848	(1.5)
Men	1,106	1,122	(1.4)
Women	714	726	(1.7)
Branches:	2,140	2,182	(1.9)
Spain	1,946	1,983	(1.9)
Abroad	194	199	(2.5)
Number of ATMs	2,672	2,735	(2.3)

Note: From January 1st, 2014, as a result of the coming into force of IFRS 11, the consolidation of joint venture companies has been performed using the equity method. For the sake of comparison, this criterion has been applied to the information for 2013.
1. *Fully loaded* Basel III Leverage ratio in accordance with CRR.
2. Risk coverage ratio including the value of guarantees after application of the discounts defined in Appendix IX of Banco de España Circular 4/2004.
3. Includes 36,111,000 bonds mandatorily convertible in November 2015 and 4,006,000 convertible in December 2014.
4. The calculation includes the shares deriving from the mandatorily convertible notes.
5. Calculated using the average number of diluted shares.

The accounting information for 2013 has been restated for the sake of comparison due to the application of IFRS 21.
The Group's consolidated financial statements at 31 December 2014 were prepared in accordance with the accounting principles and methods established by the International Financial Reporting Standards adopted by the European Union (IFRS-EU), which are the same as those used to prepare the audited financial statements presented in the Annual Report for 2013.

Table 3: Consolidated Balance Sheet

Data in thousands of euros	31.12.2014	31.12.2013	VAR. IN %
ASSETS			
Cash and balances with central banks	1,192,814	2,826,838	(57.8)
Financial assets held for trading	1,689,644	1,510,574	11.9
Other financial assets designated at fair value through profit or loss	510,799	363,680	40.5
Available-for-sale financial assets	29,765,352	16,175,138	84.0
Loans and receivables	107,827,616	108,035,587	(0.2)
Held-to-maturity investments	-	-	-
Adjustments to financial assets in respect of macro-hedges	261,023	159,571	63.6
Hedging derivatives	441,156	579,029	(23.8)
Non-current assets held for sale	8,201,378	6,296,601	30.3
Investments	1,870,785	1,263,136	48.1
Insurance contracts linked to pensions	162,654	142,948	13.8
Reinsurance assets	16,921	14,462	17.0
Tangible assets	1,711,224	1,835,903	(6.8)
Intangible assets	2,492,675	2,457,550	1.4
Tax assets	3,618,098	3,516,827	2.9
Other assets	1,694,339	1,531,634	10.6
Total assets	**161,456,478**	**146,709,478**	**10.1**
LIABILITIES			
Financial liabillities held for trading	1,397,389	954,426	46.4
Other financial liabilities designated at fair value through profit or loss	649,354	601,367	8.0
Financial liabilities at amortised cost	142,227,778	130,313,157	9.1
Adjustments to financial liabilities in respect of macro-hedges	-	-	-
Hedging derivatives	2,161,074	1,473,749	46.6
Liabilities associated with non-current assets held for sale	-	-	-
Liabilities under insurance contracts	483,784	371,311	30.3
Provisions	469,998	532,964	(11.8)
Tax liabilities	718,459	486,101	47.8
Other liabilities	678,775	500,624	35.6
Total liabilities	**148,786,611**	**135,233,699**	**10.0**
EQUITY			
Own funds	12,783,396	11,774,471	8.6
Valuation adjustments	(133,077)	(350,069)	(62.0)
Non-controlling interests	19,548	51,377	(62.0)
Total Equity	**12,669,867**	**11,475,779**	**10.4**
Total liabilities and equity	**161,456,478**	**146,709,478**	**10.1**
Memorandum items			
Contingent risks	12,554,148	14,749,016	(14.9)
Contingent commitments	8,855,239	10,633,264	(16.7)

Table 4: Consolidated Results

Data in thousands of euros	31.12.2014	31.12.2013	VAR. IN %
Interest and similar income	4,167,234	4,862,997	(14.3)
Interest and similar charges	1,835,843	2,451,532	(25.1)
NET INTEREST INCOME	2,331,391	2,411,465	(3.3)
Return on equity instruments	14,389	17,790	(19.1)
Share of profit/(loss) of entities accounted for using the equity method	33,392	32,264	3.5
Fee and commission income	739,400	894,096	(17.3)
Fee and commission expense	84,693	134,837	(37.2)
Net gains/(losses) on financial assets and liabilities	820,609	461,101	78.0
Financial instruments held for trading	32,219	23,668	36.1
Other financial instruments at fair value through profit and loss	(24,668)	(24,581)	0.4
Financial instruments not at fair value through profit or loss	786,429	435,593	80.5
Other	26,629	26,421	0.8
Exchange differences (net)	47,232	52,420	(9.9)
Other operating income	342,480	192,522	77.9
Financial commissions and fees compensating direct costs	27,443	30,020	(8.6)
Income from insurance and reinsurance contracts issued	134,152	93,884	42.9
Sales and income from provision of non-financial services	18,543	19,523	(5.0)
Rest of other operating income	162,342	49,095	>
Other operating expenses	368,167	375,570	(2.0)
Insurance and reinsurance contract expenses	135,859	58,417	>
Change in inventories	16,326	21,243	(23.1)
Rest of other operating expenses	215,982	295,910	(27.0)
GROSS INCOME	3,876,033	3,551,251	9.1
Administration costs	1,726,285	1,572,559	9.8
Personnel expenses	946,235	929,110	1.8
Other general administrative expenses	780,050	643,449	21.2
Depreciation and Amortisation	144,530	150,622	(4.0)
Tangible assets	61,216	82,305	(25.6)
Intangible assets	83,314	68,317	22.0
NET OPERATING INCOME (pre-provision profit)	2,005,218	1,828,070	9.7
Provisioning expense (net)	(44,706)	86,770	<
Pensions	13,691	1,914	>
Contingent risks	(51,346)	88,246	>
Other	(7,051)	(3,390)	<
Impairment losses on financial assets (net)	1,708,832	1,167,462	46.4
Loans and receivables	1,690,832	1,133,905	49.1
Of specific provisions	1,905,195	1,394,993	36.6
Other	18,000	33,557	(46.4)
PROFIT (LOSS) ON OPERATING ACTIVITIES	**341,092**	**573,838**	**(40.6)**
Impairment losses on non-financial assets (net)	(30,318)	168,503	>
Goodwill and other intangible assets	-	30,000	<
Other assets	(30,318)	138,503	<
Gain/(loss) on the disposal of assets not classified as non-current assets held for sale	498,039	947,092	(47.4)
Results of non-current assets held for sale (net)	(496,458)	(998,490)	(50.3)
PROFIT/(LOSS) BEFORE TAX	**372,991**	**353,937**	**5.4**
Income tax	43,090	99,544	(56.7)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**329,901**	**254,393**	**29.7**
Profit/(loss) from discontinued operations (net)	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**329,901**	**254,393**	**29.7**
Profit/(loss) attributable to non-controlling interests	(514)	2,850	<
PROFIT/(LOSS) ATTRIBUTABLE TO THE PARENT COMPANY	**330,415**	**251,543**	**31.4**
BASIC EARNINGS PER SHARE	0.159	0.148	
DILUTED EARNINGS PER SHARE	0.157	0.137	

3. BANCO POPULAR GROUP IN 2014

In 2014, Banco Popular stood out for its strong capital position - comfortably passing the AQR exercise and stress tests - its recurrence in margins, increased lending, lower entries in default and the faster pace in sale of unprofitable assets. In short, this year may be considered to be a gradual return to normality.

2014 has been a year which was still shaped by the lacklustre economic growth and the effect of incessant regulation. The year began with confirmation of the positive signs which were already apparent in the last quarter of the previous year. There were positive job creation and investment rates, and household spending began to grow; although unemployment remained high and growth in GDP was still weak.

Economic improvement has been reflected in the main national and international agencies, which upgraded their estimates for Spain in 2014 and 2015. According to Banco de España, during the third quarter of 2014, the Spanish economy extended the pattern of recovery which had become evident in 2013 which, in its opinion, confirmed the scenario which had been expected. The IMF also improved its forecasts for Spain, and anticipated the country would outperform the rest of the euro zone over the next two years. However, the revisions published by the IMF for the global economy were of widespread downgrades, against a background of weak economic recovery. This slowdown in growth may end up having adverse effects on the Spanish economy, in which case it would be advisable to maintain prudent management.

2014 therefore has been a year marked by a change of trend and a low return to normality in the most significant macroeconomic variables. Spain's GDP has risen for four successive quarters, and stood at 2.0% in the fourth quarter of 2014, and this was combined with net job creation in the latter part of the year. This situation has had a positive impact on the banking sector, improving the non-performing loans (NPL) ratios and prompting a positive demand for credit, particularly in the SMEs business which is Popular's core business.

It is necessary, however, to point out once again the challenges faced by the Spanish economy. It is important to remain prudent due to factors such as unemployment, demographics, tax sustainability and indebtedness.

Despite the fact that 2014 has been a difficult year, for the reasons stated above, we have concluded what is a positive year. The most important aspects of our management are as follows:

- **Capital strength.** Popular is one of the most solvent Spanish financial entities, with a top-quality capital ratio (CET1 phased in) of 11.51%, allowing it to maintain high excess capital over 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 5.5%. We also highlight the strong result obtained both in the AQR, and in the stress tests published in October 2014. Banco Popular passed the Comprehensive Assessment by a comfortable capital margin: €3,258 million in the base scenario with MCNs. It has achieved this result without needing to resort to public funding, making the Bank one of the most solvent institutions in the euro zone, a bank whose strength has been tried and tested and which can cope with very extreme economic situations.

- **Quality in margins,** which indicates its strong capacity to generate income, with an operating income of €2,005 million at December 2014, 9.7% higher than the figure for 2013. Its management capacity is also evident in its cost to income ratio, which at 44.5% is one of the best in the financial sector, both in Spain and in Europe. Lastly, sound generation of income and capital gains has allowed the Bank to reinforce its coverage.

- **Increased contracting of credit and more a dynamic commercial mood.** 1 of every 4 SMEs is a customer Banco Popular has been able to continue driving this segment in which, according to the stress tests of the European Central Bank (ECB) and the European Banking Authority (EBA), Popular has a market share of 17% and, for the third consecutive year, it has been the leader in granting financing through Official Credit Institute (ICO) facilities. This business model continues to be a reference in the return on investment.

- **Improvement in asset quality.** The downturn in non-performing loans has triggered a drop in the non-performing loan ratio in the four quarters of the year to 13.8%, consolidating the decrease reported in recent months. It is important to note the improvement in non-performing loans in the non-property sector, which is down 27 bps over the year and stands at 7.26%.
  The NPL coverage ratio, without write-offs, stands at 41%, while the coverage ratio - which does include write-offs - has risen to 53%. Since the onset of the crisis, Popular has made important efforts in provisions every year, and this policy has continued in 2014, with over €2 billion provided for.

- **Picking-up of pace and excellent performance in property sales,** having outstripped the sales target set last year. In 2014, 8,417 units were sold, with a book value of €1,503 million, twice the amount sold in 2013. The most important thing, however, is that the foundations have been laid for continuing to increase sales. This confirms the value added by creating a joint venture in 2013 with Värde Partners - Kennedy Wilson, specialists in the real estate sector, for the management of this business. This 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.

- **Improvement in financing structure.** We are still strongly focused on our target of improving the loan to deposit ratio, which now stands at 113.4%. The Bank has also taken part in the ECB fund auction (what is known as the TLTRO). Between the September and December auctions, it requested €5,696 million, all of which will be earmarked for financing SMEs and self-employed workers. In institutional financing, our support by the market was once again evident after successfully placing a senior debt issue for a total sum of €500 million over a term of 5 years, in January 2015, and another Additional Tier 1 (AT1) for €750 million in February 2015.

In 2014, as in 2013, Popular has continued to strengthen and diversify its business by:

- **Boosting its presence in Mexico,** through executing the acquisition of the 25% holding in Bx+ financial group announced in 2013, and developing the business with an estimated 50 new branch openings in the coming years.

- **Acquisition of the Citibank retail and cards business in Spain:** €2 billion in deposits, €1.4 billion in loans and €1.1 million in cards with the subsequent forming of a joint venture with Värde Partners.

In short, despite the fact that 2014 has been such a tough year, due to regulatory pressure and stiff economic challenges, Popular has closed a year in which it has met its forecasts. The Bank has changed considerably over the last few years, meaning it now has greater capacity to adapt to meet customers' demands and to create value for shareholders.

4. MACROECONOMIC ENVIRONMENT

1. INTRODUCTION

2014 has been a year in which the economic recovery begun by Spain in 2013 has been consolidated. GDP rose steadily over the four quarters until it reached annual growth of 1.4%. The positive performance has also been shown in employment figures. The unemployment rate has fallen by 2 percentage points since the start of the year (3.2 points from 26.9%, the highest level in the first quarter of 2013) to 23.7%, thus continuing with the downturn begun in 2013, although the current levels are higher than those registered in most developed countries.

Positive growth continues in the euro zone, although recovery may have lost some momentum in the last few quarters, with growth of 0.1% between March and June, and of +0.2% between June and September.

Since the second half of 2013, the most important euro zone institutions have focused their attention on prices. An important case has been Spain, where CPI fell for six successive months in 2014 (between June and December). In the European context, the European Central Bank estimated a period of low inflation -decisive in monetary policy decisions- and this outlook has proved to be accurate. In fact, December was the first month with negative CPI in the region for the last 5 years.

The performance seen in debt markets in 2013 carried through into 2014. The risk premium fell below the level of 100 basis points at the end of the year, the lowest level since 2010. Another important trend during the year has been the euro's depreciation against the dollar, a process which has been evident in the second half of the year, and which has been caused by different growth prospects, the tapering of QE by the Federal Reserve in the USA and the application of new monetary measures in the euro zone.

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

2. PRODUCTION

Gross Domestic Product has reported a positive performance in year-on-year terms, with growth of 0.7% in the first quarter, 1.3% in the second, 1.6% in the third and 0.6% in the fourth, according to initial Banco de España estimates. Overall, the economy grew at a rate of 1.4% year-on-year in 2014.

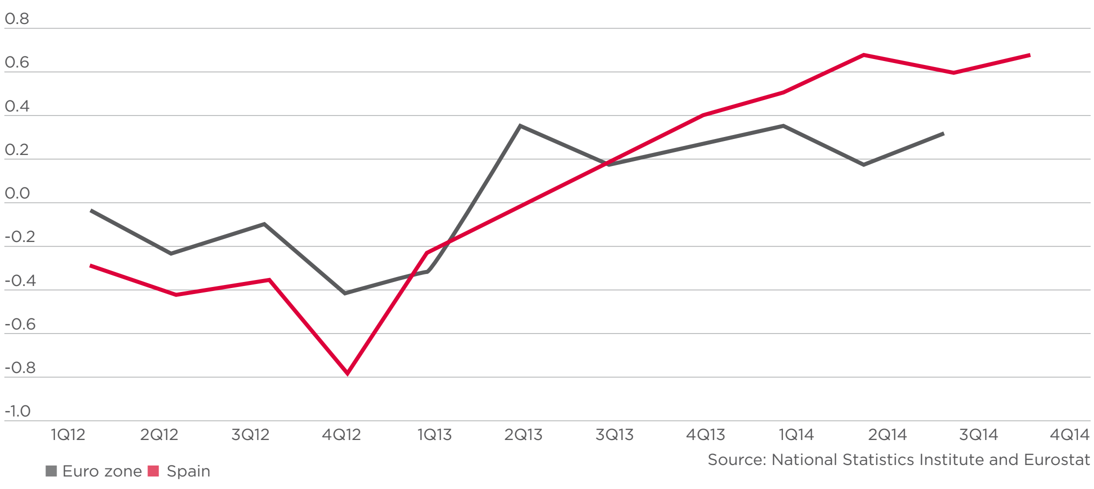
Domestic demand has underpinned the upturn begun in late 2012. Demand was up over the first three quarters thanks to improved private consumption, public consumption and investment. Year-on-year, final consumption maintained growth in the region of 0.7% during the three quarters, while investment has been in positive figures over the whole of the year. Moreover, the second quarter included the first quarterly growth in construction since 2007, a situation which also carried through into the third quarter.

Positive growth has been maintained in Europe as a whole, although over the last few quarters recovery appears to have tapered off slightly. In fact, GDP rose 0.2% in the third quarter, buoyed by growth in final consumption (+0.4% in the third quarter), but also hit by the downturn of 0.3% in investment.

With regard to external demand in Spain, the year was marked by an increasing growth in both exports and imports, more particularly the latter. Thus, in QoQ terms, the second saw an increase of 1.3% in the export of goods and services, while imports increased by 2.6%. This trend continued in the third quarter with increases of 3.5% in exports and 4.7% in imports. As a result, the net contribution of external demand to GDP stood at -0.2% in the third quarter, while improving by a tenth of a percentage point in the last quarter (-0.1%).

In Europe growth in foreign trade was around 1% for both imports and exports. While during the first quarter both items grew at a rate of 0.7%, the increase was greater in the two following quarters at rates of around 1.3%-1.4% in both.

Figure 9: Quarterly evolution of the real Gross Domestic Product in Spain and the euro zone - 2012/2014



Source: National Statistics Institute and Eurostat

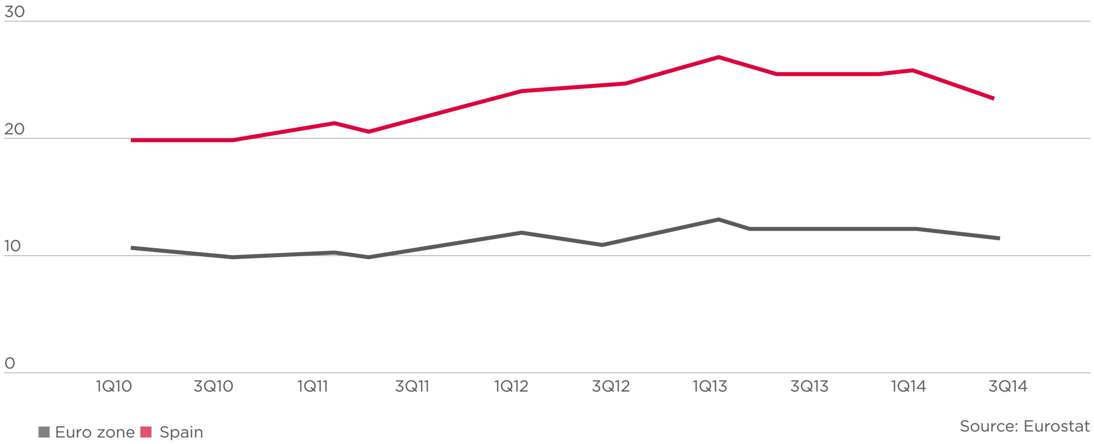
3. EMPLOYMENT, SALARIES AND COSTS

Since the start of the crisis, trends in employment data and the labour situation have been at the centre of public concerns[1]. The unemployment rate peaked at 26.9% in the first quarter of 2013. Since then it has shown a downward trend, registering its best improvement in the last few quarters. In the fourth quarter of 2014 the unemployment rate stood at 23.7%. While the trend is indeed positive, the unemployment rate is still higher than in the great majority of advanced economies.

Labour costs fell by an average of 0.38 in 2013. In 2014 the trend continued its downward path, but a moderation in year-on-year decline was observed. In the third quarter of 2014, salaries fell by 0.4%, whereas in the same period they had fallen by 0.6%. Remuneration per employee fell by 0.14% in September after posting increases in the previous six quarters.

The unemployment rate in the euro zone remained at around 11%, which is higher than the level seen in previous periods.

Figure 10: Evolution of the unemployment rate in Spain and the euro zone - 2010/2014



Source: Eurostat

1. According to the CIS (Centre for Sociological Research) Barometer Results Preview, December 2013

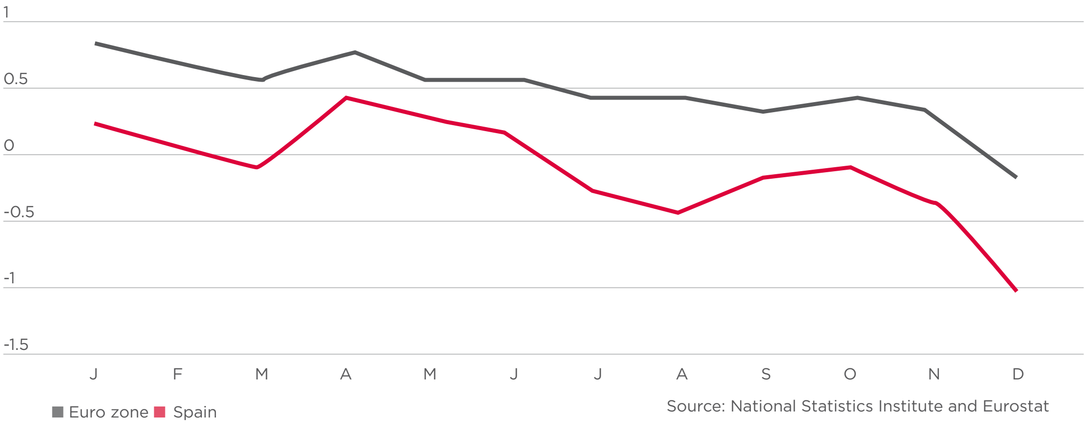
4. PRICES

As regards price trends, the CPI maintained a negative trend in 2014 reaching its lowest level in December (year-on-year general index change of -1.0%). Although it was negative at the beginning of the year and at levels close to zero in the first half, it was not until the second half of the year that the index showed continuous levels below zero, with six consecutive months of decline. The trend in the euro zone as a whole was also negative, although it was only in December that the price level actually decreased (by 0.2%). (Figure 11).

However, the negative trend in prices has been amplified by the effect of changes in energy prices. Accordingly, based on the underlying CPI (a special index which excludes energy prices and unprocessed foodstuffs), prices remained virtually flat all year, with the index close to zero.

In any case, the low levels of prices have led to further action by the European Central Bank, including interest rate reductions to 0.05%.

Figure 11: Annual evolution of CPI in Spain and in the euro zone - 2014



Source: National Statistics Institute and Eurostat

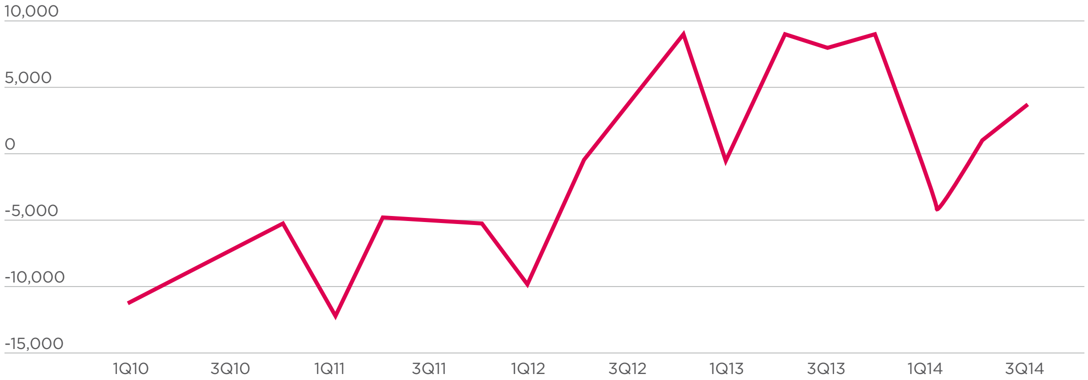
5. PUBLIC ACCOUNTS AND FINANCING CAPACITY OF THE ECONOMY

The deficit targets for Spain, excluding aid to banks, agreed with the European Commission are 5.8% in 2014, 4.2% in 2015 and 2.8% in 2016. The government decided to lower the deficit target to 5.5% of GDP in 2014 in view of reduced expenses in respect of interest payments on government debt securities, as well a decrease in expenditure on unemployment benefits. According to the latest information available, in October 2014, the deficit was 4.12%.

Regarding Public Administration indebtedness, the Budget Plan for 2015 establishes a target of 97.6% of GDP for 2014. November data published by Banco de España put borrowings at 97.1%, below the target set for the end of the year. The indicator has shown an upward trend in recent years (84.4% at the close of 2012 and 92.1% at year-end 2013). Government forecasts put the peak debt at 100.3% of GDP in 2015 with it starting to reduce in 2016 and falling below 98% in 2017.

The Spanish economy's financing capacity as a whole evolved positively in the year, even though it was lower than the 2013 figure. With the exception of the first quarter, when the economy recorded a financing need of €5,623 million, the economy recorded a financing capacity of €456 million in the second quarter and €2,896 million in the third. (Figure 12).

Figure 12: Evolution of the financing need or capacity of the Spanish economy – 2010/2014



Source: National Statistics Institute

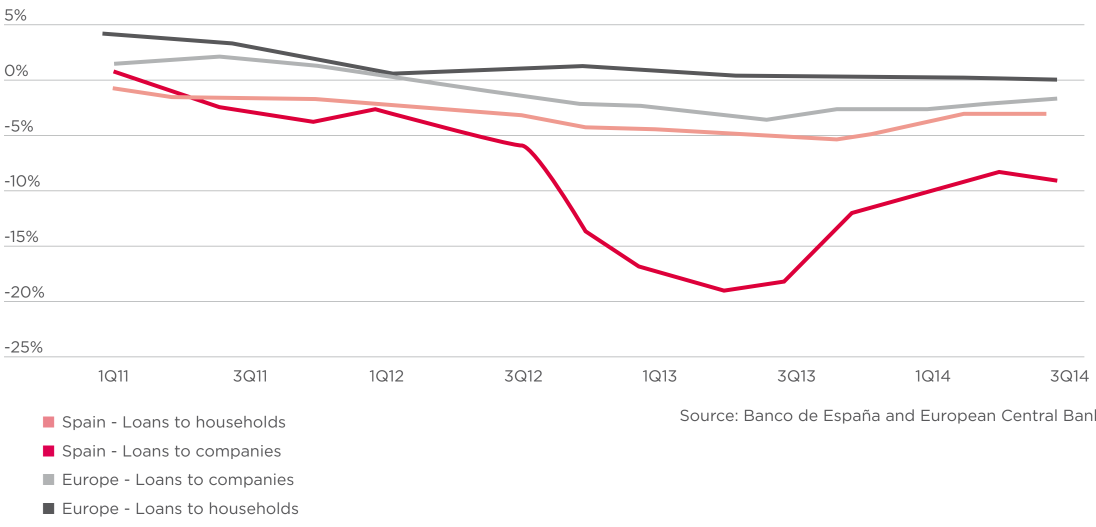
6. FINANCIAL TRENDS

Despite the improvements seen in some economic indicators, the adjustments continue to be reflected in other areas. The deleveraging that started at the end of 2009 has maintained its trend, although moderating, with a year-on-year fall in lending of 6% in October 2014. Lending to companies has moderated its fall in recent quarters to stand at -9.5% in September while the reduction in lending to private individuals stood at 3.7%. This trend was similar in rest of the euro zone. Lending to both companies and private individuals has continued to decline, albeit with a moderation in the downward trend in recent months. As a result, lending to companies was down by 1.6% year-on-year in November while lending to private individuals showed a decline of 0.4%.

However, cumulative new lending to private individuals and companies in amounts of less than one million euros is growing monthly at rates in excess of 0.5%, in line with the economic upturn.

Non-performing assets (NPA) reached their maximum level in December 2013. Since then the NPA ratio has declined progressively.

Figure 13: Recent evolution of private sector lending – 2012/2014

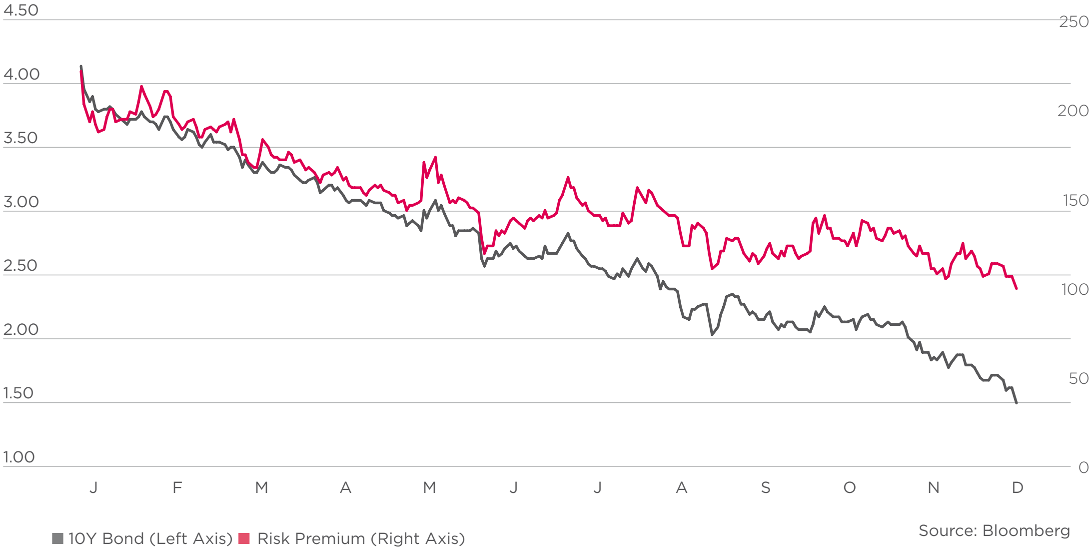


Source: Banco de España and European Central Bank

The yield on Spanish sovereign debt declined over the course of 2014, mainly marked by expectations of economic growth, the accommodative monetary policies of the European Central Bank and the introduction of the European Banking Union. The creation of the Single Supervisory Mechanism, the decision to create a plan for targeted longer-term refinancing operations (TLTRO), together with interest rate cuts, have reduced the spread over German bond rates for the sovereign bonds of the great majority of countries in the euro zone. At the beginning of the year, the yield on ten-year Spanish bonds stood at 4.13%, whereas at year-end it stood at 1.60%, representing a reduction of 2.53 percentage points. Movements in the US debt market have been determined by the withdrawal of the Federal Reserve's monetary stimulus. At the beginning of the year, the yield on ten-year US bonds stood at 3.03%, whereas at year-end it stood at 2.17%, representing a reduction of 0.86 percentage points.

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 fell below 100 basis points at the close of 2014 (Figure 14), a level not seen since 2010.

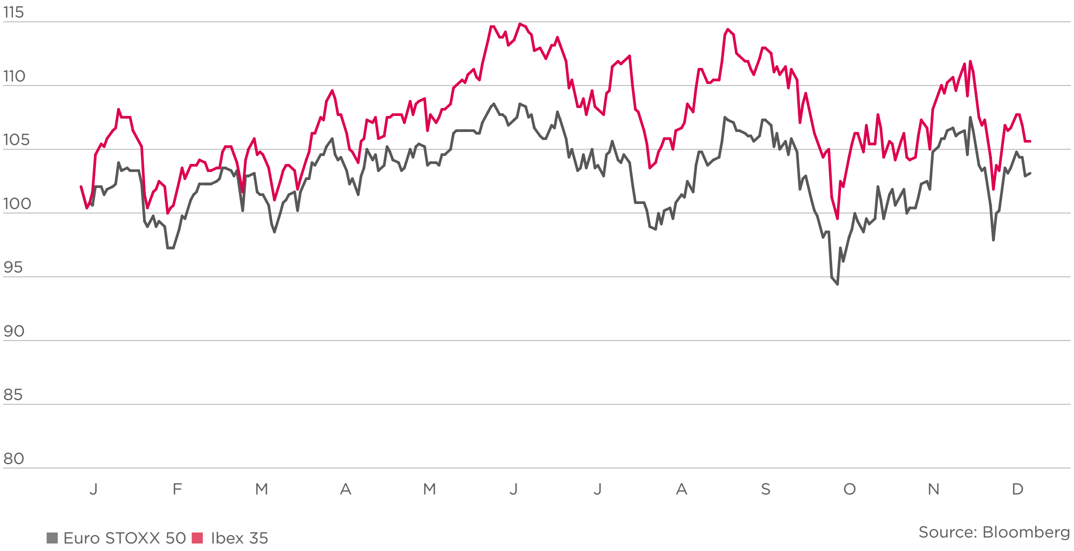
Figure 14: Evolution of the 10-year Spanish bond and the risk premium - 2014



Source: Bloomberg

The evolution of the equity markets has been slightly positive in 2014. Despite the volatility seen during the year in both the Ibex 35 and Euro Stoxx 50 indices they closed positively, with gains of 3.7% and 1.2% respectively.

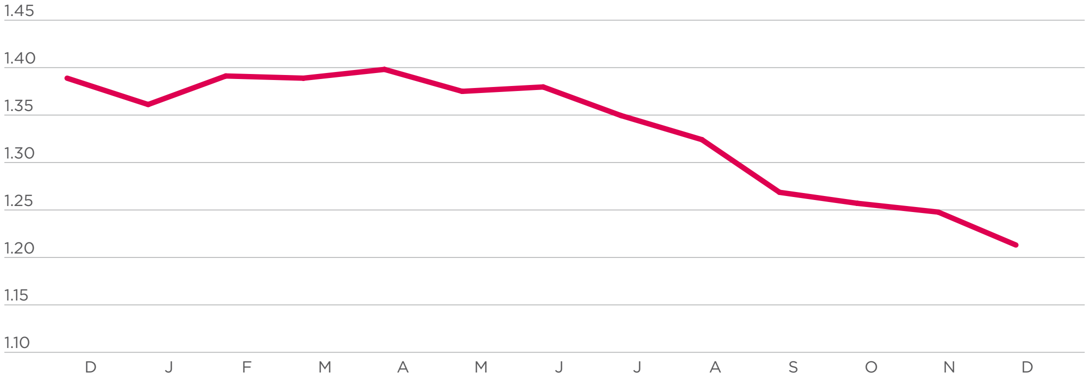
Figure 15: Evolution of the Euro Stoxx 50 and Ibex 35 indices in 2014 (base 100 = 1 January 2014)



Source: Bloomberg

Meanwhile the dollar strengthened against the euro during the year, and the decline of the euro was more pronounced in the second half of the year due to different growth expectations and the divergence of monetary policies. Consequently, the euro-dollar exchange rate closed the year at 1.21, the low point in the year, representing a negative change of 12.2% relative to the closing value of 2013 (1.38).

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



Source: Federal Reserve

7. FORECASTS

The major institutions' outlook for 2015 are, in general terms, optimistic for Spain and moderately positive for the euro zone as a whole. 2015 looks like being a year of consolidation of the recovery in Spain, with the consensus growth estimate of the main Spanish institutions[1] at 2.0% for 2015 (compared with the 1.8% estimated in early 2014), driven mainly by household consumption and investment in capital equipment. The unemployment rate is expected to continue the decline that started in 2013. The consensus forecast sees it falling to 23.0% by the end of 2015, which is still much higher than that of most developed countries. With regard to inflation, the consensus is for an annual average CPI of 0.7% in 2015, in line with the European Central Bank's estimates of lower price levels in Europe.

1. Funcas (Spanish Savings Banks Foundation think tank) “Spanish economy forecast panel - November 2014”

5. BANCO POPULAR MODEL

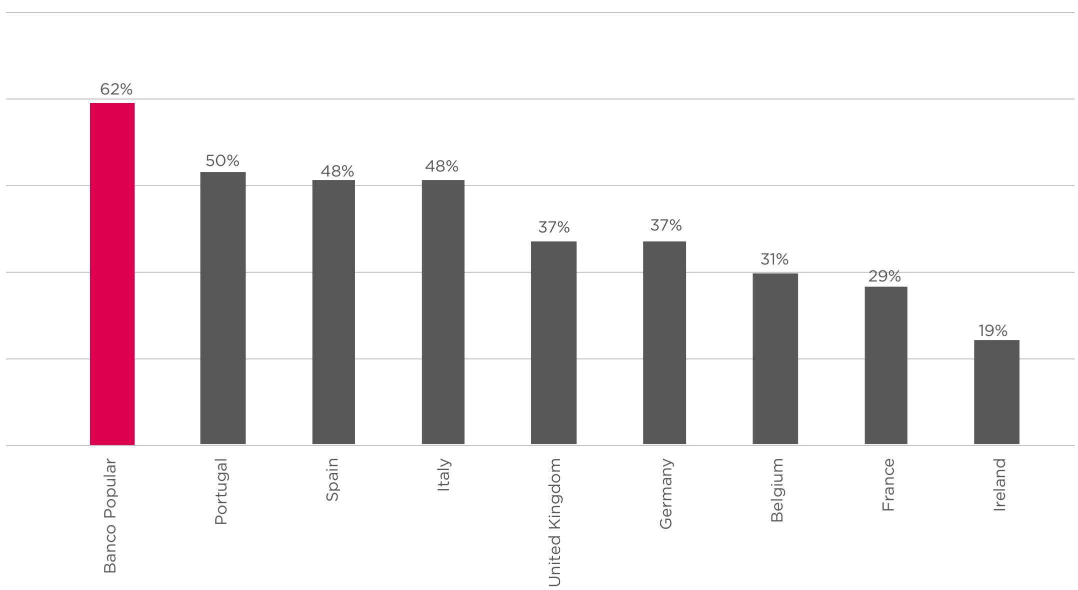
Banco Popular has historically been the paradigm of traditional Spanish banking thanks to its reputation for high levels of solvency and profitability and a conservative business model refined over the course of the last 85 years. The Bank has always focused on maintaining its independence and the values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

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

1. BANCO POPULAR IS A PURELY RETAIL BANK

The Bank engages almost exclusively in commercial banking activities. Historically, the Bank has focused its activity on financing, management of savings and financial services for individuals, families and businesses. It is a leading commercial banking institution in Spain, with 62% of its business coming from loans and advances to customers, a level higher than the European average including the Spanish sector (64% on average).

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

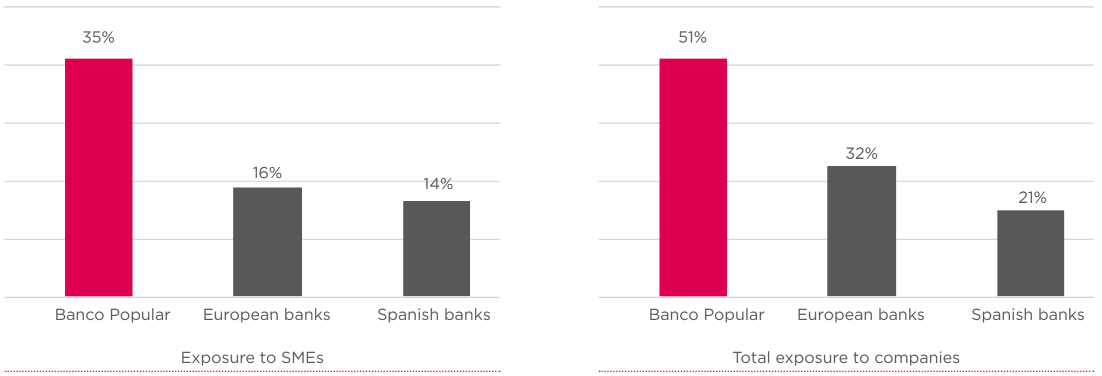


Source: ECB. Data as at November 2014, except Banco Popular as at December 2014.

2. BANCO POPULAR IS SPAIN'S SPECIALIST SMEs BANK

The Bank has historically been committed to developing the productive systems of the economies in which it is present by financing their industrial fabric. The Bank is convinced that economic recovery in Spain depends largely on the financing of entrepreneurs, self-employed persons and small and medium-sized Spanish businesses. Accordingly, growth in loans to SMEs and self-employed persons has been one of the priorities in 2014 and it will continue to be so in the future.

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



Source: European Banking Authority. Stress test, October 2014

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

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

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

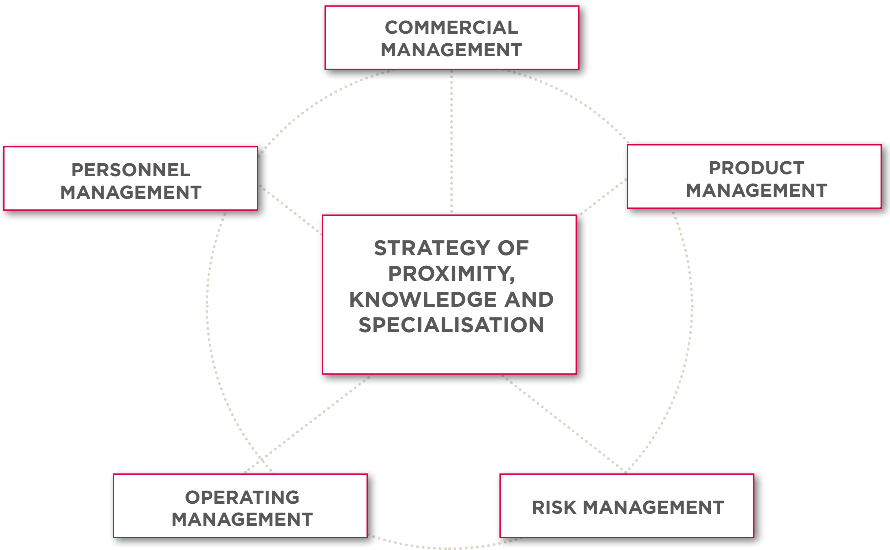
iii. **Management of customer oriented products.** Banco Poplar's financial products are designed to cover 100% of the needs of SMEs and self-employed persons, and they are always geared towards completely satisfying their financial requirements. Banco Popular provides "*tailor-made*" solutions for its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

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

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

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

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

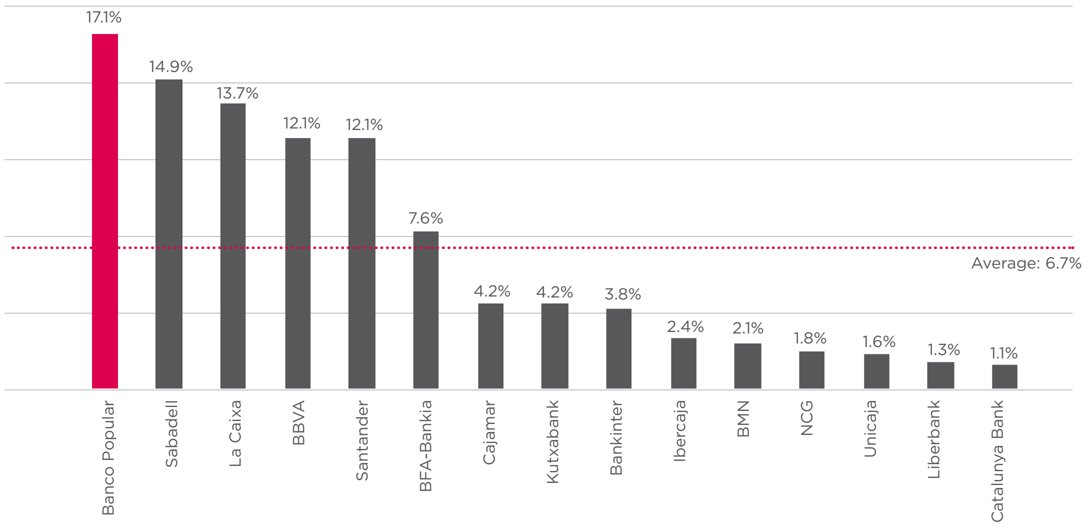


As a result, Banco Popular has developed strong competitive advantages in the SMEs and self-employed segment with a leading market share, focusing on transactional products, strong customer loyalty and the productivity of the commercial network.

Leadership in SMEs is shown in the business figures.

- More than €31 billion in financing for SMEs in Spain.
- More than a million self-employed and SMEs customers.
- One of every four SMEs is a customer of Banco Popular.
- Leading bank in Spain with respect to ICO loan drawdowns.
- High level of specialisation, with more than 700 company managers throughout Spain.

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



Source: Results of the AQR and Stress Test; according to details published by the EBA on all Spanish institutions involved in the Stress Test

3. BANCO POPULAR IS A CUSTOMER-ORIENTED BANK

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

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

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

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

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

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

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

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

Lastly, Banco Popular strives daily to ensure that information is transparent, with the conviction that doing things well is good for the Bank and for customers. The banking business is based on customer trust and loyalty, and it is for this reason that in Banco Popular the qualities of honesty, integrity and responsibility are particularly important. Being transparent means telling customers what they need to know through clear and simple information (on terms, rates, commissions, prices, etc.) thereby generating a relationship of lasting trust between the Bank and its customers.

4. LEADER IN EFFICIENCY

The culture of efficiency is imbued throughout the organisation, making it historically the most efficient European Bank. With an operating income in excess of €2 billion, the cost/income ratio reached 44.54%, leading the sector in 2014.

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

5. PRUDENT, DISCIPLINED AND DIVERSIFIED RISK MANAGEMENT

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

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

6. STRATEGIC ALLIANCES TO DEVELOP SPECIALISED BUSINESSES

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

In 2010 Banco Popular concluded an agreement with Crédit Mutuel, a leading financial entity in France with more than twenty-three million customers and a loan market share exceeding 17%, through which joint services will be provided to its customers through a new bank in which each entity holds a 50% stake, and which adopted the trade name of Targobank and had 125 branch offices and 610 employees.

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

In 2012 the Bank concluded an agreement with EVO Payments International, a company specialising in means of payment to jointly develop its payment services business using point-of-sale terminals in retail outlets in Spain.

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

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

During this past year, Banco Popular Español reached an agreement on the sale to BNP Paribas of its depository and custodian business for investment funds, pension plans, SICAVs and EPSVs. Lastly, also in 2014, Banco Popular strengthened the alliance with Värde Partners with the sale of 51% of bancopopular-e, the company that handles the Group's entire card issuing business.

7. ENVIRONMENTAL RESPONSIBILITY

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

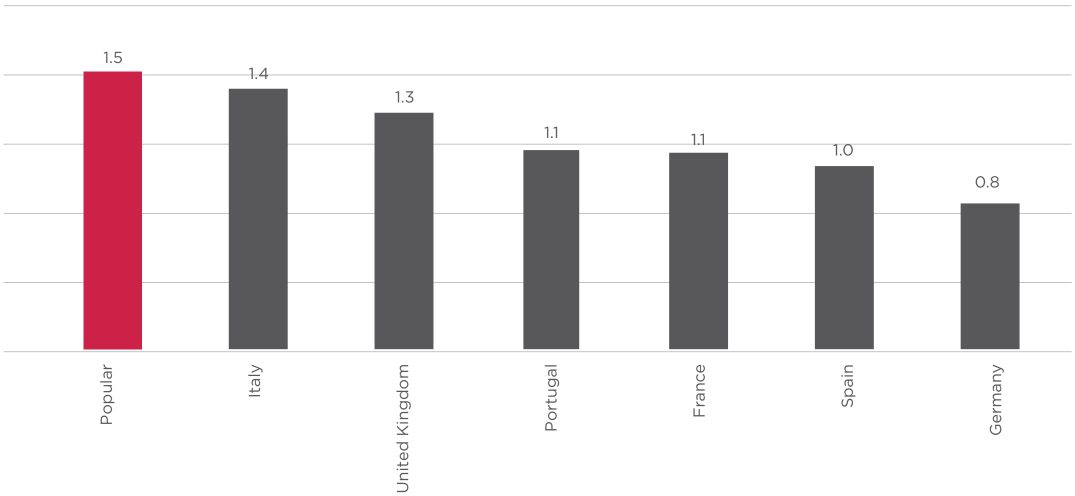
Alongside its day-to-day work in pursuit of its corporate object, Banco Popular actively promotes and collaborates on numerous projects focused on furthering the progress of its educational, social, cultural and environmental milieu.

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

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

1. Better levels of profitability than European domestic banks

Figure 21: Ratio of net interest income to average total assets. Banco Popular figures as at December 2014, others as at June 2014 (1)

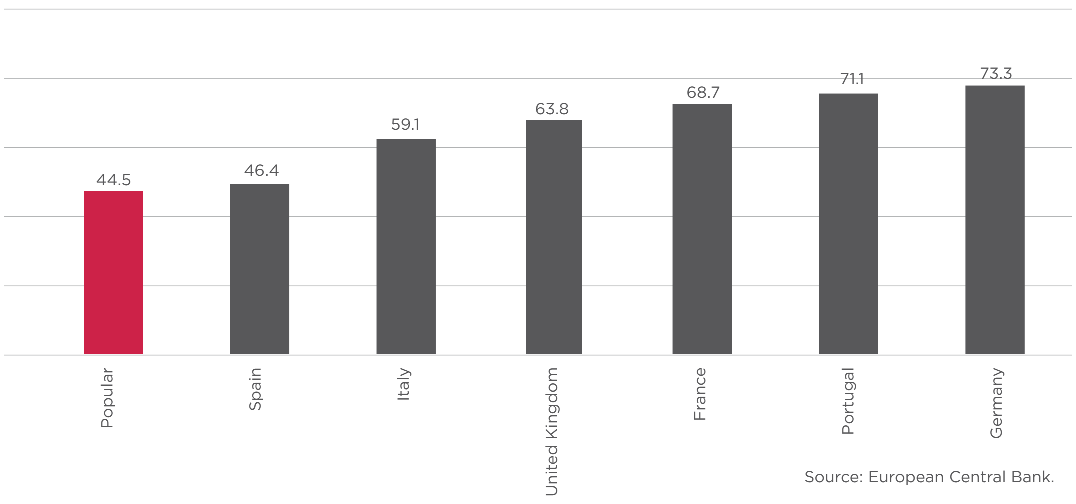


Source: European Central Bank and Banco de España.

(1) Data for Spain: net interest income of all deposit-taking institutions for the nine months to September 2014, annualised, and average total assets from January to November 2014

2. Leader in cost/income efficiency in Europe, not just in Spain

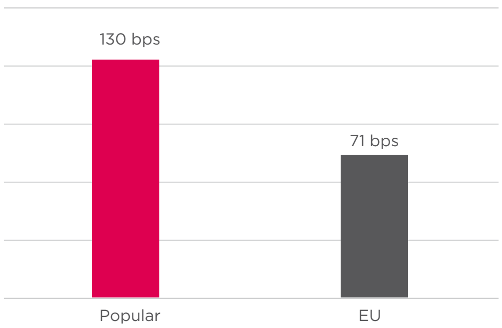
Figure 22: Efficiency ratio (Operating expenses/Gross margin %). Banco Popular figures as at December 2014, others as at June 2014



Source: European Central Bank.

3. Greater strengthening of solvency during the last part of the crisis

Figure 23: Evolution of the Tier 1 ratio (Basel II) between H1 2013 and H1 2014 (bps)



Source: European Central Bank. Banking Structure Report.

6. MAIN CONSOLIDATED RESULTS

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

	12M-14	12M-13 *	DIF. 12M14 VS. 12M13* (T€)	DIF. 12M14 VS. 12M13* (%)
Net interest income	**2,331,391**	**2,411,465**	**(80,074)**	**(3.3)**
Fees and commissions	654,707	759,259	(104,552)	(13.8)
Gains/(losses) on financial assets/liabilities and other income	889,935	380,527	509,408	>
Gross income	**3,876,033**	**3,551,251**	**324,782**	**9.1**
Administration costs and depreciation and amortisation	1,870,815	1,723,181	147,634	8.6
Net operating income	**2,005,218**	**1,828,070**	**177,148**	**9.7**
Net Impairment losses	2,078,279	2,436,153	(357,874)	(14.7)
Loans and receivables and others	1,878,284	1,514,648	363,636	24.0
Real estate assets and goodwill	414,153	1,181,921	(767,768)	(65.0)
Write-offs recovery	(214,158)	(260,416)	46,258	(17.8)
Gains	446,052	962,020	(515,968)	(53.6)
Profit/(loss) before tax	**372,991**	**353,937**	**19,054**	**5.4**
Net attributable profit	**330,415**	**251,543**	**78,872**	**31.4**

* 2013 Restated

Banco Popular's net profit in 2014 reached €330 million, maintaining its leadership in both net interest income and customers having made significant efforts with provisions, with allocations over €2 billion in the year.

1. NET INTEREST INCOME

In 2014 the Bank obtained a net interest income -the difference between financial products and costs- totalling €2,331 million, which is the largest in the sector based on Average Total Assets (Interest Margin, excluding Investment portfolio, on repos 1.5% versus 1.0% on comparable average in Spain).

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

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

Trend of assets

In 2014, balance sheet assets increased to €161,456 million, an increase of 10.1% with respect to the close of the previous year. The most relevant parts are highlighted below:

Loans and receivables

Loans and receivables, before valuation adjustments, stood at €115,626 million; maintaining the 2013 levels (-0.3% with respect to the previous year) and represent 71.61% of total assets.

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

	31.12.2014	31.12.2013	CHANGE (%)
Total loans and receivables	**115,626,259**	**115,930,466**	**(0.3)**
Loans and receivables to credit institutions	5,052,132	5,532,981	(8.7)
Loans and advances to customers	108,379,386	109,017,430	(0.6)
Loans and advances to Public Administrations	6,075,612	1,575,801	>
Loans and advances to other private sectors	102,313,774	107,441,629	(4.8)
Resident sectors	91,504,540	97,328,718	(6.0)
Non-resident sectors	10,569,817	9,876,085	7.0
Other financial assets	239,417	246,826	(3.0)
Debt securities*	2,194,741	1,380,055	59.0

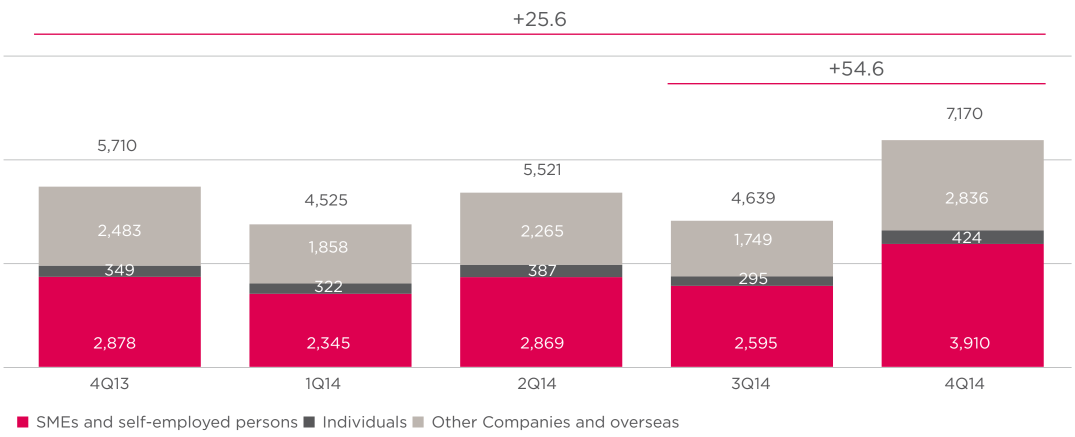
* Details in the securities portfolio section

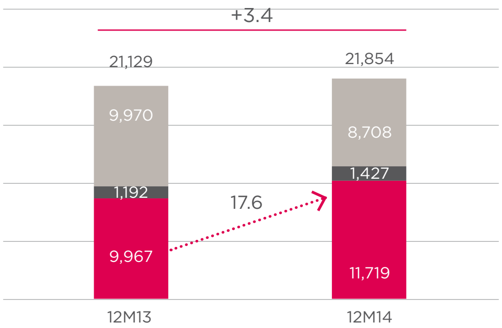
Loans and advances to customers experienced a very slight reduction (-0.6%, table R2) reaching €108,379 million at December 2014. However, the Bank's credit market share is 10 basis points higher than that achieved in the previous year (7.43%[2] vs. 7.33%) which shows the Bank's good performance in comparative terms.

Also, it should be noted that during the year an increase in the new production figures has been seen, pointing towards a greater dynamism in the demand for credit.

2. Figures at November 2014

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





As shown in table 7, ex-repo gross loans and advances to customers stood at €101.792 million at the end of 2014. 30.5% of loans and advances is aimed at companies, mainly SMEs and the self-employed, and 69.5% at individuals. The composition of customer loans and advances has remained very similar to that seen last year.

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

	31.12.2014	31.12.2013	CHANGE (%)	WEIGHT 13 (%)	WEIGHT 14 (%)
Commercial loans	3,709,669	3,370,774	10.1	3.1	3.4
Secured loans	38,914,915	43,005,888	(9.5)	39.4	35.9
Mortgages	38,096,706	42,040,253	(9.4)	38.6	35.2
Other	818,209	965,635	(15.3)	0.9	0.8
Asset repos	6,586,483	7,102,146	(7.3)	6.5	6.1
Term and other loans	37,041,050	32,479,201	14.0	29.8	34.2
Finance leases	2,203,596	2,322,267	(5.1)	2.1	2.0
Doubtful assets	19,923,673	20,737,154	(3.9)	19.0	18.4
Subtotal: Gross loans excl. repos	**101,792,903**	**101,915,284**	**(0.1)**	**93.5**	**93.9**
Total	**108,379,386**	**109,017,430**	**(0.6)**	**100.0**	**100.0**

35.2% of loans and advances to customers relate to mortgage lending which fell by 9.4% in 2014 compared to 2013. Of the €38,097 million recorded under this heading, more than half relates to loans to companies with mortgage collateral.

The mortgage portfolio has high-quality collateral. Specifically, the LTV[3] ratio of the individuals' mortgage portfolio is 67.61%[4]. The fact that the active personal mortgage loan effort rate is 25.55%, lower than the 35% estimated to be prudent must also be taken into consideration.

At the close of 2014, the NPL ratio stood at 13.78 percent, a 61 basis point reduction in the year.

Securities portfolio

The debt securities portfolio has the dual objective of offsetting the interest rate for part of the liabilities financed at a fixed rate, for example customer term deposits, and also to generate stable and recurring income to support the Bank's net interest income. The management of this portfolio follows criteria of maximum prudence and profitability in terms of bond rates, their liquidity and the terms of the investment. The assets are of high credit quality and the immense majority are secured by mortgage or public guarantees.

The duration of the portfolio during the year was maintained between one and two years.

The performance of the portfolio has been very positive as a result of the good credit market conditions. In addition, the cost of financing the portfolio has benefited from the declines in interest rates and the lower levels of stress in the wholesale capital markets.

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

	HELD FOR TRADING PORTFOLIO	OTHER FINANCIAL ASSETS AT FAIR VALUE CHANGES IN P&L	AVAILABLE FOR SALE ASSETS	LOANS AND RECEIVABLES PORTFOLIO	TOTAL
B. Popular Español	-	-	26,544,851	2,194,741	28,739,592
Totalbank	-	-	415,749	-	415,749
B. Popular Portugal	-	-	1,857,868	-	1,857,868
Popular Banca Privada	-	-	49,540	-	49,540
TOTAL BANK GROUP	-	-	**28,868,008**	**2,194,741**	**31,062,749**
TOTAL NON-BANK GROUP	**40,339**	**351,544**	**495,894**	-	**887,777**
CONSOLIDATED TOTAL	**40,339**	**351,544**	**29,363,902**	**2,194,741**	**31,950,526**

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

	0-1 YEARS	1-5 YEARS	5-10 YEARS	>10 YEARS	TOTAL
Held-for-trading portfolio	29,362	6,844	4,133	-	40,339
Other financial assets at fair value through P&L	66,436	172,449	108,075	4,584	351,544
Available-for-sale assets	2,697,540	15,623,385	8,695,599	2,347,378	29,363,902
Loan portfolio	368,026	1,022,523	760,603	43,589	2,194,741
TOTAL	**3,161,364**	**16,825,201**	**9,568,410**	**2,395,551**	**31,950,526**

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

4. In Spain, excluding Targobank.

Asset Yield

The average yield on assets was 2.71%, a 45 basis point reduction with respect to 2013. This drop was mainly due to the fact that the loan portfolio continues to be repriced downwards. However, this decrease is a reflection of the reduction in the cost of deposits, which, together with the active management of prices and in particular of spreads, partially offsets these effects. As will be shown later, customer spread increased 28 bps compared to 2013.

Most of the €4,167 million in interest and similar income derived from secured loans, primarily Mortgages (€1,477 million) and term and other loans, generating income of €1,528 million. These two items represent 73.4% of interest and yields in the year.

The return on profitable assets mainly derives from private sector loan activity, which represents 83.9% of the total (table 10). The weight of the contribution of Credit institutions is maintained (0.5%), fundamentally generated by the Group's Treasury. Securities operations mean 11.8%, mainly fixed income investment. The weight of the income from Public Administrations is 3.5% and 0.3% originates from other profitable assets.

Table 10: Interest and similar income in 2014 (Amounts in thousands of euros)

	TOTAL 2014	WEIGHT (%)	TOTAL 2013	WEIGHT (%)
Credit institutions	**21,474**	**0.5**	**31,228**	**0.6**
Public Administrations	**146,579**	**3.5**	**164,549**	**3.4**
Private sector	**3,495,383**	**83.9**	**3,979,974**	**81.8**
Commercial loans	207,197	5.0	237,714	4.9
Secured loans	1,529,525	36.7	1,888,976	38.8
Mortgage loans	1,477,067	35.4	1,844,514	37.9
Other	52,458	1.3	44,462	0.9
Term and other loans	1,527,719	36.7	1,663,153	34.2
Finance leases	104,600	2.5	112,165	2.3
Doubtful assets	126,342	3.0	77,966	1.6
Debt securities	**491,962**	**11.8**	**679,716**	**14.0**
Other profitable assets	**11,836**	**0.3**	**7,530**	**0.2**
TOTAL	**4,167,234**	**100.0**	**4,862,997**	**100.0**

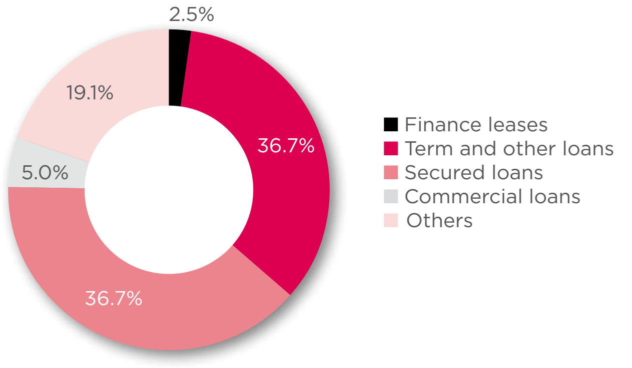
As can be seen in table 11, 89.4% of the Group's net interest income derived from activities with customers in Spain. Portugal represents 8.1% while the remaining 2.5% relates to the Totalbank business in the USA.

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

	2014	WEIGHT (%)
Spain	2,107	90.4
Portugal	168	7.2
USA	57	2.4
Total	**2,331**	**100.0%**

The origin of income by type of operation with customers is set out in Figure 25, in which Term loans and Secured loans represent more than 73% of the total.

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



Trend of liabilities

At the close of 2014, balance sheet resources amounted to €142,228 million (Table R8), which is a 9.1% increase. Customer deposits increased 7.6% reaching €96.036 million at the close of the year. Meanwhile, wholesale liabilities, including subordinated liabilities, have seen their contribution reduced compared to the 2013 close which strengthens our liquidity position by placing the LTD[5] ratio at 113.4%.

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

	31.12.2014	31.12.2013	CHANGE (%)
Deposits from central banks	**9,993,427**	**3,417,099**	**192.5**
Deposits from credit institutions	**17,713,731**	**18,276,123**	**(3.1)**
Customer deposits	**96,036,196**	**89,261,822**	**7.6**
Retail deposits and Public Administrations	87,060,203	83,124,489	4.7
Public Administrations	17,402,066	10,831,358	60.7
Other private sectors	69,298,057	72,111,152	(3.9)
Resident sectors	*60,675,099*	*63,595,104*	*(4.6)*
Non-residents	*8,622,958*	*8,516,048*	*1.3*
Valuation adjustments	360,080	181,979	97.9
Deposits with central counterparties	8,975,993	6,137,333	46.3
Marketable debt securities	**15,962,018**	**16,282,375**	**(2.0)**
Unadjusted marketable debt securities	15,809,274	15,917,942	(0.7)
Bonds and other securities outstanding	*15,017,325*	*14,922,018*	*0.6*
Commercial paper	*791,949*	*995,924*	*(20.5)*
Valuation adjustments	152,744	364,433	(58.1)
Subordinated liabilities	**1,424,645**	**2,324,019**	**(38.7)**
Other financial liabilities	**1,097,761**	**751,719**	**46.0**
TOTAL ON-BALANCE SHEET FUNDS	**142,227,778**	**130,313,157**	**9.1**

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

The item with the highest percentage increase relates to Deposits with central banks. In June 2014 the European Central Bank announced a set of unconventional measures aimed at supporting the real economy and returning inflation back to target levels. Among them, it included the establishment of the TLTRO (*targeted longer-term refinancing operations*) programme whose purpose is to increase bank financing for individuals and businesses. The adoption of these facilities in the ECB's monetary policy will allow, on one hand, this funding to be directed to our SMEs and self-employed customers and, on the other, perform a tactical management with respect to other managed funds.

TLTRO
100%
ready at
December 2014

Figure 26: Total exposure to the ECB (Amounts in millions of euros)

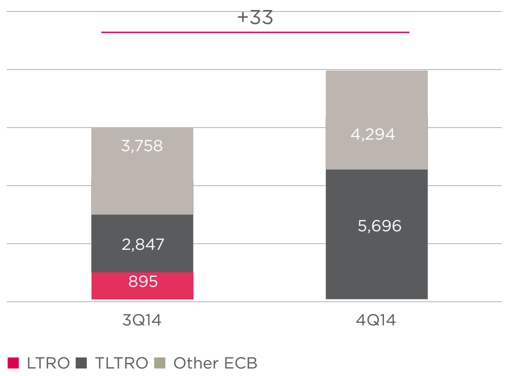


Table 13: Customer funds (Amounts in thousands of euros)

	31.12.2014	31.12.2013	CHANGE (%)
Demand deposits (excl. Treasury) and Other accounts [1]	27,475,977	24,178,369	13.6
Term deposits	44,838,593	50,376,553	(11.0)
Asset repos	14,385,553	8,387,588	71.5
Valuation adjustments	360,080	181,979	97.9
Subtotal customer deposits and Public Administrations	**87,060,203**	**83,124,489**	**4.7**
Retail commercial paper	311,639	652,641	(52.2)
Mediation loans [2]	8,745,164	7,798,768	12.1
Securitisation sold to third parties	343,387	534,312	(35.7)
Marketable securities distributed through the commercial network [3]	468,197	1,165,071	(59.8)
Tax collection accounts	361,604	349,353	3.5
Asset repos	(14,385,553)	(8,387,588)	71.5
Total Retail Funds	**82,904,641**	**85,237,046**	**(2.7)**

1. Demand Deposits do not include, where appropriate, Treasury repos.

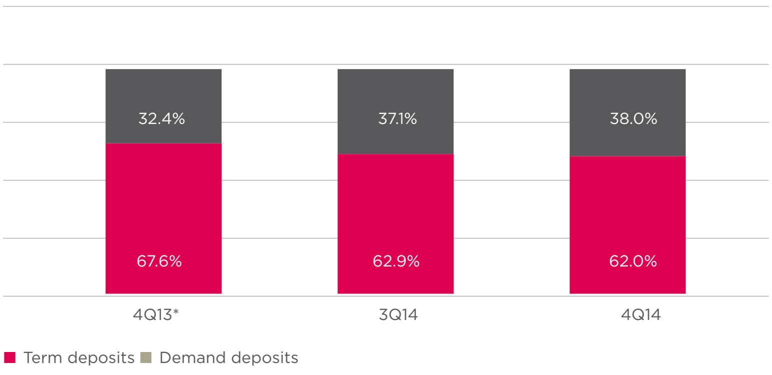
2. ICO and EIB funding received directly for the purpose of lending to companies.

3. Includes convertible notes, preferred shares, and subordinated debt distributed through the commercial network.

As shown in table 13, customer deposits and Public Administrations have increased by 4.7% compared to 2013, which allowed market share to stand at 5.82%[6].

With regard to the behaviour of traditional liability products, highlighted is the transfer from term deposits to demand deposits, which continue to gain weight and have increased by 13.6% in the year.

Figure 27: Evolution of the demand and term deposits distribution (%)



*32.5%/67.5% on 2013 Published

Other retail funds commercialized through the branch network have been reduced by 3% compared to the end of 2013 (securitisations sold to third parties, retail commercial paper and other marketable securities, mainly).

All these movements result in a slight decrease in Total Retail Funds of 2.7% compared to 2013.

As mentioned earlier, the LTD ratio stood at 113.4% at year end. This ratio measures the relationship between customer loans net of provisions and customer deposits and other commercial financing items for loans (mediated loans, securitisations sold to third parties) and, therefore, shows the Bank's capacity to finance its loans without resource to wholesale funding.

6. Figures at November 2014

Cost of funding

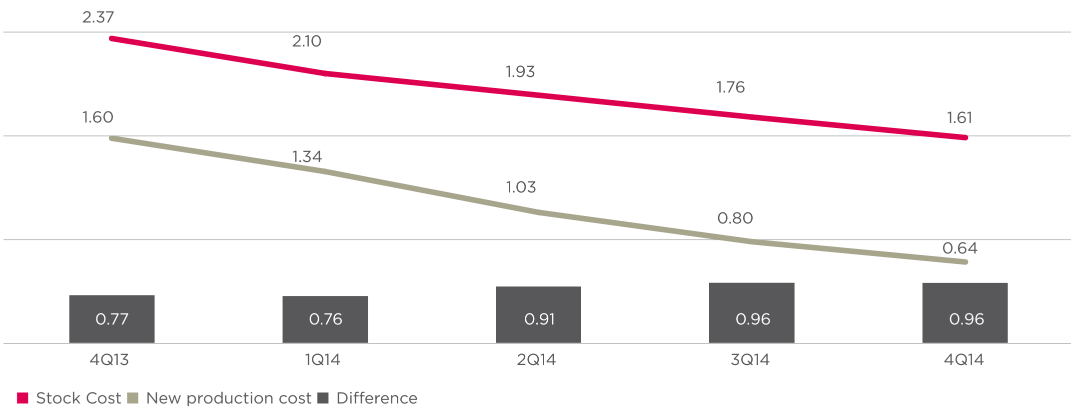
Financial costs have been reduced significantly in 2014, specifically by 25.11% with respect to 2013. In terms of distribution by sector and origin of products, table 14 shows that 49.8% of the costs stem from transactions with customers, lower than the previous year driven by the transfer between term deposits and demand deposits as previously commented and mainly by the significant reduction in the cost of new contracting through an active management of the prices offered.

Table 14: Interest and similar expenses in 2014 (Amounts in thousands of euros)

	TOTAL 2014	WEIGHT (%)	TOTAL 2013	WEIGHT (%)	CHANGE (%)
Credit institutions	**288,772**	**15.7**	**364,225**	**14.9**	**(20.72)**
Public Administrations	**70,980**	**3.9**	**74,998**	**3.1**	**(5.36)**
Private sector	**913,741**	**49.8**	**1,370,050**	**55.9**	**(33.31)**
Current accounts	55,785	3.0	66,525	2.7	(16.14)
Savings accounts	6,793	0.4	8,613	0.4	(21.13)
Term deposits	844,498	46.0	1,289,856	52.6	(34.53)
Asset repos	4,043	0.2	1,131	0.0	257.47
Other accounts	2,622	0.1	3,925	0.2	(33.20)
Deposits with central counterparties	**9,824**	**0.5**	**18,408**	**0.8**	**(46.63)**
Marketable securities	**541,564**	**29.5**	**611,089**	**24.9**	**(11.38)**
Bonds	474,317	25.8	441,878	18.0	7.34
Commercial paper and bills of exchange	19,759	1.1	103,142	4.2	(80.84)
Subordinated debt and preferred shares	47,488	2.6	66,069	2.7	(28.12)
Other funds	**10,962**	**0.6**	**12,762**	**0.5**	**(14.10)**
Total	**1,835,843**	**100.0**	**2,451,532**	**100.0**	**(25.11)**

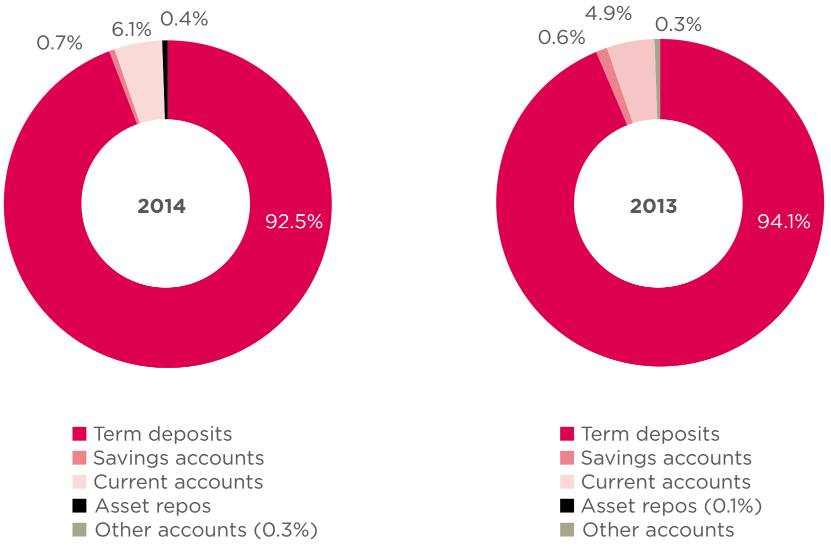
In particular, the cost of the new production of liabilities remained low, closing 2014 at 0.57%, representing a decrease of 86 bps compared to the December 2013 rate. This has contributed to, in 2014, term deposits portfolio rate being placed at 1.57%, 66 basis points below the close of 2013. Figure 28 shows the evolution of term deposits' quarterly cost.

Figure 28: Evolution of the cost of term deposits (quarterly average in %)



As may be seen in Figure 29, 92.4% of the €914 million relates to term deposits while the share of demand deposits increased slightly.

Figure 29: Origin of the costs by transaction type in the private sector



Spreads performance

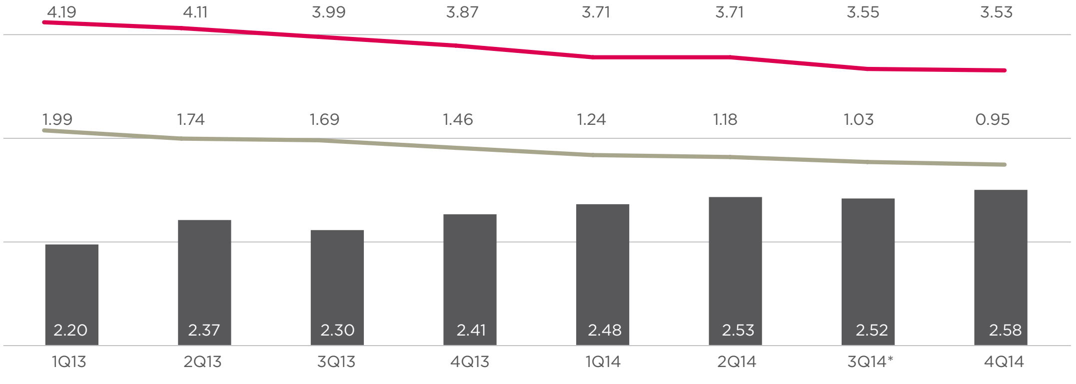
Customer spread increased 28 bps with respect to 2013 to stand at 2.61%, mainly as a result of increased commercial dynamism and the gradual reduction in the cost of term deposits. Table 15 shows how the impact of spreads on the retail business has offset the decline in volume interest income, mainly due to the notable decline in the cost of retail liabilities. In this regard, it is noted that the profitability of credit stood at 3.72% at the end of 2014, once the effect of the deconsolidation of business cards is isolated.

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

	31.12.2014				31.12.2013			
	Average balance	**Weight (%)**	**Products or costs**	**Rates (%)**	**Average balance**	**Weight (%)**	**Products or costs**	**Rates (%)**
Financial intermediaries	5,745,952	3.74	21,474	0.37	6,144,923	4.00	31,228	0.51
Loans to customers (a)	97,905,118	63.72	3,641,962	3.72	102,571,610	66.74	4,144,523	4.04
Securities portfolio	27,973,562	18.20	491,962	1.76	24,727,793	16.09	679,716	2.75
Other assets	22,030,915	14.34	11,836	0.05	20,242,716	13.17	7,530	0.04
Total assets (b)	**153,655,547**	**100.00**	**4,167,234**	**2.71**	**153,687,042**	**100.00**	**4,862,997**	**3.16**
Financial intermediaries	27,537,755	17.92	288,772	1.05	27,471,058	17.87	364,225	1.33
Customer funds: (c)	90,075,710	58.62	1,003,731	1.11	89,752,897	58.40	1,543,155	1.72
Current accounts	19,271,754	12.54	80,305	0.42	15,734,639	10.24	71,752	0.46
Savings and time deposits	65,440,208	42.59	904,416	1.38	66,717,510	43.41	1,373,296	2.06
Deposits with clearing houses	4,988,495	3.25	9,824	0.20	5,289,585	3.44	18,408	0.35
Retail commercial paper	375,253	0.24	9,186	2.45	2,011,163	1.31	79,699	3.96
Marketable securities and other	17,116,962	11.14	532,378	3.11	19,105,219	12.44	531,390	2.78
Other interest-bearing liabilities	333,593	0.22	10,962	3.29	367,572	0.24	12,762	3.47
Other funds	6,002,272	3.91	-	-	6,057,569	3.94	-	-
Equity	12,589,255	8.19	-	-	10,932,727	7.11	-	-
Total resources (d)	**153,655,547**	**100.00**	**1,835,843**	**1.19**	**153,687,042**	**100.00**	**2,451,532**	**1.59**
Customer spread (a-c)				*2.61*				*2.32*
Net interest margin (b-d)				*1.52*				*1.57*

The positive quarter on quarter performance of customer spread since 2013 can be seen below:

Figure 30: Evolution of profitability and customer cost (including promissory notes) (%), No singular operations



* Ex single card business operation

Net interest income totalled €2,331 million, representing a decrease of 3.3% compared to the end of 2013, mainly due to lower contribution from Fixed Income Portfolio (-€188 million). The contribution of retail business is positive (€18 million): although loans and receivables have a negative effect on lower average balances and spreads with respect to 2013, customer liabilities have behaved very positively, mainly due to the contribution of lower contracting rates.

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

RETAIL BUSINESS SPREAD			WHOLESALE BUSINESS SPREAD	VAR. SPREAD 2014 VS. 2013
VOLUME	*SPREAD*	MARKET RATES		
(262,798)	400,812	(119,106)	(98,983)	(80,074)

2. GROSS INCOME

The gross income was €3,876 million at 31 December 2014, 9.1% higher with respect to 2013 and of which 79% is generated from purely commercial business.

Net fees and commissions

Net fees and commissions decreased 13.8% compared to the end of 2013, reaching €655 million. This drop is caused by the sale of businesses (POS terminals, ATMs, cards), which distorts year-on-year comparison because of the way it is accounted for. During the last two years, Popular has established joint ventures with specialist partners in different products to improve the profitability of each segment; in particular, the deconsolidation of the cards business took place in the last quarter of 2014. From an accounting standpoint, companies established with specialised partners to boost businesses are accounted by using the equity method, so that the revenues disappear from the fees and commissions line and are shown instead as a net balance in results by the equity method heading.

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

				WEIGHTS (%)	
	31.12.2014	31.12.2013	CHANGE %	31.12.2014	31.12.2013
Banking services	**632,850**	**711,059**	**(11.0)**	**96.6**	**93.7**
Portfolio management commissions	100,734	94,868	6.2	15.4	12.5
Securities portfolio	23,200	28,101	(17.4)	3.5	3.7
Asset management	3,848	3,714	3.6	0.6	0.5
Investment funds	64,185	45,758	40.3	9.8	6.0
Pension plans	9,501	17,295	(45.1)	1.5	2.3
Other banking services	476,913	516,277	(7.6)	72.8	68.0
Securities and foreign currency purchases and sales	11,762	11,644	1.0	1.8	1.5
Demand accounts administration	105,251	112,703	(6.6)	16.1	14.8
Provision of collateral and other guarantees	133,278	146,413	(9.0)	20.4	19.3
Asset transaction services	39,202	25,680	52.7	6.0	3.4
Collection and payment handling	75,724	80,340	(5.7)	11.6	10.6
Other	111,696	139,497	(19.9)	17.1	18.4
Means of payment	55,203	99,914	(44.7)	8.4	13.2
Defaults	**21,857**	**48,200**	**(54.7)**	**3.3**	**6.3**
Total	**654,707**	**759,259**	**(13.8)**	**100.0**	**100.0**

As seen in the table before, the asset management commissions highlight the good performance of Investment funds and, more importantly, most of this growth is due to net subscriptions which is indicative of the commercial efforts made. This year has been characterised by intense competition in the Funds management market, driven by low interest rates which encourage the search for greater returns through alternatives to traditional deposits.

At the close of 2014, the assets sold by the Group through investment funds amounted to €9,499 million, up 13.88% compared with €8,342 million in 2013.

According to Inverco, the two main management entities, Popular Gestión Privada and Allianz Popular Asset Management, managed, at the end of 2014, assets amounting to €9,561 million, which compared to €8,201 million in 2013 represents a 16.58% increase.

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

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

	31.12.2014	31.12.2013	VAR. TOTAL	VAR. (%)	WEIGHT (%)
Fixed income	5,371,247	4,386,475	984,772	22.5	56.2
Mixed funds	1,174,605	330,567	844,038	255.3	12.3
Equity instruments	556,617	423,801	132,816	31.3	5.7
Guaranteed funds	1,775,616	2,565,588	(789,972)	(30.8)	18.6
Global funds	197,674	184,833	12,841	6.9	2.1
Other provisions	485,058	309,960	175,098	56.5	5.1
TOTAL FUNDS	**9,560,817**	**8,201,224**	**1,359,593**	**16.6**	**100.0**

There has been a €985 million increase in fixed-income funds and €844 million in mixed funds compared with last year, which significantly increased their relative weights (12.3% vs. 4.0%). The divestment of guaranteed funds is highlighted (-€790 million, which reduces the relative weight from 31.3% to 18.6%). Increased investor appetite for mixed funds, to the detriment of guaranteed funds (in line with movements in the sector), as well as maintaining the relative weight of fixed income funds, is due to the search by investors for assets with access to higher profitability given the current situation of low interest rates and low yields offered by fixed-term deposits.

Fees and commissions for banking services while increasing their relative weight compared to 2013, are affected partly through a lower balance in guarantees and lower activity in the mediation of receipts and payments, despite improving service fees and commissions on lending transactions (including trade discount).

Finally, we mention that fees and commissions on means of payment have been affected by the deconsolidation of the cards business with a reduction of €44.7 million.

Gains/(losses) on financial transactions

The tactical management of the debt securities portfolio has enabled the results to generate a 78.0% increase in gains/losses on financial assets/liabilities over the previous year and increasing its weight in the gross margin to 21.2%.

Other products and operating expenses

As for Other operating income and expenses, it produced a net increase of €157.4 million compared to the end of 2013.

Among income items, note the significant increase in insurance premiums due to increased commercialization of products by Eurovida Portugal, SA (€40.3 million more than in 2013) and the gain of €96.7 million on the sale of future receivables from the sale of insurance and pensions. With regard to operating expenses, although they have not undergone significant change over the previous year, there are two significant impacts, but of opposite signs and therefore offsetting one another: the €82.4 million increase compared to the previous year in net allocations to liabilities and the €105.4 million decrease in the contribution to the Deposit Guarantee Fund due to the extraordinary contribution in 2013.

3. NET OPERATING INCOME (PRE-PROVISION PROFIT)

Table 19 breaks down the Personnel and General administrative expenses

Table 19: Personnel and General administrative expenses in 2014 (Amounts in thousands of euros)

	31.12.2014	31.12.2013	CHANGE (%)
Personnel expenses	**946,235**	**929,110**	**1.8**
Wages and salaries	701,415	694,632	1.0
Social security contributions	184,200	175,707	4.8
Other personnel expenses	30,047	28,873	4.1
Pensions	30,573	29,898	2.3
General administrative expenses	**780,050**	**643,449**	**21.2**
Rents and common services	141,034	145,122	(2.8)
Communications	31,175	32,598	(4.4)
Maintenance of premises and equipment	77,331	50,810	52.2
IT and outsourced services	220,083	151,541	45.2
Stationery and office supplies	6,482	7,912	(18.1)
Technical reports and legal expenses	66,599	41,125	61.9
Advertising and publicity	34,083	31,711	7.5
Insurance	7,248	7,743	(6.4)
Security and fund transport services	19,792	22,754	(13.0)
Travel	10,462	8,902	17.5
Property, VAT and other taxes	120,699	119,587	0.9
Other general administrative expenses	45,062	23,644	90.6
TOTAL	**1,726,285**	**1,572,559**	**9.8**

Personnel expenses have remained practically stable and only increased 1.8% with respect to 2013. During the last quarter of 2014 the early retirement plan at Central Services affected 104 people.

With regard to administrative expenses, they stand at €780 million (an increase of 21.2% compared to 2013) influenced by the carrying out of corporate transactions, the asset quality review performed during the stress tests and other costs associated with unprofitable assets.

Depreciation and amortisation fell by 4% over the previous year, reaching €145 million at the end of the year.

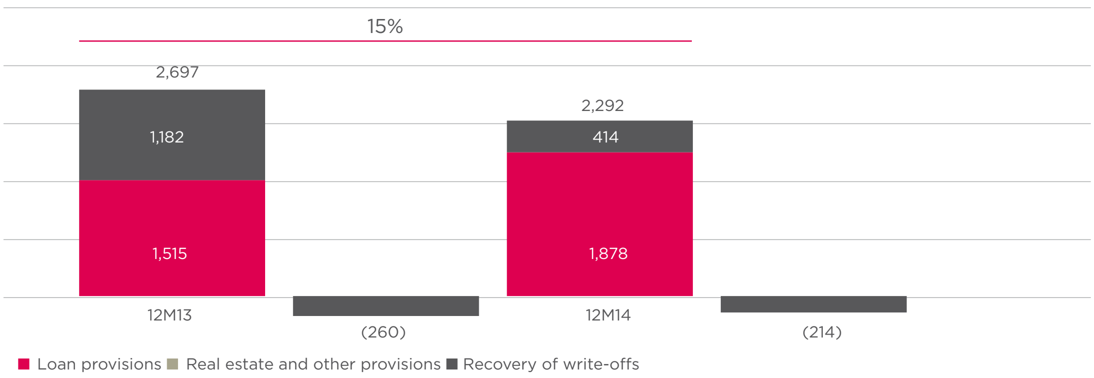
As a result of the above, and reflecting the strong ability to generate earnings, operating income in December 2014 stood at €2,005 million, 9.7% higher than in 2013.

The Bank's management capacity is also evident in its cost to income ratio, which at 44.5 percent is one of the best in the financial sector, both in Spain and in Europe.

4. CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR

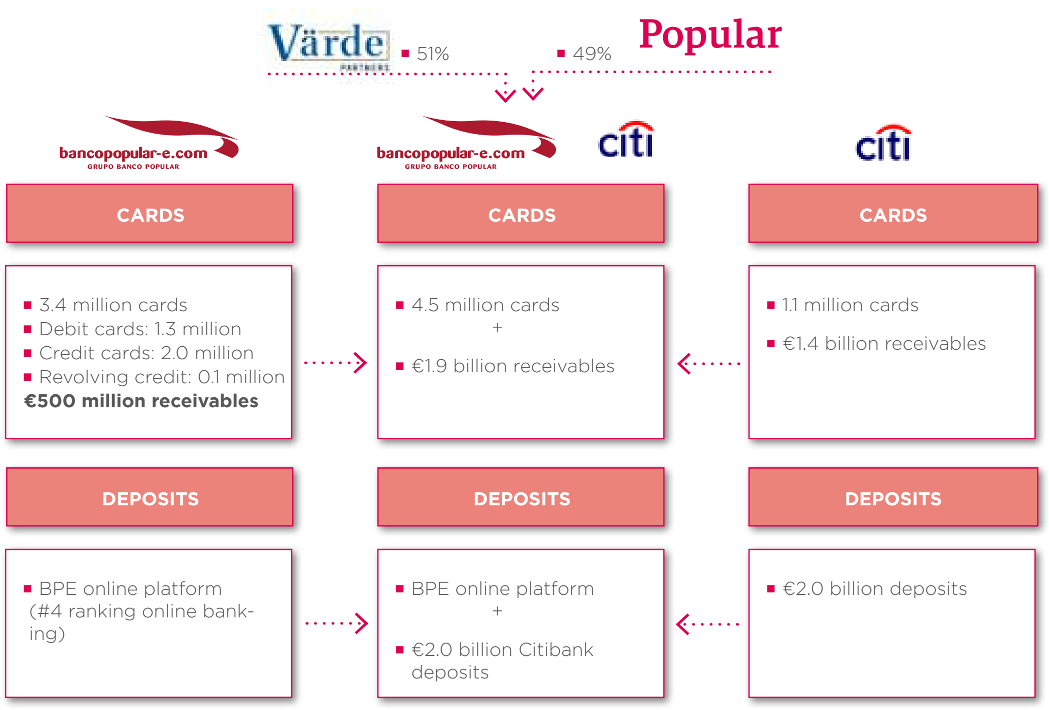
Regarding provisions, in the year €2,292 million were allocated to this concept, representing a decrease of 15% over last year. The provisions on real estate have been significantly reduced by €768 million, 65% less than in 2013 and credit provisions have increased €364 million, although it must be remembered that in 2013 general provision of RDL 2/2012 and L 8/2012 were available which makes both figures not comparable. Provisions net of recoveries on write-offs amounted to €2,078 million at the close of 2014.

Figure 31: Provisions for loans and real estate (Amounts in millions of euros)



Banco Popular has various management levers that allow it to present a strong income statement. Throughout the year there has been a significant effort in generating capital gains (ordinary and extraordinary); in total, in 2014 €563 million of extraordinary gains were generated arising primarily from corporate transactions, among which were the constitution of the joint venture in the cards business with Värde Partners (€419 million) and the sale of the Depository (€49.2 million), plus €96.7 million from the aforementioned sale of future receivables from the sale of insurance and pensions.

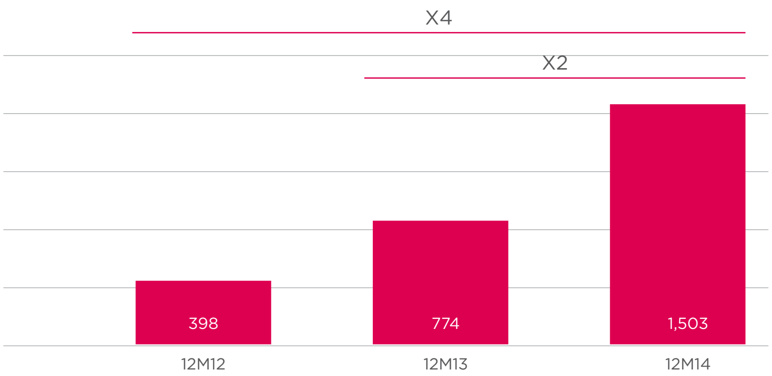
Figure 32: Structural operation of joint venture with Värde Partners



Finally, note the excellent performance of the sale of property, which has doubled over the previous year. The quarter-on-quarter performance has been positive and sales in the last quarter reached a volume of €511 million, i.e. 1.3 times the sales figure recorded in all of 2012. Another noteworthy aspect is that sales were made at prices in excess of book value (i.e. without losses) thanks to the provisions.

At 31 December 2014 the consolidated profit for the year totalled €329.9 million, 29.7% higher than 2013.

Figure 33: Sale of real estate (millions of euros)



Sale price

2.2%

higher than
net book value

5. ATTRIBUTABLE PROFIT

The profit attributable to the Group, excluding the contribution of non-controlling interests, was €330.4 million, 31.4% higher than 2013.

The proposed distribution of the result for 2014 that the Banco Popular's Board of Directors will submit to the General Shareholders' Meeting for approval, and the distribution of the profit for 2013 that was approved at the General Shareholders' Meeting on 7 April 2014, may be consulted in Note 4 to the Financial Statements.

Table 20: Information per share and return

	2014	2013
Profit attributable to the Parent company	330,415	251,543
Earnings per share	0.157	0.137
ROA (%)	0.21	0.17
RORWA (%)	0.40	0.28
ROE (%)	2.62	2.30

7. ACTIVITY BY BUSINESS LINE

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

SEGMENTATION BY GEOGRAPHICAL AREA

From a geographical point of view, the Group's primary business is carried out in Spain, which accounts for 92.1% of Total consolidated Assets and 92.9% of the Gross Margin. Table 21 provides details of the contribution of each geographic area and business to the various results and balance sheet figures, very similar to the previous year.

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

	SPAIN [1]		PORTUGAL		USA	
	2014	2013 [2]	2014	2013	2014	2013
Total assets	92.1%	92.4%	6.6%	7.6%	1.3%	1.2%
Net interest income	90.4%	93.0%	7.2%	7.0%	2.5%	2.0%
Gross income	92.9%	93.3%	5.4%	6.7%	1.7%	1.7%

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

[2] 2013 Restated

As may be observed in Table 22, in 2014 the optimisation of the number of employees and the branch office network has continued. It shows that 88.12% of employees carry out their activity in Spain. With regard to offices, 90.93% are in Spain.

Table 22: Employees and branch offices by geographical area

	SPAIN		PORTUGAL		USA	
	2014	2013 [1]	2014	2013	2014	2013
Number of employees	13,501	13,765	1,402	1,404	418	444
Number of branch offices	1,946	1,983	173	180	21	19

[1] 2013 restated

Commercial banking in Spain

In Spain the business is mainly carried out through Banco Popular and, in Galicia, also through Banco Pastor. Its main activity is commercial banking and a distinction may be made between individual and corporate customers. Additionally the Group has two specialised banks, Popular Banca Privada (private banking), bancopopular-e (cards, a 49% stake) and Targobank, a bank in which equal 50% stakes are held by the Bank and Crédit Mutuel, and which carried out its activity throughout Spain.

Commercial banking abroad

The commercial banking business in Portugal is conducted mainly through the Banco Popular Portugal subsidiary and is also focused on retail banking, primarily for SMEs. The total assets at the Portuguese bank totalled €8,529 million, of which €5,840 million relates to customer loans (gross). For 2013 the latter item increased by 4.7%. Customer deposits stood at €4,049 million, 3.8% below the close of 2013.

Banco Popular Portugal has experienced a slight reduction in net interest income, falling by 1.2% due primarily to lower prices for contracting loans and receivables, although lower cost of customer funds through the pricing management is noteworthy.

Gross margin at the close of 2014 reduced 2.9% with regard to the previous year, reaching €185 million.

The net operating income stands at 3.0% below the figure for the previous year: although staff costs have increased slightly (3.3% compared to 2013) general expenses were reduced by 7.2%. For provisions for loan impairment, there has been a decrease of €44 million compared to the year before. This leads to a pre-tax profit €5.4 million compared to a loss of €51.1 million the previous year.

The commercial banking business in the United States is carried out through Totalbank, an entity that was acquired at the end of 2007, and which operates in the State of Florida. At the end of the year this bank had 21 branch offices and 418 employees. Its total assets amounted to €2,056 million (which is a 17.8% increase compared with 2013) of which €1,492 million relates to gross credit to customers (33.5% higher than the year before). When referring to customer deposits, these have increased 18.1% compared to December.

The Bank achieved a pre-tax profit of €12.9 million in 2014.

SEGMENTATION BY BUSINESS AREA

In 2013 (Table 23) the weights of the asset structure has been maintained, which is not the case with respect to the results contributed by the various areas.

Table 23: Segmentation by business area (%)

	COMMERCIAL BANKING		ASSET MANAGEMENT AND INSURANCE		REAL ESTATE AREA		INSTITUTIONAL AND MARKETS	
	Weight 2014 (%)	Weight 2013 (%)	Weight 2014 (%)	Weight 2013 (%)	Weight 2014 (%)	Weight 2013 (%)	Weight 2014 (%)	Weight 2013 (%)
Net interest income	109.3	97.4	1.8	1.9	(16.1)	(15.9)	5.0	16.6
Gross income	82.1	82.1	3.1	4.0	(9.7)	(10.9)	24.6	24.9
Operating income before provisions	85.7	84.4	4.6	6.3	(23.8)	(24.8)	33.5	34.2
Profit/(loss) on operating activities*	23.5	55.8	25.2	19.5	(139.9)	(79.3)	191.2	104.0
Profit /(loss) before tax	153.9	135.3	23.0	37.6	(241.9)	(225.2)	164.9	152.3
Total assets	**60.6**	**66.4**	**0.9**	**0.9**	**6.6**	**5.9**	**31.9**	**26.8**

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

Commercial Banking represents 60.6% of Total Assets and provides 153.9% of Profit before taxes, which is a reflection of the Commercial Bank's profile as it is focused almost exclusively on typical banking services. The second most important area is Institutional and Markets, both in terms of relative weight compared with Total Assets (31.9%), in regard to the contribution made to profits, which this year had a weighting of 164.9%.

The real estate area has a negative contribution of 241.9% 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 (0.9%) is Asset Management and Insurance which, nonetheless, has recorded positive results during the year equivalent to 23% of consolidated Profit before taxes.

COMMERCIAL BANKING

The Group's primary activity focuses on providing financial services to approximately 5.5 million customers, companies and families through its extensive branch office network. The core business consists of: typical lending transactions, raising of deposits, issuing guarantees and the provision of all types of financial services. Compared to last year, we must take into account the reduction in the number of customers due to the segregation of cards to bancopopular-e.

Gross margin increased by 9.1% due to the greater contribution from operating results. At the same time commissions and fees contributed less due to the deconsolidation of the cards business and other corporate transactions. The increased contribution of properties sold relative to the previous year (almost €305 million more) enabled a pre-tax profit of €574 million to be achieved, 19.9% more than the previous year.

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

	31.12.2014	31.12.2013	%
Net interest income	2,548,583	2,349,276	8.5%
Net fees and commissions	622,610	727,456	-14.4%
± Other financial transactions	43,639	52,399	-16.7%
± Other operating results	(32,579)	(213,315)	-84.7%
Gross income	3,182,253	2,915,816	9.1%
Operating expenses	1,462,967	1,372,769	6.6%
Operating profit before provisions	1,719,286	1,543,047	11.4%
Impairment losses and other provisions (net)	1,639,121	1,222,694	34.1%
Profit/(loss) on operating activities	80,165	320,353	-75.0%
Impairment losses on non-financial assets	-	30,000	<
± Gain/(loss) on the disposal of assets not classified as non-current assets for sale	493,938	188,485	>
± Profit/(loss) on non-current assets for sale not classified as oper.	-	-	-
Profit/(loss) before tax	574,103	478,838	19.9%

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

a) Banking for Private Individuals

Banking for private individuals manages 79% of the Group's total customers. The segment is broken down into Óptima, banking for private individuals and mass banking.

Óptima is made op of those customers with funds greater than €150,000. The difference between banking for private individuals and mass banking lies in the level of personalised service and degree of association.

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

b) Banking for businesses

Banking for businesses manages 21% of the Group's total customers. This segment consists of the public sector, large companies, SMEs, self-employed persons and retail traders, and non-commercial undertakings.

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

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

ASSET MANAGEMENT AND INSURANCE

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

Table 25 shows the performance of this area in 2014 compared with 2013.

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

	31.12.2014	31.12.2013	%
Net interest income	42,862	45,381	(5.6)
Net fees and commissions	32,087	29,196	9.9
± Other financial transactions	47,126	33,315	41.5
± Other operating results	(3,410)	33,153	<
Gross income	118,665	141,045	(15.9)
Operating expenses	26,865	26,367	1.9
Operating profit before provisions	91,800	114,678	(19.9)
Impairment losses and other provisions (net)	5,825	3,018	93.0
Profit/(loss) on operating activities	85,975	111,660	(23.0)
Impairment losses on non-financial assets	19	48	(60.4)
± Gain/(loss) on the disposal of assets not classified as non-current assets for sale	57	21,043	(99.7)
± Profit/(loss) on non-current assets for sale not classified as oper.	(83)	379	<
Profit/(loss) before tax	85,930	133,034	(35.4)

The unit's performance was favourable and it contributed €85.9 million of consolidated profit before taxes, although lower than that achieved in 2013.

2014 has been a year of clear competition in the sector due to the low prices applied to traditional bank deposits.

a) Management of collective investment institutions

At year-end, the assets managed or marketed by the Group in collective investment institutions in Spain amounted to €9,499 million, which represents an increase of 13.9%, compared to €8,342 million at the end of 2013. The number of participants is 328,149, up from 309,559 registered participants in the previous year.

For the Group the past year was marked by the increase in fixed-income and mixed funds to the detriment of guaranteed funds due to the fact that investors seek higher yields given the low interest rate situation for traditional deposits.

b) Management of individual and group pension plans

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

The assets managed by Allianz Popular Pensiones at the end of 2014 reached €5,365 million, representing an increase of 3.54% compared to €5,181 million at the end of December 2013.

The assets managed in individual schemes at 31 December 2014 totalled €4,098 million, with €1,212 million in occupational plans and €54 million in associated schemes.

c) Private Banking

The Group also offers its services to high net worth customers through its specialised bank Popular Banca Privada. Following the integration of Pastor Banca Privada in 2013, this unit now has more than 5,300 customers with a business volume of almost €6 billion.

The Bank has 29 of its own branch offices located in the main Spanish cities, through which it provides its services to both customers from the Group's network as well as direct customers.

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

At the end of 2014 the Group held a 100% stake in its capital and voting rights. Following the exercise in January 2014 of the purchase option which it had on 40% of the share capital in Popular Banca Privada, which had been in the hands of the French-Belgian Dexia Group since 2001, Popular Banca Privada became the only independent bank belonging to a major Spanish financial group specialising in the professional management of this customer segment.

Thanks to the improving environment, the results have shown a large increase, especially due to the continued decline in interest rates which has led to a significant revaluation of the fixed income portfolio and made a greater demand for higher added value wealth management services possible. Consequently, it has managed to capture customer funds deposits of €280 million.

Revenues increased significantly (+54.3%), supported by Gains on Financial Transactions from the sale of part of the Fixed Income portfolio which amounted to €21.6 million.

At 31 December 2014, Popular Banca Privada had 5,389 specific customers, 384 more than in 2013, and managed assets (understood to be total resources and customer investments plus assets under management and advisory services) totalling €5,978 million, which is 8.4% higher than at the end of 2013.

Operating profit reached €32.3 million, an increase of 100.9% compared to 2013, the best in the history of Popular Banca Privada. Pre-tax profit totalled €26.3 million (year-on-year growth of €14.1 million), clearly driven by balance sheet management and the realisation of substantial capital gains.

d) Insurance

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

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

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

REAL ESTATE AREA

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

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

	31.12.2014	31.12.2013	%
Net interest income	(376,256)	(382,901)	(1.7)
Net fees and commissions	10	2,607	(99.6)
± Other financial transactions	(594)	(1,890)	(68.6)
± Other operating results	16	(6,372)	>
Gross income	(376,824)	(388,556)	(3.0)
Operating expenses	100,362	65,569	53.1
Operating profit before provisions	(477,186)	(454,125)	5.1
Impairment losses and other provisions (net)	-	1,054	<
Profit/(loss) on operating activities	(477,186)	(455,179)	4.8
Impairment losses on non-financial assets	34,435	(138,455)	>
± Gain/(loss) on the disposal of assets not classified as non-current assets for sale	21,411	727,006	(97.1)
± Profit/(loss) on non-current assets for sale not classified as oper.	(480,775)	(930,448)	(48.3)
Profit/(loss) before tax	(902,115)	(797,076)	13.2

Operating profit before provisions was a negative €477 million, due to the nature of the business supported by this area. Next caption in the P&L Statement corresponds to impairment losses on non-financial assets (€34 million positive), followed by a negative €481 million deriving from impairment losses on non-current assets held for sale, which represented an improvement of 48.3% over the previous year.

Consolidated pre-tax loss came to €902 million.

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 financial asset portfolios, asset and liability hedge derivatives, held-to-maturity investment and shareholding portfolio, pension-related asset and liability balances, and raising of funds through issues on wholesale markets.

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

	31.12.2014	31.12.2013	%
Net interest income	116,202	399,709	(70.9)
Net fees and commissions	-	-	-
± Other financial transactions	825,451	479,751	72.1
± Other operating results	10,286	3,486	>
Gross income	951,939	882,946	7.8
Operating expenses	280,621	258,476	8.6
Operating profit before provisions	671,318	624,470	7.5
Impairment losses and other provisions (net)	19,180	27,466	(30.2)
Profit/(loss) on operating activities	652,138	597,004	9.2
Impairment losses on non-financial assets	4,098	-	>
± Gain/(loss) on the disposal of assets not classified as non-current assets for sale	(17,367)	10,558	<
± Profit/(loss) on non-current assets for sale not classified as oper.	(15,600)	(68,421)	(77.2)
Profit/(loss) before tax	615,073	539,141	14.1

The Bank's activity in this area has focused on the tactical management of its fixed-income portfolio, highlighting the results of financial transactions that increased by 72.1% compared to December 2013 and which compensate for the decrease in net interest income.

Profit before tax ended 2014 at €615.1 million, which is an increase of 14.1% compared to 2013.

8. SOLVENCY

REGULATORY CAPITAL, RETURNS ON CAPITAL AND EQUITY

This past year was characterised by significant milestones in financial institutions' scope of activity. Firstly, the coming into force on 1 January 2014 of the transposition of Basel III into European legislation through Directive 2013/36/EU of 26 June on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and Regulation (EU) 575/2013 of 26 June on prudential requirements for credit institutions and investment firms.

In Spain, we saw the publication of Banco de España Circular 2/2014 of 31 January on the exercise of various regulatory options contained in Regulation (EU) 575/2013; Banco de España Circular 3/2014 of 30 July to credit institutions and approved appraisal companies and services exercising regulatory options in relation to the deduction of intangible assets, by means of an amendment to Circular 2/2014 and: Law 10/2104 of 26 June on the organisation, supervision and solvency of credit institutions with the purpose of incorporating the regulatory changes imposed internationally and by the European Union into Spanish law, continuing the transposition initiated by Royal Decree-Law 14/2013 of 29 November.

Secondly, the comprehensive assessment exercise carried out by the European Central Bank, the results of which were announced on 26 October last, assessed the quality of public financial reporting and the impact of an adverse, highly unlikely scenario on the participating institutions' capacity to absorb losses. The results showed that no Spanish institution would find itself in a capital deficit situation using the thresholds defined in the exercise as a reference. The AQR (asset quality review) exercise shows that the capital adjustments required for institutions in Spain as at December 2013 are the smallest in the entire Single Supervisory Mechanism (SSM). As for the Banco Popular Group, the results show that, in the adverse scenario, the top quality capital ratio (CET 1, or Common Equity Tier 1) would stand at 7.56% in 2016, well above the 5.5% required. Similarly, in the base scenario, the top quality ratio (CET 1) would stand at 10.93% in 2016, again well above the 8% required.

Lastly, in recent months the work necessary for the creation of a Single Supervisory Mechanism has been completed, the aim being to increase the quality of supervision of the banking sector and encourage greater financial integration, so that markets do not assign different valuations to similar financial assets depending on the nationality of the issuer. The new mechanism became fully operational on 4 November 2014, having been made possible following the approval of the SSM Regulation in October 2013 and the carrying out of the comprehensive assessment referred to in the previous point.

The SSM is constituted as an integrated system for the supervision of credit institutions, combining the leadership role of the European Central Bank with active participation of national authorities, Banco de España among them. The SSM Regulation makes a distinction between so-called "significant" institutions, which will be directly supervised by the ECB, and "less significant" institutions, which will remain the responsibility of national authorities, although supervised indirectly by the ECB; the Group is among the 120 belonging to the first group of "significant" institutions.

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

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

The total Tier 1 capital (ordinary plus additional, CET1 + AT1) required is set at 6% and the total capital (Tier 1 plus Tier 2) fixed at 8%, keeping the original requirement set in Basel II.

Regarding the leverage ratio, it has been incorporated into Basel III and transposed to the CRR as a simple, transparent measurement, not linked to risk, which complements the risk-based minimum capital ratio and acts as its floor. This ratio is defined as the ratio of Tier 1 capital to an exposure value. This value is calculated as the sum of exposures of on- and off-balance sheet items, including derivatives. The leverage ratio is intended to be an objective measure that reconciles leverage ratios disclosed with the financial statements published by the banks from one period to another.

Although the definition and calibration of the leverage ratio will come into force from 2018, the Group carries out an estimation and monitoring of this measurement to ensure that leverage is kept well above the tentative minimum levels currently serving as a reference (3%). The full application of this regulatory framework will be gradual until 2019, and the regulations themselves establish compliance with a number of transitional provisions.

The main figures relating to the Group's solvency in 2014, as published in the results for the year, are as follows:

Table 28: Solvency

Data in thousands of euros	31.12.2014
Capital	8,179,516
Reserves	4,001,193
Non-controlling interests	16,058
Ordinary capital deductions	(2,979,197)
Ordinary Tier 1 capital	**9,217,570**
CET 1 ratio (%)	**11.51**
MCNs	659,829
Preferred shares	599,402
Additional capital deductions	(1,259,231)
Tier 1 capital	**9,217,570**
Tier 1 ratio (%)	**11.51**
Own funds	**9,582,873**
Total capital ratio (%)	**11.96**
Fully loaded Basel III leverage ratio (%)[1]	**5.56**
Total risk-weighted assets*	**80,112,663**
of which due to credit risk	72,577,113
of which due to operational risk	6,868,654
of which due to market risk	666,896

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

* Strictly includes the Pillar I requirements

Measures taken during 2014 to strengthen the capital ratios notably include the conversion into shares of 122 million of the MCN II, MCN III and MCN IV.

The Group continues to improve its risk management and control policies in order to reduce the risk of its assets and thus improve its long-term solvency. In this respect, the fact that the Bank has internal models that have been ratified by Banco de España to measure the credit risk of a large part of its portfolios is notable.

The portfolios that have been validated by Banco de España for the use of these models are:

- Financial institutions
- Large companies
- Medium companies
- Small companies
- Retail mortgages
- Project Finance (Slotting Method), the use of which was authorised in June 2014.

It should also be pointed out that there are other internal models for other portfolios which have not been validated by Banco de España and, therefore, the capital calculation is performed using the standard method. These models form part of the Bank's risk management and are:

- Micro-companies
- Retail consumer finance

These models will be submitted for validation by Banco de España over the course of 2015 after passing through all of the requirements that are necessary for validation and internal audit.

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

- When taking decisions to approve new transactions.
- In sales campaigns.
- In past due recovery applications.
- During the monthly monitoring of relevant information for Basel purposes when the level of integration of the models is verified and, in certain cases, the information that forms part of those models is verified.

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

During 2014 we updated all calculation parameters used in each of the portfolios for the requirements of which advanced methods are used, taking factors which occurred during the year into account which include, among others, those observed in the AQR framework.

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

9. RISK MANAGEMENT

The various risks implicit in the banking activities conducted by Banco Popular Group are managed based on criteria of prudence, in such a way as to safeguard at all times the basic objectives of solvency, profitability, efficiency and adequate liquidity.

In December 2014 Board of Directors approved the Risk Appetite Framework, a governing instrument that contributes to an effective and comprehensive management of the Group's risk appetite. It is a flexible framework to identify and define the risks to which the Group is exposed and set objectives, alerts and limits consistent with Banco Popular Group's strategy at a consolidated level. The objective is to maintain a profile of medium-low risk by controlling the risks to which the Group is exposed through its business model, mainly credit risk and liquidity risk, but also other relevant risks associated with the capital objective: business risk, operational risk, interest rate risk, market risk, reputational risk and compliance risk.

The risk policy is a synthesis of strictly professional criteria for the study, assessment, assumption and monitoring and control of risks by all the Entities forming the Group, which lead to the optimisation of the risk/return ratio inherent in credit and market risk, and the minimisation of all other risks detailed in the previous point. To do this, procedures for monitoring and control by Senior Management covering all the activities that the Group develops, mainly commercial banking, have been established. Also, the respective areas involved have formal procedures for analysis, authorisation, and monitoring and control, applied in a manner consistent with their nature and amount, which are supervised, if necessary, by collegiate decision-making bodies.

Internal policies, which are known and applied by all of the Group's business units for an integral management and control of risks, are set out in an Investment Policies Manual approved by the Board of Directors, effective compliance with which is monitored by Risk Management, the Management Committee and the Risk Committee of the Board of Directors.

Risk Management is characterised by the following key points and criteria:

- Defining the Risk Appetite Framework, in which the risks to which the Group is exposed are identified and objectives and limits according to the business model are defined.

- Risk management and limits granted for each customer or associated group of customers, when such a relationship exists.

- Diversification of the risk attached to lending, setting or complying with the limits extended to borrowers, sectors and distribution by maturities.

- Involvement of Senior Management: among other things, the Group's Senior Management regularly monitors the evolution process in the internal management of risks in order to align the risk assumed by the Bank with the Risk Appetite Framework, creating a suitable risk policy and ensuring their constant adaptation to the changes in market, customers and regulations as they occur.

Additionally, Senior Management is responsible for ensuring the proper implementation of international capital regulations (Basel II and Basel III), which are already used in daily risk management, allocating material means and necessary personnel.

- Priority of risk policies aimed at guaranteeing the Group's stability and its viability in the short-, medium- and long-terms, and at maximising the risk-return relationship.
- Geared to maintaining a healthy balance sheet.
- Separation between the risk and commercial areas.
- "Tailor-made". Terms are negotiated with the customer based on each customer's overall relationship with the Bank, the risk assumed and the return it offers.
- Profitable and quality lending, opting for profitable, balanced and sustained growth overall and for returns commensurate with the risk on each individual borrower.
- Reasonable balance between loans and advances and deposits captured.
- Scrupulous compliance with current legislation in every way, with particular attention paid to the monitoring of the current Money Laundering Prevention and Terrorism Financing legislation.
- The Group has in place a formal system of discretionary powers for the extension of credit, under which the various hierarchical levels in the organisation have been assigned different delegated powers for the authorisation of transactions.
- Differentiated analysis and treatment of refinancing and debt restructuring operations.
- Nimble response in deciding on proposed transactions, as a basic differentiating instrument, without detriment to rigour.
- Evaluation and rigorous documentation of the risk and the guarantees.
- Application of automatic internal systems based on *rating* or *scoring*.
- Monitoring of risk from analysis to termination.
- Flexibility of the target-oriented organisational structure.
- Systematisation and automation.

CREDIT RISK

This risk arises from possible losses from the failure of counterparties to comply with contractual obligations. In the case of refundable financing granted to third parties (in the form of credits, loans, deposits, securities and other), credit risk arises as a consequence of non-recovery of principal, interest and other items, in the terms –with respect to amount, period and other conditions– stipulated in the contracts.

For the correct management of credit risk, the Group has established a methodology, the main features of which are described in the following paragraphs.

Analysis of Credit Risk

The Group has established a formal system of discretionary powers for the approval of risks, whereby the various hierarchical levels in the organisation are assigned delegated powers for the authorisation of transactions which vary depending on various factors, such as:

- Probability of default based on internal BIS II models
- The amount of the transaction
- Type of transaction
- Purpose of the financing
- Maximum term of the transaction
- Parties to the transaction
- Risk ratings and policies that may have been assigned
- Business sector
- Profitability (the financial terms of the transaction)

For these purposes, the levels in the organisation with delegated powers for authorising transactions are as follows:

- Branch Office
- Regional Management
- Territorial Management / Corporate Banking / Banks' & Group Companies' General Management
- Risk Acceptance / Risks with Financial Institutions and Market Risk / Retail Risks
- Risk Management
- Risk Committee
- Board of Directors or its Delegated Committee

The initiative for a new transaction always starts at a Branch Office: for decision, if it is within its powers, or for reporting and submission to a higher level if it exceeds them. The same rule applies at the following levels, and thus the largest transactions are evaluated all along the chain of risk analysis and authorisation. No other office or area of the group, regardless of the hierarchical level of its Management, has the capacity to carry out, or even propose, risk transactions outside of the indicated circuit. Exceptions to this principle are:

- International Financial Institutions and Risk Management (Financial Management) offices, through the units to which they report, may propose, to Risk Management, the acceptance of Financial Institution risks, or public and private sector fixed-income issues in the various forms of financial assets traded on capital markets.

- Wholesale Banking may propose to Risk Management, through Risk Acceptance, the authorisation of risks which, in view of the complexity of their structure and design, require such a procedure.

In the other business areas, a similar process applies: risk proposals originate in the relevant operating office, which likewise has decision-making powers delegated to it. Above this level, the transaction is referred, along with the pertinent preliminary reports, to Risk Management and, if it is outside the scope of its powers, is passed on to the Risk Committee.

Transactions originated by the network of retail agents always enter the system through a branch office and are subject to the controls described above.

Risks with related parties, such as transactions with significant shareholders, members of the Board, General Managers or similar, or with companies related to these persons, and with Group companies, are expressly excluded from the aforementioned delegated powers, and can only be authorised by the Board of Directors or its Delegated Risk Committee, following a report from the Risk Committee. Exceptions are made when such operations are formalised through standardised contracts or with generally-stipulated conditions or involve very minor amounts, and in certain other cases established by the Regulations.

Structure of Credit Risk Limits

Banco Popular Group has designed a credit limit structure in order to control exposure to credit risk and to achieve adequate diversification of its portfolio based on the following characteristics:

- **Concentration of risk by borrower.** Limits are defined for the maximum exposure to groups or individual customers and limits for individual transactions, as well as the use of Group financing for a group or customer with respect to risk as per CIRBE, the Risk Information Centre of Banco de España. Potential exceptions to these limits are managed directly by the Board of Directors or its Delegated Committee as the maximum decision-taking body within the Banco Popular Group's assigments system.

- **Concentration of risk by sector,** where specific maximum exposure limits against real estate and construction activities have been defined. Additionally, 24 sectors of activity have been analysed and evaluated, assigning a degree of credit quality to each and defining thresholds in terms of the rating given.

- **Concentration of risks by segment,** factor for which thresholds have been defined in terms of a percentage of maximum risk to be assumed with respect to the large company segment.

- **Concentration of risk by product,** an aspect in which the Group pays special attention to two types of operations for which a restrictive policy will apply; lending against mortgages on land, and property developments.

- **Concentration of risk based on geographical location,** the levels of risk assumed in the various Autonomous Regions of Spain are analysed regularly and these levels are reported to Senior Management who, if they deem it appropriate, will propose all pertinent corrective action.

Guarantees

Guarantees are involved in the acceptance of risk as an element whose analysis is a determining factor, as they serve to mitigate the risk assumed. However, they will never justify the granting of transactions by themselves since the criteria for granting credit must be primarily based on capacity of the borrower to make repayment, with additional guarantees being considered as a second and exceptional means of recovery when the first has failed. In view of the substantial regulatory evolution regarding eligible guarantees and their proper management within the Group, compliance with regulatory requirements is subject to particular monitoring, for a dual purpose: on the one hand, to ensure mitigation of the risks assumed, and on the other, to save on the computation of capital requirements by reducing exposure.

Refinancing/Restructuring transactions

Refinancing/restructuring operations are included in the Group's on-going loan portfolio management and are the result of continuous monitoring to anticipate portfolio destabilisation or debt collection difficulties and prepare solutions in advance, and to effectively monitor and control the risks involved and act flexibly in seeking solutions adapted to the particularities of each customer.

In compliance with their continuous supervision duties, the risk, business, restructuring and recovery areas are responsible for identifying potential refinancing/restructuring operations.

When studying and analysing the advisability of refinancing/restructuring operations and when defining their specific conditions, an individual analysis is performed for each of the operations in order to establish the viability of that transaction by rigorously applying the general criteria and the specific criteria applicable to the refinancing transactions established by the Group, taking into account any exceptional circumstances on a case-by-case basis.

Differentiated criteria are applied based on whether the refinancing/restructuring of non-real estate risk involves individuals or legal persons, or real-estate risk with legal persons (there are differences, in turn, between refinancing land, real estate developments in progress or developments that have been completed).

The Group specifically monitors refinancing/restructuring operations to the extinction of the obligation, analysing in detail the evolution of the operations and fulfilment of agreed terms. This special monitoring procedure will only be discontinued if the conclusion is drawn, following a comprehensive review of the borrower's assets and finances, that the borrower is unlikely to have financial difficulties and will therefore be in a position to make payments of principal and interest on all loans from the Bank, in due time and form. Principal and interest payments must have been made, at least two years must have elapsed since the operation and the loan principal must have decreased by at least 20%. Such situations will also be specifically addressed by the Group's Internal Audit.

Furthermore, the Group's accounting policies take into account the circumstances under which a refinanced asset should be considered to be impaired. In order to derecognise refinanced loans, the Group uses quantitative and qualitative criteria to identify substantial changes. However, given the nature of the operations, habitual practice is to maintain the essential conditions of the transactions and therefore the impact of any eliminations from the balance sheet was not significant in 2014 or 2013.

Credit risk measurement and analysis models

For the acceptance of risks and the rating of customers based on their credit profile, and as support for decision-making, the Group has internal credit risk analysis and measurement (*rating* and *scoring*) models. For the retail segment (individuals and micro-companies), *credit scoring* models adapted to each kind of product are used. For the business segment, an internal *rating* is calculated based on the analysis of variables representative of economic and financial position and business sector. The Group has replica models for the large companies and financial institutions segments. Finally, Banco Popular analyses its project finance portfolio through the qualitative analysis suggested by the Basel Committee, slightly adapted by type of financing and its situation.

As at 31 December 2014 Banco Popular continued to use advanced models for risk management within the Basel framework for its portfolios of large companies, small and medium-sized companies, financial institutions and retail mortgages. Also, as at that date, the Project Financemodel under "IRB - Slotting Method" was used.

Lastly, the Bank has developed its own complete model for the measurement of credit and concentration risk in order to estimate the economic capital appropriate to its risk profile and to comply with the capital self-assessment obligations detailed in Pillar II of the Accord, which incorporates, and is supported by, the calculations made to estimate the risk parameters included in the aforementioned models.

To increase permanent internal transparency, in line with the standards of Pillar III of the New Capital Accord, the Network has carried out numerous training activities focusing on the Basel philosophy and objectives in order to adapt to its requirements and to the new concepts, tools and management models.

In addition, the Bank has an authorised lending policies manual approved by the Board of Directors containing:

- The Bank’s risk profile
- Credit risk operating standards
- Risk analysis, admission and monitoring policies
- System of discretionary powers and delegation procedure
- Credit rating models
- Definition of and exposure to other risks

Internal Validation

The Group has an Internal Validation unit in line with the guidelines established by the supervisor in “Validation Document no. 2: Internal validation criteria of risk management advanced models.”

The opinion of the Internal Validation unit is a fundamental requirement for the approval of the internal risk rating models, and for the monitoring thereof and any changes that are required in them after approval.

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

The scope of this unit focuses on the measurement of credit risk and it covers the essential elements of an advanced risk management system, involving review of the following items:

- **Methodology:** Review of the methodology used in the *scoring/rating* models. This refers to the suitability of the statistical methodology, the assumptions and the techniques applied, which remain unchanged until the design of the models is modified.

- **Documentation:** Review of the quality of the documentation that supports these models.

- **Data Used:** Review of the quality of the data and databases used when developing the models during the rating assignment process and in estimating the risk parameters, as well as other databases used to calculate the minimum capital requirement.

- **Quantitative aspects:** Review of the quantitative information provided regarding the validation and monitoring of the models. A number of measures are developed that permit the periodic evaluation of the validity and efficiency of the various parameters and models.

- **Qualitative aspects:** This area has a dual objective: the review of the information generated by the models and their appropriate interpretation. Secondly, the validation of compliance with the minimum regulatory qualitative requirements, which include the Use Test, the role of the credit risk control units, the aspects relating to corporate governance and the adequacy of the internal controls.

- **Technological Environment:** Review of the integration into systems, the application environment and the quality of the information provided by the systems.

Currently, the office is working on expanding its scope with a view to adapting to the new Single Supervisory Mechanism; in particular, since the second half of 2013 and with the required periodicity, validation of the management model for Pricing has been carried out. The strategic plan of the office includes:

- **Validation of the Economic Capital model.** A model which estimates the Economic Capital required to cover the Group's possible losses at a solvency level set by the Bank. To estimate the Economic Capital in Banco Popular Group, the risk portfolio of the Group Risk Units is segmented with business criteria and taking into account the effect of risk diversification. The risks that the Group takes into account in its Economic Capital calculation are:

    - Credit Risk
    - Market risk
    - Operational Risk
    - Structural Interest Rate Risk
    - Business Risk

- Reporting on the effect that the development, recalibration or modification of internal credit risk models will have on capital requirements after the Bank's existing mitigation techniques have been applied.

- Validation of PD and LGD Stress Models and their impact on expected losses.

Risk Monitoring

The monitoring of approved transactions makes it possible to assess their quality at borrower level and establish mechanisms for the special surveillance of their progress and to react to avoid situations of default. The Group has a surveillance system in place based on “Technical Alerts” and “Informative alerts” which monitors trends in rating levels. This makes it possible to anticipate problematic situations and apply preventive measures in respect of current risks. The Technical Alerts are based fundamentally on an analysis of a group of variables relating to transactions and to customers that allow possible anomalous behaviour deviations to be detected and to provide alerts regarding situations such as:

- Negative information
- Financial statements
- Variation in rating levels
- Past due credit accounts
- Overruns
- Account overdrafts
- Non-payment of trade bills discounted
- Loan repayments not made at due date

The Informative Alerts are generated by any unit with competence in risks management and respond to the need to review the creditworthiness of a name based on knowledge of a significant event.

Alerts are processed by the Risk Monitoring teams located at each of the territorial headquarters, among other units, and the Risk Monitoring office is responsible for assigning ratings to customers, as the senior level of decision, in addition to supervising the process.

The customer credit rating system evaluates the customer’s overall risk quality and proposes the policy to be followed in relation to the risks assumed. Depending on the particular circumstances of each case analysed, the information is introduced graphically into the borrower’s electronic case file by means of a teleprocessing application which includes all the customer information and positions, for consideration in risk-related decision-making. This report, in its preparation and definition, also takes into consideration default probability parameters based on BIS II. This system of alerts is supplemented by an “analyst’s report”, also included in the customer’s electronic case file, which, by means of a questionnaire regarding the evolution of the customer, of the customer’s risks and incidents, assets position, guarantees, etc., summarises the policy to be followed and identifies the measures required to ensure the satisfactory outcome of risks.

The Risk Monitoring Office carefully follows up the risks of certain clients and economic groups with high volumes of assumed risk or those involved in certain incidents.

In coordination with the monitoring teams at Territorial Management and other Units, the Risk Monitoring office also performs periodic monitoring of various risk portfolios which due to their nature require control over their evolution, prepares sectoral reports, and has developed a number of computer applications which have made it possible. Among other things, to monitor firms in receivership under Article 5-bis of the Spanish Law on Bankruptcy by preparing a monthly status report and a monthly report on the monitoring of rated property developments.

Management of non-performing operations and recovery of impaired assets

To manage items in default and to recover impaired assets, the Group has a General Retail Banking Department to which the Restructuring and Default Office reports while supervising the Restructuring and NPL Offices in each Territorial Management, as well as at the Documentation Preparation Office.

In addition, an external provider (EOS CARI) is responsible for the early recovery of items in accordance with the Restructuring and Non-performing guidelines.

It should also be indicated that in mid-2013 the Specialised Business Unit (SBU) was created and started restructuring, collection and recovery activities from customers relating to the real estate market: developers, constructors and other customers linked to this sector. Since January 2014, Aliseda Sociedad de Gestión Inmobiliaria, participates in the management of the recovery of non-performing customers who have mortgage collateral, although the final decision rests with the Bank. Aliseda SGI manages, within authorised limits, the sale of the properties sold. From January 2015 the SBU will manage only customers specific to the developers' sector, the remainder becoming the responsibility of the Territorial Management teams.

In order to streamline and strengthen recoveries, new responsibilities for action at various levels of the Organisation have been defined. The workforce of the recovery teams created in the Regional and Territorial headquarters currently has 198 people dedicated to the management of difficult debts, besides the network. These people only manage assets in difficulty corresponding to the scope of the Bank, since Aliseda has its own template for managing its assets.

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

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

For these purposes, in order to recover delinquencies the items have been classified based on the amount of the risk concerned:

- Items concerning less than €60,000 (customer risk)
- Items concerning between €60,000 and €1 million (customer risk)
- Items concerning more than €1 million (customer risk)

Also, since March 2011 the process of preparing documentation for litigation in cases in which it has not been possible to restructure the transaction has been centralised.

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

I. Defaulting balance recovery management

With a focus on anticipation, risk management starts with the “special monitoring risk”, i.e. those that require special treatment: Imminent maturity dates of performing loans and delinquencies of a certain amount, in order to attain their stabilisation to prevent them from entering into difficulty.

The following areas are involved in the defaulting balance recovery process:

Central Unit

Responsible for affairs designated by the Area General Management.

Restructuring Teams at the Regional Headquarters

The recovery teams at regional headquarters directly manage matters between €60,000 and €1 million directly with the customer, supported by the branch office with respect to all necessary matters, in order to normalise and stabilise the situation.

These teams are also responsible for monitoring and controlling the management of customer risk issues involving less than €60,000.

Restructuring Teams at the Territorial Management

The recovery teams under the Territorial Headquarters manage the cases of over €1,000,000. As with the teams of Regional Management, each manager is responsible for matters assigned with the same objective of regularising and stabilising them.

Past due Analysis and Claim Centre, in coordination with the network

The Past due Claim and Analysis Centre (EOS CARI) is an external provider that works under the guidelines of the Bank’s Recovery Area. It is first responsible for handling defaults; it analyses the risks in an irregular situation and establishes, based on individual analysis of the particular circumstances of each customer or transaction, the most effective recovery strategies. It also coordinates with the Group branch offices in carrying out the appropriate measures for their regularisation.

Based on the age of the debt and/or the characteristics of the asset, the recovery management is carried out by Recovery Managers (EOS CARI Contact Centre) or by the SRT (Special Recovery Team) at the office and employed by the Group. Both teams operate in a similar manner although the SRT is more personalised and specialised and intervenes in the pre-delinquency stage and in the most difficult situations, managing a portfolio of customers based on a proactive attitude intended to seek definitive solutions in a manner that is coordinated with the network.

Also, EOS CARI through a specialised team of SRT is doing daily management of the controllers of what has been named "Sheltered offices". These are the branches posting the worst results every quarter (more than 15 new NPL cases per month, together totalling more than €50,000), and SRT's role is to support and collaborate with the financial controllers to obtain a greater recovery of defaulted transactions.

II. Managing the recovery of non-performing loans

The process of recovering non-performing Loans is arranged in the following stages:

Preparation of documents

In order to facilitate taking legal action in cases in which it has proved impossible to restructure the operation, the preparation of documents for litigation begins before the balance is classified as non-performing.

The Document Preparation office requests the documents from either the branches or the Documentation Centre and is responsible for monitoring their dispatch; after receipt and analysis, it decides on the procedure to follow and completes the necessary files.

Litigation

Once a balance is classed as non-performing, the protocol to be followed varies depending on the amount outstanding:

- If the debt is below €60,000 (except for mortgages), collections are managed by an external collections company using the appropriate legal procedure based on legal support and solvency criteria.
- If the debt is over €60,000 but less than €1,000,000, outside legal firms are responsible for the legal action taken to recover the amount outstanding.
- If the debt is over €1,000,000, in-house counsel are responsible for the legal action taken to recover the amount outstanding. They are also responsible in all cases involving bankruptcy proceedings.

Aliseda manages its own assets in a similar way to that system, although it has autonomy for the allocation of cases to Corporate Lawyers or internal management with its own lawyers regardless of the amount.

In cases of amounts less than €60,000, the collection process goes through two clearly differentiated stages:

- Amicable settlement (prior to dispute resolution): All the necessary actions are taken to recover the outstanding amount by a set deadline (initially the time it takes to complete the documentation for filing the claim with the courts). If the management of the issue has been assigned to a collaborating company, the period over which the settlement is attempted in an amicable manner is agreed with those companies.
- Dispute resolution: If payment is not made by the deadline specified in the previous stage, the relevant documentation is sent to collection firms for the filing of legal claims.

Recovery handling by the territorial headquarters' Collection and Recovery Teams

Litigation does not interrupt negotiations with a customer. Once the balance has been classified as non-performing, regardless of whether or not legal action has been instigated, the various territorial headquarters collection and recovery teams continue to negotiate with the customer in search of the best possible solution, which if reached would put an end to any legal action.

III. Write-off recovery management

A doubtful asset or a write-off is considered if one or more of the following circumstances are met:

- The legal time limit since going into default has expired.
- When, regardless of the personal or real guarantees that exist, certain circumstances affecting the borrower mean that the recovery of the assets is considered to be doubtful.

These assets are eliminated from the assets side of the balance sheet and entered in suspense accounts, to which provisions that have already been created are applied. This classification does not mean that negotiations and legal action by Banco Popular Group to achieve ultimate recovery have been interrupted.

IV. Tools and systems applied

In order to adequately manage defaults, EOS CARI, Branch Offices, Regional Offices and Territorial Offices have applications that allow them to manage contacts with customers involved with contracts that are in an irregular situation. The Platforms are located on HOST and in department-level applications developed by CRM such as “Gestor de Recuperación” (Recovery Manager), which contain the following information:

- The details of accounts receivable that are past due and outstanding. Both current and historical information is presented.
- A recovery file, to define the interaction with the various units involved in decisions.
- Management of recovery activity with the customer (decision tree).
- Monitoring of recovery activity.

In turn, the branches, regional and territorial offices share software for managing non-performing loans, ‘GESMOR’, which makes it possible to:

- Manage the steps taken with respect to a group of files at various levels of the organisation.
- Monitor the actions taken by the different players (branch, regional, territorial and central).
- Provide an overview of past due or items being managed, allowing drill-downs to information at the file and contract level.
- Establish interactive communication between the various management units.

Likewise, to manage and monitor cases assigned to partner companies, the non-performing loans management units have a tool called ‘SIGRE’ in Spanish (Comprehensive External Collection Management System), which makes it possible to systematise, automate and control cases that have been outsourced, mainly in relation to:

- Automating information exchange processes with the collection companies.
- The dynamic assignment of portfolios in accordance with the business needs existing at any moment and their monitoring.
- Availability at all times of real-time information regarding the status of the various portfolios and their development.
- Control over settlements for the purposes of the invoicing of success commissions by collection companies.
- Centralise the management and monitoring of external collection procedures at all stages.

For document preparation and monitoring of court proceedings the program "SIGREJU" in Spanish (Integrated System Management for External Judicial Recovery) which, by its nature, allows:

- Automation of procedures for requesting documentation, solvency and analysis and the preparation of debt certificates and claims to debtors.
- Allocation according to the parameters set for each of the files, for the contributor, law firm or internal legal counsel to manage.
- Information at all times on the status of each non-performing contract regarding the evolution of documentary preparation or prosecution.
- Tracking the legal proceedings of each of the filed claims to reclaim the debt.

The Group has an internal computer application, integrated in the teleprocessing system, which permits punctual and precise monitoring of the evolution of all doubtful, defaulted and written-off risks.

Total exposure to credit risk

At December 2014 the Group's total exposure to credit risk amounts to €153,580 million, which is 3.3% less than last year. If the €6.43 billion exposure relating to lines of credit available to third parties (27.1% less than in 2013) is added, the maximum exposure figure rises to €160.01 billion (1.6% higher than compared with the €157.53 billion in 2013).

As may be observed in Table 29, the Group's credit risk is fundamentally due to its primary area of business, which has a weight of 75.6% of the total. In turn, this activity mainly consists of customer loans, which represent 89.6% and the remaining 10.4% derives from contingent exposures.

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

	31.12.2014	31.12.2013*	CHANGE %
Commercial activity:			
Loans and advances to customers	108,379,386	109,017,430	(0.6)
Contingent risks	12,554,148	14,749,016	(14.9)
Total Commercial Activity	**120,933,534**	**123,766,446**	**(2.3)**
Market activity (including counterparty risk)	32,646,077	24,944,396	30.9
Total exposure	**153,579,611**	**148,710,842**	**3.3**
Drawable by third parties	6,430,379	8,816,509	(27.1)
Maximum credit risk exposure	**160,009,990**	**157,527,351**	**1.6**

* 2013 Restated

In 2014, the global risk exposure was increased by 1.6%, mainly due to an increase in counterparty risk of the activity of markets (+30.9%); that is offset by a reduction of lines available to third parties of 27.1% (because of the recent sale of the cards business in the third quarter of 2014); together with a reduction of 14.9% in Contingent Risks due to a lower balance in guarantees.

In 2014, the risk of market activity has increased from €24,944 million in December 2013 to €32,646 million at the end of 2014. This increase was mainly due to the reduction of the balance of the investment portfolio in December 2013 by the tactical management of the same.

1. Commercial activity

In the Commercial Banking activity, as shown in Table 30, 94.6% of the risk exposure is concentrated in Spain, with the remaining 5.4% outside Spain. Concerning the risk in Spain, 80.5% is related to businesses and private individuals, and the remaining 14.1% related mainly to risk with general government and asset repos.

Table 30: Commercial banking credit risk exposure (Amounts in thousands of euros)

	WEIGHT (%) 2014	WEIGHT (%) 2013*
Spain	94.6	95.1
Businesses and individuals	80.5	82.7
Other risks*	14.1	12.4
Portugal	4.2	4.0
USA	1.2	0.9
Total Commercial Banking Risk	**100.0**	**100.0**

* Including REPO, risks with credit institutions and public administrations

* 2013 Restated

2. Market activity

The following table shows a breakdown by type of asset of the credit risk exposure due to market activity. This risk mainly arises due to the counterparty risk involving the fixed-income portfolio, representing 97.7% of the total.

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

	31.12.2014
Fixed income	31,898,938
Deposits	113,271
FX Cash	1,095
Derivatives	632,773
Total	**32,646,077**

3. Drawable by third parties

With regard to drawable by third parties (see Table 32), Spain again represented the main share with 87.9%. Following the sale of the cards business, which occurred during 2014, the change in distribution in Spain between "Companies and individuals" and "Credit cards and other" can be seen in the following table, the latter having practically disappeared (from from 27.2% in 2013 to 1.2% in 2014).

Table 32: Drawable by third parties (in %)

	WEIGHT (%) 2014	WEIGHT (%) 2013*
Spain	87.9	94.6
Businesses and individuals	86.7	67.4
Credit cards and others	1.2	27.2
Portugal	9.5	4.2
USA	2.6	1.2
Total	**100.0**	**100.0**

* 2013 Restated

COMMERCIAL ACTIVITY

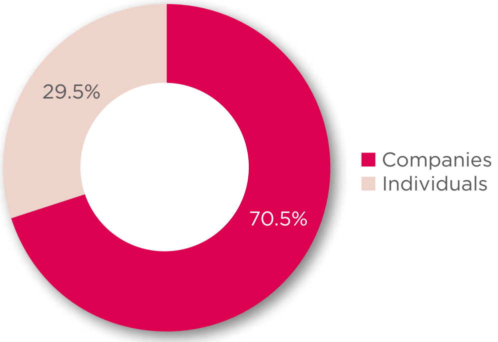
Distribution of the commercial activity risk by segments in Spain and Portugal

1. Commercial activity in Spain

As may be seen in Table 33, of the total risk in Spain 70.5% relates to business risk and the rest relates to private individuals.

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

	WEIGHT (%) 2014	BALANCE
Companies:	70.5%	61,716,082
Individuals:	29.5%	25,876,698



Risk with businesses

Related with the purpose of the loans granted, Figure 36 gives the breakdown of the Bank's risk with businesses in Spain. As may be observed, 67.3% of business loans are for purposes not related to construction and real estate development, and 74.8% relates to SMEs and self-employed persons (the segment in which the Group is the leader in the financial sector).

In 2014, there have been signs of improvement in the provision of credit, and the high commercial activity enabled us to continue our improvement in market shares in both credit and business segments which at the end of 2014 reached 7.43% and 11.95% in loans and businesses respectively (see trend in the charts below).

Figure 34: Development of credit market share (%)

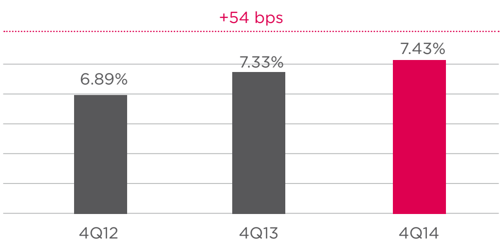
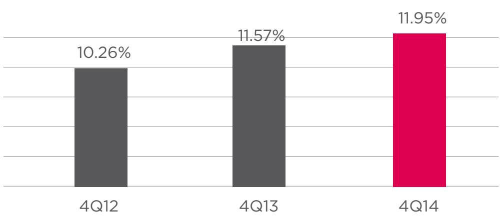


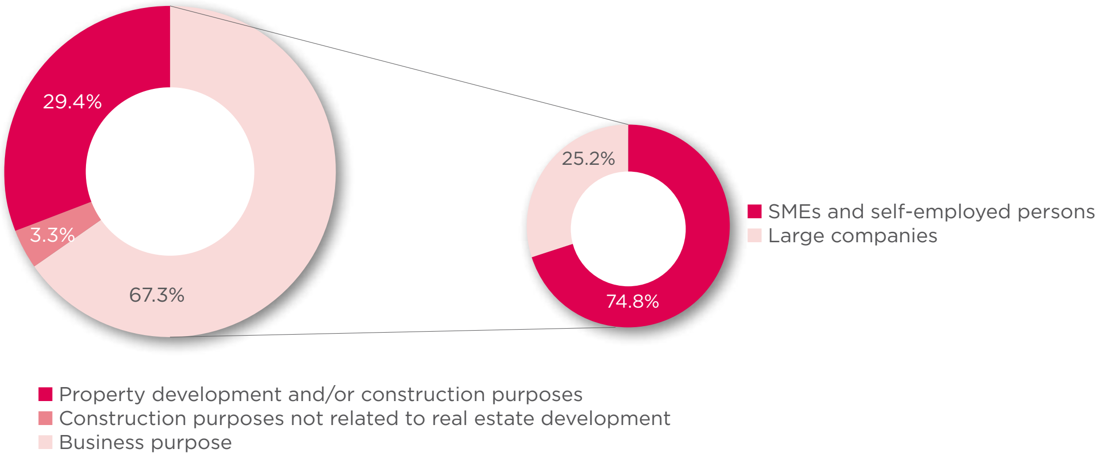
Figure 35: Development of companies market share (%)



Source: Banco de España and own preparations

According to the stress tests conducted jointly by the EBA and the ECB, whose results were published in October 2014, Popular has a 17.1% market share in the SMEs segment (see figure 4, Macroeconomic Environment) and for the third consecutive year, have been the leader in providing financing through ICO lines. In 2014, the Group had more than €31 billion in funding to SMEs, and won over 78,232 new SMEs and independent business customers during the year, with new lending up by 18%.

Figure 36: Distribution of risk with businesses in Spain



Banco Popular maintains 43.31% of its company financing portfolio backed by some kind of guarantee, mostly mortgage guarantees (82.2%). The following graph shows a comparison with 2013. There were no significant changes.

Figure 37: Distribution of businesses in Spain by product and type of guarantee (%)

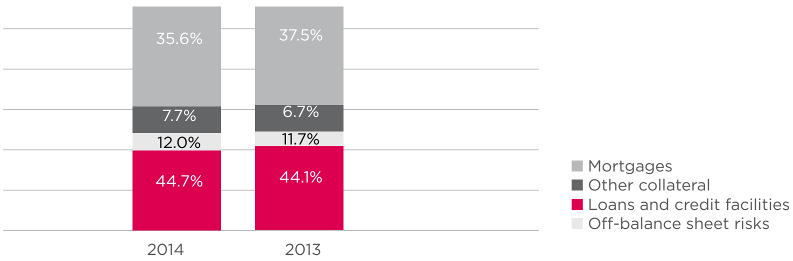


Table 34 shows information regarding credit in Spain for the purposes of property development and/or construction and includes distressed assets and the relevant coverage. It is noteworthy that credit for construction and property development has been reduced by more than €2 billion, going from €20,248 million in December 2013 to €18,151 million at the end of 2014, and likewise there has been a reduction in doubtful debts (€10,888 million in 2014 vs. 11,560 in 2013) and substandard (2,173 million in 2014 vs. 2,524 in 2013. This exposure has a total specific coverage of €4.4 billion.

Table 34: Financing for property construction and development purposes and their coverages (Amounts in thousands of euros)

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

2013*	GROSS AMOUNT	SURPLUS WITHOUT COLLATERAL GUARANTEE	COVERAGE	COVERAGE (%)
1. Credit recorded by Group credit institutions (Business in Spain)	**20,247,507**	**6,374,189**	**4,959,442**	**35.2%**
1.1. Of which: Doubtful	11,560,056	3,804,343	4,571,078	39.5%
1.2. Of which: Substandard	2,524,441	797,560	388,364	15.4%
Memorandum items:				
Total general coverage (total business)			0	
Write-offs	1,615,723			

*2013 Restated

In 2014, of the total credit for property development or construction purposes, €5.09 billion relates to performing loans and €2.17 billion to loans classified as substandard which, despite this classification, are currently performing. Doubtful credit totalled €10,888 million and has coverage totalling €4,104 million, which is a coverage ratio of 37.7%.

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

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

	2014		
	GROSS CREDIT AMOUNT	TOTAL COVERAGE	COVERAGE RATIO (%)
1. Unsecured	1,851	622	47.1
2. Secured	16,300	3,778	32.2
2.1. Completed buildings	7,840	1,248	24.4
2.1.1 Housing	4,090	678	24.6
2.1.2 Other	3,750	570	24.1
2.2. Buildings under construction	1,577	337	31.1
2.2.1 Housing	1,122	233	32.9
2.2.2 Other	455	104	27.7
2.3. Land	2,803	658	29.3
2.3.1 Developed land	2,539	615	30.3
2.3.2 Other land	263	43	20.1
2.4. Other real guarantees	4,079	1,534	46.7
Total	**18,151**	**4,400**	**33.7**

Risk with private individuals

As regards risks with private individuals, Table 36 shows the breakdown of these risks by type of product. 89% of the risk with private individuals is concentrated in loans with mortgage guarantees.

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

Mortgage lending to private individuals to finance home purchases amounted to €17,155 million and the non-performing loans ratio was 5.07% at 31 December 2014.

As Table 38 shows, these are high-quality loans, since 86.7% of them have a loan-to-value (LTV) ratio of 80% or less.

In line with the prudence that characterises the Group when it comes to extending credit, the average rate of effort for individuals (the loan instalments as a percentage of net disposable income) in the private individuals' active mortgage portfolio remained at 25.55% in December 2014.

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

	TOTAL RISK	WEIGHT (%)
Mortgage loans	**26,391**	**88.93**
For home purchase	17,459	58.83
Non-mortgage loans	**3,076**	**10.36**
Consumer	694	2.33
Loans and credit facilities	2,082	7.02
Other	300	1.01
Off-balance sheet risks	**210**	**0.71**
Derivatives	**1**	**0.00**
Total risk	**29,678**	**100.00**

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

	GROSS AMOUNT	OF WHICH: DOUBTFUL
Home purchase loans	**17,154,957**	**867,460**
Without mortgage guarantee	43,233	6
With mortgage guarantee	17,111,724	867,454

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

	LTV ≤ 40%	40% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 100%	LTV ≥ 100%	TOTAL
Gross amount	3,585,576	5,462,862	5,790,441	1,568,607	704,238	17,111,724
Of which: doubtful	129,893	164,057	355,817	154,845	62,842	867,454

2. Commercial activity in Portugal

The exposure to credit risk for Banco Popular Portugal at the end of 2014 reached €6,346 million, with gross lending to customers being the biggest part with a contribution of 92.0% of the total, and the rest corresponds to contingent risks.

After two consecutive years of deduction of loans to customers, in 2014 it reaches an increase of €265 million (+4.7%) thanks to the positive evolution of mortgage credit, term loans and overdrafts and lease financing. This turnaround in the performance of credit is mainly due to commercial success, which makes it further possible to improve market shares in Portugal (which reached 2.3% in loans and 4.2% in businesses in October 2014).

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

	BALANCES		CHANGE		WEIGHT (%)	
	2014	2013	TOTAL	%	2014	2013
Gross lending to customers	5,840,023	5,575,467	264,556	4.7%	92.0%	90.9%
Commercial paper	111,317	135,015	(23,698)	(17.6%)	1.7%	2.2%
Mortgage loans	1,833,166	1,808,666	24,500	1.4%	28.9%	29.5%
Other term loans	2,808,380	2,675,376	133,004	5.0%	44.3%	43.6%
Finance leases	327,429	323,465	3,964	1.2%	5.2%	5.3%
Overdrafts and other	444,626	379,605	65,021	17.1%	7.0%	6.2%
Doubtful assets	313,924	252,145	61,779	24.5%	4.9%	4.1%
Other financial assets	1,181	1,195	(14)	(1.2%)	0.0%	0.0%
Contingent risks	506,109	555,668	(49,559)	(8.9%)	8.0%	9.1%
Total gross risk	**6,346,132**	**6,131,135**	**214,997**	**3.5%**	**100.0%**	**100.0%**

Foreclosed assets

Table 40 shows a breakdown of the property portfolio in Spain, acquired or foreclosed. The book value of these assets at 31 December 2014 was €8,217 million and they were covered by provisions of €5,283 million.

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

	BOOK VALUE	COVERAGE
1. Real estate assets from financing for construction and property development	**5,754,426**	**4,281,841**
1.1 Completed buildings	**2,462,746**	**1,024,982**
1.1.1. Housing	1,739,717	755,482
1.1.2 Other	723,029	269,500
1.2 Buildings under construction	**278,602**	**120,439**
1.2.1. Housing	221,865	101,815
1.2.2 Other	56,737	18,624
1.3 Land	**3,013,078**	**3,136,420**
1.3.1. Developed land	1,365,110	1,128,369
1.3.2 Other land	1,647,968	2,008,051
2. Real estate assets from home purchase mortgage loans to households	**911,670**	**397,709**
3. Rest of foreclosed property assets	**1,551,175**	**603,188**
Total	**8,217,271**	**5,282,738**

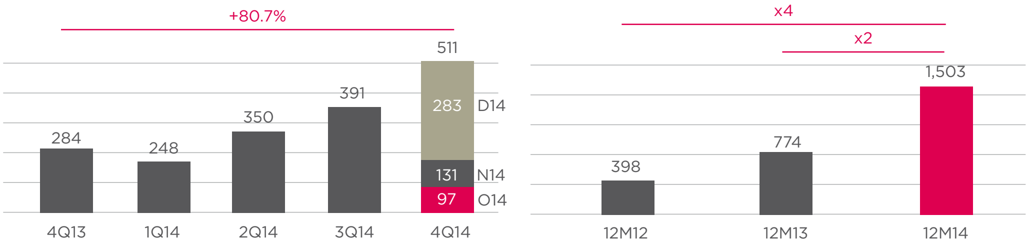
To manage these assets, the Group has i) a real estate company, Aliseda ii) the Bank's branch office network, iii) commercial agreements with real estate networks and iv) a specialised business Department that since January 2013 is responsible for managing these properties, which contributes to obtaining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

The results of the efforts of the sale of properties continues to accelerate, and 4Q14 closed at €511 million, an 80.7% increase on the same quarter last year. In total in 2014, 8,417 units were sold (+109% compared to 2013), reaching a book value of €1,503 million (double the figure of 2013). The first sale of two portfolios with total value of €160 million to wholesale investors is noteworthy.

Additionally, one might note that sales are generally being made with sales prices over the net book value, which benefits the current level of provisions that are generated.

Sale price **2.2%** higher than net book value

Figure 38: Sale of property[1]



1. Excludes sales from the balance sheet of the developer.

In addition to the assets discussed under the previous heading, there is also a portfolio in Spain, as shown in Table 41, consisting of rented assets (offices, hotels, shopping centres and commercial premises, industrial premises and housing) with a book value of €877 million and provisions of €414 million, and other equity instruments with a net carrying amount of €202 million and coverage of €467 million.

These equity instruments include the Group's investments in Metrovacesa with a net carrying amount of €202 million.

The coverage of the foreclosed assets and other equity instruments was 41.0% in December 2014.

Table 41: Other foreclosed assets: Investment Portfolio (Amounts in millions of euros)

	BOOK VALUE	OF WHICH: COVERAGE
Equity instruments, investments and financing provided to non-consolidated companies holding these assets	202	467
Rented	877	414
Total	**1,079**	**881**

Analysis of credit risk quality

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

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

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

The downward trend in new NPLs has brought down the NPL ratio for the fourth consecutive quarter, reaching 13.78%, consolidating the reduction that has been occurring in recent months. The net change in non-performing and doubtful assets remains negative for the fourth consecutive quarter at year-end, reflecting an improved underlying trend for arrears in 2014.

As shown in Table 42 , net new NPLs fell by €8,796 million, from €9,104 million in December 2013 to €308 million at the end of 2014. This improvement is due both to a significant reduction in new NPLs (€7,074 million) and an increase in recoveries, which reached €5,360 million (€1,722 million above the figure for 2013).

Table 42: Risk management. Evolution of non-performing loan balances (Amounts in thousands of euros)

			CHANGE	
	31.12.2014	31.12.2013*	TOTAL	%
Balance at 1 January	21,216,003	13,935,871	7,280,132	52.2
Increases	5,668,199	12,741,977	(7,073,778)	(55.5)
Recoveries	5,360,229	3,638,061	1,722,168	47.3
Net change	307,970	9,103,916	(8,795,946)	(96.6)
% Increase	1.5	65.3		
Depreciation and Amortisation	(1,351,941)	(1,823,784)	471,843	(25.9)
Closing balance	**20,172,032**	**21,216,003**	**(1,043,971)**	**(4.9)**

* 2013 Restated

At 31 December 2014 the balance of risks in distress or non-performing loans totalled €20,172 million, which is a €1,044 million increase during the year (see Table 42). This development is the result, on one hand, of the gross entry of non-performing borrower risks totalling €5,668 million and recoveries totalling €5.36 billion and, on the other hand, write-offs totalling €1,352 million, of which provisions had already been made for €1,348 million (see Table 44 and 45).

As may be seen in the following graph, of the €20,172 million in non-performing loans to borrowers at the end of 2014, €3,463 million relates to subjective doubtful loans (no objective causes to be classified as defaulted and performing in 100% of cases) in anticipation that they will become delinquent.

The total risk reached €146,378 million (-0.7% vs. 2013, see Table 43) with a default rate of 13.78% at year-end 2014 compared to 14.39% in 2013. Additionally, it is noteworthy that 2.37% of the total corresponds to the above doubtful cases.

Figure 39: Non-performing loans rate and balance compared to doubtful items (Amounts in millions of euros)

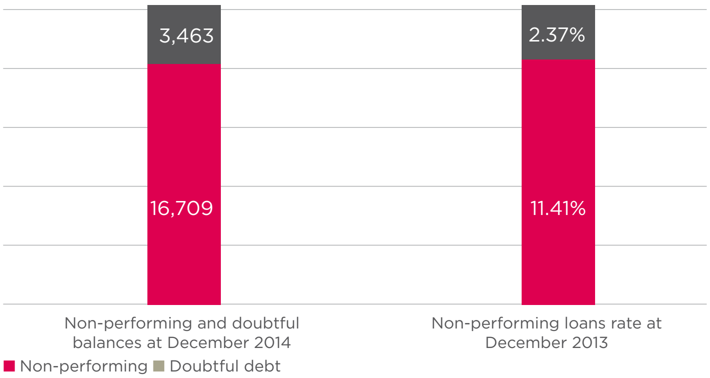


Table 43: Risk quality measurements (Amounts in thousands of euros)

			CHANGE	
	31.12.2014	31.12.2013*	TOTAL	%
Total risks (in thousands of euros)	146,378,216	147,466,231	(1,088,015)	(0.7)
Non performing ratio (Non-performing loans/Total risks) (%)	13.78	14.39	(0.61)	

* 2013 Restated

The following two tables show the development of the Group's credit loss provisions. In Table 44 the various components that affected the change in the credit loss provisions in 2014 may be observed, and Table 45 contains a breakdown by type of fund: specific, generic, and risk country.

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

			CHANGE	
	31.12.2014	31.12.2013*	TOTAL	%
Balance at 1 January	8,525,999	9,128,749	(602,750)	(6.6)
Annual provision			-	-
Gross	6,342,573	7,761,615	(1,419,042)	(18.3)
Drawable	(4,492,973)	(6,281,448)	1,788,475	(28.5)
Net	1,849,600	1,480,167	369,433	25.0
Other changes	(670,234)	(261,743)	(408,491)	156.1
Doubtful balances written-off	(1,347,502)	(1,821,174)	473,672	(26.0)
Closing balance	**8,357,863**	**8,525,999**	**(168,136)**	**(2.0)**
Provisions of which are substandard	732,671	925,757	(193,086)	(20.9)

* 2013 Restated

Table 45: Risk management. Performance of credit loss provisions by type (Amounts in thousands of euros)

	SPECIFIC	GENERIC	RISK COUNTRY	TOTAL
Opening balance	**8,524,690**	**-**	**1,309**	**8,525,999**
Net additions to provisions	1,849,857	-	(257)	1,849,600
Write-offs	1,347,502	-	-	1,347,502
Other changes and transfers	(670,199)	-	(35)	(670,234)
Balance at the end of the year	**8,356,846**	**-**	**(1,017)**	**8,357,863**

* 2013 Restated

Charges to the income statement due to the impairment in 2014 and 2013 of financial and non-financial assets are summarised below:

Table 46: Risk management. Additions to provisions for asset impairment (Amounts in thousands of euros)

			CHANGE	
	31.12.2014	31.12.2013*	TOTAL	%
Financial assets	1,664,126	1,254,232	409,894	32.7
For credit risk and additions to provisions	1,646,126	1,220,675	425,451	34.9
Of which: recovery of write-offs	214,158	260,416	(46,258)	(17.8)
For investments	18,000	33,557	(15,557)	(46.4)
Non-financial assets & buildings	414,153	1,181,921	(767,768)	(65.0)
Total	**2,078,279**	**2,436,153**	**(357,874)**	**(14.7)**

* 2013 Restated

As can be seen from the table above, in 2014 there has been a reduction of 14.7% in the total amount of impairment, mainly due to positive developments in the impairment of non-financial assets and property, which are down by €768 million, from €1,182 million in 2013 to €414 million in 2014 (-65%).

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

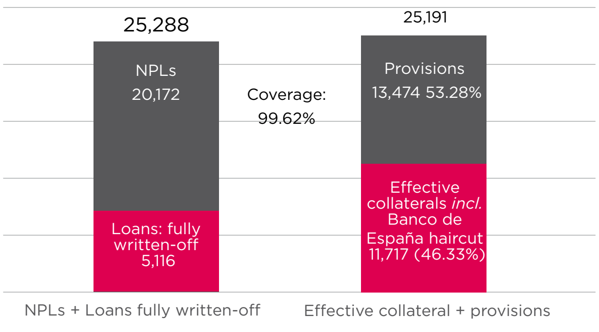
Table 47: Risk management. Coverage by type of non-performing loan (Amounts in thousands of euros)

	31.12.2014
Non-performing loans without mortgage or collateral guarantee	5,438,481
Non-performing loans with mortgage or collateral guarantee	14,733,551
Value of guarantees (including regulatory discounts)	11,764,412
Total non-performing loans	20,172,032
Loans fully written-off	5,116,143
Non-performing loans + Loans fully written-off	25,288,175
Total value of guarantees [1]	11,716,812
Credit loss provisions	8,357,863
Credit loss provisions including written-off balances	13,474,006
Coverage of non-performing loans and written-off balances (%)	53.28
Coverage of non-performing loans without written-off balances (%)	41.43
Coverage with guarantees (%)	99.62

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

Figure 40 reflects an analysis of the coverage from guarantees and from provisions. As may be observed, the coverage rate for doubtful and written-off loans, including guarantees (with the applicable regulatory discounts) is 99.62%, which allows 2015 to be taken on with a very healthy balance sheet.

Figure 40: Analysis of coverage (Amounts in millions of euros)



Market activity

In the market activity, all counterparty and issuer risk arises from activities in the treasury, origination and capital market areas. For analysis purposes, the types of products are classified in three groups depending on the credit risk exposure measurement:

(i) issuer risk of principal, which affects fixed income held to maturity and repos;

(ii) Counterparty risk, comprising market value plus a factor that reflects the estimated potential future risk based on the term and volatility of the underlying asset, affecting interbank deposits, repos and simultaneous deposits and currency trading;

(iii) Counterparty derivatives risk (interest rates, equities, exchange rate and commodities), composed of the market value plus a factor that reflects the estimated future potential risk based on the term and the volatility of the underlying asset. In the case of exchange rate transactions, if not carried out through a clearing house the delivery risk is included.

At the end of the year, this risk adds up to €32,646 million, with an overall increase of 30.6% compared to the previous year, or €7,702 million. This is due to the increased risk in fixed income, €7,703 million, mainly in government debt, with other activities maintaining levels.

As a result of the application of risk mitigation techniques through the framework agreements for offsetting gains and losses and the exchange of guarantees, which is revised daily, a positive mitigation effect of €2,429 million was obtained. Without the mitigation benefit, the overall risk would be €35,075 million. Out of the total without the mitigation effect, 90.98% relates to fixed income financial assets, 8.72% to interest rate, exchange rate and equity derivatives and 0.3% to repos, simultaneous transactions and interbank deposits. As regards geographical distribution, 98.78% of the risks are concentrated in the euro zone, 0.98% in non-euro Europe and 0.24% in the Dollar-Yen zone.

CROSS-BORDER RISK

Cross-border risk, also referred to as country risk, is an additional component of credit risk. It originates from the difficulty for borrowers in certain foreign countries to satisfy their debt payment obligations. The default may be attributable to the financial position of the actual debtor (in which case the treatment is as for credit risk) or it may arise because the debtor, despite being able to repay their loans in the local currency, is unable to transfer funds abroad in view of economic difficulties in their country of residence. Applicable rules require that these risks should be provided for based on the estimated impairment.

The principles for managing cross-border risk continued to reflect a policy of maximum prudence, with cross-border risk being assumed very selectively in transactions that were clearly profitable for the Group, and strengthened global relations with its customers.

At year-end, the Group's overall country risk amounted to €43.8 million, 20.2% lower than at the end of 2013 (€54.9 million). These figures are not significant in relation to the Group's total risks, of which they represented 0.03% in 2014 and 0.04% in 2013.

The provision made for country risk amounts to €1 million, 20.2% less than last year, so the balance of the provision established represents a coverage of country risk of 2.32% compared to 2.38% last year. Table 48 shows the evolution of country risk in the last two years, broken down by countries according to their degree of difficulty, the relevant provisions and their comparison with the total risks. Table 49 shows the distribution of this risk by balance sheet items: credit institutions, lending and contingent liabilities with their coverage.

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

	2014		2013	
	BALANCES	COVERAGE	BALANCES	COVERAGE
Country				
No appreciable risk	42,121	-	52,912	
Substandard risk	754	86	710	116
Doubtful risk	949	931	1,283	1,193
Total	**43,824**	**1,017**	**54,905**	**1,309**
Coverage (%)		2.32		2.38
Memorandum item:				
Total risks		146,378,216		147,466,231
Country risk/Total risks (%)		0.03		0.04

Table 49: Country risk and provisions recorded (Amounts in thousands of euros)

	2014		2013		COVERAGE (%)	
	BALANCES	COVERAGE	BALANCES	COVERAGE	2014	2013
Credit institutions	-	-	-	-	-	-
Customer credits	33,677	912	26,808	1,146	2.71	4.27
Contingent liabilities	10,147	105	28,098	163	1.03	0.58
Total	**43,825**	**1,017**	**54,906**	**1,309**	**2.32**	**2.38**

STRUCTURAL BALANCE SHEET RISK

This risk category covers risks deriving from possible adverse changes in interest rates corresponding to assets and liabilities, in the exchange rates for currencies in which asset and liability groups or on- or off-balance sheet items are denominated, and in the market prices of negotiable financial instruments.

Also included in this concept is the business risk as well as the exchange rate risk.

Interest rate risk

In relation to the control of the interest rate risk, an analysis is made of the sensitivity of the financial margin to changes in interest rates, monitoring the maturities and repricing gap in the consolidated balance sheet, analysed by sensitivity and non-sensitivity to interest rates.

For sensitive assets and liabilities that mature or change the interest rate in a given period, only the first contract revision has to be taken into account. For balance sheet items with no maturity but with interest rate revision, albeit not on a fixed date, the frequency of review is based on historical performance.

The impact of an adverse movement in rates is also evaluated with respect to economic value. The Group regularly measures changes in value, as well as its sensitivity to changes in interest rates. This is done by considering all of the positions sensitive to interest rates, including both the implicit and explicit interest rate derivatives, and excluding the positions that form part of the held-for-trading portfolio, the risk of which is measured separately.

The economic value is calculated as the sum of the fair value of the net assets and liabilities sensitive to the interest rate and the net book value of assets and liabilities that are not sensitive to interest rates. The fair value of the items sensitive to interest rates is obtained as the present value based on the interest rate curve in the interbank market at the date of reference, for future flows of principal and interest relating to all items sensitive to interest rates. The sensitive positions that form part of the trading portfolio are also taken into consideration.

Interest rate risk management is instrumented mainly through derivatives. The policy is to arrange the most perfect possible hedges, and this is why the preference is to arrange individual hedges. Consequently, most of the hedge volume is concentrated on financing transactions in the wholesale market. An exceptional case consists of the liability and derivative positions for rates sold to customers in the commercial network which, due to their amount, are covered when a suitable volume has been accumulated. The interest rate risk relating to the fixed-income portfolio is also hedged with financial swaps.

At the year end, the effect of a 200 basis point increase in the euro interest rates, with respect to the current implicit rates, has a positive impact of 2.54% on the economic value. Additionally, a drop in interest rates of the same magnitude also promotes economic value due to the low level found in the rate curve, which is limited to 0%. The impact of rate shifts on currencies other than the euro is considered to be immaterial in view of the Group's negligible position at the year end.

As may be observed, the sensitivity of the economic value to very stressed variations in interest rates is well below the maximum thresholds permitted by current legislation.

At 31 December 2014, interest-rate sensitive assets totalled €122,693 million, compared with €120,152 million of similarly sensitive liabilities, with an aggregate positive gap of €2,541 million. For a good part of 2015 maturities of sensitive assets exceed those of sensitive liabilities, which means that falling interest rates would have a positive impact in the short term.

Table 50: Maturity and repricing gap in the consolidated balance sheet at 31 December 2014 (Amounts in millions of euros)

IDENTITY	TOTAL	NOT SEN-SITIVE	TOTAL SENSITIVE	1 MONTH	2 MONTHS	3 MONTHS	FROM 3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	MORE THAN 1 YEAR
Loans and receivables	**107,828**	**16,191**	**91,637**	**19,773**	**6,836**	**13,413**	**19,883**	**23,401**	**8,331**
Loans and advances to credit institutions	5,050	1,248	3,802	3,447	-	314	1	1	39
Loans and advances to customers	100,583	12,748	87,835	16,326	6,836	13,099	19,882	23,400	8,292
Other assets and valuation adjustments	2,195	2,195	-	-	-	-	-	-	-
Securities market	**32,227**	**2,425**	**29,802**	**659**	**504**	**139**	**747**	**1,070**	**26,683**
Other assets	**21,401**	**20,147**	**1,254**	**353**	**78**	**129**	**165**	**137**	**392**
TOTAL ASSETS	**161,456**	**38,763**	**122,693**	**20,785**	**7,418**	**13,681**	**20,795**	**24,608**	**35,406**
Financial liabilities at amortised cost	**142,228**	**26,032**	**116,196**	**34,972**	**6,823**	**9,266**	**16,575**	**21,498**	**27,062**
Deposits from credit institutions	27,707	619	27,088	10,007	1,991	953	1,238	1,859	11,040
Customer deposits	96,036	24,167	71,869	24,007	4,510	5,536	14,674	17,040	6,102
Marketable debt securities	15,962	148	15,814	958	322	2,542	663	2,599	8,730
Subordinated and preference liabilities	1,425	-	1,425	-	-	235	-	-	1,190
Valuation adjustments (+/-) (Debt securities)	1,098	1,098	-	-	-	-	-	-	-
Other liabilities	**6,558**	**2,602**	**3,956**	**3,166**	**271**	**-**	**493**	**26**	**-**
Equity	**12,670**	**12,670**							
TOTAL LIABILITIES	**161,456**	**41,304**	**120,152**	**38,138**	**7,094**	**9,266**	**17,068**	**21,524**	**27,062**
Off-balance sheet transactions				**1,817**	**61**	**1,221**	**4,014**	**719**	**(7,832)**
Gap		**(2,541)**	**2,541**	**(15,536)**	**385**	**5,636**	**7,741**	**3,803**	**512**
Accumulated gap				**(15,536)**	**(15,151)**	**(9,515)**	**(1,774)**	**2,029**	**2,541**

At the end of 2014 the strategic investment portfolio totalled a nominal amount of €24,637 million. As may be observed in the table, the portfolio is distributed between investments available-for-sale, 93% and loans, 7%. Compared with the preceding year, the total volume of the Strategic Investment Portfolio has risen by 74.6%. The average maturity in the portfolio is 5.11 years and this is an increase with respect to preceding months (4.976 in June, 5.302 and August and 5.498 in November), due to the fact that most sales have been concentrated in bonds with a residual life greater than 6 years.

The total duration of the strategic investment portfolio at 31.12.2014 is 1.20 years, keeping it in line compared with the 1.17 years recorded last year.

Table 51: Investment Portfolio (Amounts in millions of euros)

	NOMINAL	RELATIVE WEIGHT
Portfolio available for sale	22,970	93%
Loan and receivable portfolio	1,667	7%
Total investment portfolio	24,637	100%

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

Figure 41: Composition of the available-for-sale portfolio

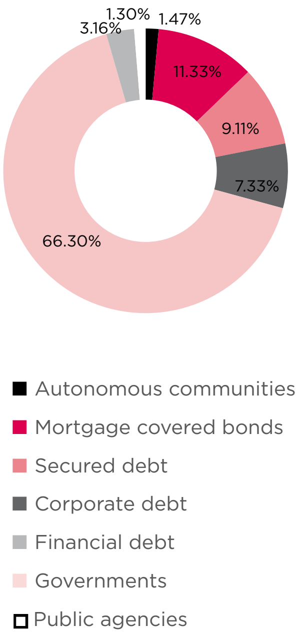
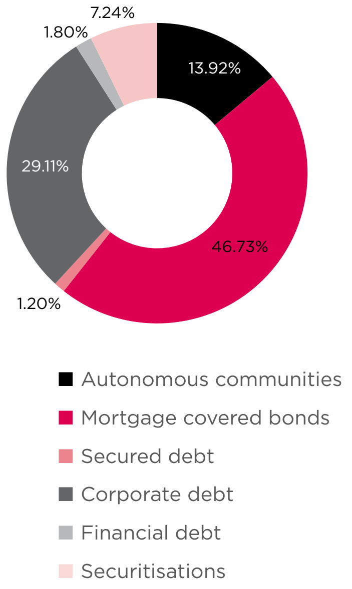


Figure 42: Composition of the loans and receivables portfolio



In 2014, the Investment Portfolio generated a positive result of €1,058 million, 19.7% higher than in 2013. Net interest income contributed €342 million and net gains on financial transactions were €716 million, 66.5% higher than the previous year. The increase in net trading income is due to favourable market conditions relative to the fiscal year 2013.

Business risk

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

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

The Group maintains a leadership position in revenue and profitability, which is given by the particular business model. This business model allows:

i. To keep proven recurring revenues, with less dependence on extraordinary income in the operating profit than its peers. This is achieved thanks to the Bank's main activity being commercial banking, establishing long-term relationships with customers, which provide a base of very stable results.

ii. To get a leading profitability in the sector, with margins on assets consistently above its competitors. This is possible because the Group is the Spanish bank specialist for SMEs. The increased presence in this segment allows the Bank to operate high margins while maintaining industry diversification in the markets in which it operates.

iii. To operate with a leading efficiency in Europe, giving the Bank a superior resistance to periods of crisis with reduced revenue.

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

Exchange rate risk

The exchange rate risk of the business in Spain and Portugal is practically non-existent as a result of the criterion applied in this respect: treasury and financial asset positions in currencies other than the euro are confined to the placement of surplus cash arising from the commercial banking activities in the same currency and at similar terms.

The investment in Totalbank, a resident of the United States, represents an open dollar position on the net assets and goodwill. This risk is monitored and at times, depending on the expected evolution of the currency, it is partially hedged.

MARKET RISK

This item includes the risks resulting from possible adverse changes in the market prices of traded financial instruments managed by the Group’s Treasury as a result of changes in interest rates, credit spreads, exchange rates, share prices and stock market indexes for commodities and the volatility affecting these items.

Also included is the liquidity risk linked to these positions. This is understood to refer to the impossibility of unwinding positions in the market within a short period of time. For this purpose, positions are valued over a time scale equal to the estimated time it will take to close the risk.

Treasury activity risk

The Treasury Risk Management area, for the purpose of controlling the market risk in this business area’s activity, undertakes daily monitoring of operations contracted, calculation of the result implied by the impact of market trends on positions, quantification of market risk assumed, calculation of regulatory capital consumed and monitoring of compliance with limits.

The activity of the Treasury area in financial markets is exposed to market risk resulting from unfavourable trends in the following risk factors: euro and foreign currency interest rates, exchange rates, share prices, credit spreads, volatility and correlation. The indicator used to measure market risk is Value at risk (VaR), which is defined as a potential maximum loss estimated based on historical data regarding variations in the risk factors and calculated with a confidence level for a specific time horizon. In measuring the Group's overall risk VaR methodology by historical simulation is used, calculated with a confidence level of 99%, taking into account historical variations over a period of 250 days with more weight being placed on most recent observations [decay factor: 0.94], and using a term of 1 day to measure possible losses, since all open positions are liquid.

To complete the VaR figures for historical simulation, complimentary limits are calculated in terms of position and sensitivity, as well as Treasury Stop Loss limits. In addition, the Trading Book is subjected to sharp changes in market variables (Stress Testing).

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

In 2014, the average VaR of the Treasury trading activity was €0.213 million. As shown in the attached graph, the biggest upturns occur in the months of May, August and October. The increase in VaR during the month of August is a result of a greater position taken on Government Debt Securities on the Asset Trading Book activity. In October the rise is a result of the sharp decline affecting the markets during the 15th of that month.

The Treasury trading book activity risk figure approaches the annual average in the last month of the year, as the open positions in several portfolios are reduced, thereby reducing sensitivity to market movements.

Figure 43: Evolution of business activity risk in 2014 (Amounts in thousands of euros)

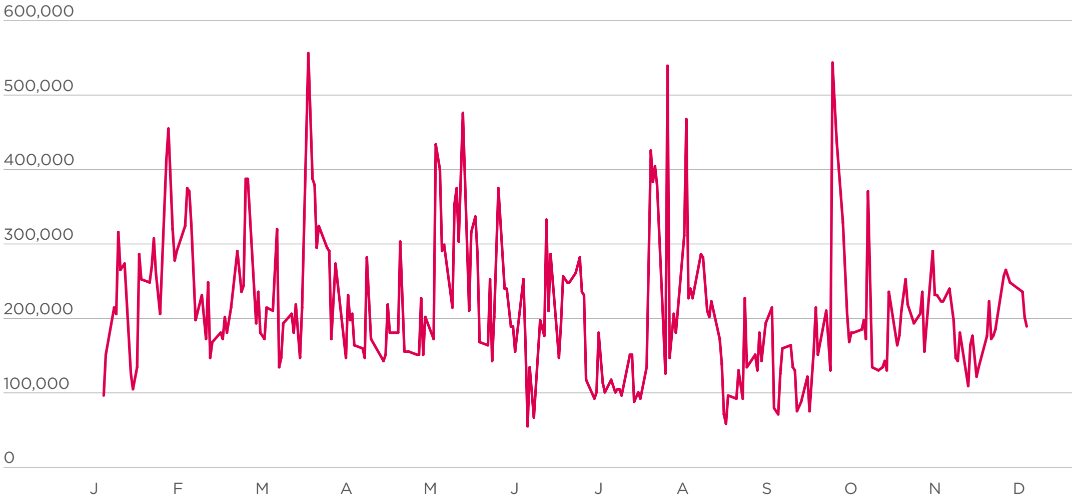


Table 52 includes a calculation of the average VaR attributable to the various Treasury trading activities: Money Market and Asset Trading Book, which includes interest rate risk and exchange rate risk; Equities, which includes share price risk and volatility risk; Structured Derivatives, which includes interest rate risk and volatility risk, and Investments, which includes share price risk and volatility risk. It may be observed that the risk is concentrated mainly on interest rate risk produced by the Asset Trading Book.

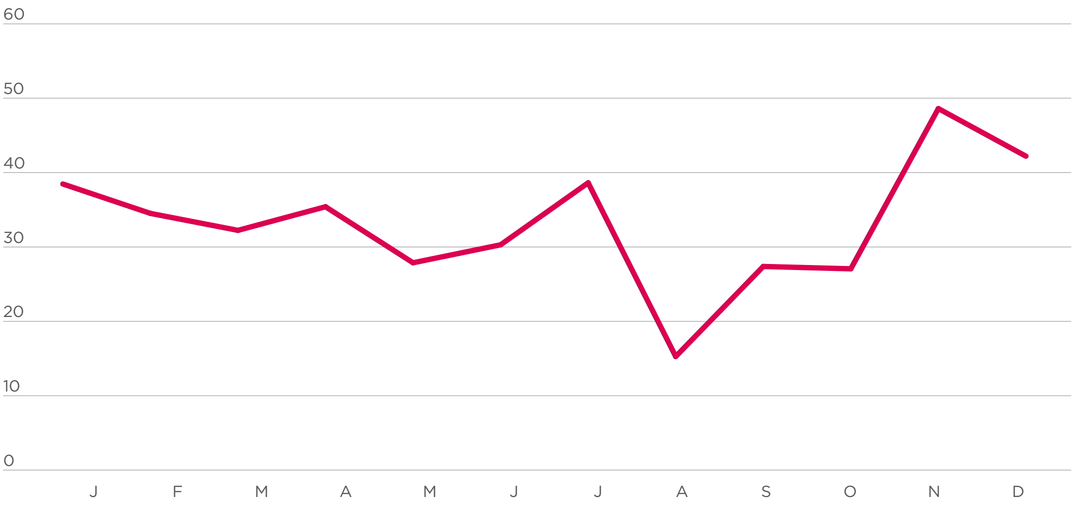
Table 52: Average VaR 2014 (data in thousands of euros)

	MONEY MARKET	ASSET TRADING	EQUITY INSTRUMENTS	STRUCTURED DERIVATIVES	FINANCIAL INVESTMENTS	AGGREGATE VAR
Average VaR 2014	62.77	121.16	90.73	15.41	82.13	213.17

The aggregate risk presents substantial earnings for diversification of 34.09% on average, as a result of the correlation between the prices of equities and the yield curves, as well as the proper management of specific portfolios.

In the chart below you can see the trend during 2014, earnings per diversification:

Figure 44: Increased profit by portfolio diversification in Treasury Office Trading



As seen, this benefit was at its maximum in November and its minimum in August. The low benefit in August is mainly due to the closing of positions with underlying interest rates.

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

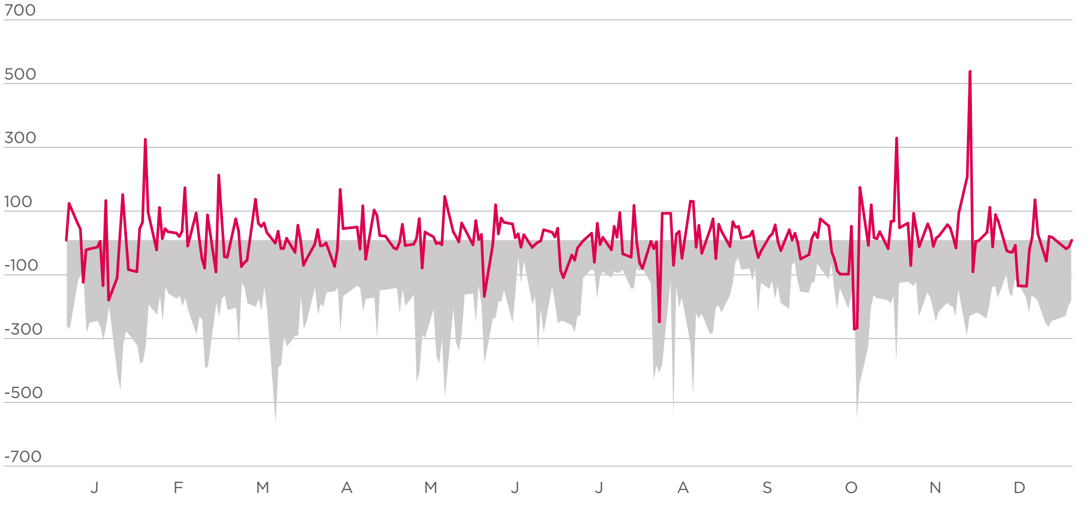
- Clean Backtesting: relates to the daily results from outstanding transactions at the close of the previous session with the one-day estimated VaR, calculated using the outstanding positions at the end of the preceding session. This exercise is the most suitable for the self-evaluation of the methodology used to measure market risk.

- Complementary or dirty backtesting: evaluates the result obtained during the day (including any intraday trades) with the VaR amount over a horizon of one day calculated on the transactions alive at the close of the previous session. This makes it possible to evaluate the importance of the intraday trading in the generation of outcomes and in the estimation of the total portfolio risk.

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

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

Figure 45: Banco Popular Group's Clean Backtesting (Amounts in thousands of euros)



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

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

To exemplify the above remarks, in the case of maximum risk figure produced in the month of October (€550,810), the contribution by risk factor was:

Table 53: Contribution of risk factors to the VaR figure

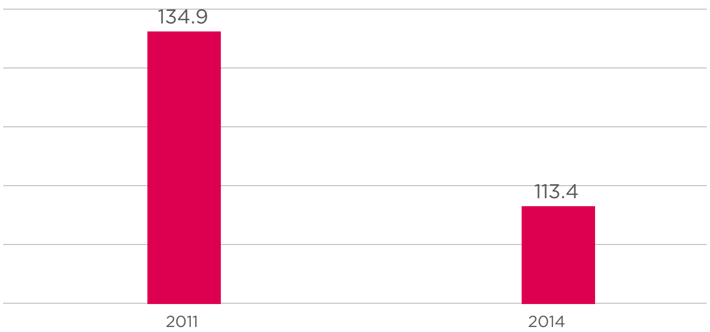
Volatility (Equity, Swap, Cap)	0.83%
Equity instrument Prices	63.38%
Interest Rate	35.77%

LIQUIDITY RISK

The liquidity risk reflects the possibility of a credit institution encountering difficulties in disposing of liquid resources, or in accessing liquid resources, in a sufficient amount and at adequate cost, in such a way that it is able to meet its payment obligations at all times. From the start of the global financial crisis in 2007, Banco Popular considered it essential to reduce its dependence on capital markets (short-term and long-term) as well as the extension of financing terms. In this connection, the priority financing strategy for the Group has been to obtain retail liabilities through products that meet the needs of its customers while, at the same time, providing stability to its balance sheet. This strategy is based on the capacity to access private individual and company customers through the Group's broad commercial network.

At 31 December 2014 the commercial gap was €11,092 million, attaining a loan to deposit ratio of 113.4%. Since 31 December 2011 a significant improvement in the funding gap has been observed, in the amount of €12,194 million, with the loans to deposits ratio being maintained in the region of 110% in recent years, as shown in Figure 46.

Figure 46: Ratio of *Loan to Deposits* (%)



From the point of view of financing the commercial gap, in 2014 the Group retail funding has dropped €2,333 million to €82,905 million, reaching 58.6% of all funding of the Group, excluding equity, with the following composition: (i) 51.3% of on-demand deposits, term deposits and commercial paper, (ii) 6.2% ICO and EIB mediation credit, (iii) 0.6% other securities distributed through the commercial network, and (iii) 0.5% collection accounts and valuation adjustments. However, retail financing is showing great stability in this part of the business cycle in which demand deposits and term deposits have increased since 31 December 2012 by €4,829 million, demonstrating the loyalty of our customers .

On the other hand, wholesale financing, representing 12.8% of the Group's financing, increased by €91 million. Retail financing is diversified among a broad variety of instruments, notably mortgage covered bonds, which represent 57% of this heading and whose collateral may be reused. In 2014 Banco Popular has taken advantage of the issue opportunities that existed in the wholesale markets by placing €2,185 million during the year, €600 million in senior debt and €1,585 million in mortgage covered bonds. Wholesale markets remain open showing a growing demand and an increase in the number and types of investors with an appetite for Spanish paper. These circumstances have allowed Banco Popular to carry out the first issue of senior debt of a Spanish private bank in 2015, amounting to €500 million, with a term of five years.

Financing from clearing houses and other market repos make up 21.5% of total financing at €30.51 billion during the year. Since 2010, the Bank has been a member of the three main European counterparty clearing houses, LCH London, Paris and Eurex Repo, together with other international banks. This operation is part of the Group's strategy to diversify funding sources and reduce costs, increasing liquidity sources guaranteed by liquid assets other than the ECB. The counterparty clearing houses act as guarantors for the transactions carried out between financial entities, allowing risks to be minimised. The maturity of these translations means that available collateral can be reused.

Finally, financing from the European Central Bank stood at €9,992 million, which represents 7.1% of the Group's total financing. This amount is related to the measures approved by the European Central Bank in order to support financing of the real economy through the private sector.

In this sense, Banco Popular has been part of, in September and December, the first two "targeted longer-term refinancing operations" (TLTRO) convened by the European Central Bank for a total of €5,696 million. These auctions have allowed financing to be secured for four years at a competitive cost - the ECB reference rate plus 0.10%.

During 2015 the Bank will have the opportunity to attend quarterly dynamic auctions of the European Central Bank to the extent that the growth of the credit portfolio, calculated for TLTRO purposes, allows it.

The funding structure and its evolution can be seen in Table 54 and graphically in Figure 47.

Figure 47: Structure of borrowed funds

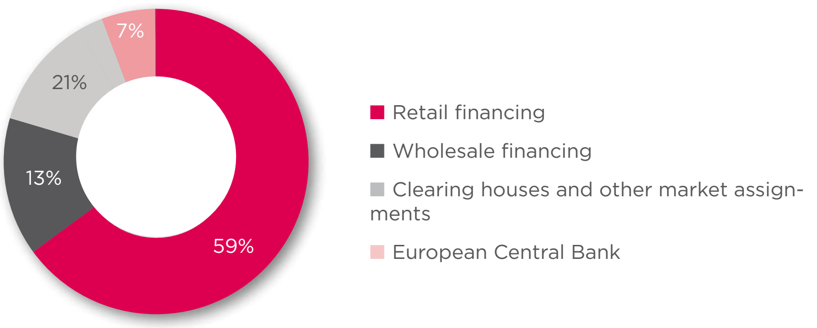


Table 54: Evolution of financing sources for Banco Popular Group (Amounts in millions of euros)

				WEIGHT (%)		
	DEC. 2014	DEC. 2013	VAR (%)	DEC. 2014	DEC. 2013	VAR.
Retail funds	**82,905**	**85,237**	**(2.74)**	**58.57%**	**65.58%**	**(2,332)**
Demand deposits	27,476	24,178	13.64	19.41%	18.60%	3,298
Term deposits	44,839	50,377	(10.99)	31.68%	38.76%	(5,538)
Tax collection accounts and valuation adjustments	722	531	35.97	0.51%	0.41%	191
Retail commercial paper	312	653	(52.22)	0.22%	0.50%	(341)
Mediation loans [1]	8,745	7,799	12.13	6.18%	6.00%	946
Securitisation sold to third parties	343	534	(35.77)	0.24%	0.41%	(191)
Marketable securities distributed through the commercial network[2]	468	1,165	(59.83)	0.33%	0.90%	(697)
Wholesale financing	**18,138**	**18,047**	**0.50**	**12.81%**	**13.88%**	**91**
Interbank deposits and commercial paper	4,681	3,261	43.54	3.31%	2.51%	1,420
Senior debt	2,188	1,778	23.06	1.54%	1.37%	410
Mortgage covered bonds	10,316	11,845	(12.91)	7.29%	9.11%	(1,529)
Convertible notes, Preferred Shares and Subordinated debt	953	1,163	(18.06)	0.67%	0.89%	(210)
Clearing houses and other market repos	**30,510**	**23,293**	**30.98**	**21.56%**	**17.92%**	**7,217**
European Central Bank	**9,992**	**3,401**	**193.79**	**7.06%**	**2.62%**	**6,591**
TOTAL	**141,545**	**129,978**	**8.90**	**100.00%**	**100.00%**	**11,567**

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

2. Includes convertible notes, preferred shares, and subordinated debt distributed through the commercial network.

Measurement and oversight of liquidity risk

The Group's liquidity risk is centrally controlled by means of formal procedures which are used to analyse and monitor the Group's liquidity; these include contingency plans to cope with possible variations in its liquidity arising either as a result of internal factors or due to market trends. For this purpose, periodic liquidity sensitivity analysis are made in a variety of asset and liability cancellation scenarios, in periods which range from one day up to one year, in the short term, from one year to five years, in the medium term and long term, and over five years in the very long term.

Liquidity risk analysis is based on a breakdown of the consolidated balance sheet, considering the residual maturity terms of assets and liabilities. These maturities are compared to arrive at the positive or negative liquidity gap in each time interval. For securities issues, and for reasons of prudence, the shortest cancellation period is considered in all cases.

The balance sheet in question is used to simulate situations arising in different scenarios in terms of market liquidity, combined with assumptions with respect to changes in application and equity aggregates and with the use of available liquidity lines. It is possible in this way to estimate the sensitivity of the balance sheet to changes in these variables. Simulations take into account two risks: systemic risk, which would affect the entire financial system and specific risk, affecting only Banco Popular. The assumptions on which these are based differ, as do the impacts on the balance sheet and on the liquidity position.

The measures to be adopted, which are defined in the contingency plan, take into consideration the particular natures of each of these types of crisis. These simulations allow a quantification of a minimum amount of available eligible assets as a second line of liquidity that ensures that the simulated scenarios can be comfortably surpassed.

In addition, the Group updates and analyses its liquidity position using the assumptions and criteria applied by regulators.

At 31 December 2014, flows from assets with fixed maturities amount to €139,866 million, as compared with €115,122 million in liabilities having the same nature, representing a positive gap of €24,744 million. However, during the first 36 months, the flows of maturing liabilities are faster than the assets, generating a negative gap that would reach €43,450 million. This is explained basically by the maturities of assets sold under short-term repos to financial entities, which finance a part of the assets held for trading that mature later. Bearing in mind the high credit quality of the assets sold under repos, mostly government debt securities, the repos are highly likely to be renewed at maturity. If this is not the case, this collateral could be used at any time in financial transactions in the Eurosystem.

To cover this trend, the Group has liquid assets available at 31 December 2014 with which it could obtain financing of €12,376 million. Likewise Table 55 includes the balance of the available liquid assets at any given moment, taking into consideration that the maturities of repos reduce their balance and acquisitions increase it. As may be observed, Banco Popular has sufficient liquid assets available at all times to cover the negative liquidity gap.

Available assets are eligible for both European Central Bank discounting operations and as collateral in operations with financial entities and customers. Therefore, if faced by a liquidity contingency, the Banco Popular Group could obtain funds without suffering any losses in a time-frame not exceeding one week.

Table 55: Liquidity gap (Amounts in millions of euros)

IDENTITY	UP TO 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 AND 36 MONTHS	BETWEEN 36 AND 60 MONTHS	MORE THAN 60 MONTHS	TOTAL MATURITIES	NO MATURITY	TOTAL
Loans and advances to customers	9,545	4,721	24,695	12,275	46,254	97,490	12,525	110,015
Money market and repos	8,525	120	258	54	3,038	11,995	1,883	13,878
Debt securities	762	839	6,043	12,545	10,192	30,381	2,332	32,713
Other assets							21,956	21,956
TOTAL ASSETS	**18,832**	**5,680**	**30,996**	**24,874**	**59,484**	**139,866**	**38,696**	**178,562**
Customer deposits	14,388	9,368	20,881	48	2	44,687	27,433	72,120
Repos, ICO, Treasury and other	34,833	2,370	5,023	7,258	1,854	51,338	614	51,952
Negotiable securities and subordinated liabilities	2,058	249	9,788	3,773	3,229	19,097	152	19,249
Other liabilities							7,298	7,298
Equity							12,670	12,670
TOTAL LIABILITIES	**51,279**	**11,987**	**35,692**	**11,079**	**5,085**	**115,122**	**48,167**	**163,289**
GAP	**(32,447)**	**(6,307)**	**(4,696)**	**13,795**	**54,399**	**24,744**	**(9,471)**	**15,273**
ACCUMULATED GAP	**(32,447)**	**(38,754)**	**(43,450)**	**(29,655)**	**24,744**		**15,273**	**-**
Derivatives	(74)	(73)	(575)	(1,409)	(1,814)			
Available liquid assets	41,410	43,386	50,370	59,303	60,537			
Adjusted accumulated GAP	**8,889**	**4,559**	**6,345**	**28,239**	**83,467**			

To evaluate the adequacy of the available effective liquid assets, Banco Popular carries out stress tests that assume the non-renewal of all the maturities of wholesale financing sources. As may be observed in table 56, current liquid assets easily cover all maturities in 2015. This surplus liquidity allows the Group to continue to apply its traditional retail banking model based on the granting of loans and obtaining customer deposits. This stress exercise is performed without including repos with financial institutions since, as discussed earlier, they are repos made with assets of a high credit quality and therefore their renewal on maturity is highly likely.

Table 56: Extreme scenario of the non-renewal of due and payable liabilities

POPULAR	MAR-15	JUN-15	SEPT-15	DEC-15	TOTAL
MATURITIES					
Interbank deposits (net)	1,917	111	47	555	2,630
Institutional commercial paper and ECP	362	25	22	124	533
Senior debt	-	-	800	50	850
Covered mortgage & territorial bonds	1,180	1,700	-	-	2,880
Wholesale subordinated debt	-	-	-	57	57
Wholesale preferred shares	-	-	-	-	-
TOTAL MATURITIES	**3,459**	**1,836**	**869**	**786**	**6,950**
SOURCES OF LIQUIDITY					
Available liquid assets	12,376	-	-	-	12,376
Variation in liquid assets	3,397	2,265	-	-	5,662
TOTAL SOURCES OF LIQUIDITY	**15,773**	**2,265**	-	-	**18,038**
Liquidity surplus	**12,314**	**12,743**	**11,874**	**11,088**	

REGULATORY RISK

Since the onset of the financial crisis in 2008, the global financial system has been undergoing an unprecedented process of regulatory reform, driven by the G20. Banco Popular actively manages the regulatory risks in the environment in which it operates and has adapted to new requirements. The reform is multidimensional and has several objectives, including the following initiatives which have already been defined:

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

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

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

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

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

In addition to the transposition of the overall framework, the European environment was marked by the establishment of the Banking Union, the main objective of which is to break the link between sovereign risk and bank risk, and which implies a substantive change in the European institutional architecture.

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

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

We are at a key stage of the regulatory reform process, in which the design phase is coming to an end and the implementation phase is beginning. National, regional and international authorities, however, continue to face significant challenges.

On one hand, they need to agree on the design of the final pieces, but no less important, regulatory reform:

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

2. The debate about greater consistency and a better awareness of risks in capital models is intensifying. In this regard, the regulators will propose measures to limit inconsistencies in the calculation of risk-weighted assets.

3. International bodies will propose solutions to ensure greater control of shadow banking and expand the scope of the regulated financial system.

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

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

6. The European framework will also strengthen customer protection with the technical development of the Markets in Financial Instruments Directive (MiFID II) which, among other measures, strengthens information to retail customers.

7. Finally the European Commission has prioritised the creation of a Capital Markets Union for the next term.

Moreover, the phase of economic recovery has begun and requires regulation to be calibrated in order to meet the financing needs of the real economy, especially in Europe. In this respect, regulators are encouraging financing to SMEs, the engine of economic growth, and avoiding excessively penalising certain financial instruments, such as simple and transparent securitisations. The European authorities are expected to take into account the needs of the current economic environment and to adjust the regulation accordingly in the coming months.

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

Implementation of the legislation

Banco Popular has the organisational structures, procedures and systems needed to comply with the applicable laws and anticipate new regulations, thereby minimising the impact on its business.

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

Additionally, the Bank maintains regular contacts with the supervisors and regulators in all of the markets where it does business. It thus ensures an understanding and strict compliance with all applicable regulations and it cooperates with regulators so that new legislation will contribute to driving the development of economic activity and ensuring financial stability.

Finally, regulatory anticipation and monitoring is framed within the Bank’s Corporate Governance processes.

OPERATIONAL RISK

The Banco Popular Group has adopted the definition of operational risk in the new Basel II Accord (2004): "the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events". The Group's overall management of this risk includes the design of procedures to identify, evaluate, monitor and mitigate/control impacts on the organisation. This definition includes legal risk but it excludes strategic and reputational risks.

Operational risk management model

Senior Management approved the "Framework for Managing Operational Risk" which includes the design of policies and functions for the development and implementation of methodologies and tools that will permit better management of the Group's operational risk.

The management cycle for operational risks defined by the Banco Popular Group is divided into the following phases:

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

Evaluation Phase: Regular evaluation of residual or net risk through a self-evaluation of the risks and the points of control in all areas at the Bank, whether business or support related, in order to identify the residual risk to which each area is exposed and, therefore, the Bank's risk profile. In this connection, the general operational risk mitigation policy requires all areas or offices to prevent or mitigate all significant operational risks, with a general approach of low tolerance to residual risk.

Monitoring Phase: Consists of verifying the evaluation of the operational risks using tools with the following functionalities:

> **Capture of event data:** Tasks intended to establish criteria and a process for feeding a database that collects information on losses due to operational risk events, classifying them into lines of business and types of events defined by Banco de España. In this sense, it is creating a historical database of operational risk events since January 2004. Also, since December 2006 the Group has been a member of ORX (Operational Riskdata Exchange Association), an international consortium that maintains a database to which the main financial institutions around the world contribute events, and we participate in the Spanish Service by exchanging data on a quarterly basis.
>
> This capturing of events helps to identify risks to be taken into consideration in the risk maps of the various areas.

Mitigation/Control Phase: Risks considered to be unacceptable after their evaluation, or those which have accumulated losses that exceed an acceptable minimum, are analysed by the branch offices or by the Operational Risk Committee in order to make any appropriate proposals for the preparation of an action plan to both prevent loss events and to minimise their impact in the case of occurrence. These action plans materialise through the establishment of new procedures or improvements to existing procedures, the implementation of preventive or mitigating controls or the transfer of risk through insurance policies or the outsourcing of certain activities. The New Product Committee is responsible for preventing operational risks in the various phases of marketing.

Measurement Phase: Calculation of equity requirements for operational risk. Initially, Banco Popular Group has chosen to apply the standard method established in Basel II to calculate the capital required for operational risk, and whose methodology was approved by Senior Management. However advances are being made to be in a position to apply an advanced method in the future. The Bank is establishing the foundation and the methodologies for the future implementation of a loss estimation and calculation model for financial capital based on internal and external data and qualitative scenarios.

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

Organisational model for Operational Risk

The responsibility for implementing and executing the operational risk management cycle is the primary objective of the operational risk office at Banco Popular Group, which forms part of the Model, Policy and Integration Office, which in turn reports to the Model and Capital Office, although the responsibility for managing this risk rests in each area. Accordingly, training courses are given and frequent meetings are held with all areas in order to make the entire organisation aware of knowledge, monitoring and control of this risk in order to mitigate any impact on commercial activities and operational processes. Operational risk managers/coordinators were appointed in each unit within the organisation.

Since 2008 there has been an operational risk committee which meets quarterly and in which notable areas of the Group participate. This committee has the basic function of overall control and management of operational risk within the organisation and it is therefore responsible for the operational risk management and monitoring process from an overall perspective. This committee also regularly reviews the base document for the "Operational Risk Management Framework", which is submitted for the approval of Senior Management when deemed necessary.

Quantitative data regarding operational risk

Figure 48 indicates the number of operational risk events in 2014 broken down by event categories as established by Basel II. Similarly, Figure 49 shows the distribution of net loss by operational risk in 2014 within those event categories.

Figure 48: Number of events

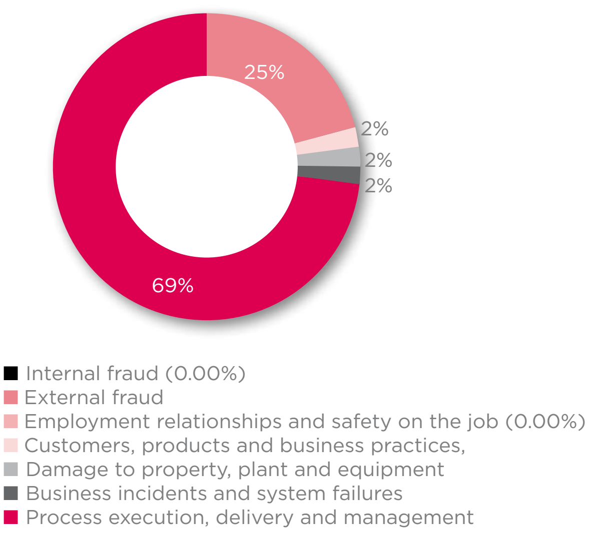
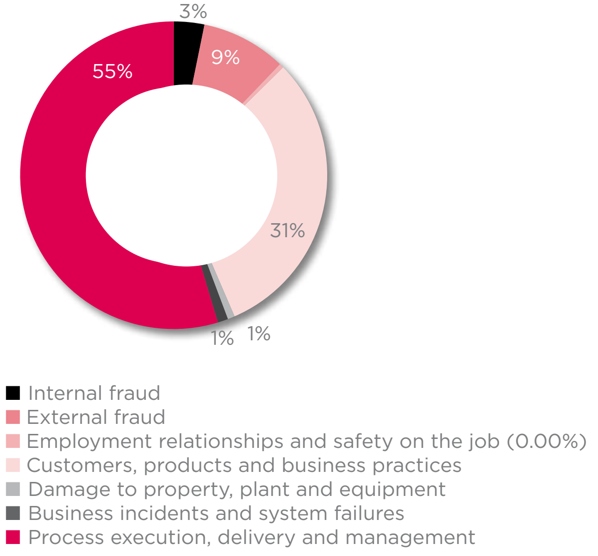


Figure 49: Net loss (%)



REPUTATIONAL RISK

It can be defined as that arising from the negative perception of the Bank by the various stakeholders with which it relates or by public opinion, which could cause an adverse impact on the capital, on the results or the development of the businesses making up its activity.

It is a risk which arises from the materialisation of other risks. Legal, economic-financial, operational, ethical, social and environmental factors may influence in reputational risk and could cause a loss of confidence in the institution. Mitigating this risk lies with everybody involved in the Bank. Banco Popular controls it globally, including all the Bank's integrated entities.

The Compliance area is responsible for identifying and assessing potential reputational risk that may result in Banco Popular proposing, if necessary, corrective measures to relevant detected incidents in order to eliminate or minimise its impact, reporting periodically to the Governing Bodies and Bank Management.

COMPLIANCE RISK

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

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

The Office for Regulatory Compliance, under the Vice-Secretary of the Board and Regulatory Compliance, as a centralised and functional unit of continuous compliance monitoring, is responsible for assessing and managing the risk of non-compliance related to transparency, customer protection and rules of conduct in the areas of: markets, market abuse, customer banking products and services, protection of personal data and the prevention of criminal risks related to business activities of the Bank; promoting appropriate training to staff on these matters. Also, the Office for Compliance proposes corrective actions on the detected issues, reporting periodically to the Bank's Audit and Control Committee.

10. BANCO POPULAR'S RATING

Stability has been the dominant feature with regard to the evolution of credit ratings in 2014. Over the course of the year, both sovereign ratings and European financial entity ratings have benefited from the gradual improvement in the economic outlook. Concerning European periphery, and more specifically Spain, this has represented a real turning point following years characterised by mistrust that led to macro-evolution, the consolidation and reorganisation process of our financial system and the changing regulatory framework.

Proof of this can be seen in the upgrading of Spain's rating in 2014, for the first time since the crisis hit, by the main three rating agencies (Fitch, Moody's and Standard & Poor's). This improvement, although it has not reversed the damage done by sovereign solvency in recent years, recognises the progress made with regard to fiscal consolidation, promoted by structural reform, the correction of external imbalances and the normalisation of financing costs.

Despite the stabilisation of the macro-economic outlook, the ratings of financial entities are still being handicapped by the fragility of the recovery, pressure on the quality of assets and the decrease in profitability against the backdrop of today's low interest rates. Nevertheless, there are fewer downward risks related to the macro environment and, more importantly, banks are no longer at the heart of the crisis, as had been the case in recent years.

Regulatory development has been one of the catalysts of this improvement. The entry into force of the Single Supervisory Mechanism and the Single Resolution Mechanism represents a shift in the monitoring and intervention process for financial entities; under this scenario, the potential bail-in of subordinated creditors seeks to limit the impact of the contributing factors to potential financial crises. Rating agencies have concurred by highlighting the contribution of the new regulations to strengthening financial stability, primarily on account of solvency improvements, the financing position and greater transparency with regard to asset quality.

In summary, in the opinion of the agencies, entities are now more solid and better regulated; however, given the resolution regime, creditors of said entities receive less support from States and will be more exposed to potential loss. To this end, in 2014, the agencies announced their intention to remove sovereign support included in the *ratings* awarded, to a greater or lesser extent, throughout 2015. It is worth noting that these reductions would affect the majority of European banks as a whole and that they are currently responsible for the negative outlook that weighs down most of the financial system.

In parallel, the three main agencies have issued methodological proposals that seek to include the option of improving the senior protection rating that provides for the potential bail-in of subordinated creditors. Likewise, they include the separate default risk of the various hybrid or debt instruments within the capital structure of entities. Although these methodologies are still in the consultation phase, in specific cases, they could partially compensate for the removal of state support.

In this context, stability also explains the evolution of Banco Popular Español's ratings in 2014. Banco Popular has credit ratings from the four internationally recognised rating agencies: Moody's, Standard & Poor's, Fitch Ratings and Dominion Bond Rating Service (DBRS). Banco Popular's ratings include considerations for the entity's risk profile and its ability to absorb losses, backed both by the sustained improvement in solvency and our tested ability to generate recurrent revenues. The solidity of our franchise, our business model focussed on SMEs and our retail resource-dependent financing profile have also all been taken into account. At a system level, ratings also include the aforementioned improvement in the operating environment. As previously mentioned, the negative outlook associated to the *ratings* reflect global regulatory considerations given the gradual withdrawal of state systemic support.

Table 57: Rating agency credit ratings

AGENCY	LONG-TERM	SHORT-TERM	OUTLOOK
DBRS	A (low)	R1 (low)	Negative
Fitch	BB+	B	Negative
Moody's	Ba3	NP	Negative
Standard & Poor´s	B+	B	Negative

DBRS: The ratings assigned to Banco Popular by DBRS at 31 December 2014 were A (low) for the long-term and R1 (low) for the short-term. On November 19th, 2014, DBRS reviewed the rating of A (high) granted to Banco Popular, which has remained unchanged since August 2012.
The ratings are underpinned by the strength of our SMEs-oriented franchise in Spain. Our resilience and resistance without the need for state support has been rewarded by DBRS over the course of the recent economic cycles. This business model has allowed us to maintain higher levels of profitability than our peers. In the view of DBRS, the main challenge that the entity faces is maintaining recurrent revenues and reducing problematic assets against a backdrop of fragile economic recovery, deleveraging and low interest rates. DBRS has also rated Banco Pastor, Targobank and Banco Popular Portugal, A (low), A (low) and BBB, respectively. These three entities are considered strategically important.

MOODY'S: Moody's *rating* of Banco Popular's long- and short-term debt and deposits at 31 December 2014 is Ba3 and NP, respectively. Over the course of the year, these ratings have remained unchanged. In its latest report on Banco Popular, published on November 7th 2014, the agency highlighted the strength of our franchise and high relative profitability; it also touched upon the recent strengthening of solvency, the stabilisation of credit quality and improvements to the financing profile. Furthermore, Moody's foresees fewer downward risks deriving from our exposure to SMEs and the macro-economic uncertainty that could affect them.

FITCH RATINGS: Fitch's rating of Banco Popular's long- and short-term debt at 31 December 2014 is BB+ and B, respectively. On 26 March 2014, the agency revised the *rating* of Banco Popular, establishing it at its current level. It is worth remembering that the entity's long-term *rating*s have remained unchanged since September 2012. In its analysis, Fitch stresses the competitive advantage of Banco Popular in terms of profitability, in addition to the improvements in financing and liquidity. Concerning capital, the agency also recognises the significant strengthening of the solvency position over the past two financial years. Amongst the factors limiting the ratings, reference was made to the volume of non-performing assets that have accumulated as a result of the economic crisis.

STANDARD & POOR'S: The ratings granted at 31 December 2014 to Banco Popular Español by Standard & Poor's are B+ for the long-term and B for the short-term. Over the course of the year, the agency revised Banco Popular's ratings four times. The first of which, on 12 February 2014, saw a reduction in the long-term *rating* by one notch to B+. Successive *rating*s (26 April, 4 June and 27 November) served to confirm the *rating*s assigned to Banco Popular. During this period, we have seen an improvement in the perception of the operating environment that positively affects Banco Popular. Thus, in its most recent revision, its vision of Banco Popular remained the same; however, fewer downward risks have been identified both with regard to the macro position and the credit profile and capital projections.

11. SHAREHOLDERS

SHAREHOLDING STRUCTURE

As at 31 December 2014 Banco Popular had 272,237 shareholders, compared with 265,060 at the end of December the year before, which is a 7,177 increase in one year.

Table 58 presents a breakdown of the spread of share ownership and of the percentages of holding in the common stock of the Bank at the end of the last two financial years.

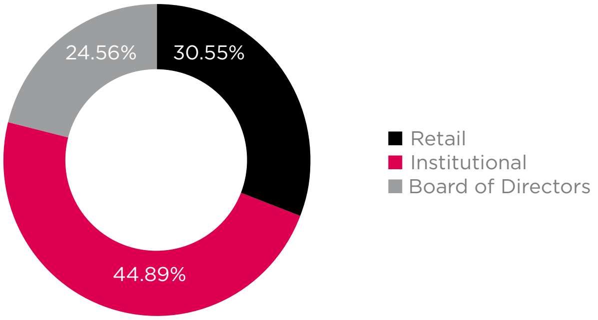
Table 58: Distribution of shareholders - 2014

	NUMBER OF SHARE-HOLDERS	WEIGHT (%)	SHARE CAPI-TAL (%)
fewer than 1,000 shares	169,561	62.29	2.25
from 1,001 to 4,000 shares	66,420	24.40	6.35
from 4,001 to 10,000 shares	22,417	8.23	6.57
from 10,001 to 20,000 shares	7,904	2.90	5.15
from 20,001 to 40,000 shares	3,501	1.29	4.54
from 40,001 to 200,000 shares	2,069	0.76	7.21
from 200,001 to 400,000 shares	157	0.06	2.00
from 400,001 to 800,000 shares	90	0.03	2.32
more than 800,000 shares	118	0.04	63.61
TOTAL	272,237	100	100

Table 58 shows that 94.92% of the Bank's shareholders have less than 10,000 shares. Shareholders with more than 800,000 shares control 63.61% of share capital.

Figure 50 shows the distribution of the Bank's share capital at 31 December 2014. In 2014, the free float stood at 75.44%. The Board has a 24.56% stake in the share capital. Institutional investors hold 44.89%, made up of 40.77% non-residents and 4.12% residents. Retail investors hold 30.55%, of which residents make up 30.24%.

Figure 50: Distribution of capital - 2014



Shareholders that are also Group employees number 10,011, 3.68% of total shareholders, and hold an aggregate stake of 1% in share capital. The Bank's Board of Directors controls 515.9 million shares, 24.56% of the share capital compared with 21.61% in the previous year, including shares owned directly or indirectly by the Directors and those usually represented by them.

The breakdown of the shares controlled by the Board is shown in the following table:

Table 59: Shares controlled by the Board of Directors at the year-end

DIRECTORS	DIRECT	%	INDIRECT	%	REPRE-SENTED *	%	TOTAL	%
Aparicio Valls, Francisco	296,807	0.014	266,808	0.013	1,658,754	0.079	563,615	0.027
Arias Mosquera, José María	156,621	0.007	-	0.000	1,364	0.000	156,621	0.007
Del Valle Ruiz, Antonio	1,882,805	0.090	-	0.000	86,561,071	4.120	1,882,805	0.090
Fradin, Alain	-	0.000	-	0.000	84,579,819	4.026	2	0.000
Fundación Pedro Barrié de la Maza	55,861,081	2.659	-	0.000	-	0.000	55,861,081	2.659
Gómez Martín, Francisco	34,900	0.002	14,682	0.001	1,613	0.000	49,582	0.002
Herrando Prat de la Riba, Luis	3,311	0.000	30,165	0.001	118,848	0.006	33,476	0.002
Higuera Montejo, Roberto	101,138	0.005	-	0.000	-	0.000	101,138	0.005
Molins López-Rodó, Ana María	877	0.000	-	0.000	-	0.000	877	0.000
Oroviogoicoechea Ortega, Jorge	1,612	0.000	-	0.000	-	0.000	1,612	0.000
Revoredo Delveccio, Helena Irene	-	0.000	2,310,455	0.110	-	0.000	2,310,455	0.110
Ron Güimil, Angel	76,955	0.004	-	0.000	3,100,402	0.148	76,955	0.004
Sindicatura de Accionistas de BPE	12,928,329	0.615[2]	193,438,398	9.208	- 0	0.000	206,366,727[2]	9.823
Tardío Barutel, Vicente	14,290	0.001	-	0.000	72,515,501	3.452	14,290	0.001
Unión Europea de Inversiones, S.A.	63,205,613	3.009	-	0.000	-	0.000	63,205,613	3.009
Total: (direct and indirect)	134,564,341	6.405[2]	132,854,895	6.324	248,537,372	11.831	267,419,236[2]	12.730
Voting rights habitually represented[1]							248,537,372[1]	11.831[1]
Total shares							**515,956,608**	**24.560**

(1) Shares represented: This table does not include a breakdown of the shares habitually represented by the members of the Board of Directors, which account for approximately 11.83% of the share capital. Of that percentage, the following interests are noteworthy: 4.120% of the business group represented by Mr. Antonio del Valle; 4.026% Crédit Mutuel Group, represented by Mr. Alain Fradin; 3.452% of the Allianz group, represented by Mr. Vicente Tardío; the rest, namely the 0.232%, corresponding to the shareholding of various families, represented by several directors.

(2) Indirect stake held by Sindicatura de Accionistas de BPE: The calculation of the indirect interest held by the Sindicatura de Accionistas de BPE includes 63,205,613 syndicated shares owned directly by Unión Europea de Inversiones, S.A. These shares were deducted from the calculation of the total number of shares and the percentage of voting rights controlled by the Board of Directors in order to prevent duplication.

SHARE CAPITAL

The following table gives the breakdown of the changes in share capital during the course of 2014, indicating the type of transaction:

Table 60: Share Capital - 2014

	TRANSACTION		SHARE CAPITAL
Date [1]	Type	No. of shares	No. of shares
31.12.2013			**1,896,551,960**
23.01.2014	Notes conversion (MCN IV/2012)	3,977,723	1,900,529,683
27.01.2014	Notes conversion (MCN I/2012)	158,892,388	2,059,422,071
26.02.2014	1st dividend charged to 2013	14,399,623	2,073,821,694
20.03.2014	Notes conversion (MCN II/2012)	66,513	2,073,888,207
08.05.2014	Notes conversion (MCN III/2012)	15,916,745	2,089,804,952
24.06.2014	Notes conversion (MCN II/2012)	30,005	2,089,834,957
22.07.2014	Notes conversion (MCN IV/2012)	3,162,555	2,092,997,512
31.07.2014	1st dividend charged to 2014	3,378,856	2,096,376,368
25.09.2014	Notes conversion (MCN II/2012)	21,169	2,096,397,537
17.10.2014	2nd dividend charged to 2014	4,308,921	2,100,706,458
12.12.2014	Notes conversion (MCN II/2012)	62,518	2,100,768,976
31.12.2014			**2,100,768,976**

1. Date on which shares were registered

After these transactions, the share capital of Banco Popular was €1,050,384,488.00 at the end of 2014 represented by 2,100,768,976 shares represented by book entries and with a par value of €0.50 each.

The shares are listed on the four Spanish Stock Exchanges and are traded on the Spanish computerised trading system. Banco Popular shares are included in the Madrid Stock Exchange General Index (IGBM), with a weighting of 1.72% of the total and in the Ibex 35 index, which comprises the thirty-five most liquid stocks in the Spanish market, with a weighting of 1.82%.

SHARE PERFORMANCE

2014 ended with the equity indices showing mostly positive balances.

Geographically, the revaluation of US indices is to be highlighted and, in particular, the S&P 500, which was up 11.39%, marking a new annual record high close.

In Europe the results were mixed. Portugal and Greece were down an average of 28%, while the German DAX and the Ibex 35 indices finished in positive territory, with increases of 2.65% and 3.66% respectively. The European indices Euro Stoxx and Stoxx 50 increased by 1.2% and 2.9%.

There have been various factors that have affected these indices, both geopolitical (the Ebola outbreak, crisis in Ukraine) and macro-economic (evolution in China, uneven growth in euro zone countries) in nature, in addition to those arising from these factors (oil price evolution, political situation in Greece).

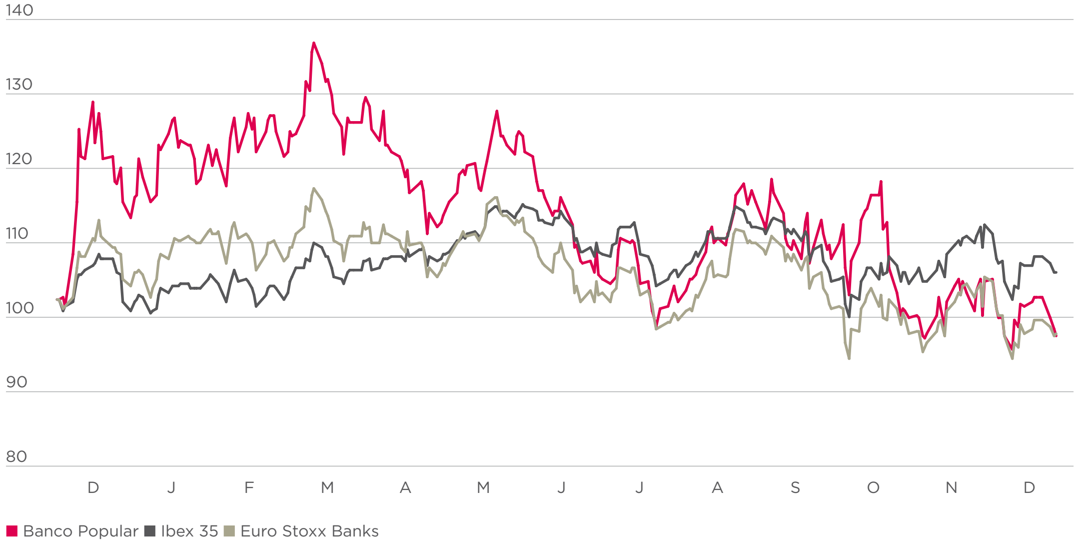
European Central Bank decisions have also affected the markets and, in particular, the application of both conventional tools of monetary policy (movements in interest rates) and unconventional (TLTRO, implementation of new debt purchasing programmes).

At a European banking sector level it should be noted the publication of the AQR results and the stress test carried out in advance of the Single Supervisory Mechanism (SSM) starting, under which the European Central Bank (ECB), from 4 November, assumed the responsibility of being the single banking supervisor. The sector index for the euro zone (SX7E) ended the year with a fall of 4.89%.

Regarding Banco Popular's shares, the annual balance has been negative with a fall of 5.13%, trading at €4.16 per share at year end.

Figure 51 plots the variations in the Banco Popular share price compared with the Ibex 35 and the European banking sector in the Euro Stoxx 50 in 2014:

Figure 51: Variations in the Banco Popular share price compared with the Ibex 35 and the European banking sector



The breakdown of the main stock market data regarding Banco Popular is set out below:

Table 61: Indicators of interest

	31.12.2014	31.12.2013
Shareholders and listed price		
Number of shareholders	272,237	265,060
Number of outstanding shares (thousands)	2,100,769	1,896,552
Closing listed price (euros) [1]	4.160	4.385
Undiluted market capitalisation (thousands of euros) [2]	8,739,199	8,316,381
Maximum price during the year (euros)[1]	5.918	4.450
Minimum price during the year (euros) [1]	4.082	2.355
Trading volume		
Average daily trading (thousands of shares)[3]	18,315	52,535
Average daily trading (thousands of euros)	90,210	67,950
Market ratios		
Book value per share [4]	5.97	5.94
Price/Earnings (annualised)	26.47	32.04
Price/Book value	0.70	0.74

(1) Closing listed price
(2) Calculated on the shares in circulation
(3) Calculation of shares traded on the market, without serial adjustment prior to the reverse stock split
(4) The calculation includes the amount of mandatory convertible shares and diluted shares

Banco Popular's market capitalisation at 31 December 2014 increased to €8,739 million.

Trading in Banco Popular shares during the year continues to reflect their high liquidity. The shares were traded in 255 market sessions, with an average daily trading volume of 18,315,000 shares.

DIVIDEND POLICY

Banco Popular's Board of Directors agreed, during 2014, to the distribution of the following dividends, under the programme "Un dividendo a su medida" (A tailored dividend):

Table 62: Paid dividends at 2014 (Amounts in euros)

TYPE	PAYMENT DATE	EX COUPON DATE	EXCHANGE RATIO	GROSS AMOUNT	NET AMOUNT
1st	18.07.2014	30.06.2014	1x534	0.01000	0.00790
2nd	16.10.2014	26.09.2014	1x414	0.01200	0.00948

Table 63: Paid dividends at 2013 (Amounts in euros)

TYPE	PAYMENT DATE	EX COUPON DATE	EXCHANGE RATIO	GROSS AMOUNT	NET AMOUNT
1st	19.02.2014	31.01.2014	1x126	0.04000	0.03160

The programme "Dividendo Banco Popular: Un dividendo a su medida" (Banco Popular Dividend: A tailored dividend) programme, offers shareholders the choice between receiving newly-issued shares or a cash amount equivalent to the dividend in each respective period.

12. TREASURY SHARES

Banco Popular's operations involving treasury shares in 2014 have adjusted to the recommendations made in this respect by the CNMV.

Banco Popular's treasury share portfolio is intended to provide adequate liquidity and depth for investors when trading its shares, as well as to minimise any imbalances between supply and demand in the market. It also seeks to avoid price variations that are not due to market trends.

The treasury share balance started with 0 shares. In 2014 the maximum amount of treasury shares held by the group totalled 0.52% of share capital on 15/05/2014, while at 31 December 2014 Banco Popular held treasury shares totalling 0.04% of Share Capital. The average balance throughout the year was 0.08% of share capital.

Operations with treasury shares did not have any impact on the Bank's net profit as they are directly recognised in reserves. The change in the treasury share balance had an additive effect in 2014 totalling 0.04% in earnings per share, calculated based on the year-end share capital, and involved of 2,100.8 million shares.

To obtain more detailed information regarding the treasury share policy, the registration document is available to the public at the CNMV.

(http://www.cnmv.es/Portal/consultas/DerechosVoto/PS_AC_INI.aspx?qS={f9d94e4c-2e2a-45c1-8ecc-d310ce577990}, Notificaciones sobre acciones propias (Autocartera))

Table 64: Variations in the treasury share portfolio in 2014

	NO. OF SHARES	PAR VALUE (IN EUROS)	AVERAGE PRICE (IN EUROS)	% OF SHARE CAPITAL
Balance at 31 March 2014	-	-	-	0.000%
Balance at 30 June 2014	85,000	42,500	5.994	0.004%
Balance at 30 September 2014	-	-	-	0.000%
Balance at 31 December 2014	805,026	402,513	4.292	0.038%

13. EVENTS AFTER THE REPORTING PERIOD

The following significant events have occurred since year-end:

On 8 January 2015, the third capital increase charged against 2013 reserves was approved and its conditions were reported to the market. On 27 January 2015, the period for negotiating allocation rights for the third capital increase ended. This led to the a capital increase of €3,751,066.50 (through the issue of 7,502,133 new shares each with a nominal value of €0.50) with 84.28% of the shareholders holding free allocation rights having chosen to receive new shares. The remaining 15.72% free allocation rights holders exercised the irrevocable commitment to acquiring rights assumed by the Bank, whereby it acquired 330,265,254 rights for a total gross amount of €5,944,774.57. The Bank renounced the free allocation rights acquired in this way.

14. ENVIRONMENT

In accordance with Note 12 of the Financial Statements, the Bank considers that it has taken appropriate action in relation to the protection and improvement of the environment and the minimisation, where appropriate, of the environmental impact. Even so, given the activities in which the Group is engaged, it has no liabilities, expenses, assets, provisions or contingencies of an environmental nature that could be significant in relation to its assets, financial position or results. In addition, Annex 3 "Environmental Dimension" in the Integrated Report for 2014 provides details of the environmental policy followed by Banco Popular Group, which is summarised below.

The Environmental Committee, which reports directly to the Board of Directors through its Appointments Committee, is responsible for establishing the objectives in this area each year and for ensuring that they are met, performing the task of promoting and supervising the environmental management of the Bank's activities.

In 2013, the implementation of the 2014-2020 Eco-efficiency Plan was approved, pursuant to the principles set out in the Group's environmental policy. The goal of the Eco-efficiency Plan is to reduce the Entity's environmental footprint by reducing energy consumption and ensuring optimum waste management, thus establishing the Bank as a company committed to its surroundings.

INTERNAL ENVIRONMENTAL DIMENSION

The internal environmental dimension of the Corporate Responsibility Master Plan, Horizon 2020, establishes lines of action to be pursued in order to reduce the Bank's environmental impact. To this end, the Bank's initiatives in 2014 focused mainly on three areas: resource consumption, waste management and emissions produced.

Energy

The 4% reduction in internal electricity consumption in 2014 was due, among others, to the following:

- **Single buildings.** In 2014, 100% of the habitable space in the Edificio Abelias was occupied. The 1,700 employees who work there –12.2% of the Bank's employees in Spain– have seen improvements in their workstations, leading to greater comfort and less energy consumption. In addition, the own energy generation system installed in the building has entailed production of 162 GJ.

  Edificio Abelias achieved LEED Gold certification in 2013 as a sustainable building that complies with the most innovative energy efficiency measures. Pursuant to the Group's commitment to promoting sustainable buildings, the future construction in Madrid of Edificio Luca de Tena, which will have twice the capacity of Edificio Abelias, complies with the LEED Gold certification process. Under this regulatory framework, in 2013, the old existing buildings were demolished and in 2014 construction work started 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 resulted in a saving of 372,905 kW compared to 2013 -11% less-, preventing the emission of 202 tonnes of CO_2.

- **Lighting systems.** The LED lighting systems located in the Bank's various single buildings and offices, in addition to the installation of building automation systems have managed to reduce electricity consumption. In addition, reflective vinyl or low solar radiation glass was used to improve the quality of each workstation.

- **Efficient office equipment.** In 2014, equipment was introduced into various branches and single buildings to manage energy consumption more efficiently. For example, the Bank installed air conditioning units with a heat exchange efficiency of 60% and lifts that consume 50% less energy than conventional ones.

The energy initiatives are supplemented with a firm commitment to renewable energy given that 100% of the electricity consumed in Spain is from renewable sources. In the case of Portugal, 68% of the electricity consumed comes from renewable energy sources.

Paper

The Group puts various initiatives into practice at its facilities in Spain in order to reduce its paper and cardboard consumption. Of note in 2014 were the following:

- Reduction in weight of paper consumed
- Fewer envelopes sent to customers
- Centralised printing and employee awareness
- Responsible procurement: recycled paper (81%) and 100% recycled cardboard
- Recycling

Emissions

Total direct and indirect emissions in 2014 amounted to 12,535 tonnes of CO_2, down 24% from 2013. The steps that made this reduction possible were the following:

- Green energy
- Employee travel
- Paper consumption
- Offsets

Other

Other smaller scale initiatives to reduce our environmental impact have also been implemented involving water, toner and used plastic consumption in addition to waste management.

EXTERNAL ENVIRONMENTAL DIMENSION

Employee training and awareness

With environmental training and awareness initiatives, Banco Popular seeks to involve all its staff in following practices aimed at sustainable development in their day-to-day activity. The most effective communications tools are used in each case at Banco Popular: Intranet, the *Canal Popular* newsletter and the "*con tu ayuda*" portal.

Of the initiatives carried out in 2014, the following are worth particular mention:

- Information on and promotion of sustainable initiatives among employees
- Turning-off of lighting of the Bank's most emblematic buildings.
- Environmental awareness to suppliers through the Supplier Approval System.

Environmental initiatives

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

BANCO POPULAR OFFSETS, FOR SECOND CONSECUTIVE YEAR, 100% OF ITS DIRECT CO_2 EMISSIONS IN SPAIN

In 2013, Banco Popular was the first company on the Ibex 35 to 100% offset its direct emissions of CO_2 in Spain, thus becoming a CO_2 neutral emissions entity derived from scope 1 and 2. In 2014, the result of its continuing commitment to the environment, returns to enforce these two achievements: firstly, all electricity purchased and consumed in Spain has come from renewable sources and, secondly, Banco Popular has offset 100% of direct CO_2 emissions in the country.

This offset of emissions was done by contributing to the Community Reforestation project in Limmay, Nicaragua, the objective of which is to combat deforestation caused by climate change through the implementation of agro-forestry systems which contribute to strengthening the region's economy. Thus, Banco Popular has won for the second consecutive year the ZeroCO$_2$ label promoted by the Ecology and Development Foundation.

15. PERSONNEL MANAGEMENT

This section is developed upon in Annex 2 Social Dimension of the Integrated Report for 2014. Below, the most relevant aspects of human capital management and social commitment development can be found.

INTERNAL SOCIAL DIMENSION: HUMAN CAPITAL

The mission of Human Resources is to align the policies intended to manage human capital at the Bank with the entity's corporate strategy. To do so, it attempts to attract personnel with suitable potential and to contribute to their development through training and teamwork experience in order to provide maximum value to the organisation. Employees at the Group acquire a sufficient level of knowledge to assume responsibility from their first years of employment, acquiring a high degree of autonomy in their daily work and committing to projects and attaining results.

Selection and hiring

The Selection office exercises its duties based on a model of selection by competency with maximum respect for the principle of non-discrimination and equal opportunities. To this end, in 2014 the Group was not involved in any incident involving discrimination in any setting.

Furthermore, in 2014 initiatives have been taken to directly hire individuals with disabilities. Notably through the continuity of the "Convenio Inserta" (Insertion Agreement) and the publication of job vacancies on Fundosa and disJob, a website seeking employment for persons with disabilities.

In 2014, the Group had 15,321 employees. Therefore, and despite the economic backdrop, the Bank continues doing its utmost to retain staffing levels, deriving in large part from the decline in headcount resulting from non-traumatic processes, such as retirement, early retirement and employees transferred as a result of corporate operations.

Due to its commitment to people, Banco Popular has preserved the maximum of the Group's human capital, managing to be one of the financial institutions that has not carried out any Redundancies since the beginning of the financial crisis, despite the integration of Banco Pastor and part of Citibank Spain's staff into its human capital.

Personnel management

Personnel management allows for a high level of knowledge and contact with employees thanks to a decentralised structure that includes the persons responsible for Human Resources at both Central Services and at each regional headquarters. It provides continuous communications through interviews and the implementation of tools and plans that facilitate management between employees and the Bank. Each Human Resources manager handles an average of 45 offices located in the surrounding geographic area, which facilitates contact, getting to know people and constant communications.

The management interview is the primary tool used by the Bank to deepen its knowledge of its employees. It involves a detailed interview with a standardised structure and the results are included in an electronic report. This allows the information resulting from the interview to be processed and the professional trajectory of each employee updated.

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

Equal treatment and opportunities for men and women constitutes a fundamental principle that cannot be waived and its application is reflected in all of the Group's policies and actions. To this end, the Equality Plan was enacted in 2008 comprising 52 initiatives such as the creation of an Equality Committee responsible for ensuring compliance with the plan and evaluating its development.

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

Since 2011, the "Impulsando Talento" programme has strengthened the creation of a pool of future executives in specialised areas that are identified and linked to both the Bank's development project as well as to its corporate values. This programme is intended for recent university graduates with postgraduate degrees and no professional experience, coming 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.

Banco Popular has a Competency Performance Evaluation model that is used to evaluate employees, train them and develop their talent in order to differentiate their compensation. This system allows the performance of each professional at a specific stage of their career to be measured or, if appropriate, reclassify the employee to a different stage in accordance with the indicators resulting from the evaluation.

Compensation

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

In addition to retribution and the various variable components, monetary remuneration for employees is supplemented by a series of social and financial benefits that translate into cash compensation. There is also an intangible portion that is offered within the compensation plan and it operates as a source for attracting and retaining talent: development and environment.

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

Social benefits

There is a Group Employee and Family Guide to Social Benefits that is updated and revised regularly indicating each benefit provided by Banco Popular.

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

Participation (relationships with trade unions)

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

Safety and health

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

In 2013 the Occupational Risk Prevention Plan 2013-2018 was approved and is intended to include all actions relating to this area within a framework defined by the Group's preventive policy.

This policy is supplemented by the creation of a *Prevention Management Manual*, which includes working procedures and operating instructions relating to the prevention of occupational risks. All new employees are provided with a copy of this manual, which is also available on the Employee Portal.

In 2014 the efforts to implement the various emergency and evacuation teams at our buildings continued with relevant training and the required evacuation simulations. This is intended to accustom employees to using emergency exits and teach them the appropriate conduct which, in an emergency, will allow them to quickly evacuate the premises in an orderly fashion, and to verify the application of the emergency plans and the proper operation of available measures.

The Group carries out various types of action to monitor occupational health and accident prevention. Since 2010 Banco Popular has also been a signatory of the European Roadway Safety Letter, a platform that is intended to decrease accidents on European roadways.

EXTERNAL SOCIAL DIMENSION: SOCIAL INVESTMENT

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

The Bank invests in non-profit organisations and foundations of recognised prestige in the beneficiaries' local areas with a view to ensuring its social initiatives and the effectiveness of its contribution benefit reach as many people as possible. Banco Popular's social initiatives are channelled pursuant to the principle of not promoting any initiative, but assisting those that promote them. The Bank is most active where it directly pursues its activities and where assistance with development is most needed, regardless of whether commercial relationships exist with the benefiting area.

The Banco Popular Foundation

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

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

16. RESEARCH AND DEVELOPMENT

Banco Popular Español continues to be committed to research development and technological innovation activities. Throughout 2014 it made payments totalling €51 million to new projects and the development of projects that started in prior years.

The main projects revolve around five axes:

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

In 2014, expenses totalling €32,907 thousand were capitalised related to three strategic projects that are being developed in the fields of infrastructure management, accounting and customer information.

These projects comply with the requirements to be recognised as an intangible asset and based on their estimated useful life they have been assigned a 10-year amortisation period.

- **VEGA Project.** Implemented in 2014, this project involves transforming IT infrastructure management at Banco Popular. It seeks to improve and make the operational efficiency of said infrastructures more flexible by outsourcing to IBM and implementing a new management model. This will ensure the technological evolution needed by the Bank in line with its growth plan, thus maintaining and safeguarding IT service quality at all times.

- **Customer Platform Project.** Implemented in 2011, 2014 saw the beginning of Phase II, as part of which work will continue to integrate the customer service interfaces of channels not yet addressed into a new multi-channel interface providing a full and shared online view of the customer's situation and transactions completed or pending with them.

- **SICYF Project.** This project began in 2011 and 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) in order to ensure success in the decision-making process and guarantee efficiency and control generating and exploiting information that is critical to the Bank. This new architecture encompasses the implementation of new developments that amend all the Bank's applications and processes; as a result, the overall functioning of the Bank's activities will be significantly different.

Table 65: Breakdown of capitalised expenses in 2014 (Amounts in thousands of euros)

	INTERNAL EXPENSES				
	PERSONNEL EXPENSES	GENERAL EXPENSES	SUBTOTAL	EXPENSES EXTERNAL	TOTAL
Customer Platform Project	1,898	170	2,067	9,981	12,048
SICYF Project	1,815	205	2,019	8,268	10,287
VEGA Project	0	0	0	10,572	10,572
Total capitalised expenses	3,712	374	4,087	28,820	32,907

GLOSSARY OF TERMS

DOUBTFUL ASSETS	Assets whose owner is insolvent or the assets of an owner whose outstanding balances on their non-performing/ write-offs transactions exceed 20% of its outstanding receivables exposure.
SUBJECTIVE DOUBTFUL ASSETS	Problematic assets for which there is reasonable doubt as to their collection in the terms established by contract. Includes, among others, the following situations: borrowers with financial difficulties, delays any payment of principal and interest instalments, refinancing due to counter-party difficulties, loans to borrowers that are undergoing restructuring or settlement processes with other credit institutions.
IMPAIRED FINANCIAL ASSETS	A financial asset is deemed to be impaired and its book value is adjusted in the accounts to reflect the effect of that impairment, when there is objective evidence that there has either been a negative impact on the future cash flows that were estimated at the time of recognition, in the case of loans or debt instruments, or the book value cannot be recovered in the case of equity instruments.
NON-PERFORMING LOANS	Problematic assets whose principal or interest is outstanding for more than 90 days.
SUBSTANDARD ASSETS	Assets which, without meeting the individual criteria for classification as doubtful or write-off, show weaknesses that could entail losses for the Bank which are higher than the coverages for impairment of the specially monitored risks.
AVERAGE TOTAL ASSETS	Calculated as the simple average of total assets in two consecutive annual balance sheets for a financial institution.
AVERAGE TOTAL RISK-WEIGHTED ASSETS (ARWA)	Sum of the value assigned to the assets of the Bank or financial institution that are subject to risks and deriving from the multiplication of the book value of each asset by the respective risk weighting coefficient.
TREASURY SHARES	Company portfolio of its own shares purchased on the market under conditions authorised by the General Shareholder's' Meeting.
BASIC EARNINGS PER SHARE	Basic earnings per share are calculated by dividing the net results attributable to the Group for the year by the weighted average number of shares in that year, excluding, where appropriate, the treasury shares held by the Group during that year.
DILUTED EARNINGS PER SHARE	Calculated in a manner similar to basic earnings per share but the weighted d average number of shares is adjusted to take into account the potential dilution effect of stock options, *warrants* and convertible debt in effect at the year end. It is a measure used to analyse balance sheets with respect to earnings per share over a certain period of time.
MARKET CAPITALISATION	The value that the market attributes to a company, expressed as the product of the number of shares outstanding by listed price.
MORTGAGE COVERED BONDS	Fixed-income securities issued by credit institutions or mortgage credit companies that are secured overall by mortgage loan portfolios held by the issuing entity. The volume of issued bonds cannot exceed 80% of the overall value of the eligible loans in the mortgage portfolio, in accordance with the definition provided by the Mortgage Market Act.
ECONOMIC CYCLE	Long-term change in the economic activity of a country measured by macroeconomic indexes. The cycle is called expansive when there is economic growth and recessive when activity contracts and production and employment falls.
RECEIVERSHIP	Procedure for resolving current or imminent insolvency situations affecting a company or an individual in cases in which the party is not able to comply with obligations. The objective is to satisfy creditors without complete liquidation. The situation may be invoked by the borrower or any creditor.
CONVERTIBLES	Hybrid debt and capital bonds that pay interest to the investor and also provide the option or requirement to convert into shares.
GOVERNMENT DEBT SECURITIES	Fixed-income securities issued by a State, other territorial entities (Autonomous Regions, etc.) and public entities.
DIVIDEND	The portion of net profit that is distributed among shareholders based on the resolution adopted by shareholders at a General Meeting.

DURATION	In general terms, indicates the average life of a fixed-income security (calculated by discounting expected cash flows, weighted based on the amount and the time remaining until receipt). It also serves as an instrument to measure the sensitivity of a bond price to changes in interest rates (thus offering a measurement of risk). The duration also indicates at what time in the life of a bond it may be sold to neutralise the risk of interest rate changes, i.e. at that date there is no interest rate risk.
INVESTEE COMPANIES	A company is understood to be an associate when it is not a group company in accordance with the definition, but a company or one or more of its group companies exercises significant influence over that investee company due to holding a stake intended to contribute to its activity and when it creates a lasting association.
EURIBOR	The reference rate published daily indicating the average interest rate at which financial institutions offer money on the euro interbank market (i.e. to other banks).
EQUITY	The contributions made by owners or shareholders, the amounts generated by the company's activity that have not been distributed and those contributed by third parties without any repayment requirement. In accounting terms this item consists of share capital, reserves, profits pending application, profit for the year and non-repayable subsidies.
NON-CONTROLLING INTERESTS	Net amount of the equity of subsidiaries attributable to shareholders outside of the Group (i.e. the amount that is not directly or indirectly attributable to the parent company).
LOAN TO VALUE (LTV)	In mortgage transactions, the amount of the loan with respect to the appraised value of the property serving as collateral.
GROSS MARGIN	Net interest income plus: net commissions, dividends received for equity consolidated companies, results from net financial activities, differences on exchange and other operating income and expenses.
CUSTOMER SPREAD	This is the difference between the average rate that a bank pays for customer deposits and the average rate that it receives for customer loans.
NET INTEREST INCOME	Difference between interest income and interest expenses. This is mainly the difference between what is received for loans and what is paid for deposits.
NET OPERATING INCOME	Ordinary income less operating expenses (personnel costs, other overhead and depreciation). It is the best reflection of the evolution of the Bank's business.
PREFERRED SHARES	Financial assets that have fixed-income and equity characteristics. Their owners are entitled to predetermined non-cumulative remuneration subject to the condition that sufficient distributable profits are obtained by a company (other than the issuer) that acts as a guarantor, or by the Group to which it pertains. In the order of credit priority they fall behind all common creditors and subordinated creditors. They are only ahead of ordinary shares. The Group is characterised by very limited distribution through retail networks.
PRICE/EARNINGS	Proportion between the listed price for a share and the Diluted earnings per share. Conceptually, it expresses the value placed by the market on the company's capacity to generate profits.
RISK PREMIUM	The higher yield that an investor requires from an asset for accepting higher risk compared with assets considered to be risk-free (generally employed as a reference for government debt over the term of the investment).
PROJECT FINANCE	Position with respect to a company (commonly a specialised management company) created specifically to finance and or operate physical assets and the source of repayment of the obligation lies in the income generated by the assets more than the independent capacity of the company as a whole.
CREDIT LOSS PROVISIONS	Concept that includes both the amount of value adjustments due to reversible losses applied to current and non-current loans, as well as the amounts used to cover losses that are expected to arise on the loans.
BASIS POINT	100th of one percent, i.e. 0.01%. Used to indicate changes in interest rates (basis points are added or subtracted from the rate of reference).
BIS RATIO	The ratio between computable equity of an entity (both Tier 1 and Tier 2) and total risk-weighted assets, in accordance with Regulation EU 575/2013 (CRR).
LOAN TO DEPOSIT RATIO (LTD)	This ratio shows the Bank's capacity to finance its loans without recurring to wholesale financing.
LEVERAGE RATIO ACCORDING TO CRR	Ratio of Tier 1 resources and the Bank's total exposure, calculated using the criteria established by Regulation EU 575/2013.
COVERAGE RATIO	Proportion to which provisions cover the transactions classified as doubtful and in default.
OPERATING EFFICIENCY RATIO	Ratio of operating expenses (personnel costs and other overhead)/gross margin (all income obtained by the Bank).
NON-PERFORMING LOANS RATIO	Ratio of the sum of doubtful transactions and defaults and balances subject to credit risk.
ELIGIBLE EQUITY	This primarily consists of those equity items that may be immediately used without restriction to cover risks or losses as soon as they arise, and they are characterised by their stability and permanence over the long-term.
AVERAGE EQUITY	The arithmetical average over the past 12 months of book equity, excluding profits.
RETURN ON ASSETS (ROA)	The ratio of consolidated results/total average assets. This ratio indicates the yield that is being obtained on the bank's assets.

RETURN ON EQUITY (ROE)	The ratio of net profits attributable to the Group/average equity. This ratio indicates a measurement of the profitability offered to shareholders.
RETURN ON RISK-WEIGHTED ASSETS (RORWA)	Ratio of a Bank's net profit/average risk-weighted assets.
CONTINGENT RISKS	Includes the accounts in which transactions are recorded for which the company has assumed credit risk that, depending on future events, may become direct loans and generate obligations with respect to third parties (off-balance sheet risks and guarantees).
TIER	A solvency indicator ratio that measures, as a percentage, the financial health of the Bank by the relationship between eligible equity (capital reserves, convertibles, non-controlling interests, preferential, and relevant deductions) and risk-weighted assets using the CRR criteria.
SECURITISATION	Method of corporate financing based on the sale or assignment of certain assets to a third-party which, in turn, finances the purchase by issuing securities (which are placed with investors).
TOTAL TIER 1 CAPITAL	First-class resources according to CRR criteria. Consists of the basic capital, mainly formed of common shares, reserves and securities perpetually subordinated, under certain conditions, net of corresponding deductions.
ORDINARY TIER 1 CAPITAL	High-quality capital according to the CRR. Consists mainly of capital and reserves, net of corresponding deductions.
CET 1 RATIO (%)	Ratio between ordinary Tier 1 capital and risk-weighted assets.
MCNS	Subordinated notes mandatorily convertible into shares at their maturity.
TIER 1 RATIO	Ratio between total Tier 1 capital and risk-weighted assets.
TOTAL CAPITAL RATIO	Ratio between total capital and risk-weighted assets.
FULLY LOADED BASEL III LEVERAGING	Ratio between ordinary Tier 1 capital and the figure for adjusted assets according to the CRR.
BONUS ISSUE OR SCRIP ISSUE	Increase of capital charged to company reserves, either in part or in full.
WRITE-OFFS	Loans for which recovery is considered remote, and which have been derecognised from assets.
TOTAL CAPITAL	Includes the Ordinary Tier 1 capital (CET1), additional Tier 1 capital (AT1) and Tier 2 capital (T2)

INFORMATION AND CONTACT DATA FOR SHAREHOLDERS AND CUSTOMERS

Shareholders and clients have numerous ways of getting in contact with Banco Popular in order to resolve any queries they may have.

In the Shareholders and Investors/Financial Information section of the corporate website, Banco Popular publishes its Management and Integrated Management Report, where all stakeholders can find relevant information on the entity; additionally, quarterly, it also publishes a report of the periodic results.

POPULAR CONTACT DETAILS

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Tel 902 301 000
info@bancopopular.es
Monday to Friday 9 am to 9 pm

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Deputy General Manager
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Brand, Positioning and Reputation Director
jafernandez@bancopopular.es

CORPORATE GOVERNANCE
ANNUAL REPORT

A. OWNERSHIP STRUCTURE

A.1 Complete the following table about the Bank's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
02-12-2014	1,050,384,488.00	2,100,768,976	2,100,768,976

Please indicate whether there are different classes of shares with different rights associated with them:

NO

A.2 Indicate direct and indirect owners of significant stakes and their stakes at year-end, excluding directors:

Name or company name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct owner of the stake	Number of voting rights	
Caisse Fédérative du Crédit Mutuel	0	Banque Fédérative du Crédit Mutuel	84,579,819	4.026
Allianz, S.E.	2	Grupo Allianz	72,515,501	3.452
Baillie Gifford & Co	0	Various	65,481,220	3.133 (*)
Vanguard International Growth Fund	64,998,029	-	0	3.094 (*)
Blackrock Inc.	0	Various	66,710,454	3.176 (*)

(*) According to information provided by shareholders themselves and on public record with the CNMV (National Securities Market Commission).

Indicate the most significant changes in the ownership structure during the year:

Name or company name of shareholder	Transaction date	Description of the transaction

A.3 Complete the following tables regarding the members of the company's Board of Directors who hold voting rights through shares in the company:

Name or company name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights (*)
		Direct owner of the stake	Number of voting rights	
Aparicio, Francisco	296,807	Fco. Aparicio y Cía	266,808	0.027
Arias, José María	156,621	-	0	0.007
Fradin, Alain	2	-	0	0.000
Fundación Barrié	55,861,081	-	0	2.659
Gómez, Francisco	34,900	Spouse or children	14,682	0.002
Herrando, Luis	3,311	Spouse or children	30,165	0.002
Higuera, Roberto	101,138	-	0	0.005
Molins, Ana María	877	-	0	0.000
Oroviogoicoechea, Jorge	1,612	-	0	0.000
Revoredo, Helena	0	Prosegur	2,310,455	0.110
Ron, Ángel	76,955	-	0	0.004
Sindicatura de Accionistas de BPE	12,928,329	Plurality of individual investors	(2) 193,438,398	9.823
Tardío, Vicente	14,290	-	0	0.001
Unión Europea de Inversiones, S.A.	63,205,613	-	0	3.009
Valle Ruiz, Antonio del	1,882,805		0	0.090
Total (direct and indirect)	134,564,341		(2) 132,854,895	(2) 12.730
Voting rights habitually represented (1)				(1) 11.831
Total shares				24.560

(1) Shares represented: This table does not include a breakdown of the shares habitually represented by the members of the Board of Directors, which account for approximately 11.83% of the share capital. Of that percentage, the following interests are noteworthy: 4.120% of the group of Mexican shareholders represented by Mr Antonio del Valle; 4.026% of the Crédit Mutuel Group, represented by Mr Alain Fradin; 3.452% of Allianz group, represented by Mr Vicente Tardío and the remainder, equating to 0.232%, which corresponds to the shareholding of various families, represented by several Directors.

(2) Indirect shareholding in the BPE Shareholder Syndicate: The calculation of the indirect interest held by the BPE Shareholder Syndicate includes 63,205,613 syndicated shares owned directly by Unión Europea de Inversiones, S.A. These shares have been deducted from the calculation of the total number of shares and the percentage of voting rights controlled by the Board of Directors in order to prevent duplication.

% of Total voting rights held by the board of directors 12.730 (**)

(**) This percentage does not include the shares habitually represented by Board Members, amounting to approximately 11.831% of the share capital. The total share capital represented by the Board of Directors amounts to 24.560%.

Complete the following tables regarding the members of the company's Board of Directors who hold rights over the company's shares:

Name or company name of director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct owner	Number of voting rights		

A.4 Describe, where applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, to the extent that the company has knowledge of them, unless they are insignificant or stem from ordinary business operations.

Name or company name of related party	Type of relationship	Brief description
Sindicatura de Accionistas de BPE and Unión Europea de Inversiones, S.A.	Corporate	Unión Europea de Inversiones, S.A. is part of Sindicatura de Accionistas de BPE

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings and the company and/or its group, unless they are insignificant or stem from ordinary business operations:

Name or company name of related party	Type of relationship	Brief description
Popular de Mediación, S.A. (wholly-owned subsidiary of BPE) and Allianz Popular	Contractual	Marketing of Allianz's general insurance policies through Banco Popular.
Banco Popular - Allianz	Contractual	Outsourcing of pension commitments in respect of serving and retired personnel.
Banco Popular Group - Allianz Popular	Contractual	Outsourcing of pension commitments in respect of serving and retired personnel.
Allianz Popular	Corporate	Allianz Popular Vida, S.A.U., Cía. Seguros y Reaseguros, which sells life insurance, is owned by Allianz (60%) and Banco Popular (40%); Allianz Popular Pensiones, SGFP, S.A.U., a pension fund manager, is owned by Allianz (60%) and Banco Popular (40%) and Allianz Popular Asset Management, SGIIC, S.A., an investment fund manager, is owned by Allianz (60%) and Banco Popular (40%).
Banco Popular - Banque Fédérative du Crédit Mutuel	Corporate	Targobank, both shareholders having equal shareholdings of 50%; this entity's business is focused on private individuals and SMEs.

A.6 Indicate whether the company has been notified of any shareholders' agreements affecting it in accordance with Articles 530 and 531 of the Spanish Corporate Enterprises Act. If so, briefly describe the agreements and the shareholders bound by the agreement

YES

Parties to the shareholders' agreement	% of share capital affected	Brief description of the agreement
Plurality of minority shareholders (3,004 as at 31-12-2014)	9.823%	This is a gentlemen's agreement whereby the syndicated shareholders are bound for such time as they freely decide.

Indicate whether the company is aware of any concerted actions among its shareholders. If so, give a brief description:

NO

Parties involved in the concerted action	% of share capital affected	Brief description of the concert
-	-	-

Specifically indicate any amendments to, or terminations of such agreements or accords or concerted actions during the year:

A.7 Indicate whether any natural or legal person currently exercises or could exercise control over the company in accordance with Article 4 of the Securities Market Act. If so, identify this person:

NO

Name or company name	Comments
-	-

A.8 Complete the following tables about the company's treasury stock:

At year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
805.026	0	0,038

(*) Through:

Name or company name of direct owner of stake	Number of direct shares
Finespa, S.A.	0
Inmobiliaria Viagracia, S.A.	0
Gestora Popular, S.A.	0
Gestora Europea de Inversiones, S.A.	0
Total	0

Detail the significant changes in the year in accordance with the provisions of Royal Decree 1362/2007:

Date of disclosure	Total number of direct shares acquired	Total number of indirect shares acquired	Total % of share capital
At 23/01/2014	0	0	0.000
At 28/01/2014	0	0	0.000
At 25/02/2014	0	0	0.000
At 20/03/2014	0	0	0.000
At 07/05/2014	3,960,576	0	0.190
At 25/06/2014	0	0	0.000
At 17/07/2014	450,000	0	0.022
At 05/08/2014	0	128,310	0.006
At 25/09/2017	1,096,422	0	0.052
At 17/10/2014	0	0	0.000
At 12/12/2014	613,425	0	0.029

A.9 Detail the conditions and the period(s) of the current authorisation granted by the Shareholders' Meeting to the Board of Directors for the issue, purchase or sale of treasury stock.

The General Shareholders' Meeting held on 7 April 2014 authorised the Bank's Board of Directors to acquire treasury shares, in the forms permitted by Law, subject to the limits and requirements indicated below:

* The nominal value of the shares acquired, added to those already held by the Bank and its subsidiaries, may not at any time exceed ten percent of the Bank's share capital..

* The acquisition, including such shares as the Company, or person acting in his/her/its own name but on behalf of the Company, may have acquired previously and may hold, must not result in equity being less than the amount of share capital plus the legal or statutorily restricted reserves.

* A restricted reserve equivalent to the amount of the Company's treasury shares recognised under assets can be established in equity. This reserve must be maintained until the shares are sold or redeemed.

* All shares thus acquired must be fully paid up.

* The purchase price may not be less than the nominal value or more than 20% higher than the listed value of the share on the stock market on the acquisition date.

The Board of Directors is further authorised to dispose of the treasury stock acquired or which may be acquired in the future and to amortise such treasury stock against equity, reducing the share capital and amending the Articles of Association accordingly, in the amounts considered appropriate or necessary at any given time, up to the maximum limit of treasury shares established at any given time, in one or more transactions but within the maximum legal period of five years from the date of the General Meeting.

Also, for the purposes of the provisions of the last paragraph of section a) of Article 146.1 of the Corporate Enterprises Act, the shares acquired by the Company or its subsidiaries under this authorisation can be allocated entirely or in part to employees or directors of the Company or its subsidiaries, either directly or as a result of the exercise of option rights by those who own them.

The Ordinary General Meeting of 7 April 2014 adopted the following resolution, under point 7 of the agenda:
To authorise the Board of Directors to agree, in accordance with the provisions of Articles 297.1.b) and 506 of the Corporate Enterprises Act and with the terms of Article 311.1 of the same law, to one or more capital increases, at such times and in such amounts as it sees fit, in accordance with the following conditions:

1. Period. The share capital may be increased one or more times within three years of the date of this resolution.

2. Maximum amount. The total amount of the capital increase(s) carried out under the terms of this authorisation may not exceed one-half of the share capital at the time of the authorisation and must be carried out by means of cash contributions.

3. Scope. The authorisation to increase the share capital shall extend, as broadly as may be required in law, to the setting and determining of the conditions inherent in each capital increase carried out under this resolution and to the performance of any and all such actions as may be necessary in order to obtain such authorisations as may be required by legal provisions in force.

   The powers of the Board of Directors with respect to each share capital increase shall include, but are not limited to, determining the amount and date, number of shares to be issued, whether the capital increase is to be carried out by increasing the par value of the existing shares or by issuing new, ordinary, or preferred, or redeemable shares, with or without premium, with or without voting rights, according to the classes and types allowed by law and by the Articles of Association.

   The Board of Directors is also authorised to exclude preferred subscription rights in whole or in part, in accordance with the provisions of Article 506 of the Corporate Enterprises Act, , although this power is limited to capital increases carried out under this delegation of powers, up to a maximum of 20% of the Bank's share capital at the time of the passing of this resolution by the Shareholders' Meeting.

4. Incomplete increase. In accordance with the terms of Article 311.1 of the Corporate Enterprises Act, to declare the subscription to the capital increase incomplete and to increase the capital only by the actual amount of the subscriptions, notifying the National Securities Market Commission (Comisión Nacional del Mercado de Valores) of this as necessary, pursuant to the terms of Article 507 of the Corporate Enterprises Act.

5. Amendment of the Articles of Association. By virtue of this authorisation, the Board of Directors is also empowered to redraft the Article of the Articles of Association relating to the share capital, once the capital increase has been agreed and carried out.

6. Admission to trading. To request that the new shares issued by virtue of this resolution be admitted to trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges via the Stock Market Interconnection System, and on any other stock exchanges where the shares are traded.

   Likewise, to authorise the Board of Directors, which may in turn delegate to the Delegated Committee or the persons of its choosing, in such broad and sufficient terms as may be required in law, to request and obtain admission of the new shares issued under this resolution to trading on the stock exchanges where the Bank's shares are listed at the time of each capital increase through the Stock Market Interconnection System or the pertinent system in each case, drafting, presenting and executing any and all documents and taking any and all such steps as may be necessary to that end.

   For the purposes of the provisions of Article 27 b) of the Stock Exchange Regulations as approved by Decree 1506/1967 of 30 June, it is expressly declared that the company is subject to the rules that exist now or might be enacted in the future with regard to the Stock Exchange, and particularly with regard to initial and ongoing listing and possible delisting. It is further stated explicitly that, in the event that a request were to be made subsequently for the Bank's shares to be delisted, such delisting would be carried out with the same formalities as referred to in said Article, and in such case the interests of shareholders opposing or not voting on the resolution would be assured, complying with the requirements established in the Corporate Enterprises Act and concordant provisions, all in accordance with the terms of the aforementioned Stock Exchange Regulations, the Securities Market Act and any related provisions.

7. Delegation of powers. The Board of Directors is authorised to delegate its powers under this resolution to the Delegated Committee in accordance with the terms of Article 249.2 of the Corporate Enterprises Act.

8. Revocation of previous delegation. Once this resolution is passed, the Sixth resolution passed by the Ordinary General Shareholders' Meeting of 10 June 2013 shall be revoked.

A.10 Indicate whether there are any restrictions on the transfer of shares and/or any restriction on voting rights. In particular, indicate the existence of any type of restriction that could obstruct a takeover of the company by acquiring its shares on the market.

NO

Description of the restrictions

Articles 17 and 21 of Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions establishes a procedure for prior reporting to Banco de España of the acquisition or transfer of a significant holding in a Spanish credit institution or an increase or decrease in such holding in excess of the percentages of capital indicated. Banco de España has a maximum period of sixty business days from the date of its being notified in which to oppose, if appropriate, the intended acquisition.

A.11 Indicate whether the Shareholders' Meeting has adopted any measures to neutralise any public acquisition offer in accordance with the provisions of Law 6/2007.

NO

If so, explain the measures approved and the terms in which the restrictions would become ineffective:

A.12 State whether the company has issued securities that are not traded on a regulated EU market

The Bank's shares have been listed on the Mexican Stock Exchange (SIC) since 18 January 2013.

Where applicable, indicate the different classes of shares and, for each class, the rights conferred and obligations imposed.

B. GENERAL SHAREHOLDERS' MEETING

B.1 Indicate whether there are any differences with the minimums provided by the Corporate Enterprises Act regarding the quorum for constituting the General Shareholders' Meeting, and if so provide details

NO

Description of the differences

B.2 State whether there are any differences with the system established by the Corporate Enterprises Act for adopting resolutions, and if so, provide details.

YES

Describe how they differ from the system envisaged in the Corporate Enterprises Act.

	Reinforced majority different from that established in Article 201.2 of the Corporate Enterprises Act for cases covered by Article 194.1 of the Corporate Enterprises Act	Other cases of reinforced majorities
% established by the Bank for approving resolutions	66	66

Describe the differences

For shareholder's meetings convened at the request of shareholders representing at least 5% of the share capital, the favourable vote of two-thirds of the capital present or represented is required to pass resolutions.

B.3 Indicate the rules for amending the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules in place to protect shareholders' rights when the Articles of Association are amended.

The system of majorities for constituting a shareholders' meeting and passing resolutions to amend the Articles of Association, as set forth in Article 13 of the Articles of Association is the same as that provided by law, the only difference being that for proposals made by shareholders representing at least 5% of the share capital, the favourable vote of two-thirds of the share capital present or represented is required for resolutions to be passed.

B.4 Indicate the attendance figures for the general shareholders' meetings held in the year to which this report refers and in the previous year:

		Attendance figures			
Date of General Shareholders' Meeting	% attending in person	% represented by proxy	% voting remotely		Total
			Electronic voting	Other	
07-04-2014	6.67%	50.50%	0.12%	5.49%	62.78%
10-06-2013	11.91%	38.07%	0.20%	0.87%	51.05%

B.5. State whether there is any restriction in the Articles of Association establishing a minimum number of shares required in order to attend the General Meeting.

YES

Number of shares required to attend the General Shareholders' Meeting

200

B.6. Indicate whether it has been agreed that certain decisions involving a structural change to the company (subsidiarisation, purchase and sale of essential operating assets, transactions that are tantamount to the liquidation of the company, etc.) must be submitted for approval by the General Shareholders' Meeting even though this is not expressly required by the relevant company and commercial legislation.

NO

B.7 Give the address of the corporate website where the corporate governance material and other information about the general shareholders' meetings that must be made available to the shareholders can be found and how it can be accessed.

The information is available on the corporate website at www.grupobancopopular.com

C. GOVERNANCE STRUCTURE OF THE COMPANY

C.1 Board of Directors

C.1.1 Maximum and minimum number of Directors as per the Articles of Association:

Maximum number of directors	15
Minimum number of directors	12

C.1.2 Complete the following table with the members of the Board (*):

Name or company name of Director	Representative	Board position	Date first appointed	Date last appointed	Election procedure
Aparicio, Francisco		Secretary	18-12-2003	11-06-2012	General Shareholders' Meeting
Arias, José María		Deputy chairman	11-06-2012	11-06-2012	General Shareholders' Meeting
Fundación Barrié	Ana José Varela	Director	11-06-2012	11-06-2012	General Shareholders' Meeting
Fradin, Alain		Director	20-12-2011	20-12-2011	General Shareholders' Meeting
Gómez, Francisco		CEO	30-01-2013	10-06-2013	General Shareholders' Meeting
Herrando, Luis		Deputy chairman	21-06-2001	11-06-2012	General Shareholders' Meeting
Higuera, Roberto		Deputy chairman	30-05-2008	07-04-2014	General Shareholders' Meeting
Molins, Ana María		Director	28-04-2011	20-12-2011	General Shareholders' Meeting
Oroviogoicoechea, Jorge		Director	30-01-2013	10-06-2013	General Shareholders' Meeting
Revoredo, Helena		Director	30-05-2007	11-06-2012	General Shareholders' Meeting
Ron, Ángel		Chairman	Director 14-03-2002	07-04-2014	General Shareholders' Meeting
			Chairman 19-10-2004		
Sindicatura de Accionistas de BPE	Miguel Ángel de Solís	Director	28-06-1988	11-06-2012	General Shareholders' Meeting
Tardío, Vicente		Director	19-12-2007	07-04-2014	General Shareholders' Meeting
Unión Europea de Inversiones, S.A.	José Ramón Rodríguez	Director	19-05-2009	26-06-2009	General Shareholders' Meeting
Valle Ruiz, Antonio del		Director	07-04-2014	07-04-2014	General Shareholders' Meeting

Total number of directors	15

Indicate any Directors who left the Board during the year:

Name or company name of Director	Director's status at time of resignation or removal	Date of exit
Allianz, S.E.	Dominical	07-04-2014
José Ramón Rodríguez	Independiente	07-04-2014
Maianca Inversión, S.L.	Dominical	26-02-2014

C.1.3 Complete the following tables about Board members and their various statuses:

EXECUTIVE DIRECTORS

Name or company name of Director	Committee that proposed the appointment	Position in the company's organisational structure
Ron, Ángel	Appointments Committee	Chairman
Gómez, Francisco	Appointments Committee	CEO
Aparicio, Francisco	Appointments Committee	Secretary

Total number of executive directors	3
% of Board members	20%

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of Director	Committee that proposed the appointment	Name or company name of the significant shareholder who is represented or who proposed the appointment
Arias, José María	Appointments Committee	Fundación Barrié
Fradin, Alain	Appointments Committee	Crédit Mutuel
Fundación Barrié (Represented by Ana José Varela)	Appointments Committee	Fundación Barrié
Sindicatura de Accionistas de BPE (Represented by Miguel Angel Solís)	Appointments Committee	Sindicatura de Accionistas de BPE
Tardío, Vicente	Appointments Committee	Grupo Allianz
Unión Europea de Inversiones, S.A. (Represented by José Ramón Rodríguez)	Appointments Committee	Unión Europea de Inversiones, S.A.
Valle, Antonio del	Appointments Committee	Grupo de Inversores Mexicanos

Total number of proprietary directors	7
% of Board members	46.66%

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of Director	Profile
Herrando, Luis	Vice-chairman of the Board. Coordinating Independent Director. Economist and PhD in Industrial Engineering. He started his professional career with Babcock & Wilcox, joining Induban (Banco Vizcaya) in 1967. He was CEO of Aurora Group (now AXA) from 1978 to 1993. He has been and is on the Boards of several companies in the fields of insurance, property and venture capital. Honorary President of the Asociación para el Progreso de la Dirección (APD) in northern Spain. Chairman of the Fundación del Instituto de Educación e Investigación and of the Fundación de la Escuela de Ingenieros de Bilbao.

Name or company name of Director	Profile
Higuera, Roberto	Vice-chairman of the Board. Aeronautical Engineer. His professional career has mainly been in Banco Popular where he held the positions of, among others, Director of International Activities, General Manager of Banco Popular Hipotecario and General Finance Director. In May 2008, he was appointed Vice-chairman and in September 2008, Chief Executive Officer, a position he held until June 26, 2009.
Molins, Ana María	Degree in Law. She has been a practising lawyer since 1972, advising businesses, mainly family-owned ones. Secretary to the Boards of Trustees of various foundations and non-profit organisations. Legal Adviser and Secretary to the Board of Directors of various companies.
Oroviogoicoechea, Jorge	Businessman. He has occupied a variety of executive and corporate posts in the business world. He has been the Managing Director of the Boyaca Group since 2002.
Revoredo, Helena	She holds a degree in Business Administration from Universidad Católica de Buenos Aires and a PADE masters from IESE in Madrid. She has been Chairwoman of the Security Company Prosegur and of Euroforum since 2004 and a member of the International Consultative Committee at IESE since 2006. Additionally, since its inception in 1997, she has been Chairwoman of the Prosegur Foundation. Between 1997 and 2004, she was the Vice chairwoman of Prosegur and a member of the Executive Board at the Family Business Institute, and between 2002 and 2005, Chairwoman of Adefam (Madrid Association for Family Business Development) and a Director of Telecinco. She has been a Director of Endesa Energia since November 2014.

Total number of external independent directors	5
% of Board members	33.33%

State whether any director classified as independent receives from the company or its group any payment or benefit for anything other than director's remuneration or has or has had during the past financial year a business relationship with the company or any member of its group, whether in his own name or as a significant shareholder, director or senior manager of an entity that has or has had such a relationship.

NO

If so, provide an explanation from the Board giving the reasons why it believes the director is able to perform his functions as an independent director.

OTHER EXTERNAL DIRECTORS

Name or company name of Director	Committee that has reported on or proposed the appointment
-	-

State why these directors cannot be considered proprietary or independent, and indicate any relations between them and the company, its executives or its shareholders.

Name or company name of Director	Reasons	Company, executive or shareholder with which he/she is related
-	-	-

State any changes that have taken place during the period in the status of each director:

Name or company name of Director	Date of change	Former status	Current status
Higuera, Roberto	June 2014	Other external	Independent

C.1.4 Complete the following table with the information relating to the number of female directors during the last four years and the statuses of such female directors:

	Number of female directors				% of total directors in each category			
	Year 2014	Year 2013	Year 2012	Year 2011	Year 2014	Year 2013	Year 2012	Year 2011
Executive	0	0	0	0	0.00	0.00	0.00	0.00
Proprietary	1	1	1	0	14	12.50	11.11	0.00
Independent	2	2	2	2	40	40	33.33	33.33
Other external	0	0	0	0	0.00	0.00	0.00	0.00
Total	3	3	3	2	20	17.64	15	11.11

C.1.5 Explain any measures implemented to include a sufficient number of women on the board of directors to achieve an even balance of men and women.

Explanation of measures

Article 14.5 of the Board Regulations stipulates that the Appointments Committee must ensure that selection procedures to fill vacancies are not biased in such a way as to impede the selection of female directors, and that the company must deliberately seek women with the right professional profile and include them among potential candidates.

Helena Revoredo was appointed a Director in 2007; Ana María Molins was appointed a Director in 2011, and in 2012 Ana José Varela joined the Board as the representative of the Barrié Foundation.

Female directors currently represent 20% of the total number of members of the Board of Directors.

C.1.6 Explain any measures agreed on by the Appointments Committee to ensure that selection procedures to fill vacancies are not biased in such a way as to impede the selection of female directors, and that the company deliberately seeks women with the right professional profile and includes them among potential candidates:

Explanation of measures

The procedure established by Banco Popular for the selection of Directors is not implicitly biased in such a way as to impede the inclusion of women in the Board of Directors.

The Appointments Committee assists the Board in its functions relating to the appointment and re-election of Directors, and is required to oversee the integrity of the Directors' selection process, ensuring that candidates' profiles are suited to the vacancy in question and that they enjoy an honourable commercial and professional reputation, as well as having the professional knowledge and experience necessary for the performance of their functions.

This Committee evaluates the knowledge and experience of Directors and defines the duties and aptitudes that are necessary for candidates, evaluates the time and dedication necessary for the tasks to be successfully discharged and ensures that the procedures established for the selection process do not have any implicit bias that could hinder the selection of women Directors and that the Bank deliberately seeks women with the right professional profile and includes them among potential candidates.

If in spite of the measures taken, if any, there are few or no women Directors, explain the reasons for this:

Explanation of the reasons

C.1.7 Explain how significant shareholders are represented on the Board.

See sections A.2 and C.1.2 of this report.

C.1.8 If any proprietary directors have been appointed at the request of shareholders with less than a 5% stake in the share capital, explain the reasons for this.

Disclose any rejection of a formal request for a board seat from shareholders whose equity stake is equal to or greater than that of others at whose request proprietary directors have been appointed. Detail the reasons for any such rejection.

NO

C.1.9 State whether any Director has left the position before the end of his term of office, whether the Director provided an explanation to the Board and if so by what means, and, in the event this was done in writing to the entire Board, explain at least the reasons he gave:

YES

Name of Director	Reason for leaving
Allianz, S.E.	Reduction in the size of the Board, to comply with best corporate governance standards. Explained to the Board directly.
José Ramón Rodríguez García	Reduction in the size of the Board, to comply with best corporate governance standards. Explained to the Board directly
Maianca Inversión, S.L.	Reduction in the size of the Board, to comply with best corporate governance standards. Explained to the Board directly

C.1.10 State the powers, if any, delegated to directors:

Name or company name of Director	Brief description
Ron Güimil, Angel	Broad powers of representation and administration befitting his position as Chairman
Gómez Martín, Francisco	Broad powers of representation and administration befitting his position as Chief Executive Officer

C.1.11 List the Board members, if any, that are directors or executives of other companies included in the group of the listed company:

Name or company name of Director	Name of Group entity	Position
Arias, José María	Banco Pastor, S.A.	Chairman
Aparicio, Francisco	Banco Pastor, S.A. Popular Banca Privada, S.A. Grupo Financiero Bx+, S.A. Banco Bx+, S.A.	Deputy chairman Director Director Director
Gómez, Francisco	Allianz Popular, S.A. Targobank, S.A. Grupo Financiero Bx+, S.A. Banco Bx+, S.A.	Director Director Director Director
Fradin, Alain	Targobank, S.A.	Chairman
Herrando, Luis	Popular Banca Privada, S.A. Aliseda, S.A.	Non-executive chairman Director
Higuera, Roberto	Popular de Mediación, S.A. Popular de Factoring, E.F.C., S.A. Bancopopular-e, S.A.	Chairman Chairman Director
Tardío, Vicente	Allianz Popular, S.A.	Chairman
Del Valle, Antonio	Grupo Financiero Bx+, S.A. Banco Bx+, S.A.	Honorary Chairman Director

C.1.12 Indicate any Directors of your company who are members of the Board of Directors of other non-group companies listed on the official stock exchanges in Spain, as reported to the company:

Name or company name of Director	Name of listed company	Position
Molins, Ana María	Cementos Molins, S.A.	Director
Revoredo, Helena	Prosegur, S,A. Gestevisión Telecinco Endesa Energia, S.A.	Chairwoman Director Director
José Ramón Rodríguez (Representative)	Unión Europea de Inversiones, S.A.	Chairman

C.1.13 State and, if appropriate, explain whether the Bank has established rules regarding the number of Boards to which its Directors may belong:

YES

Explanation of the rules

The Appointments Committee, in accordance with Article 25.4 of the Board Regulations, verifies compliance with internal rules that have been established regarding the number of Boards to which Directors may belong, which are those established by Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, as provided in Article 18.2 of the Board Regulations.

In addition, as stipulated in that Article of the Board Regulations, during the time the post is held a director may not accept any appointment as Director or Executive of another Bank, Investment Services Undertaking, Insurance Company or any other financial institution without the express and prior authorisation of the Board of Directors in plenary session, when such entity carries on its activities, in whole or in part, within the area in which Banco Popular or its subsidiaries operate

C.1.14 With regard to Recommendation 8 of the Unified Code, indicate for which of the company's general policies and strategies approval is reserved to the full Board:

Investment and financing policy	YES
Design of the structure of the corporate group	YES
Corporate governance policy	YES
Corporate social responsibility policy	YES
The strategic or business plan, management targets and annual budgets	YES
Remuneration and performance evaluation of senior officers	YES
Risk control and management, and the periodic monitoring of internal information and control systems	YES
Dividend policy, as well as the policies and (particularly) limits applying to treasury stock	YES

C.1.15 State the total compensation of the Board of Directors:

Board of Directors' Compensation (€ thousands)	3,943 (*)
Portion of total compensation corresponding to directors' cumulative pension rights (€ thousands of euros)	
Total compensation of the Board of Directors (€ thousands)	3,943 (*)

The amount of €3,943,000 corresponds to the remuneration in 2014 of the executive Directors, the only members of the Board who are paid, and includes fixed income and bonuses, both in cash and the part payable in shares. In accordance with the 2014 Annual Bonus Plan, 50% of the bonuses will be paid in the first quarter of 2015; the remaining 50% will be deferred and paid in three instalments in 2016, 2017 and 2018, subject to the conditions for receiving the bonus.

The total amount indicated above is the amount declared as the total accrued compensation in table c) "Summary of Remuneration" of section D.1 of the Report on Remuneration of Banco Popular Directors. The individual compensation items for each Director are shown in Note 10 to the Group's consolidated annual report.

(*) In 2014, the cost to the Bank of covering the pension commitments to the directors concerned, Messrs. Ángel Ron (Chairman), Francisco Gómez (Chief Executive Officer) and Francisco Aparicio (Secretary and Director) was €1,031,000 €1,040,000 and €721,000 respectively. For its part, the vested rights and mathematical reserves connected with retirement pensions for Messrs Ángel Ron, Francisco Gómez, Francisco Aparicio, Roberto Higuera and José María Arias was €7,789,000; €5,231,000; €3,720,000; €9,538,000; and €14,734,000 respectively, which totals €41,012,000. When combined with the €34,889,000 mentioned above, the grand total is €75,901,000 at 31 December 2014.

C.1.16 List the members of senior management who are not executive directors and show the total remuneration earned by them during the year:

Name or company name	Position
José Ramón Alonso Lobo	Commercial Banking Management
Jesús Arellano Escobar	Corporate Audit and Control
Carlos Balado García	Communications, Brand and Corporate Relations Management
Jacobo González-Robatto Fernández	International Advisory Board
Rafael de Mena Arenas	Investee and JV Management
Susana de Medrano Boix	Head of the CEO's Office
Miguel Angel Moral Grací	Technical General Secretary
Javier Moreno Navarro	Comptroller's Office
Alberto Muñoz Fernández	Chairman's Office
Antonio Pujol González	Retail Banking Management
Fernando Rodríguez Baquero	Technical Resources Management
José María Sagardoy Llonis	Risk Management
Francisco Sancha Bermejo	Finance Management

Total remuneration of senior management (in € thousands)	6.157

The amount of €6,157,000 corresponding to 2014, includes fixed income and bonuses, both in cash and the part payable in shares. In accordance with the 2015 Annual Bonus Plan, 50% of the bonuses will be paid in the first quarter of 2015; the remaining 50% will be deferred and paid in three instalments in 2016, 2017 and 2018, subject to the conditions for receiving the bonus.

The cost to the Bank in 2014 of covering the pension commitments for Senior Management was €2,297,000 and the vested rights and mathematical reserves associated with those rights totalled €14,684,000 at 31 December 2014.

C.1.17 State the names of any Board members who are also Board members of companies owned by significant shareholders and/or their Group companies:

Name or company name of director	Name of the significant shareholder	Position
Arias, José María	Fundación Barrié	Chairman
Rodríguez, José Ramón (UEI Representative)	Unión Europea de Inversiones, S.A.	Chairman
Tardío, Vicente	Allianz Cía. de Seguros y Reaseguros S.A.	Chairman- CEO

List any significant relationships, other than those addressed in the previous section, of Board members linking them with significant shareholders and/or their group companies:

Name or company name of related party director	Name or company name of related party significant shareholder	Description of the relationship

C.1.18 Indicate whether any amendments have been made to the Board Regulations during the year:

YES

Description of amendments

During 2014, the following Board Regulations Articles were amended: Article 7 relating to the Chairmanship of the Board; Article 12 on the establishment, representation and adoption of resolutions; point 2 of Article 22, delegation of powers, relating to the Appointments and Remunerations Committee; and Articles 24, 25, 26 and 27 with the purpose of bringing the rules relating to the composition of the "Audit", "Appointments", "Remunerations" and "Risks" Committees into line with those set out in the Law on Organisation, Supervision and Solvency of credit institutions.

C.1.19 Indicate the procedures for selecting, appointing, re-electing, evaluating and removing Directors. List the competent bodies, the procedures to be followed and the criteria to be employed within each procedure.

The procedures for the appointment, re-election, evaluation and dismissal of Directors are regulated in detail in the Articles of Association and the Board Regulations.

Appointment

The Appointment of Directors and the determination of their number, in accordance with the Articles of Association, lies with the General Shareholders' Meeting, thus ensuring due representation of shareholders and efficient functioning.

If any vacancy arises during the term for which Directors were appointed, the Board may co-opt the person(s) who will occupy the post(s) until the next General Shareholders' Meeting is held.

Furthermore, the full Board of Directors reserves to itself the power to approve the appointment of the Bank's CEO.

Proposals for the appointment and re-election of Directors which are submitted by the Board of Directors for the consideration of the General Shareholders' Meeting, and appointments of Directors made by co-option, must concern individuals who, in addition to meeting the legal requirements and those of the Articles of Association for the position, also enjoy prestige and a reputation for commercial and professional integrity, as well as having the professional knowledge and experience necessary for the performance of their functions.

Procedure for appointment and re-election

The appointment and re-election of Directors conforms to a formal and transparent procedure. Proposals to appoint or re-elect Directors made by the Board of Directors to the General Shareholders' Meeting, as well as the appointment of Directors through co-option, must be covered by a prior proposal from the Appointments Committee, in the case of independent Directors, or a report from that Committee in the case of all other Directors.

The Appointments Committee ensures that when new vacancies arise:

a) The selection process has no implicit bias against women candidates;

b) The company deliberately seeks women with the right professional profile and includes them among potential candidates.

In the appointments procedure, the candidate's circumstances, experience and skills are taken into consideration, as is the executive or external, independent or proprietary nature of the Director to be appointed..

The Board of Directors exercises its powers of proposing appointments to the Shareholders' Meeting and of appointment by co-option in such a way that the external directors constitute an ample majority over the Executive Directors on the Board. In any case, the number of directors with executive functions shall not exceed one third of the members of the Board.

Also, the Board shall endeavour to ensure that the directors as a whole represent a significant percentage of the share capital.

Term of office, re-election and evaluation

The director's term of office is four (4) years. At the end of this term, Directors may be re-elected for one or more periods of the same maximum duration, subject to a proposal by the Appointments Committee, in which it evaluates the work done by the Director and his or her effective commitment to the post during the last term of office.

The Appointments Committee is the competent body for revising the criteria that must be applied with respect to the composition of the Board of Directors and the selection of candidates. In this respect, it must evaluate the skills, knowledge and experience necessary on the Board and define the necessary duties and aptitudes for candidates that cover each vacancy, while bearing in mind the time and dedication that are necessary to perform the role appropriately.

At the time the Annual Corporate Governance report is approved and subject to a prior report from the Appointments Committee is received, the Board evaluates the quality and efficiency of the operations carried out by the Board and its Committees as well as the fulfilment of the duties of the Chairman of the Board.

The Appointments Committee is responsible for evaluating the suitability of the members of the Board of Directors and for initially establishing and periodically assessing the integrity, experience and good governance of the parties in question, following the established procedure.

The Committee is responsible for:

Proposing to the Board of Directors the policy for evaluating the Board members individually and the Board as a whole and any modifications that are deemed necessary.

Periodically, and in any case at least once a year, supervising the correct application of the policy for evaluating Board members individually and the Board as a whole, reporting on compliance with the policy to the Board of Directors and proposing any adjustments to it that are deemed necessary.

Evaluating the Directors, the candidates for Board membership and the Board of Directors as a whole. If a candidate is deemed to be unsuitable, a report will be submitted to the Board of Directors.

The Board may contract external consultants to carry out this evaluation process.

Removal

The Board of Directors is the competent body to determine the cause of termination of Directors and to accept resignations.

The Board of Directors will not propose the removal of any independent Director prior to the end of the statutory period for which they were appointed, unless there is just cause assessed by the Board after having received a report from the Appointments Committee, or as a result of takeovers, mergers or other similar corporate transactions.

C.1.20 State whether the Board of Directors has evaluated its own performance during the year

YES

Where applicable, explain to what extent the self-evaluation resulted in significant changes to the internal organisation of the Board and the procedures applying to its activities:

Description of the changes

C.1.21 Indicate the circumstances in which directors are obliged to resign.

Directors shall cease to hold office either at their own request, or when the term of office for which they were appointed has elapsed, or when the General Shareholders' Meeting so decides, and in all such other cases as may be applicable in accordance with the law or the Articles of Association. Article 16 of the Board Regulations provides that Directors must tender their resignation to the Board of Directors and, if the Board considers it appropriate, resign in the following cases:

a) In the case of executive Directors, when they cease to occupy the posts to which their appointment as Director was connected.

b) When they are affected by any of the legally envisaged situations of incompatibility or prohibition.

c) If their continuation as a Board member could negatively affect the functioning of the Board or the standing and reputation of the Entity in the marketplace, or could jeopardise its interests.

   If a Director is indicted or subject to the opening of oral proceedings for any of the offences referred to in Article 213 of the Corporate Enterprises Act, the Board shall examine the matter as soon as possible and, depending on the particular circumstances, decide whether or not the Director should continue in his or her position. The Board shall also disclose all such determinations in the Annual Corporate Governance Report.

d) In the case of a proprietary Director, when the shareholder whose interests are being represented on the Board disposes of its stake in the Bank or significantly reduces that shareholding or reduces it below the percentage that the Board determines at any given moment, or to the point at which a reduction in the number of its proprietary Directors is required, without prejudice to their possible re-election as Executive Director, independent Director or proprietary Director representing another shareholder.

e) Age limit for Directors - 75 years of age, except for proprietary directors who control or represent an interest of three percent or more of the share capital. The termination will arise at the first Annual General Meeting held after their 75th birthday.

When a Director leaves the Board before the end of his/her term, whether due to resignation or any other reason, the reasons must be explained in a letter sent to all of the members of the Board of Directors.

In all cases in which a Director resigns or leaves before the end of his/her term for any other reason, the Bank will report this decision as a Significant Event and report on the reasons in the Annual Corporate Governance Report.

C.1.22 Explain whether the function of chief executive of the company is performed by the chairman of the board. If so, indicate the measures taken to limit the risk of a single person accumulating power:

YES

Measures to limit risks

Banco Popular's corporate governance system does not envisage the existence of a single chief executive, but rather a distribution of powers and an appropriate balance between the Entity's governing bodies (Board of Directors, Board Committees, Chairman, CEO and Management Committee) and efficient mechanisms to prevent excessive accumulation of functions in any one person, the most notable of which include:

1. The powers delegated to the CEO are the same as those delegated to the Chairman, with the exception in both cases of those reserved exclusively to the Board itself.
2. There is a clear separation of powers between the Chairman and the CEO. When assigning responsibilities, the nature of the business and the growing complexity and specialisation of the financial services sector were considered, along with the Group's international presence. The Chairman is in charge of the Bank's overall strategy, while the CEO focuses on the daily operation of the business.
3. The CEO is supported by the Management Committee, whose members represent the major business areas and whose Managers report to the committee regularly. At the same time, the CEO reports to the Board of Directors at each session on the most significant events and transactions that have taken place.
4. The Board and its Committees supervise and control the actions of both the Chairman and the CEO.
5. The Vice-chairman of the Board, who chairs the Appointments and Compensation Committees, and is classified as an external independent director, acts as lead independent director of the external directors.
6. In case of absence, illness, resignation or inability, one of the Vice-chairmen replaces the Chairman in exercise of those functions.
7. The Board of Directors is composed of an ample majority of external directors, with a significant presence of independent directors, which ensures an appropriate balance between the supervisory function and the control of the bank's governing bodies.
8. With the aim of ensuring the proper performance of its own functions, the Board of Directors has set up committees entrusted with regularly examining and monitoring areas of particular importance to the good governance of the Company.

    a. The Delegated Committee, as the delegated body which assists the Board of Directors and substitutes for it.
    b. The Audit Committee, which supervises financial reporting and internal control systems.
    c. The Appointments Committee, which assists the Board in the appointment, re-election and resignation of the Group's Directors and Senior Management, ensures that the Directors receive all the information required to carry out the proper performance of their functions, evaluating the Board and its Committees, as well as monitoring compliance with the Bank's rules of governance , periodically reviewing compliance with its rules, recommendations and principles.
    d. The Compensation Committee assists the Board in its functions of setting and following the Group's compensation systems for the Directors and Senior Management.
    e. The Risk Committee advises the Board of Directors in defining and assessing the risk policies which affect the Group and in determining the propensity to risk and the risk strategy as well as monitoring its proper implementation.

These Committees, except the Delegated Committee, are composed of external directors only, the majority of whom are independent directors.

State whether rules have been established to empower an independent director to ask for a board meeting to be called or for new items to be added to the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation; detail any such rules

YES

Explanation of the rules

Article 7 of Board Regulations provides that the Board of Directors, with the abstention of executive Directors, shall appoint a Coordinating Director among the independent directors, who will be specifically empowered to ask for meetings of the Board of Directors to be called or for new points to be added to the agenda of a Board meeting that has already been called, and to coordinate and bring together the non-executive directors and direct the periodic assessment of the Chairman of the Board of Directors.

In accordance with the proposal of the Appointments Committee, the Board of Directors in June 2014 agreed the appointment of Mr Luis Herrando Prat de la Riba, current Vice-chairman of the Board of Directors classified as independent, as the Board of Directors' Coordinating Director.

Among his duties will be, to ask for meetings of the Board of Directors to be called or for new points to be added to the agenda of a Board meeting that has already been called, as well as to coordinate and bring together the non-executive directors and lead, where appropriate, periodic assessment of the Chairman of the Board of Directors. In accordance with the highest standards of good governance, he and the executive Directors abstained from voting on this agreement, which was unanimously approved by the remaining members of the Board of Directors.

C.1.23 Is a reinforced majority other than those legally prescribed required for any particular type of decision?

NO

If so, describe the differences

Description of the differences

C.1.24 State whether there are specific requirements, other than those relating to directors, for being appointed Chairman of the Board; if so, explain them.

YES

Description of requirements

In accordance with Article 17 of the Articles of Association, the Chairman of the Board must be a Director definitively ratified or elected as such by the General Shareholders' Meeting.

C.1.25 State whether the Chairman has a casting vote:

NO

Issues on which there is a casting vote
-

C.1.26 State whether the Articles of Association or the Board Regulations set any age limit for Directors:

YES

Age limit for Chairman -
Age limit for CEO -
Age limit for Directors - 75 years of age, except for proprietary directors who control or represent an interest of three percent or more of the share capital.

C.1.27 Indicate if the Articles of Association or the Board Regulations establish a term limit for independent directors, other than the legal limit:

NO

Maximum term of office (years) -

C.1.28 State whether the Articles of Association or the Board Regulations establish specific rules for proxy voting, how proxies are issued and in particular the maximum number of proxies that may be held by one director, and whether the proxy must be delegated to a director in the same category as the principal. If so, briefly describe these rules.

Article 12 of the Articles of Board Regulations envisages the possibility of Directors appointing another Director to represent them at Board meetings.

Executive Directors may only appoint non-executive Directors. Such proxy may be granted by any means, including telegram, fax or e-mail addressed to the Chairman or Secretary of the Board.

C.1.29 Indicate the number of meetings of the board of directors held during the year. Also, state the number of times if any that the Chairperson did not attend the board meeting. The calculation shall deem representation with specific instructions as attendance:

Number of board meetings	11
Number of board meetings without the presence of the Chairman	0

Indicate the number of meetings held by the various board committees in the year:

Number of Delegated Committee meetings	27
Number of Audit Committee meetings	12
Number of Appointments Committee meetings	11
Number of Compensation Committee meetings	9

C.1.30 Indicate the number of meetings of the board of directors held in the year which were attended by all its members. The calculation shall deem representation with specific instructions as attendance:

Directors' attendance record	11
Attendances as a % of the total number of votes during the year	100

C.1.31 State whether the individual and consolidated financial statements submitted to the Board for approval are previously certified:

YES

The Bank's Comptroller Office is responsible for the drafting and presentation of all the financial documentation which appears in the Financial Statements. The Comptroller's Office, being ultimately responsible for this financial information, signs the accounts and certifies their accuracy.

The Audit Committee assists the Board of Directors with supervising the financial statements and the Bank's internal control systems and its Financial Management and the Board of Directors prepare the financial statements, which are signed by all Directors.

Indicate the person(s), if any, who certified the company's individual and consolidated financial statements for board authorisation:

Name	Position
Javier Moreno	Comptroller's Office

C.1.32 Explain any mechanisms established by the Board of Directors to ensure that the individual and consolidated financial statements authorised by it are presented to the General Shareholders' Meeting without qualifications in the auditor's report.

The Board of Directors endeavours to ensure that the individual and consolidated financial statements which it prepares and submits to the Shareholders' Meeting do not contain any reservations or qualifications in the Audit Report, and if such reservations or qualifications cannot be avoided, both the Chairman of the Audit Committee and the external auditor will clearly explain to shareholders the content and scope of the discrepancies and of these reservations or qualifications.

The mechanisms established by the Board of Directors are, among others, as follows:

1. With respect to the Bank's Internal Services.

The Bank's Internal Services will prepare the individual and consolidated financial statements with rigour and in accordance with generally accepted accounting principles and standards, ensuring:

a) That they give a true and fair view of the equity, financial position and results of operations and contain the necessary information sufficient for their understanding.

b) An adequate definition of the scope of consolidation and the proper application of accounting standards.

c) That they clearly and simply explain economic, financial and legal risks that may be incurred.

d) That the principles and standards applied are in line with those applied in the previous year.

2. With respect to the Audit Committee.

That the Audit Committee assists the Board of Directors with its duties to supervise and control the Bank through:

a) The review of the individual and consolidated financial statements prepared by the Bank's Internal Services and the monitoring of the operation of procedures and internal financial control manuals adopted by the Bank.

b) Regular reviews of the Bank's internal control and risk management systems, so that the main risks are identified, managed and adequately reported.

c) Holding of meetings with the external auditor to receive any information relating to the audit process that is necessary, as well as to analyse and review any matters that are considered to be of special importance.

C.1.33 Is the board secretary a director?

YES

C.1.34 Describe the procedures for appointment and removal of the Secretary of the Board, stating whether the Appointments Committee was consulted and the appointment or removal was approved by the full Board.

Procedure for appointment and removal

The position of Secretary is regulated by Article 9 of the Board Regulations, which establishes the authorities granted and procedure for the appointment of a Secretary.

To safeguard the independence, impartiality and professionalism of the Secretary, the appointment to and removal from this position must be the subject of a prior report from the Appointments Committee. When the Board does not follow the recommendations of this Committee, reasons for justifying this action must be formally stated in the minutes of the meeting concerned.

Proposals for nominations or re-elections must involve candidates holding a Degree in Law and they must also comply with the legal and statutory requirements for the position, be of recognised prestige and possess the knowledge and professional experience that are appropriate to discharging the duties of Secretary.

The Board Secretary's performance is evaluated annually at the time of the Board's evaluation.

Is the Appointments Committee consulted on the appointment?	Yes
Is the Appointments Committee consulted on the removal?	Yes
Does the full Board approve the appointment?	Yes
Does the full Board approve the removal?	Yes

Is the Board Secretary entrusted in particular with ensuring compliance with corporate governance recommendations?

YES

Comments

Article 9 of the Board Regulations establishes that, in addition to the duties assigned by law or the Articles of Association, it is the Secretary's responsibility to ensure that the Bank's Corporate Governance principles are observed.

C.1.35 Indicate whether the bank has established mechanisms to maintain the independence of auditors, financial analysts, investment banks and rating agencies.

Articles 24 and 33 of the Board Regulations identify the mechanisms established to preserve the independence of the external auditor. The relationship between the Board of Directors and the external auditor is channelled through the Audit Committee, which is the competent body for:

a) Proposing to the Board of Directors for submission to the General Shareholders' Meeting the appointment of external auditors, the conditions of hiring, the scope of the professional mandate and, when appropriate, the revocation or non-renewal of such mandate and replacement of the auditor.

b) Supervising fulfilment of the audit contract, endeavouring to ensure that the auditors' opinion on the financial statements and the main contents of the audit report are drafted clearly and accurately.

c) Receiving regular information from the external auditor regarding the audit plan and the results of its management, evaluating the results of each audit and verifying that senior management take into account the auditor's recommendations, as well as mediating in any case of discrepancy between these parties and with the auditor with respect to the principles and standards applied when preparing the financial statements.

d) Liaising with the external auditors to receive information about any issues potentially jeopardising the external auditor's independence and any other issues connected with the process of performance of the audit, as well as the other communications stipulated in audit legislation and technical auditing standards.

e) Receiving annually written confirmation from the auditors about their independence in respect of the entity and the information about any additional services they render. The Committee will issue an annual opinion on the independence of the Auditors prior to the Auditor's Report being issued.

f) Endeavouring to ensure that the financial statements that the Board of Directors submits to the General Meeting do not contain any reservations or qualifications in the Audit Report and, when such reservations or qualifications cannot be avoided, ensuring that both the Chairman of the Committee and the auditors provide clear explanations to the public and, in particular, to shareholders of the content and scope of the discrepancies and of these reservations or qualifications.

Furthermore, to ensure the independence of the external auditor:

a) Any change in the auditor will be reported as a Significant Event to the Spanish National Securities Market Commission, indicating the existence of any disagreements with the exiting auditor and their subject matter;

b) The Committee will ensure that the Bank and the auditor respect current regulations regarding the rendering of services other than audit, limits to the concentration of the Auditor's business and, in general, any other regulation established to ensure the independence of auditors;

c) Should the external auditor resign, the Audit Committee will examine the reasons for such resignation.

Similarly, no services other than audit services are to be contracted with the external auditor, so as not to jeopardise such auditor's independence.

In any event, the Committee must be provided, on an annual basis, with a written statement from the auditors confirming their independence of the entity or entities related to it either directly or indirectly, as well as information on any additional services provided, of any type, to these entities by said auditors, or by persons or entities related to them in accordance with the provisions of Royal Decree 1/2011 of 1 July approving the recast text of the Auditing Act.

The Committee is required to issue annually, prior to the issue of the audit report, a report expressing its opinion as to the auditors' independence. This report, where appropriate, is required to comment upon the provision of additional services, as referred to in the previous section.

In compliance with the foregoing, in 2014 the corresponding reports on the independence of the auditor were issued, confirming said independence.

Finally, in accordance with the provisions of the Board Regulations, under the heading B.1.37 below information is provided on the overall fees paid during the year to the audit firm for services other than audit.

The Investor Relations Department is entrusted with maintaining communications with institutional shareholders and financial analysts who cover the Banco Popular share, ensuring that they are given no privileged information which is not disclosed to other shareholders.

Regarding the rating agencies, the Bank has hired, the Bank has hired the services of the three main international rating agencies. The designated area to maintain the relationship with the rating agencies is the Group's General Directorate of Finance.

C.1.36 State whether the Company changed its external auditor during the year. If so, identify the incoming and outgoing auditor:

NO

Outgoing auditor	Incoming auditor
-	-

If there were any disagreements with the outgoing auditor, explain what they were about:

NO

Explanation of the disagreements

C.1.37 State whether the audit firm has done work for the Bank and/or its group other than audit work and, if so, state the fees received by it for such work and the amount of such fees as a percentage of the fees billed to the company and/or its group:

YES

	Company	Group	Total
Fees for work other than auditing (€ thousands)	1,126	2,369	2,369
Fees for non-audit work / Total amount invoiced by audit firm (%)	55.63%	55.21%	55.21%

C.1.38 State whether the audit report for the financial statements for the preceding year contained any reservations or qualifications. If it did, state the reasons given by the Chairperson of the Audit Committee to explain the content and scope of the reservations or qualifications.

NO

Explanation of the reasons

C.1.39 State the number of years for which the current audit firm has performed the audit of the company's and/or its group's financial statements without interruption. Also, indicate the number of years audited by the current audit firm as a percentage of the total number of years in which the financial statements have been audited:

	Company	Group
Number of consecutive years	33	33

	Company	Group
Number of years audited by the present audit firm as a % of the years for which audits have been performed	97	97

C.1.40 Indicate whether there is a procedure for Directors to engage external consultants and, if so, provide details:

YES

Details of the procedure

All Directors have the right and the duty to request and obtain information and advice appropriate to the discharge of their functions of supervision, in the broadest terms, routing their requests in this respect through the office of the Secretary to the Board, which will act by either directly furnishing the information, providing the appropriate interlocutors or arranging the measures enabling them to conduct the examination in situ.

Article 20 of the Board Regulations establishes the right to receive expert assistance: In order to facilitate the work of the Directors, the Board guarantees them access to the services of the Bank's in-house experts. The Directors have the authority to propose to the Board of Directors the engagement, at the Bank's expense, of such external advisers as they may consider necessary to advise them on issues arising in the performance of their duties, when these issues are of a specific nature and are of a certain importance and complexity. The proposal must be conveyed to the Chairman through the Secretary of the Board. The Board may veto its approval by majority vote if it considers the proposal unnecessary, if its cost is disproportionate considering the level of importance of the issue in question and the assets and revenues of the Bank, or if there is a possibility of such technical assistance being adequately provided by the Company's own experts and technical staff.

C.1.41 State whether there is a procedure enabling directors to obtain the necessary information to prepare with sufficient time for meetings of the governing bodies, and if so, provide details:

YES

Details of the procedure

The Directors receive specifically prepared and focused information in good time to enable them to prepare on a timely basis for Board meetings, provided that the urgency and nature of the matter make this possible, with no limitations other than those imposed by the current legal and regulatory framework covering privileged information.

There is an Internet portal available to the members of the Board of Directors through which they have exclusive access to the documentation and information reserved to the Board, such as meeting agendas, presentations and other documentation needed for the sessions, as well as the minutes of past meetings.

Furthermore, the Secretary's Office has established a permanent channel of communication with Directors through a text-messaging system, through which they are informed of the public dissemination of information regarding the Bank, the posting on the aforementioned portal of information and documentation of interest to them, etc.

Article 19 of the Board Regulations regulates the Directors' right to information in the following terms: The Directors have the broadest of powers to demand information on any aspect of the Bank, to examine its books, records and documents, to contact those in charge of the various departments, and to visit the Bank's installations and facilities, provided that this is necessary for the performance of their duties. This right to information is to be channelled through the Chairman or the Secretary to the Board, who will deal with such requests from the Directors either by furnishing the information required directly, or by indicating the appropriate interlocutors, or by arranging such measures as may be necessary so that the information requested may be examined. The Board may refuse to grant the request for information if it feels the disclosure could be harmful to the Bank's corporate interests, without prejudice to the provisions of the Corporate Enterprises Act.

C.1.42 State whether the company has rules obliging Directors to inform the board of any circumstance that might harm the organisation's name or reputation, and to resign if necessary, and describe any that exist:

YES

Describe the rules

Article 16.3.c) of the Board Regulations establishes the requirement that Directors place their office at the disposal of the Board of Directors and, if deemed appropriate by the Board, submit their resignation in cases in which their remaining on the Board may negatively affect its operation or the credit and reputation of the Bank in the market or may endanger the interests of the Bank.

If a Director is tried or in the case of opening of oral proceedings against him for any of the offences referred to in Article 213 of the Corporate Enterprises Act, the Board shall examine the matter and, depending on the particular circumstances and potential harm to the Bank's name and reputation, decide whether or not he or she should continue in office.

In all cases in which a Director leaves his/her post before the end of the relevant term of office, whether through resignation or for any other reason, the reasons behind this action must be explained in a letter, which will be sent to all members of the Board of Directors, and the Bank will report this decision through the communication of a Significant Event, indicating the aforementioned reasons in the Annual Corporate Governance Report.

C.1.43 State whether any member of the Board of Directors has informed the Bank that he has been charged with, or tried for, any of the offences referred to in Article 213 of the Corporate Enterprises Act.

NO

State whether or not the Board of Directors has analysed the case. If yes, explain the decision taken as to whether or not the Director will remain on the Board or any actions taken by the Board of Directors up to the date of this report or any actions it plans to take.

NO

C.1.44 Significant agreements entered into by the company that will come into force, be modified or terminate in the event of a change in control of the company resulting from a takeover bid, and their effects.

C.1.45 Identify on an aggregate and individualised basis any agreements between the company and its directors, officers or employees which contain indemnity clauses, guarantees or "golden parachutes" deriving from early termination of the contractual relationship if their employment ends because of a public takeover bid or other corporate transaction.

Number of beneficiaries	
Type of beneficiary	Description of agreement

State whether these contracts have to be communicated and/or approved by the company's bodies or those of its group:

	Board of Directors	General Shareholders' Meeting
Body that authorises the clauses		

	YES	NO
Is the General Shareholders' Meeting informed of the clauses?		

C.2 Committees of the Board of Directors

C.2.1 List all Board of Directors Committees, their members and the proportion of proprietary and independent directors who are members:

DELEGATED COMMITTEE

Name	Position	Category
Ron, Ángel	Chairman	Executive
Gómez, Francisco	Director	Executive
Arias, José Maria	Director	Proprietary
Herrando, Luis	Director	Independent
Higuera, Roberto	Director	Independent
Aparicio, Francisco	Secretary	Executive

% executive directors	50
% proprietary directors	16.67
% independent directors	33.33
% other external directors	0

AUDIT COMMITTEE

Name	Position	Category
Higuera, Roberto	Chairman	Independent
Arias, José Maria	Director	Proprietary
Oroviogoicoechea, Jorge	Director	Independent

% executive directors	0
% proprietary directors	33.33
% independent directors	66.67
% other external directors	0

APPOINTMENTS COMMITTEE

Name	Position	Category
Herrando, Luis	Chairman	Independent
Oroviogoicoechea, Jorge	Director	Independent
Molins, Ana María	Director	Independent

% executive directors	0
% proprietary directors	0
% independent directors	100
% other external directors	0

COMPENSATION COMMITTEE

Name	Position	Category
Herrando, Luis	Chairman	Independent
Oroviogoicoechea, Jorge	Director	Independent
Molins, Ana María	Director	Independent

% executive directors	0
% proprietary directors	0
% independent directors	100
% other external directors	0

RISK COMMITTEE

Name	Position	Category
Oroviogoicoechea, Jorge	Chairman	Independent
Herrando, Luis	Director	Independent
Unión Europea de Inversiones, S.A. (Rodríguez, José Ramón)	Director	Proprietary

% executive directors	0
% proprietary directors	33.33
% independent directors	66.66
% other external directors	0

C.2.2 Complete the following table with information on the number of female directors on each Board Committee over the last four years:

	Number of female directors							
	Financial year 2014 Number %		Financial year 2013 Number %		Financial year 2012 Number %		Financial year 2011 Number %	
Delegated Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Appointments Committee	1	33.33%	1	33.33%	1	33.33%	1	33.33%
Compensation Committee	1	33.33%	1	33.33%	1	33.33%	1	33.33%
Risk Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Indicate which of the following functions are performed by the Audit Committee.

Supervise the preparation and the integrity of financial information relating to the company and, if appropriate, to the Group, reviewing compliance with legislative requirements, appropriate definition of the scope of consolidation and the correct application of accounting standards.	YES
Regular reviews of the internal control and risk management systems, so that the main risks are identified, managed and adequately reported.	YES
Ensure the independence and efficiency of the internal audit function; proposed the selection, appointment, re-election and removal of the person responsible for internal audit; propose the budget for this service; receive regular information regarding its activities; and verify that senior management takes into account the conclusions and recommendations contained in its reports.	YES
Establish and supervise a mechanism that allows employees confidentially, and if considered appropriate, anonymously, to report any potentially significant irregularities, particularly those of a financial or accounting nature, observed within the company.	YES
Make recommendations to the Board for the selection, appointment, re-election and replacement of the external auditor, and the terms and conditions of his engagement.	YES
Regularly receive information from the external auditor regarding the audit plan and the results of execution, and verify that senior management takes the recommendations made into account.	YES
Ensure the independence of the external auditor.	YES

C.2.4 Describe the rules of organisation and operation and the responsibilities of each of the Board committees.

DELEGATED COMMITTEE

The Delegated Committee is formed by the number of Directors designated by the Board of Directors at any given moment. The Chairman and the CEO of the Bank are ex officio members of this Committee.

The Board of Directors decides the composition of the Delegated Committee and the appointment and dismissal of its members. The Members of the Committee cease to hold this position when they cease to be Directors of the Bank or when so decided by the Board of Directors. The resolutions appointing members of the Delegated Committee require the votes in favour of at least two thirds of the members of the Board of Directors.

The Chairman of the Board of Directors presides over the Committee, and the Secretary is the Secretary to the Board. The Secretary may be replaced by a Committee member chosen at the start of any meeting, or by one of the Vice-Secretaries to the Board of Directors.

The Delegated Committee holds ordinary meetings regularly, in principle every two weeks, and the meetings are considered to be validly constituted when half plus one of its members are present or represented. Its resolutions are adopted by absolute majority of the Directors present or represented at the relevant meeting.

The resolutions adopted by the Delegated Committee are valid and binding without any need for subsequent ratification by the full Board, although the Board must be informed of the issues discussed and the decisions taken at its meetings, and the minutes of its meetings must be made available to the Board.

The Board of Directors has currently delegated to the Delegated Committee all its powers except those that cannot be delegated pursuant to the law and to Article 5.2 of the Board Regulations .

AUDIT COMMITTEE

The Audit Committee consists of a minimum of three (3) and a maximum of five (5) Directors, designated by the Board of Directors in view of their knowledge, aptitudes and experience in the areas of accounting, audit and risk management, as well as the other tasks assigned to the Committee.

Article 24 of the Board Regulations stipulates that the majority of the members of the Audit Committee must be non-executive Directors, from among whom a Chairman will be chosen. At least one of its members must be an independent director.

The Board of Directors designates the Chairman of the Committee from among the independent Directors, as well as the Secretary, who does not necessarily have to be a member of the Committee. If it does not appoint a Secretary, the Secretary to the Board of Directors will assume this position.

If the Chairman is absent, the meeting is presided over by the Director designated by the Committee, and in the absence of the Secretary, these duties will be performed by the Committee member so designated, or the Vice Secretary or one of the Vice Secretaries to the Board of Directors.

The Members of the Committee cease to hold this position when they cease to be Directors of the Bank or when so decided by the Board of Directors.

Notwithstanding the above, the Chairman must be replaced every four years and may be re-elected once one year has passed since leaving the office, without prejudice to his continuing as a member of the Committee if so agreed by the Board of Directors.

The Audit and Control Committee must meet as often as may be necessary for the proper performance of its functions and whenever called to meet by its chairman or requested to do so by any of its members; it must hold at least two meetings a year and in any case whenever the Board requests the issuance of reports, the presentation of proposals or the adoption of resolutions within the sphere of its functions.

The proposals made by the Committee must be approved by the vote of a majority of the Members attending the meeting.

The Committee may request the attendance of the Group's external Auditors at its meetings in which their report on the financial statements and the Directors' Report of the Bank and of its consolidated group are to be examined. Furthermore, this Committee may request the attendance for reporting purposes of the Group's senior management, other Group directors and personnel, as well as other advisers or consultants, as appropriate. Any of the persons mentioned in this paragraph who are asked to attend the meetings shall be under the obligation to do so, offering their full cooperation and making all information they hold available. The Committee may seek the cooperation of these same persons to carry out work which it considers necessary for the execution of its duties, and may seek the advice of external professionals. In addition, the Committee may, in the performance of its duties, request the collaboration of the Board of Directors and its other Committees, the Directors and the Secretary and Vice-Secretaries of the Board.

The principal task of the Committee is to assist the Board of Directors with its duty to supervise and control the Bank by evaluating the system of accounting verification of the Group, by verifying the independence of the external auditors and by reviewing the internal control system. The Committee will keep the Board of Directors permanently informed of the performance of the duties for which it is responsible.

Without prejudice to such other duties as may be assigned by the Board of Directors, the Committee will have the following competencies:

a) Supervise the process of preparation and presentation of the financial information and its completeness and verifying that all periodic information released to markets is prepared in accordance with professional practices and principles applicable to financial statements, supervising this information and reporting to the Board of Directors prior to the Board's adopting any relevant decisions and before they are published.

b) Inform the General Shareholders' Meeting about issues raised by shareholders regarding matters within its sphere of competence.

c) Propose to the Board of Directors, for submission to the General Shareholders' Meeting, the appointment of external auditors, the conditions of hiring, the scope of the professional mandate and, when appropriate, the revocation or non-renewal of such mandate and replacement of the auditor. Supervise the fulfilment of the audit contract, ensuring that the auditor's opinion on the financial statements and the main contents of the auditor's report are drafted clearly and accurately.

d) Supervise the internal audit's services and, in this respect, ensure its independence and efficacy; propose the selection, appointment, re-election and removal of the person responsible for internal audit; propose its budget; receive periodic information regarding its activities; and verify that senior management take into consideration the conclusions and recommendations set out in its reports.

e) Serve as a channel of communication between the Board of Directors and the auditors and receive regular information from the external auditor regarding the audit plan and the results of its management, evaluate the results of each audit and verify that senior management take into account the auditor's recommendations, as well as mediating in any case of disagreement between these parties and with the auditor with respect to the principles and standards applied when preparing the financial statements.

f) Liaise with the external auditors to receive information about any issues potentially jeopardising the auditor's independence and any other issues connected with the process of performance of the audit for examination by the Committee, and any other matter related to the audit development process, as well as the other communications stipulated in audit legislation and technical auditing standards.

To ensure independence:

1. Any change in the auditor will be reported as a Significant Event to the Spanish National Securities Market Commission, indicating any disagreements with the outgoing auditor and their subject matter;

2. The Committee will ensure that the Bank and the auditor respect current regulations regarding the provision of services other than audit, limits to the concentration of the Auditor's business and, in general, any other regulation established to ensure the independence of auditors;

3. In the event that the external auditor withdraws from the mandate, the Committee will examine the circumstances giving rise to this situation.

In any event, the Committee must be provided, on an annual basis, with written confirmation from the auditors confirming their independence from the entity or entities related to it either directly or indirectly, as well as information on any additional services provided, of any type, to these entities by said auditors, or by persons or entities related to them in accordance with the Consolidated Law on Auditing approved by Royal Legislative Decree 1/2011 of 1 July .

The Committee is required to issue annually, prior to the issue of the audit report, a report expressing its opinion as to the auditors' independence. This report, where appropriate, is required to comment upon the provision of additional services, as referred to in the previous section.

g) Endeavour to ensure that the financial statements that the Board of Directors submits to the General Shareholders' Meeting do not contain any reservations or qualifications in the Audit Report, and that if such reservations or qualifications cannot be avoided, both the Chairman of the Committee and the auditors clearly explain to the public and, in particular, to shareholders, the content and scope of the discrepancies and of these reservations or qualifications.

h) Supervise the efficacy of the Bank's internal control and risk management systems, including tax risks, so that the main risks are identified, managed and appropriately reported. Discuss any significant weaknesses in the internal control systems detected during the audit with the auditors.

i) Review the accounts for the Bank, supervise compliance with legal requirements and the proper application of generally accepted accounting principles and the adequate definition of the scope of consolidation. Monitor the operation of internal financial control procedures and the use of manuals adopted by the Bank, check compliance therewith and review the appointment and replacement of those responsible.

j) Consider the suggestions that may be made to the Committee by the Chairman, other members of the Board, senior management or shareholders of the Bank, as well as report and submit proposals to the Board of Directors about measures that the Committee considers appropriate.

k) Establish and supervise a mechanism that allows employees to report, on a confidential basis and, if deemed advisable, anonymously, any irregularities that are potentially important, particularly those of a financial and accounting nature, that are observed within the Bank.

l) Detect and manage conflicts of interest that may arise between Group entities.

m) Inform the Board of Directors, prior to the adoption of the relevant decisions, of the creation or acquisition of shares in special purpose vehicles or any entities domiciled in countries or territories classified as tax havens, as well as of any other transactions or operations of a similar nature that could jeopardise the transparency of the Banco Popular Group due to their complexity.

n) Evaluate its operation on an annual basis and present the Board of Directors with a report on the activities carried out during the year.

ñ) All others established by Law or in the Board Regulations.

APPOINTMENTS COMMITTEE

The Appointments Committee is formed of a minimum of three (3) and a maximum of five (5) Directors, designated by the Board of Directors, taking account of the knowledge, aptitudes and experience of the Directors and the duties of the Committee.

Article 25 of the Board Regulations stipulates that a majority of the members of the Appointments Committee must be non-executive directors, from among whom a Chairman will be chosen. At least two of its members must be independent directors.

The Board of Directors designates the Chairman of the Committee from among the Committee Members, as well as the Secretary, who does not necessarily have to be a member of the Committee. If it does not appoint a Secretary, the Secretary to the Board of Directors will assume this position.

If the Chairman is absent, the meeting is presided by the independent Director designated by the Committee, and in the absence of the Secretary these duties will be performed by the Committee member so designated, or the Vice Secretary or one of the Vice Secretaries to the Board of Directors.

The Members of the Committee cease to hold this position when they cease to be Directors of the Bank or when so decided by the Board of Directors.

The Committee must meet as often as may be necessary for the proper performance of its functions and whenever called to meet by its chairman or requested to do so by any of its members and, in any case, whenever the Board requests the issuance of reports, the presentation of proposals or the adoption of resolutions within the sphere of its functions.

The proposals made by the Committee must be approved by the vote of a majority of the Members attending the meeting.

This Committee may require the Group's senior management, other managers and personnel to attend in order to provide information, as well as any advisors or consultants providing services to the Group. Any of the persons mentioned in this paragraph who are asked to attend the meetings shall be under the obligation to do so, offering their full cooperation and making all information they hold available. The Committee may seek the cooperation of these same persons to carry out work which it considers necessary for the execution of its duties, and may seek the advice of external professionals. In addition, the

Committee may call for the collaboration of the Board of Directors and its Committees, Directors and the Secretary and Vice Secretaries to the Board of Directors, in the performance of its duties.

The main task of the Committee is to assist the Board of Directors in its functions of appointing, re-electing, dismissing and compensating Directors and senior management, endeavouring to ensure that the Directors receive all the necessary information for the proper performance of their duties, and keeping a close watch on compliance with the Bank's rules of governance and periodically reviewing the results. The Committee will keep the Board of Directors permanently informed of the performance of the duties for which it is responsible.

Without prejudice to such other duties as may be assigned by the Board of Directors, the Committee will have the following competencies:

a) Keeping a close watch on the integrity of the selection process for the Group's Directors and senior management, ensuring that candidates are persons who conform to the profile of the vacancy.

b) Formulating and reviewing the criteria to be followed as regards the composition of the Board of Directors and the selection of candidates. In this respect, the competencies, knowledge and experience that are necessary on the Board must be evaluated and the necessary duties and aptitudes for candidates that cover each vacancy must be determined, while bearing in mind the time and dedication that are necessary to adequately perform the duties of the position.

c) Setting a representation goal for the under-represented gender on the Board of Directors and develop guidance on how to reach that objective.

d) Examining or organising, in the manner deemed appropriate, the succession of the Chairman and the CEO and, if appropriate, making proposals to the Board so that said succession takes place in an orderly and well-planned manner.

e) Submitting to the Board of Directors proposals for the appointment, re-election and removal of Independent Directors. or a Committee Report in the case of the other Directors, so that the Board may proceed directly to the appointment of these directors (co-opting) or submit their appointments to the General Shareholders' Meeting, providing information on the class of Directors in all cases.

f) Submitting to the Board of Directors the proposals for appointment, re-election and removal of the members who should form part of each of the Board Committees.

g) Reporting proposals to appoint or remove the Board's Secretary or Vice Secretaries.

h) Submitting to the Board of Directors proposals for the appointment and re-election of members of senior management and of the supervisory body stipulated in the Internal Conduct Regulations in the sphere of securities markets.

i) Examining any suggestions for appointments sent to it by the Bank's Chairman, members of the Board, executives or shareholders, evaluating them and reporting on them objectively and impartially so that the Board may act in full knowledge of all the relevant information.

j) Reporting to the Board of Directors regarding any gender diversity matters indicated in its Regulations.

k) Reviewing, on an annual basis, the classification of each Director when preparing the Corporate Governance Report.

l) Proposing to the Board of Directors the Suitability Assessment policy for Board members individually and the Board of Directors as a whole and any modifications that are deemed necessary and/or appropriate.

m) Periodically supervising, at least once a year, the correct application of the Suitability Assessment policy for Board members individually and the Board of Directors as a whole, reporting on compliance to the Board of Directors and proposing, through its reports, any adjustments that are deemed necessary.

n) Providing guidance to new Directors, advising them of their legal obligations, informing them of the Bank's governance rules, and familiarising them with the characteristics, situation and environment of the company.

o) Examining the information sent by Directors regarding their other professional obligations and evaluating whether or not they could interfere with the dedication required to properly carry out their duties, as well as verifying compliance with the rules established regarding the number of Boards of which they may form part.

p) Taking care to ensure that the directors receive information of sufficient quantity and quality to enable them to adequately perform their functions.

q) Detecting cases in which the relation of a Director to the Bank may negatively affect its functioning or its standing and reputation.

r) Detecting and managing possible conflicts of interest between Directors or senior managers and the Bank, ensuring fulfilment of the obligations of discretion and impartiality and of the duties of confidentiality, diligence and loyalty of the directors as well as any such issues that may arise between significant shareholders and the Bank.

s) Informing the Board of Directors of related party transactions, prior to its taking any decisions in this respect.

t) Proposing the Annual Corporate Governance Report to the Board of Directors.

u) Proposing and verifying compliance with the Group's Corporate Social Responsibility Policy and the preparation of the Annual Corporate Social Responsibility Report.

v) Supervising compliance with these Regulations and, in general, with the internal codes of conduct and the rules of Bank governance, and making any necessary proposals for improvement.

w) Evaluating the Board of Directors on an annual basis, as well as the Chairman and the Bank's CEO.

x) Evaluating the suitability of the Directors, the candidates for Board membership and the Board of Directors as a whole. If a candidate is deemed to be unsuitable, a report will be submitted to the Board of Directors

y) Coordinating the production of a training programme for the Directors and keeping it updated.

z) Evaluate its operation on an annual basis and present the Board with a report on the activities carried out during the year.

aa) All others established by Law or in Board Regulations.

COMPENSATION COMMITTEE

The Compensation Committee is formed of a minimum of three (3) and a maximum of five (5) Directors, designated by the Board of Directors, taking account of the knowledge, aptitudes and experience of the Directors, and the Committee's tasks.

Article 26 of the Board Regulations stipulates that the Committee will be composed exclusively of non-executive Directors, two of whom must be independent Directors.

The Board of Directors designates the Chairman of the Committee from among the Committee Members, as well as the Secretary, who does not necessarily have to be a member of the Committee. If it does not appoint a Secretary, the Secretary to the Board of Directors will assume this position.

If the Chairman is absent, the meeting is presided by the independent Director designated by the Committee, and in the absence of the Secretary these duties will be performed by the Committee member so designated, or the Vice Secretary or one of the Vice Secretaries to the Board of Directors.

It may pass resolutions in writing without an actual meeting, provided that none of its members are opposed and it is in accordance with the provisions of the Articles of Association and the Law.

The Members of the Committee cease to hold this position when they cease to be Directors of the Bank or when so decided by the Board of Directors.

The Committee must meet as often as may be necessary for the proper performance of its functions and whenever called to meet by its chairman or requested to do so by any of its members and, in any case, whenever the Board requests the issuance of reports, the presentation of proposals or the adoption of resolutions within the sphere of its functions.

The proposals made by the Committee must be approved by the vote of a majority of the Members attending the meeting.

This Committee may require the Group's senior management, other managers and personnel to attend in order to provide information, as well as any advisors or consultants providing services to the Group. Any of the persons mentioned in this paragraph who are asked to attend the meetings shall be under the obligation to do so, offering their full cooperation and making all information they hold available. The Committee may seek the cooperation of these same persons to carry out work which it considers necessary for the execution of its duties, and may seek the advice of external professionals. In addition, the Committee may call for the collaboration of the Board of Directors and its Committees, Directors and the Secretary and Vice Secretaries to the Board of Directors, in the performance of its duties.
The main task of the Committee is to assist the Board of Directors in its approval of the Directors' and Senior Management's remuneration.

Without prejudice to such other duties as may be assigned by the Board of Directors, the Committee will have the following competencies:

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

b) Ensuring compliance with the compensation policy established for the Board of Directors and making proposals to the Board of Directors regarding the measures deemed most appropriate to maintain, correct or improve this policy, in particular to adjust the policy to meet the principle of moderation and to match the Bank's performance.

c) Evaluate its operation on an annual basis and present the Board of Directors with a report on the activities carried out during the year.

d) All others established by Law or in Board Regulations.

RISK COMMITTEE

Article 27 of the Board Regulations establishes that the Risk Committee will be formed of a minimum of three (3) and a maximum of five (5) Directors.

It is for the Board of Directors to set the exact number of members, as well as their appointment and removal.

The Committee will be formed exclusively of directors who do not perform executive functions and who possess the appropriate knowledge, skills and experience to fully understand and control the Bank's risk strategy and its propensity to risk.

At least of third of its members and, in any case, the Chairman, shall be independent directors.

The Board of Directors will designate the Chairman of the Committee from among the Committee Members, as well as the Secretary, who does not necessarily have to be a member of the Committee. If it does not appoint a Secretary, the Secretary to the Board of Directors will assume this position.

If the Chairman is absent, the meeting will be presided by the independent Director designated by the Committee, and in the absence of the Secretary these duties will be performed by the Committee member so designated, or the Vice Secretary or one of the Vice Secretaries to the Board of Directors.

It may pass resolutions in writing without an actual meeting, provided that none of its members are opposed and it is in accordance with the provisions of the Articles of Association and the Law.

The Members of the Committee cease to hold this position when they cease to be Directors of the Bank or when so decided by the Board of Directors.

The main task of the Committee is to assist the Board of Directors in risk related matters.

The Committee will keep the Board of Directors permanently informed of the performance of the duties for which it is responsible.

Without prejudice to such other duties as may be assigned by the Board of Directors, the Committee will have the following competencies:

a) Advise the Board of Directors in the definition and evaluation of the risk polices which affect the Group and the current and future setting of the entity's propensity to risk and its strategy in this field. The Group's control and risk management policies must include:

- The identification of the different types of risk (operational, technological, financial, legal, reputational and other) that the Bank might face, including contingent liabilities and other off-balance sheet risks under financial and economic risks;
- The establishment of the risk appetite that the Bank considers acceptable;
- The measures established to mitigate the impact of identified risks should they materialise;
- The information and internal control systems that will be used to control and manage these risks.

b) Consider whether the prices of assets and liabilities offered to customers fully take into account the business model and risk strategy of the entity.

c) Assist the Board of Directors in the monitoring and application of the risk strategy.

d) Confirm that the Group possesses the means, systems, structures and resources benchmarked against best practices to allow it to implement its risk management strategy.

e) Collaborate in ensuring that the establishment of the Group's remuneration policies conform to the risk management strategy. To this end, it shall examine, without prejudice to the functions of the Compensation Committee, whether the incentives provided for in the remuneration system take into consideration the risk, capital, liquidity and the likelihood and appropriateness of the benefits.

The Committee shall meet as often as may be necessary for the proper performance of its functions and whenever convened by its Chairman or requested to do so by any of its members and, in any case, whenever the Board requests the issuance of reports, the presentation of proposals or the adoption of resolutions within the sphere of its functions.

The Committee may require members of the Group's Senior Management, other managers and personnel to attend in order to provide information, as well as any advisors or consultants providing services to the Group. Any of the persons mentioned in this paragraph who are asked to attend the meetings will be under the obligation to do so, offering their full cooperation and making all information they hold available. The Committee may seek the cooperation of these same persons to carry out such work as it may consider necessary for the performance of its duties, and may seek the advice of external professionals. In addition, the Committee may call for the collaboration of the Board of Directors and its Committees, Directors and the Secretary and Vice Secretary to the Board of Directors, in the performance of its duties.

7. The Committee Secretary will minute each meeting, signing the same with the approval of the Chairman, and forwarding it to the Board of Directors with a copy to each Board member.

8. The proposals made by the Committee must be approved by the vote of a majority of the Members attending the meeting.

C.2.5. Indicate any rules governing the committees of the board of directors, where they are made available for consultation and any changes to these rules during the year. Also indicate whether annual reports on each committee's activities are voluntarily prepared.

The Board Regulations contain the rules of internal procedure and functioning of the Board committees. The regulations can be consulted at the Bank's headquarters and on its website www.grupobancopopular.com.

The Audit, Appointments and Compensation Committees have reported on the functions and activities carried out during the year.

The structure, composition and powers of the Board Committees contained in Articles 24, 25 and 26 have been changed to adapt to Law 10/2014 of 26 June on the Organisation, Supervision and Solvency of Credit Institutions. The Appointments Committee, has been divided into two Committees; "Appointments" and "Compensation".

C.2.6. State whether the composition of the delegated or executive committee reflects the participation in the Board of the various directors depending on their category:

YES

If this is not the case, explain the composition of the Delegated Committee

The Board of Directors ensures that, as well as the Executive Directors, the Delegated Committee also has a number of independent Directors that is congruent with the structure of the participation of external Directors on the Board of Directors.

The Board of Directors currently has fifteen Directors, three of whom are executive directors, seven are proprietary, five are independent. The Delegated Committee is composed of six members; three executive, two independent and one propietary.

Given that this is a delegated body of the Board of Directors with decision-making authority, the three Executive Directors form part of the Committee. In addition, for the proper performance of its duties it is necessary that the non-executive Directors who form part of this Committee should be appointed in all cases from among the Independent Directors; at present, exceptionally, one Proprietary Director forms part of the Delegated Committee.

The proportion of independent Directors on the Delegated Committee (33.33%) is equal to the percentage on the Board of Directors (33.33%).

The relations between the Board and the Committee are governed by the principle of transparency. At each of its meetings, the Board has full knowledge of all the matters discussed and the decisions adopted by the Delegated Committee.

D. RELATED PARTY TRANSACTIONS

D.1 Identify the competent governing body and explain the procedure for approving related party and intragroup transactions.

Body responsible for approving related party transactions
Appointments Committee

Procedure for approving related party transactions
The Board Regulations stipulate that transactions carried out by the Bank with Directors, significant shareholders or shareholders represented on the Board, or with persons related to them ("related party transactions") must be approved by the Board on the basis of a prior favourable report from the Appointments Committee, unless they meet all three of the following conditions simultaneously: 1. They are carried out in accordance with standardised contracts that are applied to customers *en masse*; 2. They are carried out at market rates, generally set by the supplier or provider of the goods or services; 3. The amount does not exceed 1% of the Bank's annual revenues. The powers referred to under the above letters may be exercised for justified reasons in cases of urgency by the Delegated Committee, which will inform a full session of the Board, which in turn may pass such resolutions as it deems appropriate in respect of such decisions of the Executive Committee .

D.2 List any transactions that are significant in terms of their amounts or their substance carried out between the company or its group entities and significant shareholders of the company:

Name or company name of significant shareholder	**Name or company name of the company or group entity**	**Nature of relationship**	**Type of transaction**	**Amount** (€ thousands)
-	-	-	-	-

As regards significant shareholders, transactions of this kind carried out by Banco Popular during 2014 were confined to those with Allianz, Banque Fédérative du Crédit Mutuel and Unión Europea de Inversiones, all of which were carried out on market terms.

D.3 List any transactions that are significant in terms of their amounts or their substance carried out between the Bank or its group entities and the company's directors or executives:

Name or company name of director or executive	**Name or company name of related party**	**Nature or relationship**	**Nature of transaction**	**Amount** (€ thousands)
-	-	-	-	-

Transactions with members of the Board of Directors and the senior management of the Bank were performed in the ordinary course of business and at arm's length

The overall amount of direct risks granted by the Group to all the directors considered in conjunction, as of 31 December 2014 was €47,161,000, of which €46,946,000 corresponded to credits and loans and €215,000 to guarantees. The interest rate of these credits and loans varied between 0.50% and 2.450%.

The overall amount of risks assumed by the Group in favour of each of the members of the Board of Directors is indicated in Note 10 to the Financial Statements in the Annual Report.

The risks contracted with management personnel listed in Section B.1.12 conform to the general criteria for the assumption of risks with Group employees, and in all cases form part of the Bank's ordinary business and have been contracted on an arm's length basis.

D.4 List the material transactions carried out by the company with other companies in its group which are not eliminated in the process of preparation of the consolidated financial statements and were not performed in the ordinary course of the Bank's business as regards their purpose and conditions.

In any case any intragroup transactions with entities established in countries or territories considered to be tax havens must be reported:

Name of group entity	**Brief description of transaction**	**Amount** (€ thousands)
BP Preference International Ltd.	Debt securities	8,338

D.5 State the value of the transactions carried out with other related parties.

D.6 Detail the mechanisms in place for detecting, determining and resolving possible conflicts of interest between the company and/ or its group and its directors, executives or significant shareholders.

Among the competencies of the Appointments Committee listed under Article 25 of the Board Regulations is the detection and management of any possible conflicts of interest between Directors or Senior Management and the Bank, ensuring compliance with their obligations of discretion and impartiality and their duties of confidentiality, diligence and loyalty, as well as of any such conflicts that may arise between significant shareholders and the Bank.

In accordance with the provisions of Article 24 of the Board Regulations, the Audit Committee has the authority to detect and manage any conflicts of interest that may arise between the Bank and its Group.

1. Conflicts of interest affecting Directors and Executives:

In accordance with the Board Regulations, the Directors must notify the Board of any situation of direct or indirect conflict that they might have with the interests of the Bank. In the case of a conflict, the Director concerned must refrain from involvement in the transaction to which the conflict refers.

In any case, situations of conflict of interest involving Directors of the Bank must be disclosed in the annual corporate governance report.

In turn, the Internal Code of Conduct (ICC) for Banco Popular Group entities in the sphere of securities markets details the information that must be provided by the Directors and Officers to the ICC Supervisory Body with respect to conflicts of interest:

a) In order to control possible conflicts of interest and, to the extent possible, prevent them, Directors and Executives shall present and update statements of their links - financial, family or of any other type- with customers of the Entity in respect of services relating to the stock market or with companies listed on the Stock Exchange.

b) The statement must also include any other links that, in the opinion of an external unbiased observer, could compromise the impartiality of the Director or Executive.

c) Directors and Executives must endeavour to avoid conflicts of interest and, if they are personally affected thereby, must refrain from deciding or, if appropriate, casting their vote in such situations as may arise.

d) The Supervisory Body may at any time, either occasionally or periodically, call for any information it considers necessary about the links of the persons subject hereto in order to make it possible for it to comply with its reporting or other obligations pursuant to the Securities Market Law and implementing regulations.

2. Conflicts of interest with significant shareholders:

In accordance with the provisions of Article 31 of the Board Regulations, the Board of Directors formally reserves to itself cognisance of any direct or indirect transaction between the Bank and a significant shareholder, giving due value to the equal treatment of the shareholders and market conditions.

The Board of Directors must adopt the necessary measures to avoid significant shareholders making use of their privileged position to obtain special advantages.

D.7 Is more than one Group company listed on a stock exchange in Spain?

NO

Identify the subsidiaries that are listed on a stock exchange in Spain:

Listed subsidiaries
State whether or not the respective areas of activity and any business relationships between them have been precisely and publicly defined, as well as those of the listed subsidiary with other group companies:

NO

Define any business relationships between the parent company and the listed subsidiary, and between the latter and other group companies.

Identify the mechanisms in place to resolve any conflicts of interest between the listed subsidiary and other group companies:

Mechanisms to resolve conflicts of interest

E. RISK MANAGEMENT AND CONTROL SYSTEMS

E.1 Explain the scope of the Bank's Risk Management System.

The various risks implicit in the banking activities conducted by the Banco Popular Group are managed based on criteria of prudence, in such a way as to safeguard at all times the basic objectives of solvency, profitability, efficiency and adequate liquidity.

In December 2014 the Board of Directors approved the Risk Appetite Framework, a governing instrument that contributes to an effective and comprehensive management of the Group's risk appetite. It is a flexible framework that will identify and define the risks to which the Group is exposed and set objectives, alerts and limits consistent with Banco Popular Group's strategy at a consolidated level. The objective is to maintain a profile of medium-low risk by controlling the risks to which the Group is exposed through its business model, mainly credit risk and liquidity risk, but also other relevant risks associated with the capital objective: business risk, operational risk, interest rate risk, market risk, reputational risk and compliance risk.

The risk policy is a synthesis of strictly professional criteria for the study, assessment, assumption and monitoring and control of risks by all the Entities forming the Group, which are conducive to the maximisation of the risk/profitability ratio inherent to credit and market risk, and the minimisation of all other risks detailed in the previous point. To do this, procedures for monitoring and control by senior management covering all the activities that the Group develops, mainly commercial banking, have been established. Also, the respective areas involved have formal procedures for analysis, authorisation, and monitoring and control, applied in a manner consistent with their nature and amount, which are supervised, if necessary, by collegiate decision-making bodies.

Internal policies, which are known and applied by all the Group's business units in order to achieve an integral management and control of risks, are set out in an Investment Policies Manual approved by the Board of Directors, effective compliance with which is overseen by the Risk Management, the Management Committee and the Risk Committee of the Board of Directors.

Risk Management is characterised by the following key points and criteria:

— Defining the Risk Appetite Framework, where the risks to which the Group is exposed are identified and objectives and limits are defined according to the business model.
— Risk management and limits granted for each customer or associated group of customers, when such a relationship exists.
— Diversification of the risk attached to lending, setting or complying with the limits extended to borrowers, sectors and distribution by maturities.
— Involvement of Senior Management: among other things, the Group's Senior Management regularly monitors the evolution process in the internal management of risks in order to align the risk assumed by the entity with the Risk Appetite Framework, creating a suitable risk policy and ensuring its constant adaptation to changes in market, clientele and regulations as they occur. Additionally, Senior Management is responsible for ensuring the proper implementation of international capital regulations (Basel II and Basel III), which is already used in daily risk management, allocating material means and necessary personnel.
— Priority of risk policies aimed at ensuring the Group's stability and its viability in the short, medium and long terms, and at optimising the risk-return trade-off.
— Geared to a sound balance sheet.
— Segregation of risk and sales areas.
— Tailor-made solutions. Terms are negotiated with the customer based on each customer's overall relationship with the Bank, the risk assumed and the return it offers.
— Profitable and quality lending, opting for sustainable growth of profitable, balanced and overall steady growth and for profitability in line with the risk on each particular borrower.
— Reasonable balance between loans and advances and deposits captured.
— Scrupulous compliance with current legislation in every way, with particular attention paid to following the instructions in force as regards the prevention of money laundering and the financing of terrorism.
— The Group has in place a formal system of discretionary powers for the approval of risks, under which the various hierarchical levels in the organisation have been assigned different delegated powers for the authorisation of transactions.
— Differentiated analysis and treatment of refinancing and debt restructuring operations.
— Nimble response in deciding on proposed transactions, as a basic differentiating instrument, without detriment to rigour in the analysis.
— Evaluation and rigorous documentation of the risk and the guarantees.
— Application of automated internal systems based on rating or scoring.
— Monitoring of risk from analysis to termination.
— Flexibility of the target-oriented organisational structure.
— Systematisation and automation of processes.

E.2 Identify the governing bodies responsible for drafting and implementing the Risk Management System.

Board of Directors. See section C.1.14
Delegated Committee. See section C.2.4
Audit Committee. See section C.2.4
Risk Committee. See section C.2.4

E.3 Indicate the main risks that can affect the achievement of the business objectives.

CREDIT RISK

Credit risk arises from possible losses triggered by the breach of contractual obligations by the Bank's counterparties. In the case of refundable financing granted to third parties (in the form of credits, loans, deposits, securities and other), credit risk arises as a consequence of non-recovery of principal, interest and other items, in the terms – with respect to amount, period and other conditions – stipulated in the contracts.

For the correct management of credit risk, the Group has established a methodology, the main features of which are described in the following paragraphs.

Analysis of Credit Risk

The Group has established a formal system of discretionary powers for the approval of risks, under which the various hierarchical levels in the organisation are assigned delegated powers for the authorisation of transactions, which vary depending on various factors, such as: probability of default based on internal BISII/Technical Alerts models, the amount, type, and maximum term of the transaction, the parties to it, its risk ratings and policies, the sector of activity and its profitability.

For these purposes, the tiers in the organisation with delegated powers to authorise operations are, firstly, the Branch, then the Regional Management, followed by the Territorial Management, Corporate Banking, Wholesale Banking, and Banks and Group Companies. The final tiers would be Risk Acceptance, Risks with Credit Institutions and Market and Retail Risks, Risk Management, the Risk Committee and, ultimately, the Board of Directors or Delegated Committee.

The initiative for a new operation always starts at a Branch Office: for decision, if within its powers, or for reporting and submission to a higher level, if exceeded. The same rule applies at the following levels, and thus the largest transactions are evaluated all along the chain of risk analysis and authorisation. No other office or area in the Group, regardless of the hierarchical level of its management personnel, is empowered to carry out, nor even to propose, risk transactions outside the established circuit. The following offices constitute exceptions to this principle: those of International Financial Institutions and Risks Management- Financial Management which, through its directly dependent units, can propose to the General Risks Management the acceptance of Risks corresponding to Financial Entities, or issues made by the Public and Private Sector of the various kinds of financial assets which are traded on capital markets. Wholesale banking, which may propose to Risk Management, through Risk Acceptance, the authorisation of risks which, in view of the complexity of their structure and design, require such a procedure.

In the other business areas, a similar process applies: risk proposals originate in the relevant operating office, which likewise has decision-making powers delegated to it. Above this level, the transaction is referred, along with the pertinent preliminary reports, to the General Risks Management and, if it is outside the scope of its powers, is passed on to the Delegate Risks Committee.

Risks with related parties, such as transactions with significant shareholders, members of the Board, General Managers or similar, or with companies related to these persons, and with Group companies, are expressly excluded from the aforementioned delegated powers, and can only be authorised by the Board of Directors or its Delegated Committee, following a report from the Delegated Risk Committee. Exceptions are made when such operations are formalised through standardised contracts or with generally-stipulated conditions or involve very minor amounts, and in certain other cases established by the Regulations.

Risk Monitoring

The monitoring of approved transactions makes it possible to assess their quality at borrower level and establish mechanisms for the special surveillance of their progress and to react to avoid situations of default. The Group has a surveillance system in place based on "Technical Alerts" and "Information Alerts" which monitors trends in rating levels. This makes it possible to anticipate problematic situations and apply preventive measures in respect of current risks. The Technical Alerts are based fundamentally on an analysis of a group of variables relating to transactions and to customers that allow possible anomalous behaviour deviations to be detected and to provide alerts regarding situations such as negative information, financial statements, variation in rating levels, past due credit accounts, overruns, account overdrafts, non-payment of trade bills discounted, loan repayments not made at due date, etc.

The informative alerts are generated by any unit that is responsible for risk management and respond to the need to review the creditworthiness of name based on knowledge of a significant event. The alerts are handled by the Risk Monitoring teams located in each territorial department. The Risk Monitoring office is responsible for assigning credit ratings to clients as the ultimate decision-making body and for supervising the entire process.

The customer credit rating system evaluates the customer's overall risk quality and proposes the policy to be followed in relation to the risks assumed. Depending on the particular circumstances of each case analysed, the information is introduced graphically into the borrower's electronic case file by means of a teleprocessing application which includes all the customer information and positions, for consideration in risk-related decision-making. This report, in its preparation and definition, also takes into consideration default probability parameters based on BIS II. This system of alerts is supplemented by an "analyst's report", also included in the customer's electronic case file, which, by means of a questionnaire regarding the evolution of the customer, of the customer's risks and incidents, assets position, guarantees, etc., summarises the policy to be followed and identifies the measures required to ensure the satisfactory outcome of risks.

The Risk Management Office carefully monitors the risks of certain clients and economic groups with high volumes of assumed risk or those involved in certain incidents.

Moreover, the Risk Management office, in coordination with the risk monitoring teams at territorial offices and other units, periodically reviews those risk portfolios which, because of their nature, require closer scrutiny.

Management of non-performing balances and recovery of impaired assets

To manage items in default and to recover impaired assets, the Group has a General Retail Banking Department to which the Restructuring and Default Office reports while supervising the Restructuring and NPL Offices in each Territorial Management, as well as at the Documentation Preparation Office.

In addition, an external supplier (EOS CARI) is responsible for the early recovery of items in accordance with the Restructuring and Default guidelines.

Also in mid-2013, a Specialised Business Unit was created and started restructuring activities, collection and recovery of customers related to the real estate market: developers, builders and other customers associated with this sector, and since January 2014 Aliseda Sociedad de Gestión Inmobiliaria has managed the collection and recovery of items from customers in default when secured by mortgages, as well as the management and marketing of the foreclosed assets. Since January 2015 the S.B.U. only manages specific customers in the developers' sector, with the remainder up to that time becoming the responsibility of the Territorial Management teams.

This structure has been largely segregated from commercial activities in order not to interfere with the latter and to maximise the results obtained from the management of potential and confirmed defaults.

In order to streamline and strengthen recoveries, new responsibilities for action at various levels of the organisation have been defined. The recovery teams' template created in the Regional and Territorial Management currently has 198 people dedicated to the management of debts in difficulty, in addition to the network. These people only manage assets in difficulty corresponding to the scope of the Bank since Aliseda has its own template for managing their assets.

The non-performing loans area structure has been modified and specialised teams have been created to handle the portfolios of different kinds of customers in order to recover delinquencies and defaults, with the targets below:
Managing and analysing the most appropriate exit from the risk in distress with respect to each customer and transaction, facilitating litigation in those cases in which the transaction cannot be redirected.
Managing and monitoring matters deemed to be delinquent, so that they may be definitively recovered.

For these purposes, in order to recover delinquencies the items have been classified based on the amount of the risk concerned: Items less than €60,000 (customer risk); Items between €60,000 and €1,000,000 (customer risk) and Items more than €1,000,000 (customer risk).

Also, since March 2011 the process to prepare the documentation for litigation in cases in which it has not been possible to restructure the transaction has been centralised.

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

Cross-border risk

Cross-border risk, also referred to as country risk, is an additional component of credit risk. It derives from the difficulties which may be encountered by borrowers in certain foreign countries in meeting their debt repayment obligations. The default may be attributable to the financial position of the actual debtor (in which case the treatment is as for credit risk) or it may arise because the debtor, despite being able to repay its loans in the local currency, is unable to transfer funds abroad in view of economic difficulties in its country of residence. Applicable rules require that these risks be provided for based on the estimated impairment.

Structural balance sheet risk

This risk category covers risks deriving from possible adverse changes in interest rates corresponding to assets and liabilities, in the exchange rates for currencies in which asset and liability groups or off-balance sheet items are denominated, and in the market prices of negotiable financial instruments. Also included under this heading is business risk, defined as the possibility that the gross margin may prove insufficient to cover fixed costs owing to changes in volumes of balance sheet items and fee revenues, generated in turn by changes in economic conditions. Given the Bank's cost/income ratio, this risk is absolutely remote, although regular estimates of growth and changes in the balance sheet structure are carried out and their impact on gross margin is measured.

Market risk

This risk category covers the risks deriving from possible adverse changes in the market prices of negotiable financial instruments managed by the Group's Treasury area as a result of adverse changes in interest rates, exchange rates, prices of shares or raw materials, credit spreads, or volatility levels.

It also includes the liquidity risk linked to these positions. This is understood to refer to the impossibility of clearing positions in the market within a short period of time. For this, an evaluation is made of positions over a time span coinciding with the estimated time required for closure of the risk.

Liquidity risk

The liquidity risk reflects the possibility of a credit institution encountering difficulties in disposing of liquid funds, or accessing them, of a sufficient amount and at a suitable cost, in such a way that it is able to meet its payment obligations at all times.

The Group's liquidity risk is centrally controlled by means of formal procedures which are used to analyse and monitor the Group's liquidity; these include contingency plans to cope with possible variations in its liquidity arising either as a result of internal factors or due to market trends. For this purpose, periodic analyses are made of the sensitivity of liquidity in a variety of asset and liability cancellation scenarios, in periods which range from one day to one year (short term), from one to five years (medium-long term) and more than five years (very long term). Liquidity risk is analysed using a consolidated balance sheet disaggregated based on the residual maturities of assets and liabilities. These maturities are compared to arrive at the positive or negative liquidity gap for each time interval. For issues of securities, and for reasons of prudence, the shortest cancellation period is considered in all cases. The balance sheet in question is used to simulate situations arising in different scenarios in terms of market liquidity, combined with assumptions with respect to changes in application and equity aggregates and with the use of available liquidity lines. It is possible in this way to estimate the sensitivity of the balance sheet to changes in these variables. Simulations take into account two risks: systemic risk, which would affect the entire financial system and specific risk, only affecting Banco Popular. The assumptions on which these are based differ, as do the impacts on the balance sheet and on the liquidity position. The measures to be adopted, which are defined in the contingency plan, take into consideration the particular nature of each of these types of crisis. These simulations allow the quantification of a minimum amount of available assets as a second liquidity line, so as to comfortably overcome the envisaged situations.

Operational risk

The Banco Popular Group has adopted the definition of operational risk established in the new Basel Accord (Basel II-2004): "the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events". The Group's overall management of this risk includes the design of procedures to identify, evaluate, monitor and control it. This definition includes legal risk but it excludes strategic and reputational risks.

Senior management approved the "Operational Risk Management Framework" which includes the design of policies and functions for the development and implementation of methodologies and tools which allow for better management of the Group's operational risk. The management cycle for operational risks defined by the Banco Popular Group is divided into the following phases: Identification Phase; Evaluation Phase; Monitoring Phase; Mitigation / Control Phase and Measurement Phase

The responsibility for implementing and executing the operational risk management cycle is the primary objective of the Operational Risk office at Banco Popular Group. Since 2008 there has been an Operational Risk Committee which meets quarterly and in which notable Areas of the Group participate. This committee has the basic function of overall control and management of operational risk within the Organisation and it is therefore responsible for the operational risk management and monitoring process from an overall perspective. This committee also regularly reviews the base document for the "Operational Risk Management Framework", which is submitted for the approval of Senior Management when deemed necessary.

Regulatory risk

Since the onset of the financial crisis in 2008, the global financial system has been undergoing an unprecedented process of regulatory reform, driven by the G20. Banco Popular actively manages the regulatory risks in the environment in which it operates and has adapted to new requirements.

In addition to the transposition of the overall framework, the European environment was marked by the establishment of the Banking Union, the main objective of which is to break the link between sovereign risk and bank risk, and which involves a substantive change in the European institutional architecture.

Apart from this, significant banks will be subject to the Single Resolution Mechanism from January 2016 and will begin to fund their respective national resolution funds in January 2015. From this date a process of progressive pooling will begin until national resolution funds are fully integrated into a Single Fund in 2024. Banco Popular, as well as other significant banks will have to meet the new requirements defined by the Single Resolution Authority.

Banco Popular has the organisational structures, procedures and systems needed to comply with the applicable laws and even to anticipate the implementation of new regulations, thereby minimising the impact on its business.

Moreover, the Bank maintains regular contacts with the supervisors and regulators in all markets where it does business.

Reputational risk

It can be defined as that arising from the negative perception of the Bank by the various stakeholder groups with which it relates or by public opinion, which could cause an adverse impact on the capital, on the results or the development of the businesses making up its activity.

It is a risk which arises from the materialisation of other risks. Legal, economic-financial, operational, ethical, social and environmental factors are all influenced by reputational risk and could cause a loss of confidence in the institution. Mitigating this risk concerns the entire organisation and everyone in it. Banco Popular controls it globally, including all the Group's integrated entities.

The Compliance area is responsible for identifying and assessing potential reputational risk that may result in Banco Popular proposing, if necessary, corrective measures to significant detected incidents in order to eliminate or minimise their impact, reporting periodically to the Governing Bodies and Bank Management.

Compliance Risk

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

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

The Office for Regulatory Compliance, under the Vice-Secretary of the Board and Regulatory Compliance, as a centralised and functional unit of continuous compliance monitoring, is responsible for assessing and managing the risk of non-compliance related to transparency, customer protection and rules of conduct in the areas of: markets, market abuse, customer banking products and services, protection of personal data and the prevention of criminal risks related to business activities of the Bank; promoting appropriate training to staff on these matters. Also, the Office for Regulatory Compliance proposes corrective actions on the detected issues, reporting periodically to the Bank's Audit and Control Committee.

E.4 State whether the bank has a risk tolerance level.

Banco Popular Group has a comprehensive risk management in which it is understood that the definition and control of its Risk Appetite is one of the key elements.

Banco Popular Group's Board of Directors approved, at its meeting on 17 December 2014, its "Risk Appetite Framework (RAF)" formalising the proper coordination of decisions in the field of Risk; the definition, the level and composition of business risk which Banco Popular Group wishes to take on in its activities and the supervision and monitoring mechanism of such risk. Banco Popular Group's RAF is defined at a Consolidated Group Level and includes those entities included in the scope of regulatory consolidation.

In this document the policies, processes, controls and systems by which the Board of Directors sets, communicates and monitors its risk appetite are described. It includes a description of the roles and responsibilities of those who must implement it.

Additionally, a Risk Appetite Statement is issued, formulating the types of risks that it is intended to accept or avoid in order to achieve the strategic goals, and the quantitative and qualitative indicators of risk appetite and its limits are set.

Risk Appetite is divided into two major categories: i) financial risks associated with the capital target: a) Business risk; b) Credit risk; c) Operational risk; d) Interest rate risk; e) Market risk; f) Reputational risk, and g) Regulatory compliance risk; and ii) liquidity risk.

As a result of the Group's own culture, geared towards governance based on joint decision-making and responsibilities by means of committees and areas, the following actors are involved in the governance of the RAF: i) the board of directors, ii) the risk committee, iii) the management committee and their respective advisory committees on risk (the Capital committee, the ALCO committee, the operational risk committee and the new products committee), iv) risks management and v) the Risk committee, the competences of each being analysed.

E.5 State whether any of these risks have materialised during the year.

The risks affecting the Group which are described in the preceding section are those corresponding to the normal activities carried out by Group companies.

See the section on Risks in the Financial Statements.

E.6 Explain the plans in place for responding to and supervising the main risks faced by the Bank

In the risk appetite framework of the Group, risk control is viewed as a process that is overseen by the Board of Directors, management and the rest of the Group's personnel and that has been designed to identify, control and manage the risks to which the Group is exposed in order to provide a reasonable level of security in terms of achieving the stated corporate objectives.

Hence, the Board of Directors, advised by the Risk Committee, reviews the adequacy of the profile of all risks with the previously approved tolerance levels.

The Management Committee is also directly responsible for risks, overseeing the implementation of the RAF with the support of different advisory committees, guaranteeing efficient risk management.

Lastly, Risk Management is the area responsible for the management, oversight and control of the Group's risks, exercising independent oversight on the risks, objectives and limits set out in the RAF. If excesses occur over the established limits, it will have to inform the Management Committee and the Risk Committee in due course, following the protocol approved by the Board.

Risk oversight is also guarantees by the three independent lines of defence which are in place:
The first line of defence is closely linked to the business units, income generation and some corporate services and should ensure implementation of internal controls and processes for identifying, monitoring and reporting on compliance with the RAF within their respective business line, so that in the daily management a prudent culture in managing risk is used.

It is the responsibility of all business lines' directors generating risks for the Group to ensure: compliance with the limits and approved risk objectives, the alignment of risk appetite with the planning, compensation and decision making of their business lines and the timely communication to senior positions and ultimately to Risk Management of any violation to existing or potential limits, working with the risk management function.

The second line of defence is made up of the following units:
Risk Management - Risk Control
Regulatory Compliance
Internal Control Body
Management Committee's advisory committee:

Risk Management is the unit that assumes greater responsibility as the second line of defence. Its objective is to analyse the risks assumed by the Group, ensuring compliance with the policies, limits and risk objectives authorised in the different links of the risk chain, as well as suggesting other dynamic policies and developing the required rules and procedures. As a key area within the Risk Management function, in its role as a second line of defence, it includes the area of Risk Control, which performs a transversal control of all the Group's risks except for compliance risk and money laundering and terrorism financing, which are the responsibility of the Regulatory Compliance and Money Laundering Prevention offices, respectively.

The Office of Regulatory Compliance is responsible to the Secretary of the Board and reports to the Audit and Control Committee of the Board of Directors and to the internal control Body. It defines and monitors policies and procedures for complying with the laws and regulatory aspects, among which is the prevention of money laundering. In order to keep its independent status as a second line of defence, it does not perform management tasks or functions in the provision of its services. It maintains communication with regulators and supervisors within the scope of its competencies.

The Internal Control Body's objective is to check the correct operation of the Group's anti-money laundering and financing of terrorism policies.

The Management Committee's advisory Committees are: the capital Committee, the ALCO Committee and the Operational Risk Committee which perform control functions in their respective areas and therefore also act as a second line of defence.

The third line is Internal Audit, reporting directly to the Banco Popular Group Audit and Control Committee, a Committee of the Board of Directors.

Internal Audit is responsible for advising on the implementation of the RAF annually. Within its scope is the review of the two above lines of defence and the assessment of the effectiveness of risk management and control and governance processes.

F. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL INFORMATION REPORTING PROCESS

Description of the main characteristics of the internal control and risk management systems with regard to financial reporting (internal control systems on financial reporting).

F.1 Control environment.

Describe the main characteristics of:

F.1.1 What bodies and/or functions are responsible for: (i) the existence and maintenance of adequate and effective internal control systems on financial reporting; (ii) its implementation; (iii) its supervision?

Articles 4 and 5 of the Board Regulations establish that the primary mission of the Board of Directors is to govern and supervise the Bank, leaving the ordinary management of the Bank in the hands of executive bodies and management staff and focusing its activities on general supervisory functions. The Board is also responsible for approving the risk management and control policy and for periodically monitoring internal reporting and control systems.

Furthermore, as established in article 24 of the Board Regulations, the Audit Committee assists the Board of Directors in its supervisory and control functions by evaluating the Group's accounting systems and reviewing its internal control system.

In this regard, the responsibilities of the Audit Committee include supervising the integrity of financial information and the process of preparing and presenting it and overseeing the Bank's internal controls and risk management systems so that the main risks are properly identified, reported and managed.

The Corporate Audit and Control Department of Banco Popular Group (hereinafter the Group) assists the Audit Committee in supervising the proper design and implementation of risk management and control systems, which includes the process of preparing financial information (internal control systems on financial reporting) and ensuring that they work properly and effectively.

Lastly, the Group's Financial Management collaborates on the design and implementation of risk management and control systems, and the Comptroller's Office in those related to the process of preparing and presenting the financial information that is distributed to the markets.

F.1.2 Indicate which departments and/or mechanisms,

- **are responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority and the appropriate distribution of tasks and functions and (iii) ensuring that there are procedures in place for making them known to Bank employees, especially with regard to the process of preparing financial information.**

The Corporate Human Resources Department (hereinafter, HR) is responsible for designing and revising the organisational structure. Reporting directly to the Office of the Chairman, the HR Department establishes the different corporate areas around which the entity is structured and continuously analyses their personnel needs in order to perform the functions assigned to them.

As established in the Board Regulations, the Appointments, Compensation, assists the Board in the appointments, re-appointments, removals and remuneration of the Directors and Senior Management.

As established in the Board Regulations, the Committee assists the Board of Directors in its approval of the Directors' and Senior Management's remuneration.

The HR needs are defined in more detail by each area in collaboration with HR. Any significant changes or new appointments must be proposed by the General Managers of the affected areas to the Chairman and ratified by the Management Committee at its monthly meetings. The Bank's Intranet is used to publish the decisions of the Management Committees, with information on structural changes and appointments.

In the Group, each department defines its functions and HR has job descriptions which include: the category, department and job location along with the functions and responsibilities. There are job descriptions for the management positions (Area Directors and Office Managers) in the areas involved in preparing financial information: Comptroller, Corporate Finance and Technical Secretariat.

The office of the Comptroller, which is responsible for preparing the financial information that is presented to the markets, has its own functional organisational chart where the lines of responsibility, tasks and functions are defined. The organisational charts for these areas are updated when changes are made to the lines of responsibility. The organisational changes are communicated through meetings with the employees who are responsible for preparing the financial information.

- **Code of conducts, approval body, level of dissemination and instruction, principles and values contained in the code (indicate whether there are specific references to accounting procedures and financing reporting), body in charge of analysing non-compliance and proposing corrective/disciplinary actions.**

  Banco Popular Group has a “Code of Conduct” that was approved by the Board of Directors. It is distributed to all group employees nation-wide via a pop-up on the Bank’s intranet. It is also provided to all new hires by the HR Department.

  The Code applies to the members of the governing body and all employees of the member companies of Banco Popular Group, notwithstanding the fact that some of these people are also bound by the Stock Market Code of Conduct or other codes of conduct specific to the functions they perform.

  The Code of Conduct lays out the basic rules of conduct for both internal relations and relations with third parties applicable to the people who are bound by the Code and the rules for specific situations (privileged information, data protection, etc.), including internal procedures applicable to the integrity and preparation of the financial information that is reported to the markets.

  There is an Oversight Unit which is responsible for monitoring the effectiveness of and compliance with the Code of Conduct.

  A breach of the Code of Conduct may result in the application of the disciplinary measures provided for in labour laws, notwithstanding any administrative or criminal penalties that may apply.

  The Group offers its employees training courses which cover the Code of Conduct. The self-educational resources are permanently available to all Bank professionals and may be freely accessed by them at any time.

- **A reporting system which allows employees to report financial and / or accounting irregularities, breaches of the Code of Conduct and irregular activities within the organisation to the Audit Committee.**

  Banco Popular Group has a reporting system where employees can confidentially report violations of the Code of Conduct, financial and / or accounting irregularities, and irregular or fraudulent activities within the organisation to the Oversight Unit.

  The reports received through this channel must be treated confidentially. Once analysed by the Oversight Unit of the Reporting System and Code of Conduct, they must be report to the Audit Committee.

  An ad hoc application which can be accessed directly via the Bank’s intranet has been implemented for the correct operation of the reporting channel.

- **Training programmes and periodic refresher courses for the personnel involved in preparing and reviewing financial information and evaluating the internal control systems on financial reporting which cover the accounting, auditing, internal control and risk management standards.**

  The Grupo personnel involved in the different processes related to financial reporting (Comptroller, Risk Management, Corporate Finance, Technical Secretariat, Internal Audit) receive training and periodic refresher courses designed specifically to facilitate the correct performance of their functions.

  These training programmes are taught by external and internal personnel and may be offered in person and/or online. Some of the most notable topics that are addressed include: “General Chart of Accounts”, “Financial Accounting”, “Audit and Control”, Financial Statements, Analysis and Quantitative Analysis”, “Financial Analysis of Economic Groups”, “Economic and Management Analysis”, “Forecasting and Strategy”, “Legal-Tax Receivership” “BIS II-III. Automated Risk Models”, “Fundamentals of Risk Analysis and legal Aspects”, “Risk Appetite in Financial and Market Entities”, “ALM and interest rate hedging in Banking”.

  In addition, it should be noted that the staff assigned to the areas involved in preparing financial information members of areas involved in preparing financial information are participating in a Management Development Programme for highly experienced and competent employees who are committed to the corporate vision and values. The programme instructors are highly skilled individuals, some of whom are part of the Group and others who are prestigious consultants and members of academia. The MBA associated with this programme recognises the effort and excellence of the participants. In 2014, 39 members of the the Control and Senior Management staff took part in a programme called “Advanced Internal Audit for Credit Institutions” offered by the Cecabank Training School titled and the Internal Auditing Institute in Spain.

  Lastly, the Group (represented by the Comptroller), as a member of the Spanish Banking Association (AEB), periodically receives updates and attends meetings where regulatory changes are analysed. It also receives alerts from different professional service firms with technical updates.

F.2 Risk assessment with regard to financial information.

Provide information at least on the following:

F.2.1 What are the main characteristics of the process of identifying risks, including error or fraud?

- **Whether the process exists and is documented.**

- **Whether the process covers all financial reporting objectives (existence and occurrence; integrity; evaluation; presentation, disclosure and comparability; rights and obligations), whether it is regularly updated and how frequently.**

- **The existence of a process for identifying the scope of consolidation, bearing in mind the existence of complex business structures, instrumental entities or special purpose vehicles, among others.**

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.), to the extent that they affect the financial statements.**

- **Which governing body supervises the process.**

The Group has established a process for identifying the risk of error in the financial information. The process is documented in a procedure in which the Group's relevant processes or areas are identified and analysed.

The risk identification process is the responsibility of the Comptroller's office, while the supervision of the process is handled by the Audit Committee through the Internal Audit function.

The risk identification process is reviewed annually using the most recent information available as a baseline. However, the Comptroller evaluates the need to add new risks to those already identified whenever any of the following occurs: (i) when previously unidentified circumstances bring to light possible errors in the financial information or (ii) when there are substantial changes in the Group's operations.

This evaluation process covers all of the objectives of the financial reporting system: (i) existence and occurrence; (ii) integrity; (iii) evaluation; (iv) presentation, (v) disclosure and comparability; (vi) rights and obligations and takes the effects of other types of risk into account (operational, technological, financial, legal, reputational, environmental, etc.).

Risks related to the proper identification of the scope of consolidation are documented in the "Consolidation Process" which is one of the Bank's three critical processes and is therefore audited annually by Internal Audit.

Finally, it should be mentioned that according to article 5.2 of its Rules, "the Board of Directors has the authority to approve the creation or acquisition of interests in special purpose vehicles or entities domiciled in countries or territories considered to be tax havens and any other transactions or operations of a similar nature which, because of their complexity, could impair the Group's transparency".

F.3 Control activities.

State whether the following exists and, if so, describe the main characteristics:

F.3.1 Procedures for reviewing and authorising financial information and description of the internal control systems on financial reporting to be reported to the stock markets, and persons responsible for the. Documentation that describes the activity flows and controls (including those relative to the risk of fraud) of the different types of transactions that can have a material effect on the financial statements, including closing procedures and special reviews of the most relevant judgements, estimates and forecasts.

According to article 5.1 of the Rules, the Board of Directors is charged with "adopting and performing any and all actions and measures as may be required to ensure the Bank's transparency to the financial markets and approving the Annual Corporate Governance Report; promoting the correct formation of the Bank's share prices; overseeing, via the Audit Committee, regular public financial reporting and submitting any information and carrying out any tasks which might be necessary due to the Bank's status as a publicly listed Bank."

The procedures for reviewing and authorising the financial information reported by the Group to the markets begin with a review by the Comptroller's office and Corporate Finance. Following this, the six-monthly financial reports, the individual accounts, the consolidated annual accounts and the Directors' Report are reviewed by the Audit Committee as the step immediately prior to their formulation by the Board of Directors (as stipulated in article 5.1 of the Rules). In addition, the Audit Committee supervises the quarterly financial reports as part of information that is reported to the markets on a regular basis. All of these reviews are documented in the minutes of the Audit Committee meetings.

As mentioned in Indicator 1.1, the Audit Committee performs the following functions, among others:

a) Overseeing the integrity of the financial information and the process of preparing and presenting it..
b) Checking to make sure that all periodic information reported to the markets is prepared according to accounting principles applicable to annual accounts, overseeing the information and reporting to the Board of Director prior to decisions being taken by the Board and being made public.
c) Performing regular reviews of the Bank's internal control and risk management systems, so that the main risks are identified, managed and adequately reported. Discussing any significant weaknesses in the internal control systems detected during the audit with the auditors.

The Audit Committee meets at least twice a year (half-year and annual year-end) with the external auditors to go over the financial reporting review process and identify incidents, among other things.

The Group has documented all of the processes at risk of having a material impact on the Group's financial statements, identifying the key risks and controls associated with each one. It should be noted that the closing and consolidation processes and the judgements and estimates made are critical processes in the preparation of financial reports.

For each one of these processes, the Group has documentation describing the activity flows, the identified risks and the controls in place to mitigate those risks. This documentation describes: the control activities, the risks they mitigate, how often they take place, the degree of automation and the persons responsible for them.

With regard to the review of relevant judgements and estimates, the Group reports on the most critical estimates or judgements and the key hypotheses used by the Group in the Consolidated Financial Statements. The main estimates refer to: the assessment of impairment in credit and real estate assets; the value of goodwill; the useful life and impairment losses on intangible assets and PPE; the value of certain non-traded shares; corporate income tax; the calculation of post-employment liabilities and commitments assumed; the addition and write-off of assets and liabilities; and the integrity and accuracy of the consolidation scope.

It should also be noted that the Group has a general policy in place for making judgements, estimates and forecasts which takes all of the pertinent aspects into account (type, importance, item, frequency of review, supporting studies) as well as the persons responsible for preparing and reviewing them.

F.3.2 Internal control policies and procedures for information systems (safe access, change control, operations, continuity of operation and segregation of functions, among others) that support the Bank's relevant processes in relation to the preparation and publication of financial information.

The Information Technology Office is responsible for the systems that directly or indirectly support the financial information and contain the information used to prepare the financial reports. The Comptroller is responsible for overseeing the preparation of financial information.

The Information Safety office has a set of rules in place that includes specifications on the policies and procedures for the information systems that support the preparation and publication of financial information. This body of rules and all other security measures that have been implemented apply to all areas of Banco Popular Group and to all of the systems which director or indirectly support the financial information and the transactions associated therewith.

The Information Technology Office is divided into different areas that handle the following processes:

Logical security: controlling access to data and safeguarding the information.
Design and development transversal applications and infrastructures that support the group's business applications.
Software maintenance quality validation in computer programme development.
Managing the supply of services and communications, performance control and scheduled tasks.
Continuity of operations, back-ups and technological contingency plan.

The Information Safety office has the appropriate tools in place to control and supervise access and, in coordination with the different business areas, to ensure that functions are properly segregated and that access to systems and information is effectively controlled.

The development methodology used by the Group establishes the steps to be followed over the software's life cycle, including both new applications and modifications of existing ones, to guarantee the quality, control and validation of phases and optimise computer developments in order to bring them in line with standards such as CMMI and ITIL, which in turn guarantees that these applications are processing the transactions correctly and providing reliable information.

The Information Technology area has a Contingency Plan which ensures that the bank's operations can continue (continuity of operations and registration of transactions) even when one or more systems go down. The procedures described in the plan include instructions for the failed functions to be supported by an alternate system, thus guaranteeing that operations are not interrupted and that the situation returns to normal as soon as possible. In addition, backup and restore procedures guarantee that the information can be recovered if it is lost. The Banco Popular Group has extensive experience with backup and restore procedures and the Contingency Plan is revised dynamically to accommodate new releases of platforms and applications. The availability and efficiency of these processes are verified by the Bank periodically.

F.3.3 Internal control policies and procedures intended to supervise the management of the activities outsourced to third parties and the evaluation and calculation responsibilities entrusted to independent experts which can have a material effect on the financial statements.

The Group does not believe that any of the work subcontracted to third parties can have a relevant impact on the process of preparing the Group's financial information.

The use of specialists and experts can have an effect on appraised values (real estate appraisals, actuarial calculations and, to a lesser extent, the assignment of values to certain financial assets).

The areas of the Group responsible for engaging the services of such experts work only with highly reputable professionals in keeping with the terms of the "Internal Policy on Selecting and Evaluating the Work of Independent Experts". In addition, for actuarial calculations, the Group's Pension and Provident Department conducts internal evaluations of pension commitments which it compares against those received from the independent experts.

F. 4.1 Reporting and communication.

State whether the following exists and, if so, describe the main characteristics:

F.1 A specific function responsible for defining accounting policies and keeping them up to date (accounting policy area or department) and resolving questions or conflicts arising from their interpretation, keeping the lines of communication open with the people responsible for operations within the organisation as well as a manual of accounting policies that is kept up to date and distributed to the Bank's operating units.

Within the Banco Popular Group, the Technical Accounting Area (which reports to the Comptroller) is responsible for:

(i) Identifying, defining and communicating the Group's accounting policies and critical judgements (i.e., default estimates, goodwill, value of real estate assets, value of financial assets, etc.).
(ii) Defining new accounting policies to be applied to any new transactions carried out by the Banco Popular Group in the future.
(iii) Responding to accounting questions raised by subsidiaries and other business units.
(iv) Reviewing the implications of regulatory changes and passing them on to the pertinent departments and staff. To this end, the Group plans to issue a quarterly bulletin with the most important accounting and financial updates which will be accessible to all areas involved in the preparation of financial information.
(v) Lastly, this department is in charge of reporting to the Group's upper management on new accounting standards and principles, the results of their implementation and their impact on the financial statements.

The Group has an accounting policies manual, approved in the Management Committee and in the Audit Committee, and which describes the accounting policies defined by the Comptroller's Office, and which explains the policies adopted for each transaction type, in order to ensure that the requirements established in accounting standards are complied with.

The accounting regulatory framework that defines the policies applicable to the Group and ensures that the financial statements show a true image of the Group's equity and financial situation, includes the (i) the Commerce Code and other business legislation, (ii) the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and (iii) Banco de España Circular 4/2004 of 22 December and subsequent updates.

F.4.2 Mechanisms for gathering and preparing standardised financial information that apply to and are used by all business units and that support the primary financial statements and notes to the financial statements, as well as detailed information on internal control systems on financial reporting.

In the Group, the process of preparing and consolidating the financial information is centralised in the Consolidation Office, which report to the Comptroller.

The Consolidation process is performed using the Oracle-Hyperion corporate application which enters the information uploaded in the Central Computer referring to the closing of the Group's bank entities, and which automatically and uniformly loads the information. This process is used to automatically consolidate approximately 85% of the accounting amounts of the Group's financial statements, thereby mitigating operational risks. Part of the controls are also automated, allowing control reports to be created in different phases of the consolidation process.

For the rest of the Group's subsidiaries, the Consolidation Office gathers and analyses the information, performing the different consolidation phases: standardisation, harmonisation and consolidation using the Oracle-Hyperion application, with its account mapping and controls allowing the other subsidiaries to be automatically consolidated. The adjustments made in chained systems are also entered in the application in order to obtain the final consolidated statements. In turn, the Consolidation Office is responsible for gathering information and supervising the preparation of the notes to the Group's financial statements.

F.5 Supervision of system operation.

State whether the following exists and, if so, describe the main characteristics:

F.5.1 State whether there is an internal audit function whose responsibilities include assisting the Audit Committee with the task of supervising the internal control system, including internal control systems on financial reporting. Also describe the scope of the evaluation of the internal control systems on financial reporting performed during the year and the procedure whereby the person responsible for the evaluation reports his or her findings, and whether the entity has an action plan with the corrective measures referred to in the evaluation, considering the impact on the financial information.

According to article 24.4.a of the Board Regulations, the functions of the Audit Committee include: " *Supervising the process of preparation and presentation of the financial information and its completeness and verifying that all periodic information released to markets is prepared in accordance with professional practices and principles applicable to financial statements, supervising this information and reporting to the Board of Directors prior to the Board's adopting any relevant decisions and before they are published".*

Furthermore, the Internal Auditing Statute approved by the Audit Committee in October 2012, establishes the following, inter alias:

- Internal Audit is the unit that performs supervisory, control, evaluation and advisory functions which, through the General Management of the Audit Area reports to the Audit Committee of the Banco Popular Group, which carries out an independent and objective activity of supervision and consultation, designed to add value to and improve the Group's operations. This is the third line of defence of the Group, which helps to fulfil its objectives by providing a systematic and disciplined approach to analyse the efficiency of risk, control and governance processes, complementing that applied by the persons responsible for managing these processes and second level control activities.

- The scope of action of Internal Auditing includes the mandatory activities that are stipulated by law or supervisory bodies and any additional functions required to fulfil the objective of evaluating the efficiency of the risk management, control and governance processes, verifying that all relevant risks faced by the Banco Popular Group are properly identified and evaluated by the people responsible for controlling them and that the control measures are having the intended mitigating effects.

Consequently, the functions of Internal Auditing include reporting to and assisting the Audit Committee in supervising the correct design, implementation and operation of risk management and control systems, including internal control systems on financial reporting.

Article 24.4.d of the Board Regulations states that the functions of the Audit Committee shall include the following: "Supervise the internal audit's services and, in this respect, ensure its independence and efficacy; propose the selection, appointment, re-election and removal of the person responsible for internal audit; propose its budget; receive periodic information regarding its activities; and verify that senior management take into consideration the conclusions and recommendations set out in its reports".

Within the framework of the Three-Year internal control systems on financial reporting Supervision Plan (Plan) approved by the Audit Committee for the 2012-2014 year, Internal Audit has carried out testing on the areas or processes which are considered to be relevant for the Group, comprising all such areas or processes throughout the three-year period covered by the Plan, except for the Closing, Consolidation and Judgement and Estimates process, which, given that their evaluation is considered to be critical, have been performed on an annual basis.

The scope of the evaluation conducted in 2014 included:

i. Critical Closing processes: Consolidation, Judgements and Estimates.
ii. Other Processes included in the three-year internal control systems on financial reporting Supervision Plan for 2014: Identification of relevant areas, Syndicated Loans, Insolvency Provisions, Pensions, Debt Securities and Equity Instruments, Goodwill, Advances, Management Fees, Leasing and Current Accounts. General IT controls have also been audited.

Within the scope of the evaluation performed in this Three-Year Plan, the processes which affect the control and management of tax risk and which may have an impact on the Group's financial statements have been reviewed. In 2014, Internal Audit reviewed the Expenses processes for Corporate Income Tax and Provisions for Tax Contingencies, and also, every year, as part of the process of reviewing critical closing, judgement and estimate processes, it has verified:

- That the Tax Management department calculates and sends to Accounting the different taxes and that the latter duly records what is sent by the former.
- The valuation procedures of reversal periods for temporary differences (income tax).
- Procedures to determine estimates about the recoverability of tax assets.

The scope of review of all processes includes the evaluation of the following sections:

- Verification of procedures of each process.
- Identification of risks:
- Identification and effectiveness of controls performed.
- Evaluation of evidence of controls.
- Documentation of internal control systems on financial reporting.

The review conducted by Internal Audit did not reveal any significant weaknesses.

F.5.2 State whether there is a discussion procedure whereby the auditor (pursuant to the terms of TAS), the internal audit are and/or other experts are able to report any serious weaknesses found in the internal control system to upper management and the Audit Committee during the year. Also, state whether there is an action plan for correcting or mitigating any weaknesses encountered.

According to article 24.4.c of the Board Regulations, the functions of the Audit Committee include: *"Propose to the Board of Directors, for submission to the General Shareholders' Meeting, the appointment of external auditors, the conditions of hiring, the scope of the professional mandate and, when appropriate, the revocation or non-renewal of such mandate and replacement of the auditor. Supervise the fulfilment of the audit contract, ensuring that the auditor's opinion on the financial statements and the main contents of the auditor's report are drafted clearly and accurately".*

The Internal Audit Statute also indicates that:

- In order to comply with the duty of information to the Audit Committee and the Management Committee, every quarter and every year, Internal Audit shall draft a IAP monitoring report with details of the tasks carried out during the period which is the object of the report, its conclusions and the improvement recommendations made.

- Internal Audit shall monitor the recommended improvements as far as their implementation and/or compliance by the different bodies, companies and offices of the Group responsible for them.

The Audit Committee meets every month to obtain and analyse the information needed to perform the functions entrusted to it by the Board of Directors, and, in its meetings, it addresses the following matters, inter alia:

i. it reviews all of the financial information reported to the markets (annual accounts, six-monthly accounts and interim quarterly reports),
ii. discusses any weakness observed in the internal control systems for financial reporting and proposes solutions.

The meetings of the Audit Committee are attended by the external auditor, who also has direct access to and has regular meetings with the senior management (Management Committee). In these meetings, the external auditor gathers the information needed to perform his task of auditing the Financial Statements and reports any control weaknesses detected during this process. In addition, the external auditors present an annual report to the Audit Committee detailing the internal control incidents observed, the comments of the group's management and the measures implemented to remedy the weaknesses.

The General Manager of the Auditing Area also attends the meetings of the Audit Committee and of the Management Committee (of which he forms part), where he presents the details and scope of the activities performed and the monitoring of the recommended improvements put forward.

F.6 Other relevant information

There is no other relevant information to add for this year.

F.7 Report of the external auditors

Report on:

F.7.1 State whether the information on the internal control systems on financial reporting reported to the markets is reviewed by an external auditor, in which case the entity should include the auditor's report. Otherwise, a reason should be given for not having done so.

The information on the "Financial Reporting Internal Control Systems" reported to the markets for the year 2014 was examined by the external auditor. The scope of the auditor's review was in keeping with the terms of Circular E 14/2013 of the Spanish Institute of Certified Public Accountants dated 19 July 2013.

G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the company's degree of compliance with the recommendations of the Unified Code of Corporate Governance.

In the event of any non-compliance or partial compliance, give a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to evaluate the company's performance. General explanations are not acceptable.

1. The Articles of Association of listed companies should not restrict the maximum number of votes that can be cast by a single shareholder, nor contain other restrictions that make it difficult to take control of the company through the acquisition of its shares in the market.

See sections: A10, B.1., B.2, C.1.23 and C.1.24

Compliant **Explain**

2. When the parent company and a subsidiary are listed, both must define publicly and accurately :

a) The respective areas of activity and any business relationships between them as well as those of the listed subsidiary with other group companies;

b) The mechanisms in place for resolving any conflicts of interest which might arise.

See sections: D.4 and D.7

Compliant **Partially compliant** **Explain** **Not applicable**

3. Even when not expressly required under company Law, any transactions involving a structural corporate change must be submitted to the General Shareholders' Meeting for approval. In particular:

a) The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities previously carried out by the company to subsidiaries, even if the company retains full ownership of the subsidiaries;

b) The acquisition or disposal of key operating assets that would effectively alter the corporate object;

c) Transactions the effect of which would be tantamount to that of the company's liquidation.

See sections: B.6

Compliant **Partially compliant** **Explain**

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information referred to in Recommendation 27, must be published at the same time as the call notice.

Compliant **Explain**

5. Separate votes must be taken at the General Shareholders' Meeting on materially separate items, so that shareholders can express their preferences separately in each case. This rule shall apply in particular to:

a) The appointment or ratification of directors, with separate voting on each candidate;

b) Amendments to the Articles of Association, with votes taken on all articles or groups of articles that are substantially independent.

Compliant **Partially compliant** **Explain**

6. Companies should allow split votes, so that financial intermediaries appearing as shareholders but acting as nominees on behalf of different clients can issue their votes according to instructions.

Compliant **Explain**

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interests and, as such, strive to maximise its value over time.

It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Compliant **Partially compliant** **Explain**

8. The Board should see the core components of its mission as approving the company's strategy and authorising the organisational resources to carry it forward, and ensuring that management meets the objectives set while pursuing the company's interests and corporate object. As such, the board in full should reserve the right to approve:

a) The Bank's general policies and strategies, and, in particular:

i) The strategic or business Plan, management targets and annual budgets;

ii) Investment and financing policy;

iii) Design of the corporate group's structure;

iv) Corporate governance policy;

v) Corporate social responsibility policy;

vi) Remuneration policy and performance evaluation of senior managers;

vii) Risk control and management policy, and the periodic monitoring of internal information and control systems;

viii) Dividend policy, as well as the policies and in particular the limits applying to treasury shares.

See sections: C.1.14, C.1.16 and E.2

b) The following decisions:

i) At the proposal of the Bank's CEO, the appointment and removal of senior management, and their indemnification clauses.

ii) Directors' remuneration and, in the case of executive directors, the additional remuneration for their management duties and other contract conditions.

iii) The financial information that all listed companies must disclose periodically;

iv) Investments or transactions considered strategic by virtue of their amount or special characteristics, unless they must be approved by the General Shareholders' Meeting;

v) The creation or acquisition of shares in special purpose vehicles or entities domiciled in countries or territories that are considered to be tax havens, as well as any other similar transactions or operations of an analogous nature which, due to their complexity, might jeopardise the transparency of the Group.

c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorisation need not be required for related party transactions that simultaneously meet the following three conditions:

1st. They are carried out in accordance with standardised contracts that are applied to customers *en masse*;

2nd. They are carried out at market rates, generally set by the supplier or provider of the goods or services;

3rd. They do not account for more than 1% of the Bank's annual revenues.

It is recommended that related party transactions be approved only on the basis of a favourable report from the Audit Committee or such other committee as may have been assigned this function; and that the Directors involved, as well as not exercising or delegating their votes, should withdraw from the meeting room while the Board debates and votes on the transaction(s) concerned.

Ideally the above powers should not be delegated, with the exception of those mentioned in b) and c), which may be delegated to the Delegated Committee in urgent cases and later ratified by the full board.

See sections: D.1 and D.6

Compliant **Partially compliant** **Explain**

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally be composed of no fewer than five and no more than fifteen members.

See section: C.1.2

Compliant **Explain**

10. External Directors, proprietary and independent, should occupy an ample majority of Board places, while the number of executive Directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections: A.3 and C.1.3

Compliant **Partially compliant** **Explain**

11. That among external Directors, the relation between the numbers of proprietary and independent Directors should match the proportion between the capital represented on the board by proprietary Directors and the remainder of the share capital.

This proportional principle may be relaxed so that the weight of proprietary directors is greater than would strictly correspond to the total percentage of the capital that they represent;

1st In companies with large market capitalisations where few or no equity stakes attain the legal threshold for significant shareholdings, despite there being shareholders with considerable holdings in terms of absolute value.

2nd In companies with a plurality of shareholders represented on the board that are not otherwise related.

See sections: A.2, A.3 and C.1.3.

Compliant **Explain**

12. The number of independent Directors should represent at least one third of all Directors.

See section: C.1.3

Compliant **Explain**

13. The nature of each director should be explained to the General Shareholders' Meeting, which will approve or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Appointments Committee. That Report should also disclose the reasons for the appointment of proprietary directors at the request of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: C.1.3 and C.1.8

Compliant **Partially compliant** **Explain**

14. When there are few or no women Directors, the Appointments Committee should ensure that when vacancies arise:

a) The selection process has no implicit bias against women candidates;

b) The company deliberately seeks women with the required professional profile and includes them among potential candidates.

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4

Compliant **Partially compliant** **Explain** **Not applicable**

15. The Chairman, as the person responsible for the effective operations of the Board, should ensure that the Directors receive sufficient information beforehand; stimulate debate and the active participation of Directors during Board meetings, safeguarding the right to freely take a position and express opinions; and organise and coordinate regular evaluations of the Board with the Chairmen of the relevant Committees, as well as an evaluation of the CEO or lead executive.

See sections: C.1.19 and C.1.41

Compliant **Partially compliant** **Explain**

16. When the Chairman of the Board is also the company's CEO, the Board of Directors will authorise one of the independent Directors to call a meeting of the Board and include new points in the agenda in order to coordinate and express the concerns of External Directors and to direct evaluation by the Board of its Chairman.

See section: C.1.22

Compliant **Partially compliant** **Explain** **Not applicable**

17. The Secretary should take care to ensure that the Board's actions:

a) Meet the letter and the spirit of Laws and their regulations, including those approved by regulatory bodies;
b) Are in line with the Bank's Articles of Association and with the Regulations governing the General Meeting, the Board and any others in force at the company;
c) Take into account the recommendations regarding good governance established in this Unified Code that the company has accepted.

In order to safeguard the independence, impartiality and professionalism of the Secretary, the appointment and removal from this position must be reported by the Appointments Committee and approved by the full Board, and the procedure for appointing and removing the Secretary should be established in the Board's Regulations.

See section: C.1.34

Compliant **Partially compliant** **Explain**

18. The Board should meet with the frequency necessary to efficiently perform its duties, following the schedule and agenda established at the start of the year and each Director should be able to propose other points to be added to the agenda.

See section: C.1.29

Compliant **Partially compliant** **Explain**

19. Directors' absences should be limited to unavoidable cases and should be indicated in the Annual Corporate Governance Report. If the delegation of representative authority is unavoidable, instructions should be given.

See sections: C.1.28, C.1.29 and C.1.30

Compliant **Partially compliant** **Explain**

20. When the Directors or the Secretary express any concern regarding any proposal or, in the case of Directors, regarding the company's progress and these concerns are not resolved during the Board Meeting, the party expressing the concerns may request that they be recorded in the minutes to the Meeting.

Compliant **Partially compliant** **Explain** **Not applicable**

21. The board in full should evaluate the following points on an annual basis:

a) The quality and efficiency of the Board's operations;

b) Based on the report presented by the Appointments Committee, the performance of the Chairman and the Bank's CEO;

c) The operation of its Committees, based on the reports that they issue.

See section: C.1.19 and C.1.20

Compliant **Partially compliant** **Explain**

22. All Directors should be able to exercise the right to obtain all additional information that they deem necessary regarding the matters over which the Board has authority. Unless the Articles of Association or the Board Regulations establish otherwise, these requests should be directed to the Chairman or the Secretary to the Board.

See section: C.1.41

Compliant **Explain**

23. All Directors should have the right to obtain all necessary advisory services from the company in order to comply with their duties. The company should create appropriate channels for exercising this right, which under special circumstances may include external advisory services paid for by the company.

See section: C.1.40

Compliant **Explain**

24. Companies should establish an orientation programme providing new Directors with quick and sufficient knowledge of the company, as well as its corporate governance rules. It should also offer Directors programmes for updating knowledge when the circumstances make this advisable.

Compliant **Partially compliant** **Explain**

25. Companies should require Directors to dedicate the time and effort necessary to perform their duties efficiently and, consequently:

a) Directors should inform the Appointments Committee of all other professional obligations to determine whether or not they could interfere with the dedication required;

b) Companies should establish rules regarding the number of Boards to which its Directors may belong.

See sections: C.1.12, C.1.13 and C.1.17

Compliant **Partially compliant** **Explain**

26. Proposals to appoint or re-elect Directors made at the General Shareholders' Meeting, as well as provisional appointments through co-optation, should be approved by the Board:

a) At the proposal of the Appointments Committee, in the case of Independent Directors;

b) After receiving a report from the Appointments Committee, in the case of all other Directors.

See section: C.1.3

Compliant **Partially compliant** **Explain**

27. Companies should make the following information regarding Directors public on its website and keep it up-to-date:

a) Professional profile and biography;

b) Other Boards of Directors to which the individual belongs, whether or not involving listed companies;

c) An indication of the classification of the Director as appropriate, stating, in the case of Proprietary Directors, the shareholder represented or with which the individual is associated;

d) Date of first appointment as a Director of the company, as well as all subsequent appointments; and;

e) Shares and share options in the company which are held by the Director.

Compliant **Partially compliant** **Explain**

28. Proprietary Directors should present their resignations when the shareholder they represent fully sells its stake in the company. This should also take place, proportionally, when such shareholder reduces its stake to a level that requires a reduction in the number of its Proprietary Directors.

See sections: A.2, A.3, C.1.2

Compliant **Partially compliant** **Explain**

29. The Board of Directors should not propose the removal of any Independent Director before the end of the term to which such Director was appointed, unless there is just cause assessed by the Board after having received a report from the Appointments Committee. In particular, just cause will be understood to exist when the Director has failed to comply with the duties inherent to his/her position or is subject to any of the circumstances causing him or her to lose the status of independent Director in accordance with the provisions of Ministerial Order ECC/461/2013.

A proposal to remove Independent Directors may also be made as a result of takeover bids, mergers or other similar corporate transactions that give rise to a change in the Bank's capital structure, when such changes in the Board's structure are the result of the proportional criteria indicated in Recommendation 17.

See sections: C.1.2, C.1.9, C.1.19 and C.1.27

Compliant **Explain**

30. Companies should establish rules to require Directors to report and, if appropriate, resign in those cases in which they may harm the credit and reputation of the Bank and, in particular, they should be required to inform the Board of any criminal proceedings in which they are involved, as well as all subsequent procedural issues.

If a Director is prosecuted or if the opening of oral proceedings takes place with respect to any of the offences referred to in Article 213 of the Corporate Enterprises Act, the Board will examine the case as soon as possible and in the light of the specific circumstances, must reach a decision as to whether or not the Director will remain on the Board. Any such action should be explained by the Board in the Annual Corporate Governance Report.

See sections: C.1.42 and C.1.43

Compliant **Partially compliant** **Explain**

31. Directors should clearly express their opposition when they consider that any proposal for a decision submitted to the Board may go against the company's interests. Directors, particularly Independent Directors and other Directors not affected by the potential conflict of interest, should do likewise in the case of decisions that might be to the detriment of shareholders not represented on the Board.

When the Board adopts significant or repeated resolutions on which the Director has expressed serious reservations, the Director concerned should reach the appropriate conclusions and, if he/she chooses to resign, the reasons for doing so should be explained in a letter as referred to by the following recommendation.

This recommendation also applies to the Secretary to the Board of Directors, even if the Secretary is not a Director.

Compliant **Partially compliant** **Explain** **Not applicable**

32. When a Director leaves the Board before the end of his/her term, whether due to resignation or any other reason, the reasons should be explained in a letter sent to all Board members. Without prejudice to such cessation's being reported as a significant event, the reason for it should be reported in the Annual Corporate Governance Report.

See section: C.1.9

Compliant **Partially compliant** **Explain** **Not applicable**

33. Executive Directors should be restricted to compensation consisting of shares in the Bank or Group Companies, share options or instruments indexed to the share value, a variable compensation linked to the performance of the Bank or providence systems.

This recommendation will not cover the delivery of shares, when subject to the condition that the Directors hold them until they cease to be Directors.

Compliant **Partially compliant** **Explain** **Not applicable**

34. Remuneration paid to External Directors should be that which is necessary to compensate their dedication, qualifications and responsibilities in the position, but not so high as to compromise their independence.

Compliant **Explain** **Not applicable**

35. The compensation relating to the results obtained by the Bank should take into account any qualifications that are included in the external auditor's report and reduce those results.

Compliant **Explain** **Not applicable**

36. In the case of variable remuneration, the compensation policies include the technical precautions necessary to ensure that such compensation is in line with the professional performance of its beneficiaries and does not derive merely from the general evolution of markets or the sector in which the company operates or other similar circumstances.

Compliant **Explain** **Not applicable**

37. When there is a Delegated or Executive Committee (hereinafter, "Delegated Committee"), the structure for the different categories of Directors should be similar to that of the Board and its Secretary should be the Secretary to the Board.

See sections: C.2.1 and C.2.6

Compliant **Partially compliant** **Explain** **Not applicable**

The Delegated Committee is a collegial body with delegated decision-making powers of the Board of Directors. Therefore, the Board of Directors considers it appropriate to give considerable weight to the criteria of efficiency and knowledge of the inner workings of the entity when establishing the Committee's composition, which is why all three executive members of the Board of Directors are included. At the same time, it is important to maintain the participation therein of the external directors, especially those classed as independent, to be consistent with the structure of participation of external directors in the Board of Directors. In short, it ensures that its composition reflects, as far as possible, the composition of the Board of Directors.

The Delegated Committee has a composition that the Board of Directors considers balanced, consisting as it does of six directors, three of whom are executives and the remaining three external, two of whom are independent and the other proprietary.

The percentage of independent directors on the Board of Directors and the Delegated Committee is 33.33%.

38. The Board should be kept fully informed of the business transacted and decisions made by the Delegated Committee. To this end, all board members should receive a copy of the Delegated Committee's minutes.

Compliant **Explain** **Not applicable**

39. The Board of Directors must form, in addition to the Audit Committee required by the Securities Market Act, a Committee or two separate Committees, covering Appointments and Compensation.
The rules governing the composition and operation of the Audit Committee and the Committee or Committees for Appointments and Compensation must be covered by the Board Regulations and include the following items:

a) The Board should designate the Members of these Committees, taking account of the knowledge, aptitudes and experience of the Directors and the duties of each Committee; it should deliberate on their proposals and reports; and these Committees should report to the first full Board Meeting held after their meetings on their activity and work performed;

b) These Committees should be formed exclusively of External Directors; requiring a minimum of three. The above is understood to be without prejudice to the attendance of Executive Directors or senior managers, when expressly agreed by the Members of the Committee;

c) The Chairmen should be Independent Directors;

d) External advisory services should be available when considered necessary to discharge their duties;

e) Minutes should be kept of all meetings held and a copy should be sent to all members of the Board.

See sections: C.2.1 and C.2.4

Compliant **Partially compliant** **Explain**

40. The supervision of compliance with internal codes of conduct and corporate governance rules is the responsibility of the Audit Committee, the Appointments Committee or, if existing separately, the Compliance Committee or the Corporate Governance Committee.

See sections: C.2.3 and C.2.4

Compliant **Explain**

41. Members of the Audit Committee, and particularly its Chairman, should be appointed taking account of their knowledge and experience with respect to accounting, audit and risk management.

Compliant **Explain**

42. Listed companies should have an internal audit area which, under the supervision of the Audit Committee, ensures the proper operation of the internal control and information systems.

Compliant **Explain**

43. The head of internal audit should present an annual work programme to the Audit Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Compliant **Partially compliant** **Explain**

44. The control and risk management policy should specify at least:

a) The various types of risk (operational, technological, financial, legal, reputational and others) faced by the Bank, including contingent liabilities and other off-balance sheet risks under financial or economic risks;

b) The establishment of the risk level that the Bank considers acceptable;

c) The measures established to mitigate the impact of identified risks should they materialise;

d) The internal control and information systems that are used to control and manage these risks, including contingent liabilities or off-balance sheet risks.

See section: E

Compliant **Partially compliant** **Explain**

45. The Audit Committee's role should be:

1. With respect to internal control and reporting systems:

a) To ensure that the main risks identified as a result of the supervision of the effectiveness of the company's internal control and internal audit are properly managed and reported;

b) To ensure the independence and efficiency of the internal audit function; propose the selection, appointment, re-election and removal of the person responsible for internal audit; propose the budget for this service; receive regular information regarding its activities; and verify that senior management takes into account the conclusions and recommendations of its reports;

c) To establish and supervise a mechanism that allows employees confidentially and, if considered appropriate, anonymously to report any irregularities that are potentially important, particularly those of a financial and accounting nature, observed within the company.

2. With regard to the external auditor:

a) To receive regular information from the external auditor regarding the audit plan and the results of its execution, and verify that Senior Management takes the recommendations made into account.

b) Ensure the independence of the external auditor and, in this respect:

i) Report any change in Auditor to the Spanish National Securities Market Commission (CNMV) and provide a statement regarding the existence and subject matter of any disagreements with the outgoing auditor;

ii) If the external auditor resigns, examine the circumstances giving rise to this situation.

See sections: C.1.36, C.2.3, C.2.4 and E.2

Compliant **Partially compliant** **Explain**

46. The Audit Committee should be empowered to meet with any Bank employee or manager, even ordering their appearance without the presence of another senior manager.

Compliant **Explain**

47. The Audit Committee should inform the Board prior to adopting any of the relevant decisions, of the following matters indicated in Recommendation 8:

a) The financial information that all listed companies must disclose periodically. The Committee should ensure that the interim accounts are prepared using the same accounting criteria as are used for the annual accounts and, in this respect, consider the appropriateness of a limited review performed by the external auditor;

b) The creation or acquisition of shares in special purpose vehicles or entities domiciled in countries or territories that are considered to be tax havens, as well as any other similar transactions or operations that, due to their complexity, could jeopardise the transparency of the Group;

c) Related party transactions, unless this reporting duty has been assigned to a Committee other than the supervisory and control committees.

See sections: C.2.3, C.2.4

Compliant **Partially compliant** **Explain**

48. The Board of Directors should endeavour to present the financial statements to the General Meeting without reservations or qualifications in the Audit Report, and should any exceptional situations exist, both the Chairman of the Audit Committee and the Auditors should clearly explain the contents and the scope of any such reservations or qualifications to shareholders.

See section: C.1.38

Compliant **Partially compliant** **Explain**

49. The majority of the Members of the Appointments Committee - or the Appointments and Compensation Committee, if consisting of only one body - should be Independent Directors.

See section: C.2.1

Compliant **Partially compliant** **Explain**

50. The Appointments Committee should have the following functions in addition to those stated in foregoing Recommendations:

a) Evaluating the skills, knowledge and experience that are necessary on the Board and consequently defining the necessary duties and aptitudes for candidates to cover each vacancy, and evaluating the time and dedication necessary to the proper performance of the duties of the position;

b) Examining or organising, in the manner deemed appropriate, the succession of the Chairman and the CEO and, if appropriate, making proposals to the Board so that said succession takes place in an orderly and well-planned manner;

c) Advising on appointments and removals of senior executives as proposed by the CEO to the Board;

d) Advising the Board of matters regarding gender diversity, as indicated in Recommendation 14 of this Code.

See section: C.2.4

Compliant **Partially compliant** **Explain** **Not applicable**

51. The Appointments Committee should consult the Chairman and the CEO of the Bank, especially when matters relating to Executive Directors are involved.

Any Director should be able to request that the Appointments Committee give consideration to potential candidates to cover vacancies on the Board.

Compliant **Partially compliant** **Explain** **Not applicable**

52. In addition to the duties indicated in the preceding Recommendations, the Compensation Committee is responsible for the following:

a) Making proposals to the Board of Directors regarding:

i) The compensation policy for Directors and senior managers;
ii) The individual compensation for Executive Directors and other conditions regarding their contracts;

iii) The basic conditions regarding the contracts for senior managers.

b) Overseeing compliance with the remuneration policy set by the company.

See sections: C.2.4

Compliant **Partially compliant** **Explain** **Not applicable**

53. The Compensation Committee should consult the Chairman and the CEO of the company, especially when matters relating to the Executive Directors and senior managers are involved.

Compliant **Explain** **Not applicable**

H. OTHER INFORMATION OF INTEREST

If there are any significant aspects relating to corporate governance in the company or group entities that have not been addressed in other sections of this report, but which it is necessary to include in order to provide a more complete and reasoned account of the structure and practices of governance in the company or its group, describe them briefly.

This section may also include any other information, clarification or nuance relating to the preceding sections of the Report providing they are relevant and not reiterative.

Specifically, state whether the company is subject to legislation other than Spanish law as regards corporate governance, and if so include such information as it is obliged to provide that differs from that contained in this report.

The company should also indicate whether it has voluntarily subscribed to other codes of ethical principles or good practices at international, sectoral or other level and, if so, state the name of the code in question and the date of subscription.

This annual corporate governance report was approved by the Bank's Board of Directors at its meeting of 25 February 2014. This report has been reviewed by PricewaterhouseCoopers. The corresponding review report is set out in Appendix I to the Management Report, included at the end of this document.

Indicate whether any directors voted against or abstained from approving this Report.

NO

Name or company name of Director not voting in favour of approving this report	Reasons (against, abstained, absent)	Explain the reasons
-	-	-

Table of Contents

INDEPENDENT AUDITORS' REPORT

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the Shareholders of Banco Popular Español, S.A.

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Banco Popular Español, S.A. (Parent Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The Parent Company´s Directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Banco Popular Español, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as Directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent Company´s Directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

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

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Banco Popular Español, S.A. and its subsidiaries as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated Directors' Report for 2014 contains the explanations which the Parent Company´s Directors consider appropriate regarding Banco Popular Español, S.A. and its subsidiaries´ situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the consolidated annual accounts for 2014.Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Banco Popular Español, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
José María Sanz Olmeda

February 27, 2015

REPORTING RESPONSIBILITY

The Bank's General Management, as the technical and executive body of Banco Popular pursuant to Article 26 of the Bank's Articles of Association, is responsible for the preparation and presentation of all the financial information appearing on the following pages. In the Management's opinion, this information offers a true and fair view of the Bank's financial position, and the operational and accounting processes applied comply with current legal and administrative regulations and with Banco de España instructions and recommendations.

To this end, certain procedures, which are periodically reviewed and optimised, have been implemented to ensure that a uniform accounting record is kept of all transactions by means of an appropriate system of internal controls.

These procedures include monthly management controls at all decision-making levels, the scrutiny and approval of transactions in the framework of a formal system of functional delegation, ongoing professional training of the staff and the issuance and updating of manuals and operating standards. Also, the professional independence of the related control bodies is formally established in the organisation.

The financial statements, which have been audited by PricewaterhouseCoopers, include such explanations and details as are considered necessary for a clear understanding. For a thorough understanding of the financial statements, reference should be made to the events and major results impacting them, which are described in the Directors' Report contained in the preceding pages of this document.

Consolidated balance sheets
at 31 December 2014 and 2013 (€ thousands)

ASSETS	Notes	At 31/12/2014	At 31/12/2013 *
Cash and balances with central banks	**19**	**1,192,814**	**2,826,838**
Financial assets held for trading	**20**	**1,689,644**	**1,510,574**
Loans and advances to credit institutions		-	-
Loans and advances to customers		-	-
Debt securities		40,339	253,615
Other equity instruments		163,923	201,366
Trading derivatives		1,485,382	1,055,593
Memorandum item: Loaned or pledged		-	-
Other financial assets designated at fair value through profit or loss	**21**	**510,799**	**363,680**
Loans and advances to credit institutions		-	-
Loans and advances to customers		-	-
Debt securities		351,544	248,206
Other equity instruments		159,255	115,474
Memorandum item: Loaned or pledged		-	-
Available-for-sale financial assets	**22**	**29,765,352**	**16,175,138**
Debt securities		29,363,902	15,796,454
Other equity instruments		401,450	378,684
Memorandum item: Loaned or pledged		20,171,376	11,261,156
Loans and receivables	**23**	**107,827,616**	**108,035,587**
Loans and advances to credit institutions		5,049,952	5,531,536
Loans and advances to customers		100,582,923	101,123,996
Debt securities		2,194,741	1,380,055
Memorandum item: Loaned or pledged		9,975,241	22,798,889
Held-to-maturity investments	**24**	-	-
Memorandum items: Loaned or pledged		-	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	**25**	**261,023**	**159,571**
Hedging derivatives	**26**	**441,156**	**579,029**
Non-current assets held for sale	**27**	**8,201,378**	**6,296,601**
Investments	**28**	**1,870,785**	**1,263,136**
Associates		874,540	841,555
Joint ventures		996,245	421,581
Insurance contracts linked to pensions	**29**	**162,654**	**142,948**
Reinsurance assets	**30**	**16,921**	**14,462**
Tangible assets	**31**	**1,711,224**	**1,835,903**
Property, plant and equipment		757,169	824,763
For own use		746,830	798,603
Assets assigned under operating leases		10,339	26,160
Investment property		954,055	1,011,140
Memorandum item: Acquired under finance leases		-	-
Intangible assets	**32**	**2,492,675**	**2,457,550**
Goodwill		2,058,470	2,043,480
Other intangible assets		434,205	414,070
Tax assets	**33**	**3,618,098**	**3,516,827**
Current		181,610	379,392
Deferred		3,436,488	3,137,435
Other assets	**34**	**1,694,339**	**1,531,634**
Inventories		881,084	715,256
Other		813,255	816,378
TOTAL ASSETS		**161,456,478**	**146,709,478**

(*) Figures restated for purposes of comparison

LIABILITIES	Notes	At 31/12/2014	At 31/12/2013 *
Financial liabilities held for trading	**20**	**1,397,389**	**954,426**
Deposits from central banks		-	-
Deposits from credit institutions		-	-
Customer deposits		-	-
Debt certificates		-	-
Trading derivatives		1,397,389	954,426
Short positions		-	-
Other financial liabilities		-	-
Other financial liabilities designated at fair value through profit or loss	**21**	**649,354**	**601,367**
Deposits from central banks		-	-
Deposits from credit institutions		-	-
Customer deposits		-	-
Debt certificates		-	-
Subordinated liabilities		-	-
Other financial liabilities		649,354	601,367
Financial liabilities at amortised cost	**35**	**142,227,778**	**130,313,157**
Deposits from central banks		9,993,427	3,417,099
Deposits from credit institutions		17,713,731	18,276,123
Customer deposits		96,036,196	89,261,822
Debt certificates		15,962,018	16,282,375
Subordinated liabilities		1,424,645	2,324,019
Other financial liabilities		1,097,761	751,719
Fair value changes of the hedged items in portfolio hedges of interest rate risk	**25**	-	-
Hedging derivatives	**26**	**2,161,074**	**1,473,749**
Liabilities associated with non-current assets held for sale		-	-
Liabilities under insurance contracts	**36**	**483,784**	**371,311**
Provisions	**37 and 38**	**469,998**	**532,964**
Provisions for pensions and similar liabilities		293,653	298,212
Provisions for taxes and other tax contingencies		31,780	55,375
Provisions for contingent risks and commitments		121,272	160,030
Other provisions		23,293	19,347
Tax liabilities	**33**	**718,459**	**486,101**
Current		97,047	179,099
Deferred		621,412	307,002
Other liabilities	**39**	**678,775**	**500,624**
TOTAL LIABILITIES		**148,786,611**	**135,233,699**

(*) Figures restated for purposes of comparison

EQUITY	Notes	At 31/12/2014	At 31/12/2013*
Shareholders' Equity	**41**	**12,783,396**	**11,774,471**
Common Stock		1,050,384	948,276
Issued		1,050,384	948,276
Minus: Uncalled capital (-)		-	-
Share premium		7,132,590	6,405,111
Reserves		3,630,267	3,523,049
Accumulated reserves (losses)		3,643,812	3,575,697
Reserves (losses) of equity method companies		(13,545)	(52,648)
Other equity instruments		643,198	646,531
From compound financial instruments		-	-
Other equity instruments		643,198	646,531
Minus: Treasury shares		(3,458)	(39)
Profit (loss) attributed to the parent company		330,415	251,543
Minus: Dividends and remuneration		-	-
Valuation adjustments	**42**	**(133,077)**	**(350,069)**
Available-for-sale financial assets		(129,641)	(363,458)
Cash flow hedges		(23,580)	7,502
Hedges of net investment in foreign operations		-	-
Exchange differences		54,710	17,931
Non-current assets held for sale		-	-
Entities accounted for using the equity method		(667)	1,087
Other valuation adjustments		(33,899)	(13,131)
Non-controlling interests	**43**	**19,548**	**51,377**
Valuation adjustments		-	3,144
Remainder		19,548	48,233
TOTAL EQUITY	**40**	**12,669,867**	**11,475,779**
TOTAL EQUITY AND LIABILITIES		**161,456,478**	**146,709,478**
MEMORANDUM ITEMS			
Contingent risks	**47**	**12,554,148**	**14,749,016**
Contingent commitments	**48**	**8,855,239**	**10,633,264**

(*) Figures restated for purposes of comparison

Consolidated profit and loss accounts for the years ended 31 December 2014 and 2013

(€ thousands)

	Notes	At 31/12/2014	At 31/12/2013*
Interest and similar income	**49**	**4,167,234**	**4,862,997**
Interest and similar expenses	**50**	**1,835,843**	**2,451,532**
NET INTEREST INCOME		**2,331,391**	**2,411,465**
Return on equity instruments	**51**	**14,389**	**17,790**
Share of profits (losses) of entities accounted for using the equity method	**52**	**33,392**	**32,264**
Fee and commission income	**53**	**739,400**	**894,096**
Fee and commission expenses	**53**	**84,693**	**134,837**
Net gains (losses) on financial assets and liabilities	**54**	**820,609**	**461,101**
Financial instruments held for trading		32,219	23,668
Other financial instruments at fair value through profit and loss		(24,668)	(24,581)
Financial instruments not at fair value through profit and loss		786,429	435,593
Other		26,629	26,421
Exchange differences (net)	**55**	**47,232**	**52,420**
Other operating income	**56**	**342,480**	**192,522**
Income from insurance and reinsurance contracts issued		134,152	93,884
Sales and income from provision of non-financial services		18,543	19,523
Remainder of other operating income		189,785	79,115
Other operating expenses	**57**	**368,167**	**375,570**
Insurance and reinsurance contract expenses		135,859	58,417
Change in inventories		16,326	21,243
Rest of other operating expenses		215,982	295,910
GROSS INCOME		**3,876,033**	**3,551,251**
Administration Costs		**1,726,285**	**1,572,559**
Personnel expenses	58	946,235	929,110
Other general administrative expenses	59	780,050	643,449
Depreciation and amortisation	**60**	**144,530**	**150,622**
Provisioning expense (net)	**61**	**(44,706)**	**86,770**
Impairment losses on financial assets (net)	**62**	**1,708,832**	**1,167,462**
Loans and receivables		*1,690,832*	*1,133,905*
Other financial instruments not at fair value through profit and loss		*18,000*	*33,557*
NET OPERATING INCOME		**341,092**	**573,838**
Impairment losses on other assets (net)	**63**	**(30,318)**	**168,503**
Goodwill and other intangible assets		-	30,000
Other assets		(30,318)	138,503
Gains (losses) on disposal of assets not classified as non-current held for sale	**64**	**498,039**	**947,092**
Negative difference on business combinations	**65**	**-**	**-**
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	**66**	**(496,458)**	**(998,490)**
PROFIT/(LOSS) BEFORE TAX		**372,991**	**353,937**
Income tax		**43,090**	**99,544**
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**329,901**	**254,393**
Profit (loss) from discontinued operations (net)		**-**	**-**
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**329,901**	**254,393**
Profit attributable to the parent company		330,415	251,543
Profit attributable to non-controlling interests	**67**	(514)	2,850
BASIC EARNINGS PER SHARE	**5**	**0.159**	**0.148**
DILUTED EARNINGS PER SHARE	**5**	**0.157**	**0.137**

(*) Figures restated for purposes of comparison

Consolidated statements of recognised income and expense for the financial years ended 31 December 2014 and 2013

(€ thousands)

	31/12/2014	At 31/12/2013 *
A) CONSOLIDATED PROFIT/(LOSS)	**329,901**	**254,393**
B) OTHER RECOGNISED NET INCOME	**213,848**	**541,545**
B.1) Items that will not be reclassified to profit or loss	**(20,768)**	**(14,363)**
1. Actuarial profit /(loss) in defined benefit pension plans	(28,222)	(19,390)
2. Non-current assets held for sale	-	-
3. Entities accounted for using the equity method	-	-
4. Income tax relating to items that will not be reclassified to profit or loss	7,454	5,027
B.2) Items that may be reclassified to profit or loss	**234,616**	**555,908**
1. Available-for-sale financial assets	325,039	790,454
1.1. Valuation gains/(losses)	1,027,008	1,127,241
1.2. Amounts transferred to profit and loss account	(701,969)	(336,787)
1.3. Other reclassifications	-	-
2. Cash flow hedges	(44,522)	10,717
2.1. Valuation gains/(losses)	(44,522)	10,717
2.2. Amounts transferred to profit and loss account	-	-
2.3. Amounts transferred at initial carrying amount of hedged items	-	-
2.4. Other reclassifications	-	-
3. Hedges of net investment in foreign operations	-	-
3.1. Valuation gains/(losses)	-	-
3.2. Amounts transferred to profit and loss account	-	-
3.3. Other reclassifications	-	-
4. Exchange differences	59,055	(18,841)
4.1. Valuation gains/(losses)	59,055	(18,841)
4.2. Amounts transferred to profit and loss account	-	-
4.3. Other reclassifications	-	-
5. Non-current assets held for sale	-	-
5.1. Valuation gains/(losses)	-	-
5.2. Amounts transferred to profit and loss account	-	-
5.3. Other reclassifications	-	-
7. Entities accounted for using the equity method	(2,506)	656
7.1. Valuation gains/(losses)	(2,506)	656
7.2. Amounts transferred to profit and loss account	-	-
7.3. Other reclassifications	-	-
8. Other comprehensive income	-	-
9. Income tax relating to Items that may be reclassified to profit or loss	(102,450)	(227,078)
C) TOTAL RECOGNISED INCOME AND EXPENSES (A+B)	**543,749**	**795,938**
C.1) Attributed to the parent company	**547,407**	**787,041**
C.2) Attributed to non-controlling interests	**(3,658)**	**8,897**

(*) Figures restated for purposes of comparison

Consolidated statements of changes in equity

for the financial years ended as at 31 December 2014 and 2013 (€ thousands)

				SHAREHOLDERS' EQUITY					
	Common Stock	Share premium	Acumulated Reserves (Losses)	Reserves (Losses) of equity Method companies	Other equity instruments	Minus: Treasury shares	Profit (loss) Attributed to the parent company	Minus: dividends and remuneration	Total shareholders' equity
Beginning balance at (01/01/2014) *	**948,276**	**6,405,111**	**3,575,697**	**(52,648)**	**646,531**	**39**	**251,543**	**-**	**11,774,471**
Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**948,276**	**6,405,111**	**3,575,697**	**(52,648)**	**646,531**	**39**	**251,543**	**-**	**11,774,471**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**330,415**	**-**	**330,415**
Other changes in equity	**102,108**	**727,479**	**68,115**	**39,103**	**(3,333)**	**3,419**	**(251,543)**	**-**	**678,510**
Common stock increase	11,043	-	(11,043)	-	-	-	-	-	-
Common stock decrease	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	91,065	727,479	-	-	(3,333)	-	-	-	815,211
Increases in other equity instruments	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	16,408	-	-	-	-	-	16,408
Transactions involving own equity instruments (net)	-	-	2,599	-	-	3,419	-	-	(820)
Transfers between equity items	-	-	212,440	39,103	-	-	(251,543)	-	-
Increase/decrease due to business combinations	-	-	-	-	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	(119,473)	-	-	-	-	-	(119,473)
Ending balance at 31/12/2014	**1,050,384**	**7,132,590**	**3,643,812**	**(13,545)**	**643,198**	**3,458**	**330,415**	**-**	**12,783,396**

				SHAREHOLDERS' EQUITY					
	Common Stock	Share premium	Acumulated Reserves (Losses)	Reserves (Losses) of equity Method companies	Other equity instruments	Minus: Treasury shares	Profit (loss) Attributed to the parent company	Minus: dividends and remuneration	Total shareholders' equity
Beginning balance at 1 Jan. 2013)	**840,855**	**5,648,966**	**6,215,931**	**6,878**	**680,894**	**134,623**	**(2,461,023)**	**-**	**10,797,878**
Adjustments due to changes in accounting policy	-	-	(76,272)	(995)	-	-	-	-	(77,267)
Adjustments due to errors	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**840,855**	**5,648,966**	**6,139,659**	**5,883**	**680,894**	**134,623**	**(2,461,023)**	**-**	**10,720,611**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**251,543**	**-**	**251,543**
Other changes in equity	**107,421**	**756,145**	**(2,563,962)**	**(58,531)**	**(34,363)**	**(134,584)**	**2,461,023**	**-**	**802,317**
Common stock increase	56,962	393,038	-	-	-	-	-	-	450,000
Common stock decrease	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	50,459	363,107	-	-	(34,363)	-	-	-	379,203
Increases in other equity instruments	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	
Distribution of dividends	-	-	-	-	-	-	-	-	-
Transactions involving own equity instruments (net)	-	-	(63,565)	-	-	(134,584)	-	-	71,019
Transfers between equity items	-	-	(2,402,492)	(58,531)	-	-	2,461,023	-	-
Increase/decrease due to business combinations	-	-	-	-	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	(97,905)	-	-	-	-	-	(97,905)
Ending balance at (31/12/2013)*	**948,276**	**6,405,111**	**3,575,697**	**(52,648)**	**646,531**	**39**	**251,543**	**-**	**11,774,471**

(*) Figures restated for purposes of comparison

Consolidated statements of changes in equity
for the financial years ended 31 December 2014 and 2013

(€ thousands)

	SHAREHOLDERS' EQUITY				
	Total shareholders' equity	Valuation adjustments	Total	Non-controlling interests	Equity
Beginning balance at (01/01/2014) *	**11,774,471**	**(350,069)**	**11,424,402**	**51,377**	**11,475,779**
Adjustments due to changes in accounting policy		-	-	-	-
Adjustments due to errors	-	-	-	-	-
Adjusted beginning balance	**11,774,471**	**(350,069)**	**11,424,402**	**51,377**	**11,475,779**
Total recognised income and expense	**330,415**	**216,992**	**547,407**	**(3,658)**	**543,749**
Other changes in equity	**678,510**	**-**	**678,510**	**(28,171)**	**650,339**
Common stock increases	-	-	-	-	-
Common stock decreases	-	-	-	-	-
Conversion of financial liabilities into equity	815,211	-	815,211	-	815,211
Increases in other equity instruments	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-
Distribution of dividends	16,408	-	16,408	-	16,408
Transactions involving own equity instruments (net)	(820)	-	(820)	-	(820)
Transfers between equity items	-	-	-	-	-
Increases/(decreases) due to business combinations	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-
Other increases/(decreases) in equity	(119,473)	-	(119,473)	(28,171)	(147,644)
Ending balance at (31/12/2014)	**12,783,396**	**(133,077)**	**12,650,319**	**19,548**	**12,669,867**

	SHAREHOLDERS' EQUITY				
	Total shareholders' equity	Valuation adjustments	Total	Non-controlling interests	Equity
Beginning balance at 1 Jan. 2013)	**10,797,878**	**(886,614)**	**9,911,264**	**44,157**	**9,955,421**
Adjustments due to changes in accounting policy	(77,267)	-	(77,267)	-	(77,267)
Adjustments due to errors	-	-	-	-	-
Adjusted beginning balance	**10,720,611**	**(886,614)**	**9,833,997**	**44,157**	**9,878,154**
Total recognised income and expense	**251,543**	**535,498**	**787,041**	**8,897**	**795,938**
Other changes in equity	**802,317**	**1,047**	**803,364**	**(1,677)**	**801,687**
Common stock increases	450,000	-	450,000	-	450,000
Common stock decreases	-	-	-	-	-
Conversion of financial liabilities into equity	379,203	-	379,203	-	379,203
Increases in other equity instruments	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-
Distribution of dividends	-	-	-	-	-
Transactions involving own equity instruments (net)	71,019	-	71,019	-	71,019
Transfers between equity items	-	-	-	-	-
Increases/(decreases) due to business combinations	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-
Other increases/(decreases) in equity	(97,905)	1,047	(96,858)	(1,677)	(98,535)
Ending balance at (31/12/2013)*	**11,774,471**	**(350,069)**	**11,424,402**	**51,377**	**11,475,779**

(*) Figures restated for purposes of comparison

Consolidated cash flow statements
for the financial years ended 31 December 2014 and 2013

(€ thousands)

	31/12/2014	At 31/12/2013*
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(2,375,424)**	**(3,424,437)**
1. Consolidated profit/(loss) for the year	329,901	254,393
2. Adjustments to obtain cash flows from operating activities	2,552,247	2,212,920
2.1 Depreciation and Amortisation	144,530	150,622
2.2 Other adjustments	2,407,717	2,062,298
3. Net increase/decrease in operating assets	17,476,760	(4,281,513)
3.1 Financial assets held for trading	(250,719)	159,477
3.2 Other financial assets designated at fair value through profit or loss	147,119	(129,943)
3.3 Available-for-sale financial assets	13,367,742	(3,451,807)
3.4 Loans and receivables	4,396,813	(1,301,789)
3.5 Other operating assets	(184,195)	442,549
4. Net increase/decrease in operating liabilities	12,176,619	(10,344,650)
4.1 Financial liabilities held for trading	-	(4,299)
4.2 Other financial liabilities designated at fair value through profit or loss	47,987	41,210
4.3 Financial liabilities at amortised cost	12,851,390	(10,398,032)
4.4 Other operating liabilities	(722,758)	16,471
5. Collections/payments for income tax	42,569	171,387
B) CASH FLOWS FROM INVESTING ACTIVITIES	**963,780**	**3,112,746**
6. Payments	260,978	86,943
6.1 Tangible assets	41,764	34,135
6.2 Intangible assets	118,439	52,808
6.3 Investments	100,775	-
6.4 Subsidiaries and other business units	-	-
6.5 Non-current assets and associated liabilities held for sale	-	-
6.6 Held-to-maturity investments	-	-
6.7 Other payments related to investing activities	-	-
7. Collections	1,224,758	3,199,689
7.1 Tangible assets	107,443	96,127
7.2 Intangible assets	-	-
7.3 Investments	645,723	53,877
7.4 Subsidiaries and other business units	49,245	-
7.5 Non-current assets and associated liabilities held for sale	422,347	331,865
7.6 Held-to-maturity investments	-	2,717,820
7.7 Other collections related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(222,281)**	**1,021,608**
8. Payments	415,297	717,184
8.1 Dividends	16,408	-
8.2 Subordinated liabilities	83,705	-
8.3 Amortisation of own equity instruments	-	-
8.4 Treasury Stock adquisition	196,435	592,977
8.5 Other payments related to financing activities	118,749	124,207
9. Collections	193,016	1,738,792
9.1 Subordinated liabilities	-	561,231
9.2 Amortisation of own equity instruments	-	450,000
9.3 Treasury Stock adquisition	193,016	727,561
9.4 Other payments related to financing activities	-	-
D) EFFECT OF EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (A+B+C+D)	**(1,633,925)**	**709,917**
F) CASH OR CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**2,826,724**	**2,116,807**
G) CASH OR CASH EQUIVALENTS AT END OF THE YEAR	**1,192,799**	**2,826,724**
MEMORANDUM ITEMS	-	
COMPONENTS OF CASH AND EQUIVALENT AT END OF THE YEAR	-	
1.1 Cash	451,251	463,880
1.2 Balance of cash equivalent in central banks	741,548	2,362,844
1.3 Other financial assets	-	-
1.4 Minus: Bank overdraft refundable on demand	-	-
Total cash or cash equivalents at end of the year	1,192,799	2,826,724
of which: held by consolidated subsidiaries but not available for the Group.	-	-

(*) Figures restated for purposes of comparison

Notes to the consolidated financial statements for the financial year ended 31 December 2014

1. NATURE OF THE INSTITUTION

Banco Popular was incorporated on 14 July 1926, and its registered address is at Velázquez 34, Madrid. Banco Popular Español, S.A. is a private law company whose object, according to Article 4 of its Articles of Association, is banking. Its activities are subject to the rules and regulations applicable to banks operating in Spain.

The shares of Banco Popular are listed on the four Spanish stock exchanges and are traded on the continuous market. Prior to 4 October 2013 it was also listed on the Euronext Exchange in Lisbon, this being the date on which its request to be voluntarily excluded from listings on said market became effective. The Group has also issued fixed income securities (Euronotes, preferred shares, mortgage covered bonds, securitisation bonds, subordinated bonds, etc.) which are listed on the following markets: AIAF Fixed Income Market, London Stock Exchange, Frankfurt Stock Exchange, Luxembourg Stock Exchange, Euronext Amsterdam, Euronext Lisbon and Irish Stock Exchange. Banco Popular is the parent company of a group of companies forming the Banco Popular Group. Accordingly, Banco Popular is obliged to prepare, in addition to its own individual financial statements, which are also submitted to obligatory audit, consolidated financial statements of the Group which include, as appropriate, the related investments in subsidiaries. jointly-controlled companies and the investments in associates. The companies forming the Group engage basically in financial activities and the holding and administration of real estate assets derived from that financial activity. The term "Banco Popular" in these consolidated financial statements refers exclusively to the parent company of the Group.

In 2014, the card and retail business of Citibank España, S.A. was acquired and integrated into Bancopopular-e, S.A. Subsequently, 51% of Bancopopular-e, S.A. was sold to a shareholder with experience in the card management business (Note 8).

The Group has entered into strategic alliances with specialised partners in 2013 with a view to the joint management of real-estate management businesses, ATMs and point-of-sale terminals.

In February 2012, the Banco Pastor group was acquired and in June 2012, Banco Pastor was absorbed by Banco Popular, thereby completing the process for the integration of the Banco Pastor Group into the Banco Popular Group. This acquisition was considered to be strategic for the Group, as it positions it among the six leading entities in the Spanish financial sector. Since the type of business conducted by Banco Pastor was similar to that of the Popular Group, its integration further strengthened the Group's position in the Spanish financial system.

In December 2013, after all the systems had been fully integrated, the Galicia business was split off into the new Banco Pastor with the objective of providing the Group with a regional bank that is well-known and enjoys a particular tradition in the Galicia region, in which the Group has a market share of 22%.

At 31 December 2014 total assets, equity and profits for the year of Banco Popular Español, S.A. account for 94%, 96% y 144%, respectively, of the same items in the Group (93%, 95% and 111%, respectively, at 31 December 2013).

a) Individual balance sheets at 31 December 2014 and 2013

(€ thousands)

ASSETS	2014	2013*
Cash and balances with central banks	**935,613**	**2,124,044**
Financial assets held for trading	**1,658,231**	**1,246,168**
Loans and advances to credit institutions	-	-
Loans and advances to customers	-	-
Debt securities	-	253
Other equity instruments	131,547	159,000
Trading derivatives	1,526,684	1,086,915
Memorandum item: Loaned or pledged	-	-
Other financial assets at fair value through profit or loss	**-**	**-**
Loans and advances to credit institutions	-	-
Loans and advances to customers.	-	-
Debt securities	-	-
Other equity instruments	-	-
Memorandum items: Loaned or pledged	-	-
Available-for-sale financial assets	**28,152,766**	**16,277,335**
Debt securities	27,953,004	16,096,928
Other equity instruments	199,762	180,407
Memorandum item: Loaned or pledged	20,171,376	11,207,675
Loans and receivables	**107,510,877**	**104,746,030**
Loans and advances to credit institutions	7,046,925	7,181,493
Loans and advances to customers	98,112,177	96,027,446
Debt securities	2,351,775	1,537,091
Memorandum item: Loaned or pledged	30,396,207	34,321,851
Held-to-maturity investments	**-**	**-**
Memorandum items: Loaned or pledged	-	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	**261,023**	**159,340**
Hedging derivatives	**501,293**	**582,260**
Non-current assets held for sale	**2,675,631**	**1,780,839**
Investments	**3,269,776**	**3,048,587**
Associates	403,267	322,741
Joint ventures	458,942	211,666
Group companies	2,407,567	2,514,180
Insurance contracts linked to pensions	**55,226**	**53,405**
Tangible assets	**331,235**	**362,721**
Property, plant and equipment	258,559	328,770
For own use	258,559	328,770
Assets assigned under operating leases	-	-
Investment property	72,676	33,951
Memorandum item: Acquired under finance leases	-	-
Intangible assets	**1,917,137**	**1,888,796**
Goodwill	1,601,066	1,601,065
Other intangible assets	316,071	287,731
Tax assets	**3,321,386**	**3,519,534**
Current	167,183	382,978
Deferred	3,154,203	3,136,556
Other assets	**442,352**	**608,958**
Inventories	-	-
Other	442,352	608,658
TOTAL ASSETS	**151,032,546**	**136,398,017**

(*) Figures restated for purposes of comparison

LIABILITIES	2014	2013*
Financial instruments held for trading	**1,312,348**	**893,181**
Deposits from central banks	-	-
Deposits from credit institutions	-	-
Customer deposits	-	-
Debt certificates	-	-
Trading derivatives	1,312,348	893,181
Short positions	-	-
Other financial liabilities	-	-
Other financial liabilities designated at fair value through profit or loss	**-**	**-**
Deposits from central banks	-	-
Deposits from credit institutions	-	-
Customer deposits	-	-
Debt certificates	-	-
Subordinated liabilities	-	-
Other financial liabilities	-	-
Financial liabilities at amortised cost	**133,952,414**	**122,014,423**
Deposits from central banks	8,293,422	1,755,030
Deposits from credit institutions	24,215,774	24,231,452
Customer deposits	86,471,521	80,893,679
Debt certificates	12,551,955	12,343,125
Subordinated liabilities	1,432,020	2,319,741
Other financial liabilities	987,722	471,396
Fair value changes of the hedged items in portfolio hedges of interest rate risk	**-**	**-**
Hedging derivatives	**2,094,864**	**1,403,066**
Liabilities associated with non-current assets held for sale	**-**	**-**
Provisions	**354,731**	**451,245**
Provisions for pensions and similar liabilities	138,550	169,558
Provisions for taxes and other tax contingencies	28,731	49,775
Provisions for contingent risks and commitments	186,581	231,043
Other provisions	869	869
Tax liabilities	**556,606**	**368,152**
Current	81,689	175,036
Deferred	474,917	193,116
Other liabilities	**611,137**	**422,484**
TOTAL LIABILITIES	**138,882,100**	**125,552,551**

EQUITY	2014	2013*
Shareholders' Equity	**12,336,671**	**11,145,277**
Common Stock	1,050,384	948,276
Issued	1,050,384	948,276
Minus: Uncalled capital (-)	-	-
Share premium	7,132,590	6,405,111
Reserves	3,034,593	2,861,297
Other equity instruments	645,870	649,167
From compound financial instruments	-	-
Non-voting equity units and associated funds	-	-
Other equity instruments	645,870	649,167
Less: Treasury shares	3,458	-
Profit (loss) attributed to the parent company	476,692	281,426
Less: Dividends and remuneration	-	-
Valuation adjustments	**(186,225)**	**(299,811)**
Available-for-sale financial assets	(150,871)	(301,934)
Cash flow hedges	(22,893)	7,502
Hedges of net investment in foreign operations	-	-
Exchange differences	-	-
Non-current assets held for sale	-	-
Other valuation adjustments	(12,461)	(5,379)
TOTAL EQUITY	**12,150,446**	**10,845,466**
TOTAL EQUITY AND LIABILITIES	**151,032,546**	**136,398,017**
MEMORANDUM ITEMS		
Contingent risks	**13,235,684**	**15,377,918**
Contingent commitments	**7,657,478**	**9,516,069**

(*) Figures restated for purposes of comparison

b) Individual profit and loss accounts for the years ended 31 December 2014 and 2013

(€ thousands)

	2014	2013*
Interest and similar income	**3,671,436**	**4,657,462**
Interest and similar expenses	**1,862,974**	**2,332,372**
NET INTEREST INCOME	**1,808,462**	**2,325,090**
Return on equity instruments	**84,883**	**47,325**
Fee and commission income	**576,132**	**833,160**
Fee and commission expenses	**39,225**	**121,451**
Net gains (losses) on financial assets and liabilities	**810,096**	**471,945**
Financial instruments held for trading	38,728	23,207
Other financial instruments at fair value through profit and loss	-	-
Financial instruments not at fair value through profit and loss	743,814	422,371
Other	27,554	26,367
Exchange differences (net)	**39,350**	**50,862**
Other operating income	**136,451**	**48,540**
Other operating expenses	**149,528**	**236,821**
GROSS INCOME	**3,266,621**	**3,418,650**
Administration Costs	**1,311,739**	**1,311,713**
Personnel expenses	720,656	792,840
Other general administrative expenses	591,083	518,873
Depreciation and amortisation	**110,745**	**129,280**
Provisioning expense net	**(51,162)**	**87,106**
Impairment losses on financial assets (net)	**1,126,749**	**1,612,731**
Loans and receivables	1,117,389	1,581,378
Other financial instruments not carried at fair value through profit and loss	9,360	31,353
NET OPERATING INCOME	**768,550**	**277,820**
Impairment losses on other assets (net)	**81,418**	**125,367**
Gains (losses) on disposal of assets not classified as non-current held for sale	**327,961**	**581,272**
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	**(387,635)**	**(358,114)**
PROFIT/(LOSS) BEFORE TAX	**627,458**	**375,611**
Income tax	**150,766**	**94,185**
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**476,692**	**281,426**
Profit (loss) from discontinued operations (net)	**-**	**-**
PROFIT /(LOSS) FOR THE YEAR	**476,692**	**281,426**
BASIC EARNINGS PER SHARE	**0.230**	**0.165**
DILUTED EARNINGS PER SHARE	**0.226**	**0.152**

(*) Figures restated for purposes of comparison

c) Individual statements of recognised income and expense for the financial years ended 31 December 2014 and 2013

(€ thousands)

	2014	2013 *
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**476,692**	**281,426**
OTHER RECOGNISED NET INCOME	**113,586**	**510,061**
B.1) Items that will not be reclassified to profit or loss	**(7,082)**	**(7,787)**
Actuarial profit /(loss) in defined benefit pension plans	(10,117)	(5,451)
Non-current assets held for sale	-	-
Income tax relating to items that will not be reclassified to profit or loss	3,035	(2,336)
B.2) Items that may be reclassified to profit or loss	**120,668**	**517,848**
Available-for-sale financial assets	**215,804**	**838,131**
Valuation gains/(losses)	(935,910)	1,100,403
Amounts transferred to profit and loss account	720,106	(262,272)
Other reclassifications	-	-
Cash flow hedges	**(43,421)**	**10,717**
Valuation gains/(losses)	(43,421)	10,717
Amounts transferred to profit and loss account	-	-
Amounts transferred at initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedges of net investment in foreign operations	**-**	**-**
Valuation gains/(losses)	-	-
Amounts transferred to profit and loss account	-	-
Other reclassifications	-	-
Exchange differences	**-**	**-**
Valuation gains/(losses)	-	-
Amounts transferred to profit and loss account	-	-
Other reclassifications	-	-
Non-current assets held for sale	**-**	**-**
Valuation gains/(losses)	-	-
Amounts transferred to profit and loss account	-	-
Other reclassifications	-	-
Other comprehensive income	**-**	-
Income tax	**(51,715)**	**(331,000)**
TOTAL RECOGNISED INCOME AND EXPENSE	**590,278**	**791,487**

(*) Figures restated for purposes of comparison

d) Individual statements of changes in equity for the financial years ended 31 December 2014 and 2013

(€ thousands)

	SHAREHOLDERS' EQUITY									
	Common Stock	**Share premium**	**Acumulated Reserves (Losses)**	**Other equity instruments**	**Minus: Treasury shares**	**Profit (loss) Attributed to the parent company**	**Minus: dividends and remuneration**	**Total shareholders' equity**	**Valuation adjustments**	**Total**
Beginning balance at (01/01/2014) *	**948,276**	**6,405,111**	**2,861,297**	**649,167**	**-**	**281,426**	**-**	**11,145,277**	**(299,811)**	**10,845,466**
Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**948,276**	**6,405,111**	**2,861,297**	**649,167**	**-**	**281,426**	**-**	**11,145,277**	**(299,811)**	**10,845,466**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**476,692**	**-**	**476,692**	**113,586**	**590,278**
Other changes in equity	**102,108**	**727,479**	**173,296**	**(3,297)**	**3,458**	**(281,426)**	**-**	**714,702**	**-**	**714,702**
Common stock increases	94,117	648,649	-	-	-	-	-	742,766	-	742,766
Common stock decreases	-	-	-	-	-	-	-	-	-	
Conversion of financial liabilities into equity	7,991	78,830	-	(3,297)	-	-	-	83,524	-	83,524
Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	-	-
Transactions involving own equity instruments (net)	-	-	(18,771)	-	3,458	-	-	(22,229)	-	(22,229)
Transfers between equity items	-	-	281,426	-	-	(281,426)	-	-	-	-
Increases/(decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-	-	-	-	-	-
Other increases/ (decreases) in equity	-	-	(89,359)	-	-	-	-	(89,359)	-	(89,359)
Ending balance at (31/12/2014)	**1,050,384**	**7,132,590**	**3,034,593**	**645,870**	**3,458**	**476,692**	**-**	**12,336,671**	**(186,225)**	**12,150,446**

(*) Figures restated for purposes of comparison

	SHAREHOLDERS' EQUITY									
	Common Stock	**Share premium**	**Acumulated Reserves (Losses)**	**Other equity instruments**	**Minus: Treasury shares**	**Profit (loss) Attributed to the parent company**	**Minus: dividends and remuneration**	**Total shareholders' equity**	**Valuation adjustments**	**Total**
Beginning balance at (01/01/2013)	**840,855**	**5,648,966**	**5,809,676**	**683,488**	**134,496**	**(2,719,525)**	**-**	**10,128,964**	**(809,944)**	**9,319,020**
Adjustments due to changes in accounting policy	-	-	(73,879)	-	-	-	-	(73,879)	-	(73,879)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**840,855**	**5,648,966**	**5,735,797**	**683,488**	**134,496**	**(2,719,525)**	**-**	**10,055,085**	**(809,944)**	**9,245,141**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**281,426**	**-**	**281,426**	**510,061**	**791,487**
Other changes in equity	**107,421**	**756,145**	**(2,874,500)**	**(34,321)**	**(134,496)**	**2,719,525**	**-**	**808,766**	**72**	**808,838**
Common stock increases	90,608	632,439	-	(101,779)	-	-	-	621,268		621,268
Common stock decreases	-	-	-	-	-	-	-	-		
Conversion of financial liabilities into equity	16,813	123,706	-	67,458	-	-	-	207,977		207,977
Increases in other equity instruments	-	-	-	-	-	-	-	-	-	
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	-	
Transactions involving own equity instruments (net)	-	-	(116,404)	-	(134,496)	-	-	18,092	-	18,092
Transfers between equity items	-	-	(2,719,525)	-	-	2,719,525	-	-	-	-
Increases/(decreases) due to business combinations	-	-	-	-	-	-	-	-	-	
Payments with equity instruments	-	-	-	-	-	-	-	-		
Other increases/ (decreases) in equity	-	-	(38,571)	-	-	-	-	(38,571)	72	(38,499)
Ending balance at (31/12/2013)*	**948,276**	**6,405,111**	**2,861,297**	**649,167**	**-**	**281,426**	**-**	**11,145,277**	**(299,811)**	**10,845,466**

(*) Figures restated for purposes of comparison

e) Individual cash flow statements for the financial years ended 31 December 2014 and 2013

(€ thousands)

	2014	2013 *
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(1,759,951)**	**(540,130)**
1. Consolidated profit/(loss) for the year	**476,692**	**281,426**
2. Adjustments to arrive at cash flow from operating activities	**2,316,828**	**1,811,449**
2.1 Depreciation and amortisation	110,745	129,280
2.2 Other adjustments	2,206,083	1,682,169
3. Net increase/decrease in operating assets	**17,092,792**	**(11,567,937)**
3.1 Financial instruments held for trading	412,063	(717,081)
3.2 Other financial assets at fair value through profit and loss	-	-
3.3 Available-for-sale financial assets	11,658,573	(5,476,233)
3.4 Loans and receivables	5,235,287	(5,480,428)
3.5 Other operating assets	(213,131)	105,805
4. Net increase/decrease in operating liabilities	**12,388,555**	**(14,295,127)**
4.1 Financial instruments held for trading	419,167	(608,309)
4.2 Other financial liabilities designated at fair value through profit or loss	-	-
4.3 Financial liabilities at amortised cost	12,156,777	(13,287,514)
4.4 Other operating liabilities	(187,389)	(399,304)
5. Collections/payments for income tax	**150,766**	**94,185**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**670,201**	**2,799,041**
6. Payments	**111,344**	**253,436**
6.1 Tangible assets	13,425	11,649
6.2 Intangible assets	97,919	202,726
6.3 Investments	-	39,061
6.4 Subsidiaries and other business units	-	-
6.5 Non-current assets and associated liabilities held for sale	-	-
6.6 Held-to-maturity investments	-	-
6.7 Other payments related to investing activities	-	-
7. Collections	**781,545**	**3,052,477**
7.1 Tangible assets	2,929	133,077
7.2 Intangible assets	-	371,078
7.3 Investments	778,616	131,612
7.4 Subsidiaries and other business units	-	-
7.5 Non-current assets and associated liabilities held for sale	-	-
7.6 Held-to-maturity investments	-	2,416,710
7.7 Other collections related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(98,681)**	**(1,515,476)**
8. Payments	**317,176**	**2,466,911**
8.1 Dividends	42,476	-
8.2 Subordinated liabilities	100,303	-
8.3 Amortisation of own equity instruments	-	-
8.4 Treasury Stock acquisition	174,397	19,059
8.5 Other payments related to financing activities	-	2,447,852
9. Collections	**218,495**	**951,435**
9.1 Subordinated liabilities	-	42,270
9.2 Issue of own equity instruments	47,556	755,610
9.3 Disposal of own equity instruments	170,939	153,555
9.4 Other payments related to financing activities	-	-
D) EFFECT OF EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(1,188,431)**	**743,435**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**2,124,044**	**1,380,609**
G) CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**935,613**	**2,124,044**
MEMORANDUM ITEMS	-	**-**
COMPONENTS OF CASH AND EQUIVALENT AT END OF THE YEAR	-	**-**
1.1 Cash	361,656	357,472
1.2 Balance of cash equivalent in central banks	573,957	1,766,572
1.3 Other financial assets	-	-
1.4 Minus: Bank overdraft refundable on demand	-	-
Total cash or cash equivalents at end of the year	**935,613**	**2,124,044**

(*) Figures restated for purposes of comparison

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) Basis of presentation

The accompanying consolidated financial statements of the Banco Popular Group are presented in accordance with International Financial Reporting Standards adopted by the European Union (IFRS - EU). In order to adapt the accounting system of Spanish credit institutions to the aforementioned regulations, Banco de España issued Circular 4/2004, of 22 December, on public and confidential financial reporting rules and financial statement formats for credit institutions, expressly stating that its purpose was to modify the accounting system of such entities with the adaptation to the accounting environment arising from the adoption of the International Financial Reporting Standards by the European Union, in order to make this Circular fully compatible with regard to the underlying conceptual framework. Circular 4/2004 has been obligatorily applicable since 1 January 2005, to the individual financial statements of Spanish credit institutions.

International Financial Reporting Standards are a set of standards changing over time in order to adapt to the economic and financial reality.

In this context, the following standards and amendments were approved by the IASB on 1 January 2013 and adopted by Regulation (EU) 1254/2012 of 11 December of the European Parliament and of the Council, setting mandatory adoption for 1 January 2014:

- IFRS 10 “Consolidated financial statements”. The definition of control is widened, requiring the analysis of the facts and specific circumstances of each possible Group entity.

  Its adoption has not had a significant impact on the Group's consolidated financial statements.

- IFRS 11 "Joint arrangements". Among the changes made, for joint ventures, the choice between proportionate consolidation and the equity method of consolidation is no longer permitted, with the latter being applied.

  Reference is made to the impact of having to apply the IFRS-11 standard to the consolidated balance sheet and the consolidated profit and loss account for the Group in Note 2d) . This impact has not been considered significant in relation to the financial statements of the Group.

- IFRS 12 “Disclosure of interests in other entities”. This presents in a single standard all reporting requirements related to investments in subsidiaries, joint ventures, associates and unconsolidated structured entities.

  Its adoption has not had a significant impact on the Group's consolidated financial statements.

  Furthermore, during 2014, the following standards and amendments have come into force:

- IAS 27 (Amendment), "Separate financial statements". Owing to inclusion of part of this standard in new IFRS 10.

  Its adoption has not had a significant impact on the Group's consolidated financial statements.

- IAS 28 (Amendment) “Investments in associates and joint ventures”. Updated to include references to joint ventures in agreement with the new IFRS 11.

  Its adoption has not had a significant impact on the Group's consolidated financial statements.

- IAS 32 (Amendment) "Offsetting financial assets and financial liabilities", issued by the IASB in December 2011, amends the Implementation Guidance for point 42 of the standard to clarify a number of requirements in order to offset financial assets against financial liabilities in the balance sheet.

  The content of this clarification has not required any amendments to the treatment of Banco Popular Group's transactions.

- IAS 36 (Amendment) "Impairment of assets", refers to the information to be disclosed regarding the recoverable amount for impaired assets where the recoverable amount is based on the fair value minus the costs of selling or disposing of such assets by another means.

  This amendment has had no impact on the 2014 consolidated financial statements.

- IAS 39 (Amendment) "Financial instruments - Novation of derivatives and continuation of hedge accounting", which introduces an exemption of limited scope on the disruption in hedge accounting when a derivative that has been designated as a hedge instrument is novated to a central balancing entry clearing house.

  The Group has not carried out any transaction that involves a change in balancing entry since implementation of the amendment and, therefore, this has had no impact on these consolidated financial statements.

- Interpretation of IFRIC 21 - "Levies". This is an interpretation of IAS 37, "Provisions, contingent liabilities and contingent assets" that was adopted by the European Union in 2014, with the effect for the Group shown in note 3.a) of these Financial Statements.

Standards and amendments thereto pending adoption (approval) by the European Union, which can be applied early.

Annual Improvements to IFRS, 2011–2013 Cycle: In December 2013, the IASB published the Annual Improvements to IFRS for the 2011-2013 Cycle. The amendments included in these Annual Improvements generally apply to annual periods beginning on or after 1 January 2015, although early adoption is allowed. The most relevant amendments refer to:

- IFRS 3, "Business Combinations": Scope exceptions for joint ventures.
- IFRS 13, "Fair value measurement": Scope of "portfolio exception" available in IFRS 13.
- IAS 40, "Investment property" Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

Annual Improvements to IFRS, 2010-2012 Cycle: In December 2013, the IASB published the Annual Improvements to IFRS for the 2010-2012 Cycle. The amendments included in these Annual Improvements generally apply to annual periods beginning on or after 1 February 2015, although early adoption is allowed. The most relevant amendments refer to:

- IFRS 2, "Share-based payments" Definition of "vesting condition".
- IFRS 3, "Business Combinations": Accounting for a contingent consideration in a business combination.
- IFRS 8, "Operating segments" Information to be disclosed on aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets.
- IFRS 13, "Fair value measurement": Guidance related to the measurement of short-term receivables and payments at invoice amount when the effect of the discount is not material.
- IAS 16, "Property, plant and equipment", and IAS 38, "Intangible assets": Revaluation method—proportionate restatement of accumulated depreciation and amortisation.
- IAS 24, "Related Party Disclosures": Entity providing KMP services as a related party.

- IFRS 9 "Financial Instruments". It is subdivided into three parts, with some already approved, whose entry into force is 1 January, 2018 with early adoption in 2017.

  Adaptation is not expected to have significant impact on the Group and early adoption is not considered necessary.

- IAS 19 (Amendment) "Defined benefit plans: Employee contributions", applicable from 1 July 2014.

  This amendment is not expected to have an impact on the 2014 consolidated financial statements, as it does not affect the defined benefit plans of the Bank.

Standards, amendments and interpretations to 2014 standards that cannot be adopted early or that have not been adopted by the European Union:

- IFRS 14, "Regulatory Deferral Accounts".
- IFRS 11 (Amendment) "Accounting for acquisition of interests in joint operations": Requires application of the principals of business combination accounting to an investor who acquires an interest in a joint operation that constitutes a business.
- IAS 16 (Amendment) and IAS 38 (Amendment) "Clarification of acceptable methods of depreciation and amortisation"
- IFRS 15, "Revenue from contracts with customers": In May 2014, the IASB and the FASB jointly issued a convergent standard in relation to recognition of revenue from contracts with customers.
- IAS 27 (Amendment), "Equity method in separate financial statements": IAS 27 is amended to re-establish the option of using the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sales or contributions of assets between an investor and its associate/joint venture": These amendments clarify the accounting requirements for sales or contributions of assets between an investor and its associates and joint ventures, which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". Its implementation is not expected to have significant impacts on the Group's consolidated financial statements.

Improvement Project, 2012-2014 Cycle: The amendments relate to IFRS 5, IFRS 7, IAS 19 and IAS 34, and apply to the annual periods beginning on or after 1 July 2016, subject to adoption by the EU. The most relevant amendments refer to:

- IFRS 5, "Non-current assets held for sale and discontinued operations": Changes in disposal methods.
- IFRS 7 "Financial Instruments: Disclosures": Continuing involvement in administrative contracts.
- IAS 19, "Employee benefits": Determining the discount rate for post-employment benefit obligations.
- IAS 34, "Interim financial reporting": Disclosure of information elsewhere in the interim financial report.

- IAS 1 (Amendment), "Presentation of financial statements": Amendments to IAS 1 encourage companies to apply professional judgement in determining what information to disclose in the financial statements.

  The amendments to IAS 1 can be applied immediately, and are mandatory for annual periods beginning on or after 1 January 2016.

  The Group has assessed the impacts arising from them and does not expect them to have a material effect on the consolidated financial statements.

In 2013 standards and interpretations issued by the International Standards Accounting Board came into effect, which amended the following standards:

- IAS 1 (Amendment), "Presentation of financial statements": This amendment changes the presentation of the statement of recognised income and expense, requiring that the items included in it be grouped into two categories depending on whether or not they are subsequently transferred to the income statement or not. This amendment is compulsory for all years starting on or after 1 July 2012.

  Its adoption had no significant impact on the Group's consolidated financial statements, although it led to changes in the presentation of certain items in the statement of consolidated recognised income and expense at 31 December 2013.

- IAS 19 (Amendment), "Employee benefits": The amendment of IAS 19 introduced changes to the recognition and measurement of defined benefit pension expenses, termination benefits and disclosures of all employee benefits. The application of IAS 19, amended, was mandatory and applicable on a retroactive basis for all financial years starting on or after 1 January 2013.

  Its adoption had no significant impact on the Group's consolidated financial statements because the criteria changed under IAS 19 (revised) were already being substantially applied.

- IFRS 1 (Amendment) "Severe hyperinflation and removal of fixed dates for first-time adopters".

  Its adoption has not had a significant impact on the Group's consolidated financial statements.

- IAS 12 (Amendment) "Deferred tax: Recovery of underlying assets": The amendment of IAS 12 offers a practical approach to the valuation of deferred tax assets and liabilities related to investment property carried at fair value, one of the measurement options offered by IAS 40 "Investment property". This amendment is compulsory for all years starting on or after 1 January 2013.

  Its adoption was not applicable to the Group's consolidated financial statements because the cost valuation option is used.

- IFRS 13, "Measurement at fair value": IFRS 13 is the result of a joint undertaking by IASB and FASB (Financial Accounting Standards Board in the US) which explains how to measure items at fair value and is intended to improve and expand fair value disclosure requirements. This standard does not establish the items that should be carried at fair value and nor does it add any new requirements concerning fair value measurement compared with existing requirements.

  This standard is applicable prospectively and is mandatory for all years starting on or after 1 January 2013.

  Its adoption had no significant impact on the Group's consolidated financial statements, bearing in mind the collateralised operations subject to netting agreements or with respect to which the relevant credit risk was already taken into consideration.

IFRS improvement project 2009-2011 cycle: This IFRS improvement project introduced minor changes and clarifications to IFRS 1 "First-time adoption of IFRS", IAS 1 "Presentation of financial statements", IAS 32 "Financial instruments: Presentation", IAS 34 "Interim financial information", IAS 16 "Property plant and equipment", and IFRS 7 "Offsetting financial assets and financial liabilities". The amendments have been applicable on a retroactive basis for all financial years starting on or after 1 January 2013. The entry into force of these improvements had no significant impact on the Group.

Consequently, the accompanying consolidated financial statements were prepared based on the accounting records of the Group companies and in conformity with IFRS-EU and accordingly offer a true and fair view of the Group's consolidated equity and consolidated financial position at 31 December 2014 and 2013 and the consolidated results of its operations, of total changes in consolidated equity and of consolidated cash flows for the years ended on those dates. There is no obligatory accounting principle, standard or valuation policy having a material effect that has not been applied in preparing these financial statements. A summary of the most significant accounting principles, standards and valuation procedures that have been used in these consolidated financial statements is provided in Note 15. These consolidated financial statements comply in full with the provisions of EU-IFRS and do not contain any relevant deviations from the requirements of Circular Letter 4/2004 and subsequent updates thereof.

b) Preparation and responsibility for information

Banco Popular Group's consolidated financial statements for 2014 were prepared by the Directors of Banco Popular at the meeting of the Board of Directors of 25 February 2015 and have yet to be approved by its General Shareholders' Meeting. They are expected to be approved without significant changes. The information contained in these consolidated financial statements is the responsibility of the Directors of Banco Popular Español, S.A. Except as otherwise mentioned, such information is presented in thousands of euros.

c) Consolidation principles

The entry into force of IFRS 10, IFRS 11 and IFRS 12 has not resulted in changes to the consolidation scope as the Group has no stake for which implementation of the new criteria for determining the existence of control would involve its inclusion in the Group's scope, while it has led to changes in the consolidation method and certain subsidiaries have been consolidated by the proportional integration method and doing so by the method of participation. The effect of this change is not significant in the consolidated financial statements.

The Group was defined in accordance with IFRS-EU and Banco de España Circular 4/2004, of 22 December, which adapts that legislation to Spanish credit institutions and Spanish legislation. Investee Companies are all the subsidiary companies, joint ventures and associates.

Subsidiaries

Investee companies that constitute a decision-making unit with Banco Popular, which are those over which the Bank has, directly or indirectly through another or other investee companies, capacity to exercise control, are subsidiaries.

Companies are only considered to exert control when they meet the following requirements:

a) exertion of power over the investee
b) exposure, or right, to variable returns as a result of their involvement in the investee
c) ability to use their power over the investee to influence the investor's amount of income

The information on investments in subsidiaries as of 31 December 2014 and 2013, is as follows:

At 31 December 2014	Address		Activity
Deposit-taking institutions:			
Banco Pastor, S.A.U.	Cantón Pequeño, 1	La Coruña	Banking
Banco Popular Portugal, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Banking
Popular Banca Privada, S.A.	J. Ortega y Gasset, 29	Madrid	Banking
TotalBank	2720 Coral Way	Miami	Banking
Financing institutions:			
Popular de Factoring, S.A.	María de Molina, 39	Madrid	Factoring
Popular Factoring, S.A. (Portugal)	Rua Castilho, 39	Lisbon	Factoring
Holding and services companies:			
Gestora Popular, S.A.	J. Ortega y Gasset, 29	Madrid	Portfolio and holding company
Grupo La Toja Hoteles	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Eólica 2, S.L.	J. Ortega y Gasset, 29	Madrid	Wind energy
Pastor Privada Eólica 3, S.L.	J. Ortega y Gasset, 29	Madrid	Wind energy
Pastor Privada Investment 1, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 2, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 3, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Popular Bolsa S.V., S.A.	Josefa Valcárcel, 36	Madrid	Stockbroker
Popular de Participaciones Financieras, S.A.	J. Ortega y Gasset, 29	Madrid	Venture capital company
Popular Gestão de Activos, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Investment fund management
Popular Gestión Privada SGIIC, S.A.	J. Ortega y Gasset, 29	Madrid	Investment fund management
Popular Servicios Financieros E.F.C., S.A.	Canton Pequeño,1	La Coruña	Finance special purpose entity
Sobrinos de José Pastor Inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Holding company
Special-purpose entities:			
Aliseda, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
BPE Financiaciones, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
BPE Preference International, Ltd.	Ugland House	George Town	Finance special purpose entity
BPE Representações y Participações, Ltda.	Al Santos, 2326	São Paulo	Finance special purpose entity
BPP Asesores, S.A.	Lavalle, 643	Buenos Aires	Finance special purpose entity
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.	J. Ortega y Gasset, 29	Madrid	Debt collection
Consulteam Consultores de Gestão, Lda.	Rua Tomás Ribeiro, 50	Lisbon	Real estate
EDT FTPYME Pastor 3	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Fib Realty Corporation	2720 Coral Way	Miami	Dormant
Finespa, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Fondo Imopopular, FEIIF	Rua Ramalho Ortigao, 51	Lisbon	Real estate investment fund
Fundo Popular Predifundo	Rua Ramalho Ortigao, 51	Lisbon	Real estate investment fund
GC FTPYME Pastor 4	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Gestora Europea de Inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Services
Gold Leaf Title Company	2720 Coral Way	Miami	Finance special purpose entity
Hercepopular S.L.	Plaza de Europa, 3	Guadalajara	Real estate development
IM Banco Popular FPYME 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Banco Popular MBS 2, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund

At 31 December 2014	Address		Activity
IM Cédulas Grupo Banco Popular 3, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 5, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular FT PYME I, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular FT PYME II, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Inmobiliaria Viagracia, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Intermediacion y Servicios Tecnológicos, S.A.	Torneros 9 P.I. Los Ängeles, Getafe	Madrid	Services
Inversiones Inmobiliarias Alprosa, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Canvives, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Cedaceros, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Gercebio, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Jeráguilas, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Tamadaba, S.A.	Prof. Agustin Miralles Carlo, s/n	Las Palmas	Real estate development
Isla de los Buques, S.A.	J . Ortega y Gasset, 29	Madrid	Finance special purpose entity
Manberor, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Meglahe, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Naviera Cañada, S.L.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Naviera Islas Cies, S.L.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Pastor Participaciones Preferentes, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popular Arrendamento - FIIF para Arrendamento Habitacional	Rua Ramalho Ortigao, 51	Lisbon	Real estate investment fund
Popular Capital, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popular de Mediación, S.A.	J. Ortega y Gasset, 29	Madrid	Insurance broker
Popular Español Asia Trade, Ltd.	13/F Tim Mei Avenue	Hong Kong	Finance special purpose entity
Read Leaf Holding	2720 Coral Way	Miami	Real estate
Residencial Valdemar, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Total Sunset Inc.	2720 Coral Way	Miami	Dormant
Urbanizadora Española, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Velázquez 34, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Non-financial companies:			
Cercebelo Assets, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate
Eurovida, S.A. (Portugal)	Avenida da República, 57	Lisbon	Insurance
General de Terrenos y Edificios Servicios Integrales, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
General de Terrenos y Edificios, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Gestora Inmobiliaria La Toja, S.A.	Aldea Comercial, 1ª Planta - Isla de la Toja	Pontevedra	Real estate development
Inti Entertainment	Santo Tomás de Villanueva, 2A	Santa Cruz Tenerife	Cinematography
La Toja, S.A.	Cantón Pequeño, 1	La Coruña	Hotels
Pastor Vida, S.A.	Paseo de Recoletos, 19	Madrid	Insurance
Popular de Renting, S.A.	Velázquez, 34	Madrid	Renting
Popular Seguros, S.A.	Avenida da República, 57	Lisbon	Insurance
Promoción Social de Viviendas, S.A.	J. Ortega y Gasset, 29	Madrid	Asset holding
Vilamar Gestión, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development

At 31 December 2014	% of voting rights			Carrying amount	Assets	Shareholders' Equity	
	Direct	Indirect	Total			Total	Of which, earnings
Deposit-taking institutions:							
Banco Pastor, S.A.U.	100.00	-	100.00	605,946	12,279,567	617,533	21,873
Banco Popular Portugal, S.A.	100.00	-	100.00	880,448	8,528,987	742,067	2,282
Popular Banca Privada, S.A.	92.50	7.50	100.00	62,988	807,958	85,608	19,639
TotalBank	100.00	-	100.00	266,377	2,055,534	219,564	8,584
Financing institutions:							
Popular de Factoring, S.A.	100.00	-	100.00	45,818	646,163	111,019	10,154
Popular Factoring, S.A. (Portugal)	99.83	-	99.83	36,826	142,211	36,916	2,938
Holding and services companies:							
Gestora Popular, S.A.	35.00	65.00	100.00	1,377	16,317	1,415	(201)
Grupo La Toja Hoteles	90.67	-	90.67	68,940	78,313	76,231	4,569
Pastor Privada Eólica 2, S.L.	-	100.00	100.00	3	3	3	-
Pastor Privada Eólica 3, S.L.	-	100.00	100.00	3	3	3	-
Pastor Privada Investment 1, S.L.	-	5.00	5.00	267	5,322	5,322	-
Pastor Privada Investment 2, S.L.	100.00	-	100.00	-	15,323	(393)	(177)
Pastor Privada Investment 3, S.L.	-	5.00	5.00	79	1,535	1,535	-
Popular Bolsa S.V., S.A.	100.00	-	100.00	6,100	10,621	8,771	1,674
Popular de Participaciones Financieras, S.A.	100.00	-	100.00	36,000	46,594	41,474	(3,034)
Popular Gestão de Activos, S.A.	100.00	-	100.00	2,129	2,797	2,403	290
Popular Gestión Privada SGIIC, S.A.	-	100.00	100.00	4,006	8,856	7,033	85
Popular Servicios Financieros E.F.C., S.A.	100.00	-	100.00	21,847	250,511	29,345	2,887
Sobrinos de José Pastor Inversiones, S.A.	100.00	-	100.00	-	37,176	(16,106)	(5,045)
Special-purpose entities:							
Aliseda, S.A.	100.00	-	100.00	-	4,882,483	(865,184)	(146,701)
BPE Financiaciones, S.A.	90.00	10.00	100.00	100	2,558,446	9,068	650
BPE Preference International, Ltd.	100.00	-	100.00	38	8,415	52	-
BPE Representações y Participações, Ltda.	100.00	-	100.00	120	260	247	45
BPP Asesores, S.A.	77.30	22.70	100.00	172	57	(79)	(399)
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.	100.00	-	100.00	59	59	59	-
Consulteam Consultores de Gestão, Lda.	86.28	13.72	100.00	-	806,852	(252,867)	(59,801)
EDT FTPYME Pastor 3	100.00	-	100.00	-	42,195	(1,086)	(1,149)
Fib Realty Corporation	-	100.00	100.00	-	-	-	-
Finespa, S.A.	4.19	95.81	100.00	8,058	10,025	9,845	401
Fondo Imopopular, FEIIF	90.00	10.00	100.00	21,755	25,385	21,139	(1,490)
Fundo Popular Predifundo	-	72.62	72.62	8,346	12,798	11,523	(822)
GC FTPYME Pastor 4	100.00	-	100.00	-	80,331	28	10
Gestora Europea de Inversiones, S.A.	99.90	0.10	100.00	-	27,044	(25,239)	(167)
Gold Leaf Title Company	-	100.00	100.00	256	1,048	895	216
Hercepopular S.L.	-	51.00	51.00	3,231	112,196	6,335	-
IM Banco Popular FPYME 1, FTA	100.00	-	100.00	-	136,552	5,270	(2,847)
IM Banco Popular MBS 2, FTA	100.00	-	100.00	-	564,866	5,810	126
IM Cédulas Grupo Banco Popular 3, FTA	100.00	-	100.00	-	2,218,561	-	-

At 31 December 2014	% of voting rights			Carrying amount	Assets	Shareholders' Equity	
	Direct	Indirect	Total			Total	Of which, earnings
IM Grupo Banco Popular Empresas 1, FTA	100.00	-	100.00	-	254,170	5,417	(1,554)
IM Grupo Banco Popular Empresas 5, FTA	100.00	-	100.00	-	1,507,138	38,548	15,096
IM Grupo Banco Popular FT PYME I, FTA	100.00	-	100.00	-	341,318	7,419	305
IM Grupo Banco Popular FT PYME II, FTA	100.00	-	100.00	-	221,369	11,882	(740)
Inmobiliaria Viagracia, S.A.	100.00	-	100.00	23,230	109,139	107,484	1,273
Intermediación y Servicios Tecnológicos, S.A.	99.50	0.50	100.00	842	3,063	1,085	(404)
Inversiones Inmobiliarias Alprosa, S.L.	68.25	31.75	100.00	64,567	280,522	88,595	446
Inversiones Inmobiliarias Canvives, S.A.	100.00	-	100.00	-	2,566,888	(11,098)	(51,966)
Inversiones Inmobiliarias Cedaceros, S.A.	-	100.00	100.00	-	82,585	(24,607)	(614)
Inversiones Inmobiliarias Gercebio, S.A.	-	100.00	100.00	-	21,285	(11,504)	(1,891)
Inversiones Inmobiliarias Jeráguilas, S.A.	-	100.00	100.00	-	27,496	(11,004)	(1)
Inversiones Inmobiliarias Tamadaba, S.A.	100.00	-	100.00	-	55,180	(2,802)	1,273
Isla de los Buques, S.A.	99.98	0.02	100.00	61	433,747	1,311	11
Manberor, S.A.	-	100.00	100.00	1	89,494	(37,452)	(2)
Meglahe, S.A.	-	100.00	100.00	51	49	49	(1)
Naviera Cañada, S.L.	100.00	-	100.00	-	6	(2)	(2)
Naviera Islas Cies, S.L.	100.00	-	100.00	114	117	117	(18)
Pastor Participaciones Preferentes, S.A.	100.00	-	100.00	217	13,255	643	212
Popular Arrendamento - FIIF para Arrendamento Habitacional	84.42	15.58	100.00	52,886	52,740	52,620	(1,886)
Popular Capital, S.A.	90.00	10.00	100.00	90	146,637	33,741	306
Popular de Mediación, S.A.	100.00	-	100.00	2,262	5,663	2,290	205
Popular Español Asia Trade, Ltd.	100.00	-	100.00	-	13	-	-
Read Leaf Holding	100.00	-	100.00	58,141	66,712	60,136	1,446
Residencial Valdemar, S.L.	-	100.00	100.00	(1)	20,538	(11,928)	2,230
Total Sunset Inc.	-	100.00	100.00	-	-	-	-
Urbanizadora Española, S.A.	7.19	90.55	97.74	11,472	13,523	13,494	72
Velázquez 34, S.A.	97.80	2.20	100.00	-	66,978	(11,703)	(4,181)
Non-financial companies:							
Cercebelo Assets, S.L.	100.00	-	100.00	-	886	(403)	(10)
Eurovida, S.A. (Portugal)	84.07	15.93	100.00	85,715	1,046,133	102,398	13,318
General de Terrenos y Edificios Servicios Integrales, S.L.	-	100.00	100.00	5	7,701	1,263	368
General de Terrenos y Edificios, S.L.	100.00	-	100.00	16,626	48,683	16,660	(1,542)
Gestora Inmobiliaria La Toja, S.A.	89.71	10.29	100.00	894	1,575	1,435	(33)
Inti Entertainment	-	99.89	99.89	850	2,217	851	-
La Toja, S.A.	-	-	-	-	-	-	-
Pastor Vida, S.A.	100.00	-	100.00	67,290	238,790	92,424	1,055
Popular de Renting, S.A.	100.00	-	100.00	3,005	78,408	15,292	1,533
Popular Seguros, S.A.	-	100.00	100.00	7,500	17,225	9,763	626
Promoción Social de Viviendas, S.A.	-	91.84	91.84	554	655	654	(2)
Vilamar Gestión, S.L.	-	100.00	100.00	1	191,181	(10,125)	(5,737)

At 31 December 2013	Address		Activity
Deposit-taking institutions:			
Bancopopular-e, S.A.	Velázquez, 34	Madrid	Banking
Banco Pastor, S.A.	Cantón Pequeño, 1	La Coruña	Banking
Banco Popular Portugal, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Banking
Popular Banca Privada, S.A.	J. Ortega y Gasset, 29	Madrid	Banking
TotalBank	2720 Coral Way	Miami	Banking
Financing institutions:			
Pastor Servicios Financieros E.F.C., S.A.	Canton Pequeño,1	La Coruña	Finance special purpose entity
Popular Factoring, S.A. (Portugal)	Rua Castilho, 39	Lisbon	Factoring
Popular de Factoring, S.A.	María de Molina, 39	Madrid	Factoring
Holding and services companies:			
Gestora Popular, S.A.	J. Ortega y Gasset, 29	Madrid	Portfolio and holding company
Grupo La Toja Hoteles	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Eólica 2, S.L.	J. Ortega y Gasset, 29	Madrid	Wind energy
Pastor Privada Eólica 3, S.L.	J. Ortega y Gasset, 29	Madrid	Wind energy
Pastor Privada Investment 1, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 2, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 3, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
PBP Cartera Premium S.I.C.A.V.	J. Ortega y Gasset, 29	Madrid	SICAV
Popular Bolsa S.V., S.A.	Josefa Valcárcel, 36	Madrid	Stockbroker
Popular Gestão de Activos, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Investment fund management
Popular de Participaciones Financieras, S.A.	J. Ortega y Gasset, 29	Madrid	Venture capital company
Popular Gestión Privada SGIIC, S.A.	J. Ortega y Gasset, 29	Madrid	Investment fund management
Sobrinos de José Pastor Inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Holding company
Special-purpose entities:			
Aliseda, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
BPE Financiaciones, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
BPE Preference International, Ltd..D.	Ugland House	George Town	Finance special purpose entity
BPE Representações y Participações, Ltda.	Al Santos, 2326	São Paulo	Finance special purpose entity
BPP Asesores, S.A.	Lavalle, 643	Buenos Aires	Finance special purpose entity
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.	J. Ortega y Gasset, 29	Madrid	Debt collection
Consulteam Consultores de Gestão, Lda.	Rua Tomás Ribeiro, 50	Lisbon	Real estate
EDT FTPYME Pastor 3	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Fib Realty Corporation	2720 Coral Way	Miami	Dormant
Finespa, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Fondo Imopopular, FEIIF	Rua Ramalho Ortigao, 51	Lisbon	Real estate investment fund
GC FTPYME Pastor 4	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Gestora Europea de Inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Services
Gold Leaf Title Company	2720 Coral Way	Miami	Finance special purpose entity
IM Banco Popular FTPYME 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Banco Popular MBS 2, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Cédulas Grupo Banco Popular 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund

At 31 December 2013	Address		Activity
IM Cédulas Grupo Banco Popular 3, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Cédulas Grupo Banco Popular 5, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 5, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular FT PYME I, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular FT PYME II, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Inmobiliaria Viagracia, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Intermediación y Servicios Tecnológicos, S.A.	Torneros 9 P.I. Los Ängeles, Getafe	Madrid	Services
Inversiones Inmobiliarias Alprosa, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Canvives, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Cedaceros, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Gercebio, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Jeráguilas, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Tamadaba, S.A.	Prof. Agustín Miralles Carlo, s/n	Las Palmas	Real estate development
Isla de los Buques, S.A.	J . Ortega y Gasset, 29	Madrid	Finance special purpose entity
Manberor, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Meglahe, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Naviera Cañada, S.L.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Naviera Islas Cies, S.L.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Pastor Participaciones Preferentes, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popular Arrendamento - FIIF para Arrendamento Habitacional	Rua Ramalho Ortigao, 51	Lisbon	Real estate investment fund
Popular Capital, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popular Cards, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popular de Mediación, S.A.	J. Ortega y Gasset, 29	Madrid	Insurance broker
Popular Español Asia Trade, Ltd.	13/F Tim Mei Avenue	Hong Kong	Finance special purpose entity
Read Leaf Holding	2720 Coral Way	Miami	Real estate
Residencial Valdemar, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Total Sunset Inc.	2720 Coral Way	Miami	Dormant
Urbanizadora Española, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Velázquez 34, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Non-financial companies:			
Cercebelo Assets, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate
Eurovida, S.A. (Portugal)	Avenida da República, 57	Lisbon	Insurance
Finisterre, S.A.	Cantón Pequeño, 1	La Coruña	Real estate
General de Terrenos y Edificios Servicios Integrales, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
General de Terrenos y Edificios, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Gestora Inmobiliaria La Toja, S.A.	Aldea Comercial, 1ª Planta - Isla de la Toja	Pontevedra	Real estate development
La Toja, S.A.	Cantón Pequeño, 1	La Coruña	Hotels
Pastor Vida, S.A.	Paseo de Recoletos, 19	Madrid	Insurance
Popular de Renting, S.A.	Velázquez, 34	Madrid	Renting
Popular Seguros, S.A.	Avenida da República, 57	Lisbon	Insurance
Promoción Social de Viviendas, S.A.	J. Ortega y Gasset, 29	Madrid	Asset holding
Vilamar Gestión, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development

At 31 December 2013	% of voting rights			Carrying amount	Assets	Equity	
	Direct	Indirect	Total			Total	Of which, earnings
Deposit-taking institutions:							
Bancopopular-e, S.A.	100.00	-	100.00	34,908	875,447	159,516	18,464
Banco Pastor, S.A.	100.00	-	100.00	605,829	10,795,839	613,534	7,712
Banco Popular Portugal, S.A.	100.00	-	100.00	880,448	9,318,242	729,519	(31,720)
Popular Banca Privada, S.A.	52.50	7.50	60.00	13,785	1,182,479	67,891	8,064
TotalBank	100.00	-	100.00	266,377	1,744,703	210,980	9,618
Financing institutions:							
Pastor Servicios Financieros E.F.C., S.A.	100.00	-	100.00	21,847	271,378	26,457	2,614
Popular Factoring, S.A. (Portugal)	99.83	-	99.83	37,218	126,737	37,219	3,601
Popular de Factoring, S.A.	100.00	-	100.00	45,818	511,384	100,865	13,663
Holding and services companies:							
Gestora Popular, S.A.	35.00	65.00	100.00	1,420	13,988	1,617	(495)
Grupo La Toja Hoteles	87.10	-	87.10	90,901	108,229	105,065	911
Pastor Privada Eólica 2, S.L.	-	100.00	100.00	3	3	3	(1)
Pastor Privada Eólica 3, S.L.	-	100.00	100.00	3	3	3	(1)
Pastor Privada Investment 1, S.L.	-	5.00	5.00	282	5,639	5,639	-
Pastor Privada Investment 2, S.L.	100.00	-	100.00	-	15,211	(216)	(160)
Pastor Privada Investment 3, S.L.	-	5.00	5.00	81	1,625	1,625	-
PBP Cartera Premium S.I.C.A.V.	56.02	-	56.02	75,789	150,067	146,958	3,577
Popular Bolsa S.V., S.A.	100.00	-	100.00	6,100	10,381	7,912	819
Popular Gestão de Activos, S.A.	100.00	-	100.00	2,129	2,392	2,129	(30)
Popular de Participaciones Financieras, S.A.	100.00	-	100.00	36,000	49,644	44,567	65
Popular Gestión Privada SGIIC, S.A.	-	60.00	60.00	4,006	9,906	7,381	433
Sobrinos de José Pastor Inversiones, S.A.	100.00	-	100.00	-	87,813	(11,061)	(15,131)
Special-purpose entities:							
Aliseda, S.A.	100.00	-	100.00	-	4,196,948	(874,622)	(232,828)
BPE Financiaciones, S.A.	90.00	10.00	100.00	100	2,053,464	8,419	863
BPE Preference International, Ltd..D.	100.00	-	100.00	52	8,392	52	-
BPE Representações y Participações, Ltda.	100.00	-	100.00	165	171	202	14
BPP Asesores, S.A.	68.20	31.80	100.00	123	212	123	(405)
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.	100.00	-	100.00	60	59	59	-
Consulteam Consultores de Gestão, Lda.	86.28	13.72	100.00	-	760,569	(193,066)	(213,142)
EDT FTPYME Pastor 3	100.00	-	100.00	-	84,411	42	42
Fib Realty Corporation	-	100.00	100.00	-	-	-	-
Finespa, S.A.	4.19	95.81	100.00	8,058	10,364	10,050	(2,357)
Fondo Imopopular, FEIIF	90.00	10.00	100.00	25,541	33,147	22,629	(3,316)
GC FTPYME Pastor 4	100.00	-	100.00	-	44,992	(63)	(63)
Gestora Europea de Inversiones, S.A.	99.90	0.10	100.00	-	39,869	(25,072)	(2,823)
Gold Leaf Title Company	-	100.00	100.00	256	730	679	181
IM Banco Popular FTPYME 1, FTA	100.00	-	100.00	-	168,997	8,117	(4,255)
IM Banco Popular MBS 2, FTA	100.00	-	100.00	-	603,703	5,684	2,496
IM Cédulas Grupo Banco Popular 1, FTA	100.00	-	100.00	-	2,245,838	(11)	100

At 31 December 2013	% of voting rights			Carrying amount	Assets	Equity	
	Direct	Indirect	Total			Total	Of which, earnings
IM Cédulas Grupo Banco Popular 3, FTA	100.00	-	100.00	-	2,215,013	-	-
IM Cédulas Grupo Banco Popular 5, FTA	100.00	-	100.00	-	305,644	-	-
IM Grupo Banco Popular Empresas 1, FTA	100.00	-	100.00	-	306,088	6,971	(10)
IM Grupo Banco Popular Empresas 5, FTA	100.00	-	100.00	-	2,350,799	23,452	23,452
IM Grupo Banco Popular FT PYME I, FTA	100.00	-	100.00	-	410,034	7,114	1,772
IM Grupo Banco Popular FT PYME II, FTA	100.00	-	100.00	-	275,056	12,622	(707)
Inmobiliaria Viagracia, S.A.	100.00	-	100.00	23,230	107,530	106,211	2,894
Intermediación y Servicios Tecnológicos, S.A.	99.50	0.50	100.00	1,203	4,328	1,489	247
Inversiones Inmobiliarias Alprosa, S.L.	68.25	31.75	100.00	64,566	260,809	88,149	918
Inversiones Inmobiliarias Canvives, S.A.	100.00	-	100.00	-	2,056,079	(191,296)	(98,475)
Inversiones Inmobiliarias Cedaceros, S.A.	-	100.00	100.00	-	85,593	(23,993)	(19,809)
Inversiones Inmobiliarias Gercebio, S.A.	-	100.00	100.00	-	31,439	(9,613)	(1,988)
Inversiones Inmobiliarias Jeráguilas, S.A.	-	100.00	100.00	-	16,548	(11,004)	(19,337)
Inversiones Inmobiliarias Tamadaba, S.A.	100.00	-	100.00	-	43,405	(7,606)	(1,390)
Isla de los Buques, S.A.	99.98	0.02	100.00	61	536,682	1,300	(302)
Manberor, S.A.	-	100.00	100.00	-	90,734	(37,450)	(37,503)
Meglahe, S.A.	-	100.00	100.00	51	51	51	(2)
Naviera Cañada, S.L.	100.00	-	100.00	-	-	-	-
Naviera Islas Cies, S.L.	100.00	-	100.00	132	86,583	135	-
Pastor Participaciones Preferentes, S.A.	100.00	-	100.00	217	12,974	430	212
Popular Arrendamento - FIIF para Arrendamento Habitacional	84.42	15.58	100.00	99,566	99,696	99,490	(419)
Popular Capital, S.A.	90.00	10.00	100.00	90	148,816	33,435	352
Popular Cards, S.A.	100.00	-	100.00	60	59	59	-
Popular de Mediación, S.A.	100.00	-	100.00	2,081	4,968	2,085	(15)
Popular Español Asia Trade, Ltd.	100.00	-	100.00	-	6	-	-
Read Leaf Holding	100.00	-	100.00	57,913	57,267	58,466	(2,165)
Residencial Valdemar, S.L.	-	100.00	100.00	-	17,836	(14,159)	1,027
Total Sunset Inc.	-	100.00	100.00	-	-	-	-
Urbanizadora Española, S.A.	7.19	90.55	97.74	11,472	13,431	13,423	170
Velázquez 34, S.A.	97.80	2.20	100.00	-	76,760	(7,522)	(3,782)
Non-financial companies:							
Cercebelo Assets, S.L.	100.00	-	100.00	-	996	(393)	(352)
Eurovida, S.A. (Portugal)	84.07	15.93	100.00	69,370	864,106	89,079	28,668
Finisterre, S.A.	-	87.10	87.10	-	-	-	-
General de Terrenos y Edificios Servicios Integrales, S.L.	-	100.00	100.00	5	8,682	895	(617)
General de Terrenos y Edificios, S.L.	100.00	-	100.00	25,153	54,457	23,223	(2,817)
Gestora Inmobiliaria La Toja, S.A.	89.71	10.29	100.00	894	1,603	1,467	(26)
La Toja, S.A.	-	87.10	87.10	-	-	-	-
Pastor Vida, S.A.	100.00	-	100.00	67,290	250,765	91,527	42,297
Popular de Renting, S.A.	100.00	-	100.00	3,005	75,013	13,760	2,099
Popular Seguros, S.A.	-	100.00	100.00	7,500	15,912	9,137	242
Promoción Social de Viviendas, S.A.	-	91.84	91.84	554	657	657	1
Vilamar Gestión, S.L.	-	100.00	100.00	2,293	195,916	1,094	(4,655)

Royal Decree Law 4/2014 of 8 March 2014 extended through 2014 the applicability of the provisions of section 1 of Additional Provision 1 of Royal Decree Law 10/2008 of 12 December in relation to the calculation of losses from the impairment of real estate assets in the event of the mandatory reduction of share capital in public limited companies and the dissolution of public and private limited companies. The above provisions were renewed for 2013 under Royal Decree Law 3/2013 of 22 February.

On the date of the presentation of these consolidated financial statements, although Royal Decree Law 4/2014 was in force at 31 December 2014, the above has not been applied again for financial year 2015. The Group shall adopt the relevant measures to ensure that the various companies suitably fulfil the provisions of the Corporate Enterprises Act.

On the level of individual financial statements, the necessary adjustments have been made to investments in subsidiaries which are eliminated in the consolidated process. Participating loans have also been granted when necessary.

2014

In April 2014, the subsidiary Fundo Popular Predifundo was included in the scope of consolidation; Banco Popular Group holds a 62.62% stake in this real-estate fund located in Portugal, with a portfolio value of €8.346 million.

In June 2014, pursuant to the agreement to purchase the card and retail business of Citibank España, 100% of Citi Mediador, A.I.E., Citi Recovery, S.A.U.and securitisation vehicle IM Tarjetas 1, F.T.A. were acquired by Bancopopular-e S.A. The first two changed their name to Popular-e Cobros A.I.E and the second to Popular-e Operador de Banca Seguros Vinculado, S.A.U.

On 30 September 2014, the final agreement for the sale of 51% of Bancopoular-e, S.A. was signed, including the aforementioned companies (Popular-E Cobros A.I.E., Popular-e Operador de Banca Seguros Vinculado, S.A.U. and securitisation vehicle IM Tarjetas 1, FTA). Prior to this date, both Bancopopular-e, S.A. and its companies had been considered subsidiaries and consolidated within the Banco Popular Group under the full consolidation method. From 14 September, Bancopopular-e S.A. became a joint venture, as did its subsidiaries and are now accounted for using the equity method.

In December 2014, 51% of Hercepopular, S.L. a real estate company, was purchased for a sum of €3.231 million.

As regards derecognition, the bonds vehicle IM Cédulas Grupo Banco Popular 1, F.T.A. was liquidated on account of its legal maturity in February, as was IM Cédulas Grupo Banco Popular 5 F.T.A. in May. In June, the real estate company Finisterre, S.A. was derecognised from the scope of consolidation due to its sale. Furthermore, in June, due to the sale of rights to future receivables from marketing pensions plans and home insurance, prior to the conversion of Popular Cards S.A. into Inversiones Colina S.A., its sale was completed, with the Group retaining 1% of its capital. In July, PBP Cartera Premium S.I.C.A.V. S.A. was derecognised from the scope of consolidation due to its sale.

2013

In March 2013, with the backing of a portfolio of loans to SMEs, the IM Grupo Banco Popular Empresas 5, FTA securitisation fund was formed, which issued bonds totalling €2,650 million. Popular Card, S.A. 100% owned by the Bank and with a portfolio value of €60 thousand, was incorporated in June. In October 2013, asset securitisation funds GC FTPYME Pastor 4 and EDT FTPYME Pastor 3 were included in the Group's scope; formerly part of Banco Pastor, they had been accounted at the net value of their issues held by third parties. In December, Banco Pastor, S.A.U., formerly called Banco Popular Pastor, S.A. was included in the scope and part of the business in Galicia, which was segregated from Banco Popular Español, S.A., was transferred to it en bloc.

With regard to disposals, in February 2013 the asset securitisation funds IM Banco Popular FPYME 2, FTA, IM Banco Popular FPYME 3, FTA, IM Grupo Banco Popular Empresas 4, FTA and IM Grupo Banco Popular Empresas 3, FTA were liquidated following the early redemption of the various series of bonds issued that were outstanding at the time and held by the Group.

In October, Bolshispania, S.A. S.I.C.A.V. and Inverpastor, S.A. S.I.C.A.V exited the Group's consolidation scope after merging with investment funds of Popular Banca Privada, S.A. In October the asset securitisation fund IM Grupo Banco Popular Leasing 2 FTA was derecognised due to early redemption, as was Pastor Representaciones Brasil, which was absorbed by BPE Representações e Participações, Ltda. Both companies are representative offices. December witnessed the liquidation of BPE Finance International, Ltd.., a company which was no longer operative after redeeming its issuances in June 2013.

Subsidiary companies were consolidated using the proportionate consolidation method. Consequently all material balances and transactions between these companies and the other companies in the Group have been eliminated in consolidation. Similarly, third-party holdings in the Group's equity are presented under Non-controlling Interests on the consolidated balance sheet and the part of results for the year attributable to them is presented under Results attributable to non-controlling interests in the consolidated profit and loss account.

The results of the entities acquired by the Group during the year are consolidated taking into account only those results for the period between the date of acquisition and year end. Similarly, the results generated by the entities sold by the Group in the year are consolidated taking into account only those results for the period running from the beginning of the year to the date of sale.

The financial statements of the companies added to the Group's consolidation related in all cases to 31 December 2014 and 2013, respectively.

Joint ventures

Joint ventures are contractual agreements whereby two or more members undertake an economic activity that is subject to joint control, and in which the parties in joint control hold rights over the net assets thereof. A member of a joint venture shall recognise its share in that venture as an investment and shall account for the investment using the equity method pursuant to IAS 28 - “Investments in associates and joint ventures”.

Pursuant to IFRS 11, effective January 2014 these companies are now consolidated under the equity method, whereas previously they had been consolidated under the proportionate consolidation method.

Joint ventures at the end of 2014 were as follows:

At 31 December 2014	Address		Activity
Joint ventures			
Aliseda Servicios de Gestión Inmobiliaria, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate management
Bancopopular-e, S.A.	Velázquez, 34	Madrid	Banking
IM Tarjetas 1, F.T.A.	Plaza Pablo Ruiz Picasso, 1	Madrid	Asset securitisation fund
Inverlur Águilas I, S.L.	Av. Libertad, 3	San Sebastián	Real estate development
Inverlur Águilas II, S.L.	Av. Libertad, 3	San Sebastián	Real estate development
Popular-e Cobros A.I.E.	Av. Europa, 19. Alcobendas	Madrid	Finance special purpose entity
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	Av. Europa, 19. Alcobendas	Madrid	Finance special purpose entity
Saite, S.A.	Cantón Pequeño, 1	A Coruña	Concession operator
Saite-Cobal, S.A.	Plaza de Ángel Carbajo, 6	Madrid	Real estate development
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	J. Ortega y Gasset, 22	Madrid	Means of payment
Targobank, S.A.	Claudio Coello, 123	Madrid	Banking
Targoinmuebles, S.A.	Claudio Coello, 123	Madrid	Real estate development

At 31 December 2014	% of voting rights			Carrying amount	Assets	Shareholders' Equity	
	Direct	Indirect	Total			Total	Of which, earnings
Joint ventures							
Aliseda Servicios de Gestión Inmobiliaria, S.L.	49.00	-	49.00	108,774	805,629	299,441	77,899
Bancopopular-e, S.A.	49.00	-	49.00	211,995	2,582,227	589,363	55,445
IM Tarjetas 1, F.T.A.	-	49.00	49.00	-	1,169,273	-	-
Inverlur Águilas I, S.L.	-	50.00	50.00	-	510	468	(9)
Inverlur Águilas II, S.L.	-	50.00	50.00	-	1,548	1,480	(14)
Popular-e Cobros A.I.E.	-	49.00	49.00	9	6,005	16	(2)
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	-	49.00	49.00	621	3,407	1,160	4,357
Saite, S.A.	50.00	-	50.00	4,267	25,599	11,180	778
Saite-Cobal, S.A.	-	50.00	50.00	-	7,702	(9,664)	(2,336)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	42.50	-	42.50	4,890	51,267	22,345	575
Targo Bank, S.A.	50.00	-	50.00	129,016	2,359,180	315,493	16,210
Targoinmuebles, S.A.	-	50.00	50.00	225	1,898	138	(281)

The table below sets out information concerning joint ventures for 2013:

At 31 December 2013	Address		Activity
Joint ventures			
Targobank, S.A.	Claudio Coello, 123	Madrid	Banking
Aliseda Servicios de Gestión Inmobiliaria, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate management
Inverlur Águilas I, S.L.	Av. Libertad, 3	San Sebastián	Real estate development
Inverlur Águilas II, S.L.	Av. Libertad, 3	San Sebastián	Real estate development
Platja Amplaries, S.L.	L'Antina, s/n. Oropesa del Mar	Castellón	Real estate development
Saite, S.A.	Cantón Pequeño, 1	A Coruña	Concession operator
Saite-Cobal, S.A.	Plaza de Ángel Carbajo, 6	Madrid	Real estate development
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	J. Ortega y Gasset, 22	Madrid	Means of payment
Targoinmuebles, S.A.	Claudio Coello, 123	Madrid	Real estate development

At 31 December 2013	% of voting rights			Carrying amount	Assets	Shareholders' Equity	
	Direct	Indirect	Total			Total	Of which, earnings
Joint ventures							
Targobank, S.A.	50.00	-	50.00	129,016	2,413,884	303,894	19,050
Aliseda Servicios de Gestión Inmobiliaria, S.L.	49.00	-	49.00	73,494	880,708	149,541	(447)
Inverlur Águilas I, S.L.	-	50.00	50.00	-	502	472	(8)
Inverlur Águilas II, S.L.	-	50.00	50.00	-	1,530	1,480	(18)
Platja Amplaries, S.L.	-	25.00	25.00	-	262,912	(23,960)	(8,916)
Saite, S.A.	50.00	-	50.00	4,266	25,302	10,362	1,050
Saite-Cobal, S.A.	-	50.00	50.00	-	13,696	(7,328)	(1,484)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	42.50	-	42.50	4,890	45,880	23,428	593
Targoinmuebles, S.A.	-	50.00	50.00	225	756	418	(32)

2014

On 30 September 2014, an agreement was signed to sell 51% de Bancopoular-e, S.A., (including its subsidiaries Popular-e Cobros A.I.E., Popular-e Operador de Banca Seguros Vinculado, S.A.U, and the securitisation vehicle IM Tarjetas 1, FTA), to that date both Bancopopular-e, S.A. and its companies had been considered subsidiaries and were consolidated within the Group under the full consolidation method. From September, Bancopopular-e, S.A. and its subsidiaries became a joint venture and were consolidated under the equity method.

In December 2014, real estate promotion company Platja Amplaries, S.L. was derecognised from the scope of consolidation on account of its sale

2013

In December 2013 Aliseda Servicios de Gestión Inmobiliaria, S.L, a jointly-controlled company 49% owned by the Bank, was incorporated as a result of the agreement with Värde Partners and Kennedy Wilson to set up a joint enterprise responsible for managing the real-estate business. The Company is responsible for managing foreclosed assets and certain loans used in the Popular Group's promotion and construction activities.

Concerning departures from the consolidation scope, in October 2013 the GAT FTGENCAT 2005, FTA securitisation fund ceased to be consolidated after the early redemption of outstanding bonds.

The accounting information of these companies used for consolidation was related in all cases to 31 December 2014 and 2013, respectively.

The figures in the table showing assets and equity refer to the total for the company, regardless of the percentage included in the consolidation process.

Associates

Associates are investee companies in which the Group exercises significant influence. This significant influence generally, although not exclusively, takes the form of a shareholding, held directly or indirectly through another or other Investee companies, of 20% or more of the investee company's voting rights. Associates were consolidated under the equity method. Therefore investments in associates were valued at the fraction represented by the Group's holding in their capital net of dividends received from them and other balance sheet eliminations. The results on transactions with an associate are eliminated in the proportion to the Group's holding therein. If losses cause an associate to have negative equity for accounting purposes, in the Group's consolidated balance sheet, it is presented with a zero value unless the Group has the obligation to support it financially.

2014

In January 2014, the associate Sistema 4B S.A. was liquidated on account of its segregation into four companies (Sistema 4B S.L., Aevis Europa S.L., Master Red Europa S.L., and Gestora Patrimonial c/ Francisco Sancha, 12 S.L.) that proportionally assumed its assets and liabilities, with Banco Popular Group retaining the same interest and investment percentages.

In February 2014, Euro Automatic Cash Entidad de Pago S.L. was incorporated under the agreement with Euro Information, a subsidiary of Crédit Mutuel CIC, to jointly develop the ATM business in Spain, under its control.

An additional step in the Group's geographical diversification strategy was taken in September 2014 with the purchase of a 24.99% stake in the Mexican financial group Ve Por Más S.A. de C.V. for a portfolio value of €101.551 million, following the agreements reached in December 2013 and the fulfilment of the conditions precedent related to the transaction in 2014.

In May 2014, Nuevo Agora Centro de Estudios, S.L. was sold, as were Ronáutica Marinas Internacional, S.A. and Inversiones Area Sur S.L. in December.

We continue to believe the Group has significant influence in Metrovacesa, S.A., as the same conditions existing in December 2013 remained in 2014.

2013

In November 2013 Universal Pay Entidad de Pago, S.L. was incorporated under the agreement with EVO Payments Internacional to jointly develop in Spain, under its control, the business of payment services through point-of-sale terminals in retail outlets.

In August 2013 Pérez Torres Handling, S.A. was sold for a profit of €12 thousand and in October Mercavalor S.V., S.A. was sold, generating a loss of €1,165 thousand.

In 2013, the Group increased its interests in Metrovacesa, S.A. by 0.67% and held a 12.64% stake.

Even though the Group's stake does not reach 20%, we believe that we exercise significant influence pursuant to IAS 28.7. Specifically, this conclusion is on account of the following:

- Presence on the Board (1 place on a Board with fewer members than in 2012, as in mid-2013 the number of directors was reduced from 9 to 8).
- Participation in policy making processes.
- Relatively important transactions between the investor and the investee.

Relevant information on associates as of 31 December 2014 is as follows:

At 31 December 2014	**Address**		**Activity**
Associates			
Aevis Europa, S.L.	Francisco Sancha, 12	Madrid	Means of payment
Allianz Popular, S.L.	Pº Castellana, 39	Madrid	Insurance
Amarres Deportivos, S.L.	Av. Av. Jaume III, 11	Palma de Mallorca	Operation of marinas
Aviación Intercontinental, A.I.E	Av. Cantabria s/n. B. del Monte	Madrid	Finance special purpose entity
Euro Automatic Cash Entidad de Pago, S.L.	Abelias, 1	Madrid	Payment entity
Fotovoltaica Monteflecha, S.L.	Curtidores, 2	Palencia	Photovoltaic energy
Gestora Patrimonial c/Francisco Sancha, 12	Francisco Sancha, 12	Madrid	Means of payment
Grupo Financiero Ve por Más S.A. de CV.	Paseo de la Reforma, 365. Cuauhtemoc DF	Mexico	Financial services
Inversiones en Resorts Mediterráneos, S.L.	Av. Teniente Montesinos, 10	Murcia	Real estate development
Master Red Europa, S.L.	Francisco Sancha, 12	Madrid	Means of payment
Metrovacesa, S.A.	Quintanavides, 13	Madrid	Real estate development
Puertos Futuros, S.L.	Cantón Pequeño, 1	A Coruña	Operation of marinas
Sistema 4B, S.A.	Francisco Sancha, 12	Madrid	Means of payment
Trindade Fundo de Investimento Imobiliario Fechado	Av. da República, 35	Lisbon	Real estate development
Universal Pay Entidad de Pago, S.L.	Abelias, 1	Madrid	Payment entity

At 31 December 2014	% of voting rights					Shareholders' Equity	
	Direct	Indirect	Total	Carrying amount	Assets	Total	Of which, earnings
Associates							
Aevis Europa, S.L.	27.54	-	27.54	92	1,095	949	2
Allianz Popular, S.L.	40.00	-	40.00	11,063	1,054,590	216,112	91,686
Amarres Deportivos, S.L.	-	40.90	40.90	-	32,268	(437)	-
Aviación Intercontinental, A.I.E	35.00	-	35.00	19,210	247,641	73,616	5,460
Euro Automatic Cash Entidad de Pago, S.L.	50.00	-	50.00	30,144	92,893	73,661	13,373
Fotovoltaica Monteflecha, S.L.	-	4.05	4.05	342	30,652	12,930	608
Gestora Patrimonial c/Francisco Sancha, 12	27.54	-	27.54	1,443	20,662	18,706	435
Grupo Financiero Ve por Más S.A. de CV.	24.99	-	24.99	100,775	1,771,950	231,506	3,105
Inversiones en Resorts Mediterráneos, S.L.	-	20.98	20.98	-	578,052	(624,366)	-
Master Red Europa, S.L.	27.54	-	27.54	92	1,045	963	10
Metrovacesa, S.A.	12.64	-	12.64	202,355	5,202,700	1,719,470	(404,829)
Puertos Futuros, S.L.	-	49.00	49.00	-	143	143	(4)
Sistema 4B, S.A.	27.54	-	27.54	337	151,425	1,118	274
Trindade Fundo de Investi-mento Imobiliario Fechado	-	50.00	50.00	21,420	50,255	44,089	(140)
Universal Pay Entidad de Pago, S.L.	50.00	-	50.00	36,508	100,098	78,153	4,672

The table below sets out information on associates for 2013:

At 31 December 2013		Address	Activity
Associates			
Allianz Popular, S.L.	Pº Castellana, 39	Madrid	Insurance
Amarres Deportivos, S.L.	Av. Av. Jaume III, 11	Palma de Mallorca	Operation of marinas
Aviación Intercontinental, A.I.E.	Av. Cantabria s/n. B. del Monte	Madrid	Finance special purpose entity
Fotovoltaica Monteflecha, S.L.	Curtidores, 2	Palencia	Photovoltaic energy
Inversiones Área Sur, S.L.	Acera del Darro, 30	Granada	Real estate development
Inversiones en Resorts Mediterráneos S.L.	Av. Teniente Montesinos, 10	Murcia	Real estate development
Metrovacesa, S.A.	Quintanavides, 13	Madrid	Real estate development
Nuevo Ágora Centro de Estudios, S.L.	Foronda 6, Planta Baja	Madrid	Teaching
Puertos Futuros, S.L.	Cantón Pequeño, 1	A Coruña	Operation of marinas
Ronáutica Marinas Internacional, S.A.	García Olloqui, 6	Vigo	Services
Sistema 4B, S.A.	Francisco Sancha, 12	Madrid	Means of payment
Trindade Fundo de Investimento Imobiliario Fechado	Av. da República, 35	Lisbon	Real estate development
Universal Pay, S.L.U.	Abelias, 1	Madrid	Payment entity

At 31 December 2013	% of voting rights			Carrying amount	Assets	Shareholders' Equity	
	Direct	Indirect	Total			Total	Of which, earnings
Associates							
Allianz Popular, S.L.	40.00	-	40.00	11,063	1,018,338	1,018,341	70,853
Amarres Deportivos, S.L.	-	40.9	40.9	-	29,800	(2,760)	(2,322)
Aviación Intercontinental, A.I.E.	35.00	-	35.00	19,210	256,879	70,071	4,989
Fotovoltaica Monteflecha, S.L.	-	4.05	4.05	7,262	30,339	12,838	745
Inversiones Área Sur, S.L.	-	50.00	50.00	11,650	275,361	25,052	(2,525)
Inversiones en Resorts Mediterráneos S.L.	-	20.98	20.98	-	607,713	(647,416)	(23,050)
Metrovacesa, S.A.	12.64	-	12.64	253,526	6,977,500	1,500,473	(107,700)
Nuevo Ágora Centro de Estudios, S.L.	-	30.86	30.86	25,738	134,324	60,104	767
Puertos Futuros, S.L.	-	49.00	49.00	-	153	143	(5)
Ronáutica Marinas Internacional, S.A.	-	22.10	22.10	4,627	4,343	4,051	-
Sistema 4B, S.A.	27.42	-	27.42	2,434	55,058	21,328	1,477
Trindade Fundo de Investimento Imobilia-rio Fechado	-	50.00	50.00	22,117	53,431	44,369	(2,884)
Universal Pay, S.L.U.	50.00	-	50.00	36,508	105,708	73,757	741

The best available information from associates was used when preparing the Group consolidation at 31 December 2014, as the associates' accounts at 31 December were not available in all cases, except for Sistema 4B, S.L., Aevis Europa, S.L., Master Red Europa,S.L., Gestora Patrimonial c/Francisco Sancha, 12, S.L., Trindade Fundo de Investimento Inmobiliario Fechado y Fotovoltaica Monteflecha, S.L. for which the statements at 30 November 2014 were used.

In 2013 the financial statements at 31 December of all associates were used except for the companies Sistema 4b, S.A., Trindade Fundo de Investimento Inmobiliario Fechado and Fotovoltaica Monteflecha, S.L., for which the statements at 30 November 2013 were used.

Note 8 includes information about the most significant acquisitions and disposals, respectively, that have taken place during the year with respect to investments in subsidiaries, joint ventures and associates: in 2014 these arose under agreements for the joint development of services and sale of services, and in 2013 they resulted from agreements for the joint development of services and sale of the management of the real estate business. Given that the accounting principles and standards and valuation criteria used in the preparation of the Group's consolidated financial statements for 2014 and 2013 may differ from those used by some of the subsidiaries, joint ventures and associates included in the Group, the necessary significant adjustments and reclassifications have been made on consolidation in order to ensure consistency with respect to accounting principles and measurement standards.

d) Comparability

The balance sheet, profit and loss account, statement of changes in equity and cash flow statement models used in the consolidated annual financial statements are those provided for in the Spanish National Securities Market Commission Circular 1/2008 and Banco de España Circular 4/2004.

As explained in Note 2.a), IFRS 11 "Joint arrangements" came into force on 1 January 2014. Amongst the changes made, the option of consolidating joint ventures, previously a possibility under the standard either by means of proportionate consolidation or the equity method of participation is no longer permitted, with the former option no longer available.

With respect to contributions to the Deposit Guarantee Fund, as mentioned in Note 3.a), and the entry into force of IFRS 11 mentioned in the previous paragraph, and in order to provide comparative information on the same basis, a restatement of the comparative figures for 2013 in the consolidated balance sheet, in the consolidated profit and loss accounts, in the consolidated statement of revenue and expenditure, in the consolidated statement of changes in equity, in the consolidated cash flow statement and in the notes of this annual report has been carried out.

Annex V provides quantitative information regarding the impact of these changes to accounting standards and principles in which the published consolidated balance sheet at 31 December 2013 and the consolidated profit and loss account at 31 December 2013 are compared and figures restated.

There have been no additional amendments to standards or regulations in 2014 which have affected the comparability of the Group's financial information, except as mentioned in Note 3.a).

3. TREATMENT OF ACCOUNTING ESTIMATES, CHANGES IN ACCOUNTING PRINCIPLE AND ERROR CORRECTION

The information contained in the consolidated financial statements is the responsibility of the Directors of Banco Popular Español, S.A.

Estimates have been used, where appropriate, in these consolidated financial statements, in the measurement of certain assets, liabilities, revenues, expenses and commitments. These estimates have been made by the Senior Management of the Bank and investee companies and ratified by the Directors. These estimates mainly relate to:

- Impairment losses of certain assets (Note 15.h).
- The actuarial assumptions used in calculating the liabilities and commitments for post-employment compensation (Note 15.p).
- The useful life adopted for items of tangible assets and intangible assets and the measurement of goodwill on consolidation (Notes 15.r and s).
- Fair value of certain unlisted assets (Note 46).
- The reversal period of timing differences for the purposes of their valuation (Note 33).
- Income derived from corporate transactions (Note 8).

In the above notes, the criteria and methodology including, depending on the circumstances, sensitivity analysis in the relative estimates regarding the valuation of goodwill and pension obligations are described.

Since such estimates have been calculated on the basis of the best information available at 31 December 2014 concerning the items involved, events may arise in the future that make it necessary to change them in forthcoming financial years. Any such modification will, in any event, be made prospectively, recognising the effects of the change in estimate in the relevant consolidated profit and loss account.

When applying the entity's accounting principles, management has made several judgements, other than those relating to estimates, which may have a significant impact on the amounts recognised in the financial statements. Specifically, management has made professional judgements to determine:

- if certain financial assets are held-to-maturity portfolio;
- when all the significant risks and rewards of ownership of financial assets and leased assets have been substantially transferred to other entities;
- if, owing to their economic substance, certain asset sales are financing arrangements and therefore do not generate ordinary revenue; and
- if the economic substance of the relationship between the Group and a special purpose entity indicates that the latter is controlled by the Group.

a) Changes in accounting principles and error correction

In the continuous improvement process certain accounting principles have been revised in order to improve presentation and reflect the actual economic substance of the Group's transactions.

IFRS 11 "Joint arrangements" came into force on 1 January 2014. Amongst the changes made, the option of consolidating joint ventures, previously a possibility under the standard, whether by means of proportionate consolidation or the participation method is no longer permitted, with the former option no longer available. This change in standard has not resulted in a significant impact on balance sheet or results.

On 13 June 2014, the European Commission issued Regulation 634/2014 where IFRIC 21 interpretation is adopted in relation to the criteria for determining the accrual of taxes based on the time the obligation of payment thereof arises. The adoption of IFRIC by the European Commission was followed by a clarification by the Banco de España and the Spanish National Stock Market Commission in the last quarter of 2014 of the sectorial interpretation of that regulatory reference with respect to annual ordinary contributions to the Deposit Guarantee Fund, and extraordinary contributions to it, as laid down by Royal Decree-Law 6/2013. This revised interpretation is shared by the Group, with the resulting change in applicable accounting criteria, which is summarised as follows:

- Expenses for ordinary contributions accrue to the extent the Group provides its services to customers. At year-end, the balance sheet reflects a liability for the contribution, which is paid out in the first month of the following year. The above accounting policy meant recognising the expense for the contribution in the year of its payout.

- The expense for the extraordinary contribution under Royal Decree-Law 6/2013 accrues upon the entry into force of the aforementioned Royal Decree-Law (24 March 2013), as such contribution does not depend on the future activity of the group, and is instead recognised as a liability in full at such date. The above accounting policy involved recognising the expense for the contribution as payouts are made.

The implementation of this interpretation has involved:

The recognition of commitments corresponding to 2013 and settled in 2014, which have been handled as a change in accounting standard pursuant to Rule 8ª of Banco de España Circular 4/2004 and IAS 8, resulting in the restatement of 2013 Income and Reserves with the following changes:

€ thousands	Published	Adjustment	Restated
Deposit Guarantee Fund Contribution	120,866	105,367	226,233
Tax effect	-	(31,611)	-
Impact on Net Results	-	73,756	-
Adjustment in reserves 2013	-	77,267	-
Total impact on Reserves at the end of 2013	-	151,023	-

For the amount payable in the year 2015, the amount recognised at 31 December 2014 was based on the Spanish legislation and interpretation of the rules. When the amount payable to the Guarantee Fund Deposits and the Single European Resolution Fund (in 2015) is determined the estimates are updated and timely accounting records are held.

In 2013 the Group carried out a change in accounting principle as a result of an analysis carried out on insurance contracts and the investment in the company Eurovida Portugal, which under IAS 39 and IFRS 4 led to them being reclassified under "Other financial liabilities designated at fair value through profit or loss" from the heading "Liability under insurance contract", on the grounds that they contain an exclusively financial component.

in 2013 the Group changed its accounting policy for the coupons on its necessarily convertible subordinated bonds into a variable number of shares (MCNs I, III and IV). The purpose of this change was to bring the policy into line with the one applied in the treatment of coupons on the new issuance of "Additional Tier 1" contingently convertible subordinated liability and computable as Tier 1 in accordance with the new CRR capital regulation framework, as the Group considers that the conditions established for the application of said policy are equally applicable.

Due to the application of IAS19, revised, and Banco de España Circular 5/2013, actuarial profit and loss are now disclosed on the balance sheet under the heading Valuation adjustments, where previously they were presented under Reserves.

b) Changes in accounting estimates

As was the case in 2013, in 2014 there have been no changes to accounting estimates.

4. SHAREHOLDER PAYMENT ARRANGEMENTS AND DISTRIBUTION OF RESULTS FOR THE YEAR

At a meeting held on 18 December 2013 the Board of Directors of Banco Popular Español, S.A. approved the recommencement of payments to shareholders suspended in 2012 via the payment of a dividend of €0.04 gross per share in February 2014 using the flexible compensation system "Banco Popular Dividend. A dividend made to measure" which gives shareholders the option to choose between receiving payment in cash, selling the rights obtained in each increase, or through newly issued shares charged to voluntary reserves.

On 29 January 2014, the capital increase conditions by means of which the return on payment of dividends announced on 19 December 2013 were approved and published.

On 17 February 2014 the finalisation of the period for negotiating gratuitous allocation rights relating to the bonus share issuance was notified. This resulted in an increase in paid-in capital of €7,199,811.50 (by means of issuing 14,399,623 new shares at a par value of €0.50 each). Shareholders owning 88.10% of the gratuitous allocation rights chose to receive new shares with the remaining 11.90% choosing the irrevocable commitment to purchase rights undertaken by Banco Popular, receiving cash to be paid out against reserves, with Banco Popular purchasing 245,069,386 rights for a gross total of €9,802,775.44. Banco Popular refused the gratuitous allocation rights thus acquired.

On 7 April 2014, the General Shareholders' Meeting approved four increases in share capital through the issue of shares without a premium, charged against voluntary reserves to be used to remunerate shareholders under the “Banco Popular Dividend: A custom dividend” scheme, with an alternative offer to receive bonus shares or acquire rights at a guaranteed price. By the end of 2014, two of these issues had been finalised:

- On 27 June 2014, the conditions for the first capital increase charged to 2013 reserves were approved and reported to the market. On 15 July 2014, the period for negotiating gratuitous allocation rights ended. This resulted in an increase in paid-in capital of €1,689,428 (by means of issuing 3,378,856 new shares at a par value of €0.50 each) with shareholders holding 86.34% of gratuitous allocation rights having opted to receive new shares. The remaining 13.66% shareholders with gratuitous allocation rights chose to exercise the irrevocable commitment to purchase rights undertaken by Banco Popular, with Banco Popular acquiring 285,525,529 rights for a gross total of €2,855,255.29. Banco Popular refused the gratuitous allocation rights thus acquired.

- On 24 September 2014 the conditions for the second capital increase charged to 2013 reserves were approved and reported to the market. On 13 October 2014, the period for negotiating gratuitous allocation rights ended. This resulted in an increase in paid-in capital of €2,154,460.50 (by means of issuing 4,308,921 new shares at a par value of €0.50 each) with shareholders holding 85.09% of gratuitous allocation rights having opted to receive new shares. The remaining 14.91% shareholders with gratuitous allocation rights chose to exercise the irrevocable commitment to purchase rights undertaken by Banco Popular, with Banco Popular acquiring 312,503,923 rights for a gross total of €3,750,047.08. Banco Popular refused the gratuitous allocation rights thus acquired.

The proposed distribution of the result for 2014 that the Board of Directors of Banco Popular Español, S.A. will submit to the General Meeting of Shareholders for approval, and the distribution of the profit for 2013 that was approved at the General Meeting of Shareholders on 7 April 2014, is as follows, with amounts stated in euros:

	2014	2013
Profit/loss for the year	476,692,434.60	341,503,952.00
Distribution:		
Interim dividends	-	-
Return on subordinated equity instruments	10,533,898.33	40,257,756.29
Statutory reserve	-	-
Voluntary reserves and other	466,158,536.27	301,246,195.71
Profit/Loss distributed	476,692,434.60	341,503,952.00

(*) Figures without restatement

5. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profits attributed to the Group for the year by the weighted average number of shares in that year, excluding, where appropriate, the treasury shares held by the Group during that year.

	2014	2013
Net profit/(loss) for the year (€ thousands)	330,415	251,543
Weighted average number of shares less treasury shares (thousand)	2,075,088	1,704,559
Basic earnings per share (euros)	0.159	0.148

Basic earnings per share in the financial statements originally drawn up for 2013 were €0.91 per share.

Diluted earnings per share are calculated in a manner similar to basic earnings per share but the weighted average number of shares is adjusted to take into account the potential dilution effect of stock options, warrants and convertible debt in effect at the year end.

At 31 December 2014, the only instruments with a potential dilution effect were necessarily convertible subordinated bonds and debentures. The two issues concerned relate to 2012.

At 31 December 2013, the only instruments with a potential dilution effect were necessarily convertible subordinated bonds and debentures, being four issues that relate to 2012. (see Note 35, Subordinated liabilities section,and Note 41, Other equity instruments section).

	2014	2013
Net profit/(loss) for the year (€ thousands)	330,415	251,543
Financial cost of mandatory convertible issues	1,354	11,792
Adjusted profit/(loss)	331,769	263,335
Weighted average number of shares less treasury shares (thousand)	2,075,088	1,704,559
Average number of shares owing to bond conversion	40,117	223,473
Adjusted total average number of shares to calculate diluted earnings (units)	2,115,205	1,928,032
Diluted earnings per share (euros)	0.157	0.137

Diluted earnings per share under the financial statements originally drawn up for 2013 were €0.175 per share.

6. TIER I CAPITAL

New prudential requirements set out by the European Union were applied for the first time in 2014. These requirements see the introduction of the Basel III solvency standards into the European legal framework.

Basel III is based on Basel II (Directive 2006/48/EC and Directive 2006/49/EC, adaptation to which in Spain was set out in the Banco de España Circular 3/2008, amending a number of its elements and, in particular, introducing new prudential tools. Basel III has been implemented into European legislation under Directive 2013/36/EC of 26 June 2013 (known as CRD IV, already reflected in Spanish legislation as Law 10/2014 on the planning, supervision and solvency of credit institutions, to be developed at a later date via Royal Decree and Banco de España circular) and Regulation (EU) 575/2013 of 26 June 2013 (known as CRR, which is directly applicable in Member States).

The new Basel III agreement has introduced the following requirements:

- Increased quality of capital to ensure greater capacity to absorb losses.
- Formation of capital buffers in good phases of the cycle that can be applied in times of stress.
- Increased level of capital requirements, to strengthen the solvency of institutions and contribute to greater financial stability.
- Introduction of a leverage ratio as a complementary measure to the risk-based capital requirements.

To fulfil the above-mentioned requirements, a series of measures have been taken; the first of which was to establish two tiers of capital, Tier one capital (Tier 1) and Tier two capital (Tier 2).

Tier one includes ordinary capital and corresponds to Common Equity Tier 1 (CET1), whilst Tier two is higher quality and corresponds to Additional Tier 1 (AT1).

Furthermore, the minimum thresholds required have been amended by the introduction of a new minimum capital requirement based on ordinary Tier 1 capital (CET1) which was initially set at 4.5% but will increase to 7% after full implementation of the capital preservation buffer. The timetable for implementation sets the capital preservation buffer at 0.625% for 2016, 1.25% for 2017 and 1.875% for 2018 before reaching the definitive 2.5% on the 1st of January 2019.

The total Tier 1 capital requirement (ordinary plus additional, CET1 + AT1) is set at 6%, with the total capital requirement (Tier 1 plus Tier 2) set at 8%. This preserves the original requirement set down previously under Basel II.

As regards the structure of each Tier of capital, their component elements, generally speaking, are as follows:

- Ordinary Tier 1 capital (CET1)
    - Ordinary shares issued by the bank that meet the criteria for classification as ordinary shares for regulatory purposes (or the equivalent for non-joint stock companies);
    - Share premiums arising from the issue of instruments included in ordinary Tier 1 capital;
    - Retained earnings;
    - Other accumulated (total) comprehensive income and other disclosed reserves;
    - Ordinary shares issued by consolidated subsidiaries of the bank and held by third parties (i.e. minority investments) that meet the criteria for inclusion in ordinary Tier 1 capital;
    - Regulatory adjustments applied in the calculation of ordinary Tier 1 capital:
        - Goodwill (net of related tax liabilities);
        - Other intangibles (net of related tax liabilities);
        - Deferred tax assets that are dependent on future profitability of the bank, excluding those arising from temporary differences (net of related tax liabilities);

- O Cash flow hedge reserves;
- O Shortfall of provisions for expected losses;
- O Profit on sales related to securitisation transactions (pursuant to the description in paragraph 562 of the Basel II framework);
- O Profit and losses due to changes in own credit risk on fair valued financial liabilities;
- O Net defined benefit pension fund assets;
- O Investment in treasury shares;
- O Reciprocal cross-investments in ordinary capital;
- O Non-significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of allowable short positions, when such investments exceed the threshold of 10% of the bank's CET1;
- O Significant investments in the ordinary capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of allowable short positions, when such investments exceed certain individual and joint CET1 thresholds with tax assets deferred from the following point;
- O Deferred tax assets arising from temporary differences (net of related tax liabilities) when such assets exceed certain individual and joint CET1 thresholds with significant investments from the previous point;
- O Amounts exceeding the 15% threshold
  - Of which: significant investment in the ordinary capital of financial institutions.
  - Of which: Mortgage servicing rights.
  - Of which: Deferred tax assets arising from temporary differences.
- O Specific national regulatory adjustments.
- O Regulatory adjustments applied to ordinary Tier 1 capital due to shortfalls in additional Tier 1 and Tier 2 capital to cover deductions.

▪ Additional Tier 1 capital (AT1)

- Instruments issued by the bank that meet the criteria for inclusion in additional Tier 1 capital (and are not included in ordinary Tier 1 capital);
- Share premiums arising from the issue of instruments included in additional Tier 1 capital;
- Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in additional Tier 1 capital and are not included in ordinary Tier 1 capital;
- Regulatory adjustments applied in the calculation of additional Tier 1 capital:
  - O Investment in own instruments included in additional Tier 1 capital;
  - O Reciprocal cross-investments in instruments included in additional Tier 1 capital;
  - O Non-significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of allowable short positions, when such investments exceed the threshold of 10% of the bank's CET1;
  - O Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of allowable short positions);
  - O Specific national regulatory adjustments;
  - O Regulatory adjustments applied to additional Tier 1 capital due to shortfalls in Tier 2 capital to cover deductions;

▪ Tier 2 capital

- Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital);
- Share premiums arising from the issue of instruments included in Tier 2 capital;
- Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital;
- Certain credit loss provisions;

- Regulatory adjustments applied in the calculation of Tier 2 capital:
  - O Investment in own instruments included in additional Tier 2 capital;
  - O Reciprocal cross-investments in instruments included in additional Tier 2 capital;
  - O Non-significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of allowable short positions, when such investments exceed the threshold of 10% of the bank's CET1;
  - O Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of allowable short positions);
  - O Specific national regulatory adjustments.

Although to a lesser extent, improvements in risk capture, the capital ratio denominator, are also set up, such improvements take a particularly tough approach to risk arising from the financial instruments held for trading that involves reviewing the weighting of its exposures, securitisations and instruments exposed to counterparty risk associated with derivatives.

As regards the leverage ratio according to the CRR, it has been included in Basel III, and reflected in the CRR, as a simple, transparent measure that is not associated to risk, which serves to complement the minimum risk-based capital ratio and acts as its floor.

This ratio is defined as the quotient between Tier 1 capital and an exposure value. This value is calculated as the sum of exposures within and outside the balance, including derivatives. The leverage ratio according to CRR serves as an objective means that facilitates the conciliation of leverage ratios published by banks in financial statements from one period to the next.

Although the leverage ratio definition and calibration does not enter into force until 2018, the Group estimates and monitors this measure to ensure the leverage remains a significant distance from the tentative minimum levels that currently serve as a benchmark (3%).

The new regulatory framework will be gradually introduced prior to its full implementation in 2019. As part of this process the regulation requires compliance with a number of transitory provisions.

The Group has developed a capital plan for the coming years as well as a set of procedures established to monitor its solvency levels, in order to ensure the sufficiency of its own funds in relation to its risk profile at all times. This planning is based, among other premises, on regular monitoring of the macroeconomic situation and on strategic decisions contained in the Business Plan, and is supported by a system of measurement, planning and control that alert to its needs under ordinary and stressful conditions so that preventive action can be taken. To this end, in addition to the tools already available, the bank has a Capital Committee that will ensure compliance with the aforementioned objectives.

As regards the data obtained this year on own funds, a comparison with 2013 under Basel III is set out below:

€ thousands	**2014**	**2013**
Ordinary Tier 1 capital (CET1)	9,217,570	9,404,025
Tier 1 capital	9,217,570	9,404,025
Tier 2 capital	365,303	362,161
Total eligible equity	9,582,873	9,766,186
Total minimum capital requirement*	6,409,013	6,728,755

* Strictly includes the Pillar I requirements

The impact on the minimum and eligible equity for 2013 is shown below, demonstrating the difference when applying the calculations set out under Basel II and Basel III:

	Basel II	Basel III	Change
€ thousands	**2013**	**2013**	
Total eligible equity	9,727,835	9,766,186	38,351
Total minimum capital requirement	6,448,608	6,728,755	280,147

AQR 2014

In coordination with national banking supervisory authorities, and in line with the Single Mechanism Regulation (SSM Regulation), the ECB has carried out a comprehensive assessment of the 128 largest European credit institutions which began in October 2013, prior to the assumption by the SSM of its supervisory functions over European credit institutions from 4 November 2014.

This assessment sought to provide transparency on the solvency of the European banking system. It was composed of an exhaustive asset quality review (AQR) and a stress test. The objective was to quantify the possible capital shortfall of each institution prior to the SSM becoming operational, in which the main European banks will be directly supervised by the ECB. In addition, the assessment aimed to provide transparency on the solvency of the European banking system by taking the necessary measures, such as the additional capital needed by some institutions if the results of the assessment should deem it to be necessary.

The results of the comprehensive assessment were published on 26 October 2014:

Impact of AQR adjustments (gross) in millions of EUR:

Gross Impact	2014	Category
Credit risk provisions	(140)	Adjustment in P&L[2]
Extrapolation to other credit risk provisions	(97)	Prudential[1]
Collective provisions	(378)	Prudential[1]
ANCEV provisions	(30)	Adjustment in P&L[2]
CVA	-	Not applicable

(1) Implies that it impacts on regulatory capital, but not on the financial statements.
(2) Before tax effect.

As a result of the above-mentioned adjustments, the CET1 ratio would decrease by 0.57%:

	Scenario	Category
	Baseline	**Adverse**
CET1 phase-in	10.63%	10.63%
(CDRIV/CRR to Dec-13)		
AQR Impact	(0.57%)	(0.57%)
Post-AQR capital	10.06%	10.06%
Stress test impact	0.87%	0.25%
CET1 phased-in	10.93%	7.56%
Excess capital over the minimum requirement	2,485	1,756
TIER 1	12.18%	8.81%
(CDRIV/CRR to Dec-13)	-	-
Total Capital	12.75%	9.40%

One must consider that the AQR is a prudential exercise, although it was based on IAS 39, a simplified model was implemented, therefore differences could arise with the criteria applied by the Entities and hence the Group. With respect to the differences in credit risk provisions, the Banco Popular Group has updated the analysis based on the situation in 2014 for all accredited where differences were identified in the AQR, having done so in provisions dated 31 December 2014, implying that for all selected portfolios, the hedging level is much higher than that required under the Credit File Review (CFR) and also higher than the hedging on 31/12/2013. At year end, none of the borrowers identified in the AQR show a provision shortfall.

With respect to reclassification requirements that amounted to €892 million, the analysis has been revised and the amounts reclassified as non-performing, unless their performance in the past months justified them to remain classified as normal.

With respect to assessment of differences in collective provisions arising from the challenger calculation model used in the AQR process, it should be noted that the bank has continued to apply an internal model that verifies that the provisions recognised by the institution, which are calculated according to accounting standards (based on the Spanish interpretation), are sufficient for those required by a model under IAS 39. As a result of this analysis (for more detail, see Note 15h), it is confirmed that the global provisions recognised by the bank cover IBNR necessities and specific ones. The internal model applied at year-end 2014 has incorporated improvements under IAS 39 and from the recent AQR process.

With respect to differences found in the fair value portfolio for real estate assets, at 31 December 2014 we have recognised at the adjustment reported in the AQR process.

In all cases, it is considered that the amounts recognised based on the situation observed in year 2014, correspond to changes in estimates and are therefore charged to the income statement for the current year.

7. SEGMENT REPORTING

Segment reporting is the basis for analysing and monitoring Banco Popular Group's activities. In 2012 the business segments were redefined and grouped into four business areas. This structure remains in effect in 2013 and 2014, and is described below:

- Commercial Banking: this encompasses the activities conducted by the network of bank branches offices for typical lending transactions, fund-raising, acceptance of off-balance sheet risks and the supply of financial services of all kinds, including factoring and renting. In addition, it has been assigned the goodwill associated with commercial banking.

- Asset Management and Insurance: this comprises asset management activities and the administration of undertakings for collective investment (management of investment funds, portfolios and pension funds) and the activities conducted in life and general insurance by the Portuguese entities Popular de Seguros, S.A. and Eurovida, S.A, as well as the insurance operations carried out in Spain through Allianz Popular, S.L. in which the Group has a 40% interest.

- Real Estate Area: this comprises of the activities of the Group's real estate companies and the real estate activities of the Group's banks, which are managed on an integrated basis to allow for the orderly disposal of real estate assets.

- Institutional and Market Area: the institutional and market area reflects the other activities performed, including most notably asset and liability transactions with credit institutions, the trading portfolios of the banking entities, available-for-sale financial assets, asset and liability hedging derivatives, held-to-maturity portfolio and investments, asset and liability balances arising from pensions, raising of funds in wholesale markets by issues of Euronotes, subordinated debt and capital having the nature of a financial liability and convertible instruments.

Since what is involved is transversal information that in most cases is drawn from one or several of the Group entities in the corresponding segment, aggregation of the whole leads to the consolidated financial statements. For greater clarity, the liability side of the balance sheet includes a separate caption called "Net intra-segment financing", obviously with a zero balance, although some segments present a contra natura sign in order to place all of them at the same level and maintain the total figure in the consolidated balance sheet.

In order to determine results for each business segment in 2014 and 2013, the following criteria were used:

- Internal transfer prices: the average balances of net funding is assigned an interest rate based on market benchmarks to which a differential is added.

- Operating expenses: direct and indirect expenses are allocated to each segment based on the related activity assigned.

- Own funds: these are assigned to each segment on the basis of the risks incurred, calculating the requirements arising from its activity per the supervisory body for each business (Banco de España for commercial banking, Spanish National Securities Market Commission (CNMV) for the asset management business and the Directorate General for Insurance for the Insurance business, all for the business activities in Spain) and that of their equivalent supervisory bodies in the Portuguese market. Having established the appropriate requirements, these are allocated in proportion to the Group's structure i.e. according to capital, reserves, subordinated debt financing and issues of capital having the nature of a financial liability together with the pertinent associated costs. The excess of own funds over the minimum levels required is allocated, like any that cannot be included in other segments, to institutional activities.

Results by business area at 31 December 2014 are as follows:

€ thousands	2014				
	Banking Commercial	Asset Management and Insurance	Area Real Estate	Institutional and Market	Consoli-dated
Net interest income	**2,548,583**	**42,862**	**(376,256)**	**116,202**	**2,331,391**
Net commissions and fees	622,610	32,087	10	-	654,707
+/- Other financial transactions	43,639	47,126	(594)	825,451	915,622
+/- Other operating income/(expense)	(32,579)	(3,410)	16	10,286	(25,687)
Gross margin	**3,182,253**	**118,665**	**(376,824)**	**951,939**	**3,876,033**
Operating costs	1,462,967	26,865	100,362	280,621	1,870,815
Operating income before provisions	**1,719,286**	**91,800**	**(477,186)**	**671,318**	**2,005,218**
Provisioning expenses	(51,396)	3,982	-	2,708	(44,706)
Contingent risks	(51,396)	50	-	-	(51,346)
Additions to provisions	50,862	59	-	-	50,921
Reversals	(102,258)	(9)	-	-	(102,267)
Other Provisions	-	3,932	-	2,708	6,640
Impairment losses on financial assets	1,690,517	1,843	-	16,472	1,708,832
Loans and receivables	1,690,517	315	-	-	1,690,832
Additions to provisions	4,780,804	4,159	-	-	4,784,963
Reversals	(3,090,287)	(3,844)	-	-	(3,094,131)
Other financial instruments not measured at f. value	-	1,528	-	16,472	18,000
Additions to provisions	-	1,528	-	16,561	18,089
Reversals	-	-	-	(89)	(89)
Net operating income	**80,165**	**85,975**	**(477,186)**	**652,138**	**341,092**
Impairment losses on non-financial assets	-	19	(34,435)	4,098	(30,318)
Goodwill and other intangibles	-	-	-	-	-
Additions to provisions	-	-	-	-	-
Reversals	-	-	-	-	-
Other assets	-	19	(34,435)	4,098	(30,318)
Impairment - Investments	-	-	-	4,099	4,099
Additions to provisions	-	-	-	4,099	4,099
Reversals	-	-	-	-	-
Impairment - Tangible assets	-	19	6,335	(1)	6,353
Additions to provisions	-	19	97,606	(1)	97,624
Reversals	-	-	(91,271)	-	(91,271)
Impairment - Inventories	-	-	(40,770)	-	(40,770)
Additions to provisions	-	-	82,540	-	82,540
Reversals	-	-	(123,310)	-	(123,310)
Gains/(losses) on disposal of assets not classified as non-current	493,938	57	21,411	(17,367)	498,039
Profit/(losses) on non-current assets held for sale not classified as discontinued oper.	-	(83)	(480,775)	(15,600)	(496,458)
Gains	-	-	299,399	1,833	301,232
Losses	-	-	345,516	7,703	353,219
Losses on impairment of Non-current assets held for sale	-	83	434,658	9,730	444,471
Additions to provisions	-	83	814,088	13,782	827,953
Reversals	-	-	(379,430)	(4,052)	(383,482)
Profit /(loss) before tax	**574,103**	**85,930**	**(902,115)**	**615,073**	**372,991**
Income tax	99,402	24,060	(252,592)	172,220	43,090
Consolidated Result	**474,701**	**61,870**	**(649,523)**	**442,853**	**329,901**

The breakdown of the Group's consolidated ordinary income by segment of activity at 31 December 2014 is as follows:

€ thousands	Ordinary revenues from external customers	Ordinary intra-segment revenues	Total ordinary revenues
SEGMENTS	At 31/12/2014	At 31/12/2014	At 31/12/2014
Commercial Banking	4,378,123	-	4,378,123
Asset management and insurance	232,867	32,458	265,325
Real Estate Area	20,447	229	20,676
Institutional and capital markets	1,452,675	306,369	1,759,044
(-) Adjustments and elimination of ordinary revenues	-	(339,056)	(339,056)
TOTAL	6,084,112	-	6,084,112

The balance sheet by business area at 31 December 2014 is as follows:

€ thousands	**2014**				
Commercial and Insurance	**Banking Commercial**	**Asset Manage-ment and Insurance**	**Area Real Estate**	**Institu-tional and Market**	**Consolidated**
Assets					
Cash and balances with central banks	447,459	3,780	12	741,563	1,192,814
Financial instruments held for trading	-	40,339	-	1,649,305	1,689,644
Other financial assets at fair value through profit or loss	-	510,799	-	-	510,799
Available-for-sale financial assets	-	572,561	823	29,191,968	29,765,352
Loans and receivables	94,304,654	132,680	1,074	13,389,208	107,827,616
Held-to-maturity investments	-	-	-	-	-
Adjustments to financial assets in respect of macro-hedges		-	-	261,023	261,023
Hedging derivatives	-	41,398	-	399,758	441,156
Non-current assets held for sale	-	661	7,712,590	488,127	8,201,378
Investments	-	86,445	144,347	1,639,993	1,870,785
Insurance contracts linked to pensions	-	7	-	162,647	162,654
Reinsurance assets	-	16,921	-	-	16,921
Tangible assets	568,774	953	1,005,285	136,212	1,711,224
Intangible assets	2,490,658	406	1,611	-	2,492,675
Tax assets	-	30,247	750,419	2,837,432	3,618,098
Accruals	-	7,847	103,934	181,758	293,539
Other assets	-	4,253	957,544	439,003	1,400,800
Total assets	**97,811,545**	**1,449,297**	**10,677,639**	**51,517,997**	**161,456,478**
Liabilities					
Financial instruments held for trading	-	-	-	1,397,389	1,397,389
Other financial liabilities designated at fair value through profit or loss	-	649,354	-	-	649,354
Financial liabilities at amortised cost	88,199,939	657,257	118,307	53,252,275	142,227,778
Hedging derivatives	-	63,672	-	2,097,402	2,161,074
Liabilities under insurance contracts	-	483,784	-	-	483,784
Provisions for exposures	121,175	10,308	1,402	337,113	469,998
Tax liabilities	-	24,390	39,906	654,163	718,459
Accruals	-	8,313	17,790	383,313	409,416
Other liabilities	-	12,456	41,413	215,490	269,359
Net intra-group financing	419,462	(776,196)	9,389,446	(9,032,713)	-
Equity	9,070,969	315,959	1,069,375	2,213,565	12,669,867
Total equity and liabilities	**97,811,545**	**1,449,297**	**10,677,639**	**51,517,997**	**161,456,478**

Results by business area at 31 December 2013 are as follows:

€ thousands	2013				
	Banking Commercial	Asset Management and Insurance	Area Real Estate	Institutional and Market	Consoli-dated
Net interest income	**2,349,276**	**45,381**	**(382,901)**	**399,709**	**2,411,465**
Net commissions and fees	727,456	29,196	2,607	-	759,259
+/- Other financial transactions	52,399	33,315	(1,890)	479,751	563,575
+/- Other operating income/(expense)	(213,315)	33,153	(6,372)	3,486	(183,048)
Gross margin	**2,915,816**	**141,045**	**(388,556)**	**882,946**	**3,551,251**
Operating costs	1,372,769	26,367	65,569	258,476	1,723,181
Operating income before provisions	**1,543,047**	**114,678**	**(454,125)**	**624,470**	**1,828,070**
Provisioning expenses	88,246	2,499	885	(4,860)	86,770
Contingent risks	88,246	-	-	-	88,246
Additions to provisions	114,829	-	-	-	114,829
Reversals	(26,583)	-	-	-	(26,583)
Other Provisions	-	2,499	885	(4,860)	(1,476)
Impairment losses on financial assets	1,134,448	519	169	32,326	1,167,462
Loans and receivables	1,134,448	(543)	-	-	1,133,905
Additions to provisions	6,058,095	2,527	-	-	6,060,622
Reversals	(4,923,647)	(3,070)	-	-	(4,926,717)
Other financial instruments not measured at f. value	-	1,062	169	32,326	33,557
Additions to provisions	-	1,062	169	32,646	33,877
Reversals	-	-	-	(320)	(320)
Net operating income	**320,353**	**111,660**	**(455,179)**	**597,004**	**573,838**
Impairment losses on non-financial assets	30,000	48	138,455	-	168,503
Goodwill and other intangibles	30,000	-	-	-	30,000
Additions to provisions	30,000	-	-	-	30,000
Reversals	-	-	-	-	-
Other assets	-	48	138,455	-	138,503
Impairment - Investments	-	-	3,500	-	3,500
Additions to provisions	-	-	3,500	-	3,500
Reversals	-	-	-	-	-
Impairment - Tangible assets	-	48	100,070	-	100,118
Additions to provisions	-	48	100,070	-	100,118
Reversals	-	-	-	-	-
Impairment - Inventories	-	-	34,885	-	34,885
Additions to provisions	-	-	34,885	-	34,885
Reversals	-	-	-	-	-
Profit/(losses) on disposal of assets not classified as non-current	188,485	21,043	727,006	10,558	947,092
Profit/(losses) on non-current assets held for sale not classified as discontinued oper.	-	379	(930,448)	(68,421)	(998,490)
Gains	-	(900)	149,861	4,350	153,311
Losses	-	(1,350)	132,461	7,272	138,383
Losses on impairment of Non-current assets held for sale	-	71	947,848	65,499	1,013,418
Additions to provisions	-	71	948,647	66,279	1,014,997
Reversals	-	-	(799)	(780)	(1,579)
Profit /(loss) before tax	**478,838**	**133,034**	**(797,076)**	**539,141**	**353,937**
Income tax	134,516	37,250	(223,181)	150,959	99,544
Consolidated Result	**344,322**	**95,784**	**(573,895)**	**388,182**	**254,393**

The breakdown of the Group's consolidated ordinary income by segment of activity at 31 December 2013 is as follows:

€ thousands	Ordinary revenues from external customers	Ordinary intra-segment revenues	Total ordinary revenues
SEGMENTS	At 31/12/2013	At 31/12/2013	At 31/12/2013
Commercial Banking	4,778,167	-	4,778,167
Asset management and insurance	168,961	41,661	210,622
Real Estate Area	12,360	10,247	22,607
Institutional and capital markets	1,469,018	403,451	1,872,469
(-) Adjustments and elimination of ordinary revenues between segments	-	(455,359)	(455,359)
TOTAL	**6,428,506**	**-**	**6,428,506**

The balance sheet by business area at 31 December 2013 is as follows:

€ thousands			2013		
	Banking Commercial	Asset Management and Insurance	Area Real Estate	Institutional and Market	Consolidated
Assets					
Cash and balances with central banks	460,672	3,196	12	2,362,958	2,826,838
Financial instruments held for trading	-	147,946	-	1,362,628	1,510,574
Other financial assets at fair value through profit or loss	-	363,680	-	-	363,680
Available-for-sale financial assets	-	460,190	11,794	15,703,154	16,175,138
Loans and receivables	93,940,081	141,365	436	13,953,705	108,035,587
Held-to-maturity investments	-	-	-	-	-
Adjustments to financial assets in respect of macro-hedges	-	-	-	159,571	159,571
Hedging derivatives	-	55,563	-	523,466	579,029
Non-current assets held for sale	-	744	5,936,296	359,561	6,296,601
Investments	-	99,984	73,374	1,089,778	1,263,136
Insurance contracts linked to pensions	-	-	-	142,948	142,948
Reinsurance assets	-	14,462	-	-	14,462
Tangible assets	617,634	1,122	1,057,552	159,595	1,835,903
Intangible assets	2,454,898	1,268	1,384	-	2,457,550
Tax assets	-	30,204	715,467	2,771,156	3,516,827
Accruals	-	7,741	5,045	249,094	261,880
Other assets	-	27,221	788,089	454,444	1,269,754
Total assets	**97,473,285**	**1,354,686**	**8,589,449**	**39,292,058**	**146,709,478**
Liabilities					
Financial instruments held for trading	-	-	-	954,426	954,426
Other financial liabilities designated at fair value through profit or loss	338	601,029	-	-	601,367
Financial liabilities at amortised cost	84,086,733	1,004,256	174,069	45,048,099	130,313,157
Hedging derivatives	-	79,537	-	1,394,212	1,473,749
Liabilities under insurance contracts	-	371,311	-	-	371,311
Provisions for exposures	160,030	6,279	3,611	363,044	532,964
Tax liabilities	-	30,722	87,384	367,995	486,101
Accruals	-	4,350	1,911	296,011	302,272
Other liabilities	-	31,502	50	166,800	198,352
Net intra-group financing	3,848,063	(1,047,132)	7,462,095	(10,263,026)	-
Equity	9,378,121	272,832	860,329	964,497	11,475,779
Total equity and liabilities	**97,473,285**	**1,354,686**	**8,589,449**	**39,292,058**	**146,709,478**

The distribution of interest and similar income by geographical area for the consolidated Group at 31 December 2014 and 2013 is detailed below.

€ thousands	Consolidated group		
	At 31/12/2014	At 31/12/2013	Var %
Domestic market	3,813,987	4,464,848	(14.6)
Exports:			
a) European Union	282,340	335,362	(15.8)
b) OECD countries	70,903	62,772	13.0
c) Other	4	15	(73.3)
TOTAL	4,167,234	4,862,997	(14.3)

8. BUSINESS COMBINATIONS AND OTHER CORPORATE TRANSACTIONS WITH SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

A business combination is an event involving the acquisition of the assets and the assuming of the liabilities that make up a business over which control is acquired and which is administered and managed in order to obtain a return.

The most important corporate operations taking place in 2014 were as follows:

Acquisition of 40% of Popular Banca Privada from Dexia

On the 7th of January 2014, Banco Popular Español, S.A. purchased Dexia S.A.´s stake in Popular Banca Privada S.A.

The purchase, which consists of all Dexia S.A.´s shares in Popular Banca Privada S.A., was closed at a price of €49.2 million. As a result, the bank owns 100% of its private banking subsidiary, created in 2001 as a joint venture between Banco Popular Español S.A. (60%) and Dexia Banquet International à Luxembourg (40%).

100% control over Popular Banca Privada S.A. will make it possible to optimise synergies with the group, which will undoubtedly have a positive impact on increasing the quality of solutions offered to clients.

Following this transaction, Popular Banca Privada S.A. became the only independent bank to belong to a large Spanish financial group specialising in the professional management of high-equity clients.

Agreement with BP-Paribas Securities Services

On 30th of April 2014, the Bank agreed to the sale of the depository and custodial business for its investment funds, pension plans, SICAVs and EPSVs in Spain to BP-Paribas Securities Services.

Having received the relevant administrative authorisations, the transaction was closed on the 30th of June 2014 for €50 million received in cash plus a variable earn-out upon reaching the established levels of income and commissions and income. The capital gains, amounting to €49 million, are recorded under the heading Gains on disposals of assets not classified as non-current assets held for sale in the consolidated profit and loss account.

The depositary business includes:

- The safekeeping and administration of securities (settlement, collection of dividends/coupons, application and recovery of withholdings, customer tax reporting and other services attached to custodianship).

- Depository control includes the supervision and control of the correct calculation of the NAVE by the management company of the deposited institutions, compliance with investment policies, restrictions on investment and compliance with legal coefficients, etc.

These tasks were carried out by an independent unit at the bank with in-house staff qualified in the activity and certain fixed assets, which have been transferred to the purchaser as an integral part of the production unit affected by the sale.

All of the institutional assets deposited at Banco Popular Español, S.A. relate to institutions marketed by the bank's commercial network and managed by Allianz Popular S.A. and Group companies. There are no third-party assets deposited.

The transaction consisted of the sale of 100% of the business, with none of the income or costs attached to the business being retained. Therefore it has been concluded that the risks and benefits have been transferred to BP Paribas Securities Services.

The agreement also includes a ten-year exclusivity clause with BP for all of the collective investment institutions marketed by the Group.

Agreement between Bancopopular-e, S.A. and Citibank España, S.A., with subsequent sale of 51% of Bancopopular-e, S.A.

On the 23rd of June 2014, Bancopopular-e S.A. signed an agreement for the acquisition of the retail and credit card business of Citibank España S.A. The purchase agreement was signed and closed on 22nd of September 2014.

As a result of this agreement, the Group acquired a portfolio of approximately 1.2 million customer accounts, 1.1 million cards, 45 offices and approximately 950 employees that have been incorporated into Bancopopular-e, S.A.

The transaction strengthens the Group's position as the 4th largest financial entity in the means of payment business in Spain, with a total of approximately 5 million cards in circulation. It is a widely diversified business in Spain, both geographically and by type of customer, combining a sales model based on direct distribution and active management of customer relationships. Similarly, the acquisition of this business gives the Group access to new distribution channels and puts it in the lead in the highly profitable segment of revolving cards.

In addition, the retail business acquired in the transaction has a portfolio of products and services that are distributed through 45 branch offices in Spain, with particular focus on marketing investment funds, structured bonds, pension plans and securities intermediation services.

The purchase price paid to Citibank Spain, S.A. amounted to €241,497 thousand. Assets amounting to €1,789,221 thousand and liabilities amounting to €1,789,221 thousand were acquired.

On the 30th of September 2014, the bank executed the final agreement with Värde Partners for the sale of 51% of Bancopopular-e, S.A amounting to €510,000 thousand, which resulted in the Group recording a capital gain of €210,307 thousand. Also, with the revaluation of the retained interest, a gain amounting to €208,963 thousand has been recognised.

From the analysis of the regulations applicable to the consideration of the sales transaction of Ecom participation (which is based on IFRS-EU), from the documentation of the transaction, we can draw the following major aspects of the analysis:

- The recognition of revenue derived from the sale of the 51% stake can be performed since:

    - There has been a significant transfer of risks and benefits: The transaction involves the transfer by BPE to Värde of the risks and benefits corresponding to 51% of the transferred business. In connection with the transfer of significant risks and benefits, the analysis included the following elements:

        i. The put and call options contracted in connection with the transaction, which either have a value for the year that will equal the market price at different dates of the same, so it does not pose any barriers to the effective transfer of the risks and benefits associated with the flows of E-com on the date on which the operation was performed, or else having protective character by reason of breach of obligations of either party.

        ii. It is not considered (based on the current funding structure and contemplated in the Business Plan) to make relevant use of financing by BPE, so it is considered that this point does not affect the significant transfer of risks and benefits

    - An implication of BPE is not maintained in the normal management of the assets sold to a anyone associated with the property. In this regard it is noteworthy that based on the agreements signed, none of the Partners maintain any involvement in the capital of the balancing entry.

    - Reliability assessment of revenue and cost and likely obtaining the benefits derived from the transaction The irrevocable compensation received at the beginning is not linked to any future event.

- The involvement of BPE in Ecom gives control based on the various agreements between BPE, Ecom and Värde. In particular, the shareholders' agreement (SHA), which requires that decisions about the relevant activities must be unanimous in practice. This means that:

    - BPE retained control of 100% of Bancopopular-e, but now losing that control over it through this transaction, therefore, the percentage retained from participation in Ecom books should be recorded at fair value at the date of the transaction, recording the difference between the previous carrying value and fair value as profit or loss in the consolidated income statement for the BPE Group.

    - BPE recognises its interest in the whole of the Ecom business as an investment, and accounting for this investment using the equity method in accordance with IAS 28 "Investments in associates and joint ventures" in its consolidated financial statements.

Sale of rights to receivables from marketing pensions and insurance

On the 30th of June 2014, the Group reached an agreement with a number of qualified investors to sell the fee and commission income from marketing insurance products of the Fund Manager and Allianz-Popular insurance company, which is 40%-owned by the Bank:

These fees and commissions are receivable by the Bank from the outstanding household insurance and pension plan portfolios in run-off, in addition to the ordinary and extraordinary contributions from clients with pension plans taken out prior to 1st of July 2014.

To this end, the Bank sold the future receivables from the fees and commissions described above to a newly created company, Inversiones Financieras Colina, S.A. (IF), in which it retains a 1% stake.

The purpose of completing this transaction is primarily to enable the Bank to maximise the return on the efforts already made in marketing these products, in addition to transferring the risks and benefits arising from the performance of the existing portfolio, the balance of which is the source of the future fees and commissions, with the investors assuming the risks associated with the performance of the outstanding portfolios in run-off.

The agreement will remain in force as long as the sold rights subsist, without prejudice to the existence of purchase options for the Bank and a sale option for the investors from the fifth year, at market value, with the primary purpose of setting up periodic liquidity mechanisms for the investors, without affecting the effective transfer of risks and benefits.

By way of consideration, on the 14th of July 2014 the Group received a single irrevocable payment of €104 million which, after deducting the transaction expenses, was accounted for under the following headings:

- €97 million profit under the heading "Other operating income. Other items" on the consolidated profit and loss account. Of this amount, €87 million related to Banco Popular Español, S.A..

- €7 million under the heading Other liabilities, for the portion relating to the market value of the future administration services for the products sold and marketing extraordinary contributions to pension plans.

From the analysis of the applicable rules for consideration of the sales transaction of the Assigned Rights we can draw the following major conclusions:

- The sale of the Assigned Rights does not constitute a transfer of a business. Being a portfolio in "run-off", the application of any processes such as marketing activities that generate such rights that are already made is not required, and we believe that the Assigned Rights does not meet the definition of business established in IFRS 3.

- The recognition of revenue derived from the sale of future receivables (Rights loan) can be performed because:

    - There has been a significant transfer of risks and benefits: The transaction involves the transfer of risks and benefits by BPE to IFC, derived from a decrease in the insurance portfolio or decrease in assets under management in the case of pension funds in exchange for an irrevocable down payment and the risks of non-payment of premiums by policyholders of insurance contracts. In connection with the transfer of significant risks and benefits, the analysis included the following elements:

        i. The put and call options contracted in connection with the transaction, have a price for the year that is equal to fair value at different dates of the year, so they do not pose any barriers to the effective transfer of risks and benefits associated with the flows of the Assigned Rights on the date on which the operation is performed.

        ii. Regarding the clause concerning the commitment not to actively promote alternative financial products, which would entail a penalty for BPE, we believe that no barrier exists to the effective transfer of risks and benefits in the transaction to be protective nature for Investors with ensure that no "irregular" competition performances are produced by BPE that could harm their interests.

    - An implication of BPE is not maintained in the normal management of the assets sold to a anyone associated with the property. Collecting regular premiums on an existing insurance portfolio with customers and which are already sold does not require a significant involvement by the seller. Similarly, the marketing fee that the management of pension funds regularly gives BPE for the assets held in the pension plans for clients attracted through the network, does not require significant involvement by BPE. For future costs of management or administration of the sales of 'run-off' portfolios, an estimated fair value of such services has been established, and a liability for that amount has been acknowledged, so that the income from these concepts is recognised as incurred costs associated with the provision of those services. In the case of extraordinary contributions to pension plans this liability additionally include estimating the fair value of marketing services thereof.

    - Reliability in assessing the amount of income. The amount of revenue responds to the future benefit of the portfolio. These can be estimated reliably since it is a prescribed initial payment calculated based on a business plan approved by the parties on the closing date of the transaction.

    - Likely getting the benefits of the transaction. The initial consideration is irrevocable proof of the existence of economic benefits associated with the transaction.

    - Reliable assessment of the costs incurred in the transaction: relevant costs that the bank has to incur to generate future income have not been identified, with the exception of those mentioned above, which give rise to liabilities and deferred income above so that these are accruals as incurred future costs.

- The involvement of BPE in IFC does not give control over it and therefore should not be consolidated within Banco Popular Group based mainly on the following considerations:

    - IFC will be managed by a Sole Director who shall be approved by a simple majority of the holders of the voting rights.

    - The participation of BPE in IFC will be 1% in both the capital and accounts in sub-participation, which is not considered to have power to direct the relevant activities of IFC and further exposure to variability of IFC returns is not significant given the percentages of participation.

    - In the event that IFC subcontracts with the work of BPE agents and payments on the Assigned Rights, they will be held following the guidelines and under the responsibility of IFC in exchange for a fixed management fee, which payment has priority over any distribution of flows to investors.

- Financing by BPE investors implies no direct exposure to variable returns from IFC since returning it depends on the financial capacity of the Investors who have been granted, since these respond to the refund with at least the investor's personal guarantee and this is enough to pay the amount of funding awarded.

Agreement with Grupo Financiero Ve Por Más S.A. de C.V. (GAB+)

Agreement reached on the 11th of December 2013, as part of which the Group acquired a 24.9% shareholding in the Mexican Financial Group BX+, which materialised in the first half of 2014, once the relevant supervisory and regulatory authorisations were obtained in Spain and Mexico, classified as an associate at 31st of December 2014.

On the 9th of September 2014, the Bank took up the holding and as a result features on the entity's highest governing body and leads the teams in charge of implementing the new BX+ Growth Plan.

As part of this strategic alliance, the Bank seeks to triple the size of BX+ in the next five years, developing a new support market for SMEs and families in Mexico and Latin America.

In turn, majority shareholders of BX+ invested €450 million in Banco Popular Español, S.A., around 6% of its share capital.

The acquisition was completed following a €97.1 million capital increase. This transaction has resulted in the Bank's own funds being further underpinned.

The capital gains before taxes generated from the transactions mentioned can be found below. Figures have been divided between the direct sale of the business to investors and the revaluation of the interest retained by the Group:

	Capital gains recorded			
€ thousands	**Business value**	**Total**	**Of which: Sold to investors**	**Of which: Revaluation of interest retained (*)**
Depositary Business	50,000	49,245	49,245	-
Sale of future receivables	105,370	96,704	96,704	-
Sale of 51% of Bancopopular-e	1,000,000	419,270	210,307	208,963

(*) The amount of €208,963 thousand included in the table as a capital gain received in the retained interest corresponds to the adjustment to fair value of 49% of Bancopopular-e, S.A. owned by the Group at 31st of December 2014. (Note 28).

The most important corporate operations taking place in 2013 were as follows:

Sale of business for the recovery of debt outstanding between 0 and 90 days of Banco Popular España:

In January 2013, the Bank sold its recovery business for debts outstanding between 0 and 90 days for €135 million in cash to a newly incorporated company, Lyreco Inversiones 2013, S.L., which is wholly owned by EOS.

EOS is an international leader in debt recovery with over 35 years' experience. It operates in 27 countries and serves more than 20,000 customers in various industries. This new agreement strengthens the alliance between the Bank and EOS.

In the operation, the Bank transferred to EOS the risks and rewards derived from the early debt recovery business carried out to date by the Default Recovery Analysis Centre (CARE), having transferred the assets and the personnel working in the production unit affected by the transfer. When a case of default arises, a process is initiated to define the recovery strategy to be followed on the basis of the customer's risk profile. The default is managed by a group of recovery agents. After a critical landmark is passed (60/70 days), the case is passed on to specialised agents. The aim is to reduce the number of instances in which defaulting debtors become bad debtors.

As a result of this transaction, the business has been split up, transferring the affected assets and personnel who worked in the production unit affected by the transmission. The transaction generated a capital gain of €133 million for the Group.

The transaction includes a 10-year exclusivity contract with Banco Popular Español, S.A. The contract is valued at market value.

Sale of ATM business:

In March 2013 the Group sold the ATM business valued at €60 million plus an earn-out of an additional €10 million, forming an alliance with Crédit Mutuel - CIC through the company Euro Information, which acquired 50% of said business and control over the business.

The business has more than 3,000 ATMs spread across the country, combining wide geographical coverage with very significant regional strengths in Madrid, Catalonia, Andalusia and Galicia. The ATM network is located in branches and in strategic areas based on profitability criteria, with great potential for new business in which the Group takes part as Hal Cash (payment by mobile telephone from the Bank to the cash point without any need for a card).

The business has been split off into the newly incorporated Euro Automatic Cash, Entidad de Pago, S.L.U., to which the risks and rewards of the business have been transferred. The assets (€18 million) and liabilities (€16 million) and personnel working in the production unit concerned have been transferred. The transaction generated a capital gain of €56 million for the Group, which was recorded in 2013, and cash income totalling €30 million.

The operation includes an exclusivity contract with Banco Popular Español, S.A. with a term of 5 years, priced at market value.

The capital gains relating to the transactions described above are recognised under Gains on disposals of assets not classified non-current assets as held for sale in the consolidated profit and loss account.

Sale of Pastor Vida life insurance (risk) and pension business:

In June 2013 Pastor Vida S.A., 100% owned by Banco Popular Español, S.A., sold its life-risk and pensions business for a net cash amount of €42 million to the holding company Allianz Popular, 40% owned by Banco Popular and 60% by Allianz, which groups together holdings in the Life, Pensions and Asset Management lines of business. Following the operation, Pastor Vida has maintained only the life (savings) business.

The transaction has resulted in the derecognition of the goodwill associated with the businesses sold amounting to €21 million (Note 32), recording a gain of €21 million which is recognised under Gains on disposals of assets not classified as non-current assets held for sale on the profit and loss account.

As a result of the operation, the business has been split off and the assets and liabilities pertaining to the business, €18 million in both cases, and personnel working in the productive unit affected by the operation have been transferred.

Sale of the life insurance (risk) business managed by Eurovida BNC, Portugal:

In September 2013 the Group sold 95% of the life (risk) business managed by Eurovida Companhia de Seguros de Vida, S.A., a Portuguese subsidiary 100% owned by the Group, to Scor, the world's fifth largest reinsurer with long-term rating of A+ by S&P.

As a result of the transaction, all of the risks and rewards substantially related to this business have been transferred. The operation has been arranged through a reinsurance contract in which the reinsurer assumes 95% of the risk of the individual policies in the life-risk portfolio, with a quota-share reinsurance contract of 95%. Eurovida BNC has retained 5% of the portfolio in the same order of priority. The reinsurer also assumes profit sharing with insurers having policies with a profit sharing clause.

Income generated by the Group on the operation in 2013 amounted to €28 million, recognised under Other operating income in the profit and loss account.

Sale of real-estate management business:

On the 27th of December 2013, Banco Popular Español, SA sold the real estate management business unit and some of the Bank's debt related to the property sector to a newly incorporated company, Aliseda, S.G.I. S.A., through which the mentioned business is going to be developed, with a majority shareholding by Värde Partners, Inc. and Kennedy Wilson.

The sale includes the transfer by the Bank to Aliseda, S.G.I., S.A. of all resources required to independently carry out the real-estate management business. This business had been carried out by the Group with the objective of maximising the sale price of real estate assets and maximising the recovery of debt related to the real estate sector.

The transaction includes a 10-year exclusivity contract between the Bank and Aliseda, S.G.I., and a 5-year extension for managing the balance of assets remaining after the 10-year period has elapsed. The contract is priced at market value.

This transaction has the following objectives:

- Enabling Banco Popular to maximise the management of its real estate business through:

    • the generation of a basis for managing the third-party business providing the critical mass necessary for achieving profitability;

    • the acceleration of the pace of home sales; and

    • the professionalisation of management with the help of industrial managers with proven expertise and technical capacity (Kennedy Wilson).

- Separate the management of this business from the core banking business:

    • focusing the Bank's resources on its traditional business management model for SMEs and individuals;

    • making the non-real estate business profitable; and

    • improving the Group's levels of solvency.

Further to the creation of Aliseda, S.G.I., S.A., said entity will mainly manage inventory of foreclosed real estate assets, loans to property developers more than ninety days past due, loans to individuals secured by investment properties more than ninety days past due and 100% of the future flow of the assets described above and secured loans to SMEs which the Bank may decide to convert to property or to sell from the balance sheet of the borrower.

The price of the transaction, received in cash, amounted to €715 million. Additionally, there is an earn-out of €100 million if certain levels of return on the investment are achieved.

The transaction generated a capital gain for the Group of €710 million, which was recognised under Gains on disposals of assets not classified as non-current assets held for sale in the profit and loss account, having transferred assets worth €249 thousand and personnel serving in the productive unit affected by the transfer to Aliseda S.G.I, S.A.

In compliance with IFRS 3 "Business Combinations", the Bank has transferred to Aliseda, S.G.I. a group of inputs, processes, activities, products and services that in themselves generate ordinary income and profits for Aliseda, SGI, having relinquished control over and transferred the risks and rewards of the business.

The sale of the business was arranged through a capital contribution and shareholder loans, of which 49% were provided by the Bank and the remaining 51% by Värde Partners, Inc. and Kennedy Wilson. In accordance with the provisions of the articles of association and shareholders' agreements, control is defined as joint. In accordance with the accounting standards in force in 2013, IAS 27 "Consolidated and Separate Financial Statements", IAS 28 "Investments in Associates" and IAS 31 "Investments in Joint Ventures", and considering that there has been loss of control over the company, the investment has been classified as a "jointly-controlled entity", included in the Group consolidation scope using the proportionate consolidation method.

The Bank's non-monetary investment reflects the market value.

The capital provided is needed to cover the cost of the business purchased by Newco from Banco Popular. Furthermore, this has generated an intangible asset in Newco based on the difference between the transaction price and the assets and liabilities assigned in addition to capital gains for the same amount in the Bank.

The sale of the business was carried out by bringing in an outside investor in a subsidiary of the Group, initially wholly owned by the Bank, which has brought about in a change in control of the subsidiary.

Therefore, the carrying amount reflected in the Bank's books corresponds to the price for the business less the assets and liabilities assigned to Newco proportionate to its stake.

The capital gains generated from the transactions mentioned can be found below. Figures have been divided between the direct sale of the business to investors and the interest retained by the Group:

	Capital gains recorded			
€ thousands	**Business value**	**Total**	**Of which: Sold to investors**	**Of which: Revaluation of interest retained (*)**
ATM business	60,288	56,143	28,072	28,072
Real-estate management business	715,000	710,255	362,230	348,025
Recovery business	135,000	132,925	132,925	-
Pastor Vida life insurance (risk) and pension business:	50,000	21,493	21,493	-
Life insurance business of Eurovida BNC, Portugal	38,760	27,900	27,900	-

(*) Amount of profit from revaluation of the interest retained considering the price received in the interest sold resulting in loss of control.

As regards the ATM business, the capital has been provided by Banco Popular, S.A.

The capital provided is needed to cover the cost of the business purchased by Newco from Banco Popular. This has generated an intangible asset in Newco based on the difference between the transaction price and the assets and liabilities assigned in addition to capital gains to the same amount in Banco Popular.

Afterwards, the Bank will sell part of its investment to the external investor at its carrying amount, assigning control and transferring the risks and benefits of the business, with these subsidiaries then forming part of the Group as associates as a result of the loss of control. In turn, as regards the transaction involving the sale of the real estate business, the subsidiary will form part of the Group as a joint venture, resulting in a change in its control scenario.

In this instance, Banco Popular relinquishes control of the subsidiary to whom the business is sold; in doing so, the total consolidated income or loss is recorded pursuant to IAS 27, ED/2012/6 and the IASB acceptance of recommendations issued by the IFRIC to include appropriate amendments in IFRS 10, IAS 28 and IAS 31 that allow for the recognition of comprehensive income when the assets sold or provided to an associate or joint venture company comply with the business definition pursuant to IFRS 3 "Business Combinations".

Split-up of the business in Galicia and creation of the new Banco Pastor:

In December 2013 the branch office network in Galicia was split up into a new bank which, like its predecessor, already merged with Banco Popular, took the name of Banco Pastor. The assets split up on the 6th of December totalled €10.8 million, with 236 branches and 795,000 customers.

The aim of the operation is to provide the Group with a regional bank that is well-known and has a particular tradition in the Galicia region, in which the Group has a market share of 22%.

As a result of the split-up, Banco Pastor equity increased by €587,881 thousand. Additionally its own Tier 1 and Tier 2 capital are reinforced through convertible bond and subordinated debt issues amounting to €67 and €90 million, respectively, reaching a Tier 1 ratio of 10.24% and total solvency ratio of 11.85%.

Net loans and advances to customers transferred to the new Banco Pastor was €5,037 million and customer deposits transferred amounted to €9,358 million. Cash surplus is invested primarily in the Group's fixed income portfolio.

The new bank's assets at the time of the split up reflected Intangibles valued at €265 million, of which €145 million related to the split upof the goodwill arising on the acquisition of Banco Pastor in 2012 and which has been transferred to the Pastor CGU in proportion to the weight of its operating margin as per the total Commercial Banking CGU. The other intangible assets transferred amount to €120 million, of which €47 million pertains to the value of the Banco Pastor brand in Galicia and €72 million to the "Customer relations" intangible which has been distributed between the two CGUs in proportion to the weight of those deposits in each of them.

Following the acquisition and takeover of Banco Pastor by Banco Popular in February 2012 and the subsequent merger of the two entities in June 2012, the goodwill resulting from the business combination, pursuant to IAS 36, was assigned in full to the Group's Spanish Commercial Banking CGU in 2012 on the following grounds:

- It was established that the business purchased from Banco Pastor, in essence, is wholly made up of the retail commercial banking business as just 0.98% related to other activities.

- The Commercial Banking CGU represented the lowest level at which the Group's Board of Directors internally manages the business to which goodwill is assigned. The Board monitors, through its Executive Committee and Management Committee, businesses into which the Group is divided, including the Commercial Banking segment and, subsequently, the Commercial Banking CGU.

- The Commercial Banking CGU represents the smallest identifiable group of assets that generates cash flows and which is managed separately by the Board, through Senior Management. At Banco Popular Group, geographical areas or units smaller than the one indicated are not managed on a separate basis. The Commercial Banking CGU forms part of the Commercial Banking segment and consists of the business that corresponds to the branch office network of eight Regional Offices retained by the Group in Spain (including both Banco Popular branches and ex-Banco Pastor branches) in addition to the Oficina Directa business (on-line banking acquired from Banco Pastor).

- Pursuant to the provisions of paragraph 82 of IAS 36, the allocation of goodwill to the Commercial Banking CGU provides for the management and analysis of goodwill as regards potential impairment in a consistent way using management systems employed by the Group's Board and, by extension, its Management Committee, without having to develop additional systems dedicated to monitoring goodwill.

- Immediately after the takeover, a series of measures were taken by the Group's Management to manage the business acquired from Banco Pastor jointly with the Banco Popular business. Amongst these measures, the following are particularly noteworthy:

    - Integration of branches between former Banco Pastor and Banco Popular. This process is combined with the incorporation of such branches to the different territorial headquarters of Banco Popular.

    - Consolidating the way in which mutual customers are served in a single office

    - Integrating Banco Pastor staff within Banco Popular in the different branches belonging to the Regional Offices.

    - Integration of Banco Popular management criteria and policies for certain key processes in the retail banking business, such as:

        - Implementation of the Banco Popular transaction approval system, effective immediately following the takeover, incorporating terminals equipped with Banco Popular systems in offices that were still to merge or were in the merger process.

        - Implementation of Banco Popular credit risk tracking systems.

        - Marketing Banco Popular products throughout the Banco Pastor network.

        - Joint management of customers.

    - Planning and scheduling the migration and integration of the different Banco Pastor systems to Banco Popular systems (completed in 2013).

In 2013, create a new entity, even if using the Banco Pastor trade name (one of the assets identified in the business combination), the business split up from the Commercial Banking CGU would not correspond to the retail banking business acquired from Banco Pastor that is integrated and managed in an undifferentiated way within that CGU. The segregation carried out relates to the entire Commercial Banking CGU business in Galicia, both of ex-Banco Pastor and the Banco Popular Group. It is worth noting that, considering all the initiatives and actions taken during the takeover mentioned above, by jointly managing offices, customers, transactions, etc. it is impossible to trace the business inherited from Banco Pastor. In this respect, as mentioned above, the Commercial Banking CGU is managed as a single and undifferentiated unit.

Therefore, considering that in 2013 part of the Commercial Banking CGU business was split up and a new CGU from the segregated business (Pastor CGU) identified, pursuant to IAS 36, the portion of goodwill attributable to the Commercial Banking CGU has been assigned to the new Pastor CGU.

All assets and liabilities relating to the business outside Galicia remain in the Commercial CGU.

The separate amount of goodwill allocated to each CGU has been estimated in accordance with the weight of the operating profit of the business transferred to the CGU as a proportion of that of the whole Commercial Banking CGU for the year ended 31 December 2012, since this is considered to be the most representative variable and that with the most weight in valuing this type of banking business.

Operating profit of Commercial Banking CGU for the year ended 31 December 2012 was estimated at €1,552 million and that of the Pastor CGU at €129 million, so the weight of the new CGU represents 8.3%. Thus, the goodwill allocated to the CGU Pastor is €145 million out of a total of €1,746 million, while the goodwill assigned to the Commercial Banking CGU (excluding Galicia) corresponds to the Group's retail banking business in the rest of Spain.

Additionally, and in accordance with the requirements of current legislation, the Group required an independent expert's report, which gave a favourable opinion on the principles on which the Segregation Balance Sheet had been drawn up, as a result of which the split up of New Banco Pastor was authorised, the Group having also received an independent expert's report giving a favourable opinion on the identification and allocation of goodwill to the two CGUs, Commercial Banking and New Banco Pastor.

Completion of the valuation of assets and liabilities received on the acquisition of Banco Pastor:

In relation to the acquisition of Banco Pastor, the one-year period stipulated for completing the valuation of the assets and liabilities acquired ended on 16th of February 2013 and therefore the adjustments made are considered final.

The balance of the goodwill generated on the acquisition of Banco Pastor would amount, at 31st of December 2013, to €1,746 million before the split up , while at 31st of December 2012 the balance was €1,743 million.

Of this €1,746 million, following the split up of the business in Galicia and the creation of the new Banco Pastor discussed above, €145,056 thousand has been split off to the Pastor CGU; accordingly, the goodwill allocated to Commercial Spain CGU amounts to €1,601 million as at 31st of December 2013.

9. DISCONTINUED OPERATIONS

In 2014 and 2013 the Group recorded no transactions of this kind.

10. REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT OF BANCO POPULAR ESPAÑOL, S.A.

1. Directors' remuneration

Information concerning the remuneration accrued in 2014 (and in 2013) of the members of the Board of Directors of Banco Popular Español, S.A. at 31st of December 2014 is set out below. No director received any amount due to their belonging to other consolidated group companies.

€ thousands			Remuneration						TOTAL
			FIXED REMUNERATION		VARIABLE REMUNERATION				
Risks Direct	2014	Statutory fees	Fixed	Individual perfor-mance bonus	Immediately payable		Deferred		
					In cash	In shares	In cash	In shares	
1	Francisco Aparicio	-	500	125	61	61	61	61	869
-	José María Arias	-	-	-	-	-	-	-	-
-	Antonio del Valle	-	-	-	-	-	-	-	-
-	Alain Fradin	-	-	-	-	-	-	-	-
1,947	Fundación Barrié de la Maza	-	-	-	-	-	-	-	-
431	Francisco Gómez Martín	-	675	225	88	88	88	88	1,252
-	Luis Herrando	-	-	-	-	-	-	-	-
-	Roberto Higuera	-	-	-	-	-	-	-	-
-	Ana María Molins	-	-	-	-	-	-	-	-
-	Jorge Oroviogoicoechea Ortega	-	-	-	-	-	-	-	-
-	Helena Revoredo	-	-	-	-	-	-	-	-
878	Angel Ron	-	1,060	250	128	128	128	128	1,822
-	Sindicatura de Accionistas	-	-	-	-	-	-	-	-
11	Vicente Tardío	-	-	-	-	-	-	-	-
43,893	Unión Europea de Inversiones, SA	-	-	-	-	-	-	-	-
47,161	TOTAL	-	2,235	600	277	277	277	277	3,943

€ thousands			Remuneration						TOTAL
			FIXED REMUNERATION		VARIABLE REMUNERATION				
Direct risks	2013	Statutory fees	Fixed	Individual performance bonus	Immediately payable		Deferred		
					In cash	In shares	In cash	In shares	
-	Allianz SE	-	-	-	-	-	-	-	-
-	Francisco Aparicio	-	470	115	32	32	32	32	713
-	José María Arias	-	-	-	-	-	-	-	-
-	Alain Fradin	-	-	-	-	-	-	-	-
2,971	Fundación Barrié de la Maza	-	-	-	-	-	-	-	-
151	Francisco Gómez Martín	-	600	200	39	39	39	39	956
-	Luis Herrando	-	-	-	-	-	-	-	-
-	Roberto Higuera	-	-	-	-	-	-	-	-
-	Maianca Inversión, S.L.	-	-	-	-	-	-	-	-
-	Ana María Molins	-	-	-	-	-	-	-	-
-	Jorge Oroviogoicoechea Ortega	-	-	-	-	-	-	-	-
-	Helena Revoredo	-	-	-	-	-	-	-	-
-	José Ramón Rodriguez	-	-	-	-	-	-	-	-
945	Angel Ron	-	1,000	234	68	68	68	68	1,506
-	Sindicatura de Accionistas	-	-	-	-	-	-	-	-
19	Vicente Tardío	-	-	-	-	-	-	-	-
50,705	Unión Europea de Inversiones, SA	-	-	-	-	-	-	-	-
54,791	TOTAL	-	2,070	549	139	139	139	139	3,175

a) Annual bonuses for 2014

With respect to the bonuses for 2014 reflected in the table above, on 7th of April 2014 the shareholders, in a General Shareholders' Meeting, approved a Bonus Scheme for executive Directors and members of senior management, with the following specific conditions:

1. At least 50% of the total annual bonuses are to be paid in Banco Popular stock.

2. 50% of total bonuses, both the part paid in cash and the part paid in stock, is to be paid during the first quarter of 2015, deferring the remaining 50% to be paid in thirds over financial years 2016, 2017 and 2018.

3. The shares delivered are unavailable for one year from delivery. This restriction is applicable to the net amount of the shares after discounting the part required to pay tax on the shares received.

4. There are scenarios which can decrease or prevent, as the case may be, the collection of the deferred bonuses outstanding payment.

The amounts which make up this Scheme pertain to the executive Directors, with respect to both the cash part and the part paid in stock, broken down in each case between the amount to be paid which is not deferred in 2015 and the part deferred over three years, 2016, 2017 and 2018. These are included in the table above under 2014. The number of Banco Popular shares assigned with respect to the part to be paid in 2015 amounted to: 30,648 shares to Mr. Ron, 21,056 shares to Mr. Gómez and 14,622 shares to Mr. Aparicio.

b) Annual bonuses for 2013.

As regards the 2013 bonuses reflected in the table above, on 10 June 2013 the shareholders, in a General Shareholders' Meeting, approved a Bonus Scheme for executive Directors and members of senior management, with the following specific conditions:

1. At least 50% of the total annual bonuses are to be paid in Banco Popular stock.

2. 50% of total bonuses, both the part paid in cash and the part paid in stock, was paid during the first quarter of 2014, deferring the remaining 50% to be paid in thirds over financial years 2015, 2016 and 2017.

3. The shares delivered are unavailable for one year from delivery. This restriction is applicable to the net amount of the shares after discounting the part required to pay tax on the shares received.

4. There are scenarios which can decrease or prevent, as the case may be, the collection of the deferred bonuses outstanding payment.

As regards the Annual Bonuses Scheme for 2013, during the first quarter of 2015 the executive Directors will receive the first payment of one third of 50% of the Annual Bonuses, both in cash and in stock, which were deferred for payment in the subsequent three financial years (2015, 2016 and 2017) for the following amounts: €23 thousand and 4,851 shares in the case of Mr. Ron; €13 thousand and 2,752 shares in the case of Mr. Gómez; and €11 thousand and 2,304 shares in the case of Mr. Aparicio.

c) Annual bonuses for 2012.

The executive Directors received no amounts whatsoever under the Bonuses Plan approved at the General Shareholders' Meeting of 11 June 2012, since the conditions for collection were not met at year-end 2012.

d) Annual bonuses for 2011

As regards the Annual Bonuses Scheme for 2011 corresponding to the Bonuses Scheme approved by the General Shareholders' Meeting on 8 April 2011, during the first quarter of 2015 the executive Directors will receive the third and final payment of one third of 50% of the Annual Bonuses, both in cash and in stock, which were deferred for payment in the subsequent three financial years (2013, 2014 and 2015) for the following amounts: €13 thousand and 1,367 shares in the case of Mr. Ron; €5 thousand and 554 shares in the case of Mr. Gómez; and €6 thousand and 649 shares in the case of Mr. Aparicio.

e) Long-term Bonus Plan.

On 10 June 2013, the General Shareholders' Meeting approved a Long-Term Bonuses Plan in Banco Popular stock for years 2013 to 2016 for the members of the executive team, including executive Directors and senior management members.

The Plan is based on the assignment to the beneficiaries of a number of units per cycle, with a duration of four years each, in financial years 2013, 2014, 2015 and 2016, which will form the basis for calculating the Banco Popular shares to be delivered to the Plan's beneficiaries in 2017, 2018, 2019 and 2020, if appropriate and provided that the objectives laid down in the Plan are met.

Under the Plan, in 2014, 201,044, 138,122 and 95,918 units have been pre-allocated to the executive Directors Messrs. Ron, Gómez and Aparicio, respectively, corresponding to the second cycle of the four that make up the Long-Term Bonus Plan, and which will be quantified in stock and delivered in 2018 if applicable.

The Director and Vice-Chairman of the Board Mr. José María Arias Mosquera received no remuneration for the performance of his office, since the office of Director is not remunerated. However, by virtue of the agreements adopted in the past by Banco Pastor and in effect prior to its integration in Banco Popular, he received €1,091 thousand in 2014 for his early retirement as Executive Chairman of Banco Pastor and resignation from its Board, which was charged to provisions established by Banco Pastor prior to its integration in Banco Popular. In 2013 he received €1,091 thousand under the same agreement.

f) Long-Term Savings Arrangements.

The cost payable by the Bank in 2014 for the coverage of the pension commitments of the directors who are beneficiaries, Mr. Ron, Mr. Gómez and Mr. Aparicio, amounts to €1,031 thousand, €1,040 thousand and €721 thousand, respectively, amounting to a total of €2,792 thousand. In 2013, this amount totalled €2,316 thousand In addition, they are beneficiaries of life and medical insurance premiums totalling €12 thousand.

The vested rights and technical mathematical provisions linked to the pensionable rights of the current directors Messrs. Ron, Gómez, Aparicio, Higuera and Arias amount to €7,789 thousand, €5,231 thousand, €3,720 thousand, €9,538 thousand and €14,734 thousand respectively, totalling €41,012 thousand which, together with the €34,889 thousand pertaining to other former directors, amounting to a total of €75,901 thousand as at 31 December 2014 (€73,373 thousand as at 31 December 2013).

2. Remuneration of Senior Management.

a) Annual remuneration for 2014.

Remuneration relating to the thirteen members of senior management for 2014, excluding Board members, totals €6,157 thousand This figure consists of €4,707 thousand in fixed remuneration and €1,450 thousand in bonuses, in accordance with the Bonuses Scheme for 2014 approved by the General Shareholders' Meeting of 7 April. This latter figure is divided into half in cash and half in Banco Popular stock. In the first quarter of 2015, 50% of both items will be paid while payment of the remaining 50% will be deferred and paid in thirds in 2016, 2017 and 2018, subject to the conditions laid down for payment.

The aggregate amount for these persons with respect to benefits in kind (basically, housing, life and health insurance premiums and the tax allocation of advances, delivery of shares and company store purchases) is €160 thousand.

b) Annual remuneration for 2013.

Remuneration relating to the twelve members of senior management in 2013, excluding Board members, totalled €5,182 thousand. This amount breaks down to €4,485 thousand in fixed remuneration and €697 thousand in bonuses, under the Annual Bonus Scheme for 2013 approved by the General Shareholders' Meeting held on 10th of June 2013.

As regards the deferral calendar set out in the Annual Bonus Scheme for 2013, during the first quarter of 2015 the members of senior management will receive the first payment of one third of 50% of the Annual Bonuses, both in cash and in shares, which were deferred for payment in the subsequent three financial years (2015, 2016 and 2017) for a total sum of €58 thousand and 12,460 shares.

The aggregate amount for these persons with respect to benefits in kind (basically life and health insurance premiums and the tax allocation of advances and the company store purchases) was €82 thousand.

c) Annual bonuses for 2012.

The members of senior management received no amounts whatsoever under the Bonuses Plan approved at the General Shareholders' Meeting of 11th of June 2012, since the conditions for collection were not met at year-end 2012.

d) Annual bonuses for 2011

As regards the Annual Bonuses Scheme for 2011 corresponding to the Annual Bonuses Scheme approved by the General Shareholders' Meeting on 8 April 2011, during the first quarter of 2015 the members of senior management will receive the third and final payment of one third of 50% of the Annual Bonuses, both in cash and in stock, which were deferred for payment in the subsequent three financial years (2013, 2014 and 2015) for a total sum of €28 thousand and 2,990 shares.

e) Long-term Bonus Plan.

With respect to the Long-Term Bonuses Plan approved by the General Shareholders' Meeting on 10th of June 2013, in 2014 a total of 543,892 units corresponding to the second cycle of the four that make up said Plan were preassigned to members of senior management, which will be quantified in stock and delivered, if appropriate, in 2018.

f) Long-Term Savings Arrangements.

The cost payable by the Bank in 2014 for the coverage of the pension commitments in favour of senior management members totals €2,297 thousand. In 2013, for the managers then identified, the amount concerned was €1,504 thousand.

The vested rights and technical mathematical provisions linked to the pensionable rights of these managers amount to €14,684 thousand at 31 December 2014. At 31st of December 2013, the amount was €12,172 thousand.

The credits and loans from the Entity to this group of individuals amount to €4,980 thousand and those granted to parties related to them to €1,553 thousand. Sight and term deposits amounted to €2,399 thousand and those of their related parties to €2,350 thousand.

11. AGENCY CONTRACTS

The list of agents of the banks: Popular Español, S.A., Pastor, S.A. and Popular Banca Privada, S.A., as at 31st of December 2014, as required for reporting purposes by Royal Decree 1245/1995 of 14th of July, is shown in Appendix II to these consolidated financial statements.

12. ENVIRONMENTAL IMPACT

The Group considers that it has taken appropriate action in relation to the protection and improvement of the environment and the minimisation, where appropriate, of the environmental impact. Even so, given the activities in which the Group is engaged, it has no liabilities, expenses, assets, provisions or contingencies of an environmental nature that could be significant in relation to its assets, financial position or results. Therefore, as at 31st of December 2014 the accompanying consolidated financial statements do not include specific disclosures in these notes regarding environmental issues. Appendix III of the integrated report details the Bank's actions in relation to the environment.

13. GUARANTEE FUND

The contributions to the Deposit Guarantee Fund (Spain, Portugal and USA), in the case of credit institutions, and to the Investment Guarantee Fund, for securities companies and agencies, are recognised in Other operating expenses (Note 57) in the consolidated profit and loss account. The Investment Guarantee Fund was introduced in 2001 by Royal Decree 948/2001, regulating investor indemnity systems.

The ordinary contribution to the Fund is set at an annual payment calculated as 0.2% of the calculation base.

In 2014, the EU adopted Regulation (EC) 634/2014, which reflects IFRIC 21 on Levies, Applicable and effective from the 1/1/2015, although it provides for its early adoption. Said interpretation establishes that the levy should be accounted when the implicit obligation arises, regardless of the time of its settlement.

Based on the interpretation IFRIC 21, the ordinary contribution to deposits at 31st of December 2014 will be registered and charged against the result of 2014. The other corresponding commitments at the end of 2013, settled in 2014, will be handled as a change in accounting standard pursuant to Rule 8 of Banco de España Circular 4/2004 and IAS 8; as a result, the amount settled at the beginning of 2014, concerning the amount accrued to 31/12/2013, will be reflected in 2014 Reserves, and thus in the profits and losses account for 2013.

Likewise, following the publication issued by the Deposit Guarantee Fund Management Committee on 17 December 2014 as regards the payment schedule for the second tranche (to be made in 7 years) of the extraordinary contribution laid down in Royal Decree Law 6/2013 for the protection of holders of certain savings and investment products and other financial measures, the 2014 Financial Statements are affected by the recognition and accounting of obligations pending payment of said second tranche; furthermore, and pursuant to Rule 8 of Banco de España Circular 4/2004 and IAS 8, the change in accounting standard calls for the recording of payment obligations as regards the three-fifths pending, with a balancing entry in Reserves for the year 2014 (to be stated as a cost in the profit and losses account for 2013, based on the performed restatement of the Financial Statement), representing a gross tax amount of €97,257 thousand for the Group.

In 2013, following the publication of Royal Decree Law 6/2013, which entailed the obligation to make a one-off contribution amounting to 0.3% of deposits held at 31 December 2012 by member entities, the Group recorded the corresponding part of the first tranche against earnings for said year; said amount was equivalent to two-fifths of its contribution obligation (€67,081 thousand), reduced to €6,708 thousand as the deductions envisaged in the regulations were exceeded due to the subscription of securities issued by SAREB by over 90%, the maximum limit for deductions.

The expense relating to additional annual contributions to the Deposit Guarantee Fund by the consolidated banks operating in Spain, Portugal and USA and consolidated companies subject to the Investment Guarantee Fund totalled an overall amount of €116,002 thousand and €224,727 thousand in 2014 and 2013, restated pursuant to note 2.d), respectively.

The contribution to the Investment Guarantee Fund by the consolidated companies to which that legislation is applicable amounted to €39 thousand and €31 thousand in 2014 and 2013, respectively.

Banco Popular Portugal made annual and extraordinary contributions to the Deposit Guarantee Fund in Portugal and Investor Indemnity System. Additionally, in accordance with Portuguese legislation, other contingent commitments continue to be recorded in suspense accounts amounting to €5,314 thousand in 2014 and 2013 for possible future risks which the Fund may be required to cover.

14. AUDIT FEES

The fees accrued by PricewaterhouseCoopers Auditores, S.L. for the audit of the individual and consolidated financial statements for 2014 of the parent entity and subsidiaries amounted to €1,922 thousand while the fees accrued for other services (including regulatory and regulation-related services) amounted to €499 thousand. The amounts recorded for these items in 2013 were €1,876 thousand and €583 thousand, respectively. Fees for tax advisory services received in 2014 amounted to €37 thousand while fees for other services totalled €1,833 thousand. Fees for these services in 2013 totalled €41 thousand and €533 thousand, respectively.

The audit fees accrued in 2014 by other auditors of Group companies for audit and other services totalled €107 thousand and €14 thousand, respectively. The amounts recognised for these items in 2013 were €88 thousand and €11 thousand, respectively.

15. ACCOUNTING PRINCIPLES AND VALUATION METHODS USED

The most significant accounting standards and measurement rules used in the preparation of these consolidated financial statements, in addition to those listed in Note 2 a) "Basis of Presentation" to the consolidated financial statements, are described below:

a) Going concern principle

In preparing the consolidated financial statements, it was considered that the companies included in the Group will continue to operate for the foreseeable future. Accordingly, the application of accounting standards is not intended to determine the value of consolidated equity for the purposes of their total or partial sale, nor the amount resulting in the event of their liquidation.

b) Accrual principle

Except in connection, where appropriate, with the consolidated cash flow statements, the accompanying consolidated financial statements were prepared on the basis of the actual flows of goods and services, regardless of their payment or collection dates.

c) Other general principles

The consolidated financial statements have been prepared based on the fair value approach, except for historical cost or amortised cost when applicable (land and buildings or financial assets and liabilities). The preparation of the consolidated financial statements requires that certain accounting estimates be made. In addition, Management is required to exercise judgement in applying the Group's accounting policies. Such estimates may affect the amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amount of revenues and expenses in the consolidated financial statements. Although estimates are based on the best information available to Management about the present and foreseeable circumstances, final outcomes may be at variance with these estimates.

d) Financial derivatives

Financial derivatives are instruments the value of which changes in response to changes in an observable market variable, sometimes called the underlying asset, such as an interest rate, a foreign exchange rate, the price of a financial instrument or a market index, including credit ratings; they do not require any initial investment, or if they do it is much smaller than would be required for other similar financial instruments, and they are generally settled at a future date.

Financial derivatives are instruments that can have a high leverage and generate gains or losses with a minimum investment, or may under certain conditions enable all or part of the credit and/or market risks associated with balances and transactions to be offset, using interest rates, certain indices, the prices of some securities, cross exchange rates of various currencies or other similar references as underlying elements. The Group uses financial derivatives traded on organised markets or traded bilaterally with counterparties on the over-the-counter (OTC) market.

Financial derivatives are used to trade with customers when they so request, to manage the risks associated with the group's own exposures (hedging derivatives), or to take advantage of changes in their prices. Financial derivatives that have not been designated as accounting hedges are considered to be trading derivatives. To be designated as a hedging instrument, a financial derivative must satisfy the following conditions:

i) It must cover exposure to changes in the values of assets and liabilities caused by interest rate and/or exchange rate transactions (fair value hedge); exposure to changes in the estimated cash flows from financial assets and liabilities and from commitments and transactions forecast as highly probable (cash flow hedge); or the exposure associated with net investments in foreign operations (hedge of the net investment in a foreign operation).

ii) It must effectively eliminate a risk that is inherent in the hedged item or position over the expected term of the hedge. It must therefore be prospectively effective, be effective at the time of arrangement of the hedge in normal conditions and be effective retrospectively, with sufficient evidence that the effectiveness of the hedge will be maintained throughout the life of the element or position hedged.

iii) Fulfilment of the requirements for accounting treatment of the hedge is evidenced by the performance of tests to make it possible to consider the hedge as highly effective at inception, through prospective tests, and throughout the life of the transaction by means of retrospective tests to confirm the effectiveness of the hedge made, by observing that the results arising from variations in the value of the hedging derivative have fluctuated within a variation range from 80% to 125% with respect to the variation in value of the item hedged; this tolerance interval is that admitted by accounting standards.

Adequate documentary evidence must be provided that the arrangement of the contract for the financial derivative took place specifically in order to hedge certain risks or transactions and showing how it was intended to achieve and measure that effective hedge, provided that this is consistent with how the Group manages its own risks.

Hedges may be applied to individual elements or balances (micro hedges) or to portfolios of financial assets and liabilities (macro hedges). In the latter case, the set of financial assets or liabilities to be hedged must share a common type of risk, this requirement being understood to be fulfilled when the sensitivity of the individual elements hedged to interest rate changes is similar. Financial derivatives aim to hedge, when interest rate expectations so advise, the risk existing as a result of mismatches in the re-pricing of balance sheet assets and liabilities, by using instruments that make it possible to compare the dates of rate revisions on both sides of the balance sheet or to convert fixed rate elements to variable rate elements or vice versa, in such a way that interest rate variations affect the asset and liability items equally.

The Group has continued to use derivatives for micro hedges in cover of the intrinsic value of options purchased which are embedded in a set of loans granted to clients ("floors").

It should be noted that in 2012, and on the date of the takeover of Banco Pastor, S.A. a valuation was carried out of the acquired bank's assets and liabilities and the relevant fair value adjustments were recognised. These included embedded derivatives which were not separately disclosed on the acquiree's balance sheet. These embedded derivatives could be adequately identified and were measured using the Group's valuation tools. Floors were capitalised only when they were above market interest rates on the date of the valuation exercise. The Black-Scholes method was used, this being an option valuation methodology generally accepted by the market which enables instruments of this kind to be valued or quoted. Therefore, the requirement is met that an independent instrument with the same conditions as the embedded derivative meet the requirements for the definition of a derivative instrument. Furthermore, the condition that the (combined) hybrid instrument existing in the acquiree's balance sheet not be valued at fair value through profit of loss was also met. Finally, the options corresponding to said floors were not leveraged with respect to the main contract.

Financial derivatives embedded in other financial instruments or other primary contracts are recognised separately as derivatives when their risks and other characteristics are not closely related to those of the primary contracts and the primary contracts are not classified as Financial instruments held for trading or as other financial assets or liabilities at fair value through profit or loss.

Finally, hybrid financial instruments, although separable for accounting purposes, are not individually transferable.

e) Financial assets

Financial assets are classified in the consolidated balance sheet as follows:

i) Cash and balances with central banks, relating to the cash balances and debtor balances held at Banco de España and other central banks.

ii) Financial instruments held for trading, including the financial assets which have been acquired for selling in the short term, form part of a portfolio of financial instruments identified and managed jointly for which recent actions have been performed in order to obtain short-term gains, or are derivatives which do not comply with the definition of financial guarantee contract and which have not been designated as accounting hedge instruments. This item also includes derivatives that are used as economic hedges of other derivatives.

iii) Other financial assets at fair value through profit or loss: this includes financial assets which, not forming part of the financial instruments held for trading, are classified as hybrid financial assets and are valued in full at fair value, irrespective of whether the embedded derivative is separated or not, and those managed jointly with liability under insurance contract valued at fair value or with financial derivatives whose purpose and effect are to materially reduce their exposure to variations in fair value, or are managed jointly with financial liabilities and derivatives in order to materially reduce the overall exposure to interest rate risk.

iv) Available-for-sale financial assets, which are debt securities not classified as held-to-maturity portfolio, such as other financial assets at fair value through profit or loss, loans and receivables, financial instruments held for trading and equity instruments of companies that are not subsidiaries or jointly-controlled companies or associates and have not been included in the categories of financial instruments held for trading, non-current assets held for sale and other assets at fair value through profit and loss.

v) Loans and receivables, which includes financial assets that are not traded on an active market and are not required to be valued at fair value, whose cash flows are of a determined or determinable amount, and in which all the disbursement made by the Group will be recovered, excluding reasons attributable to the debtor's solvency. This category comprises investments associated with normal bank lending and includes amounts loaned to customers and not yet repaid; deposits placed with other financial institutions, regardless of the legal arrangements under which the funds were provided, financial guarantees and unquoted debt securities; and any debts incurred by purchasers of goods or services forming part of the group's business.

vi) Held-to-maturity portfolio, which relate to debt securities traded on an active market having fixed maturities and identified or identifiable cash flows, which the Group has decided to hold to maturity based essentially on its positive intention and financial capacity to do so.

vii) Adjustments to financial assets for macro-hedges, corresponding to the balancing entry for amounts credited to the consolidated profit and loss account arising in the valuation of the portfolios of financial instruments of which the interest rate risk is effectively hedged by fair value hedging derivatives.

viii) Hedging derivatives that include the positive fair value of the financial derivatives acquired or issued by the Group that have been designated as accounting hedges.

ix) Non-current assets held for sale which relate to the value of the assets, of any nature, which are very likely to be sold in the conditions in which said assets were currently found, within one year following the date of their inclusion under this category. Therefore, the recovery of the carrying amount of these items, which may be of a financial or non-financial nature, will presumably occur through the price obtained upon their disposal. Also included are real estate, equity instruments or other non-current assets foreclosed by the Group in full or partial fulfilment of the payment obligations of its debtors.

x) Investments, including equity instruments in associates and joint ventures.

xi) Pension-linked insurance contracts corresponding to the rights to be reimbursed by insurance companies for part or all of the disbursement required to settle a defined-benefit obligation when the insurance policies fail to meet the conditions to qualify as a Plan asset.

xii) Reinsurance assets, which include the amounts that the Group is entitled to receive arising from its reinsurance contracts with third parties and, specifically, the participation of reinsurance in the technical provisions set up by the insurance companies included in the Group as subsidiaries.

Generally financial assets are initially carried at fair value, which, unless otherwise evidenced, will be the transaction price. They are subsequently valued at each accounting close in accordance with the following criteria:

i) Financial assets are measured at fair value except for credits, loans and receivables, the held-to-maturity portfolio, equity instruments whose fair value may not be determined in a sufficiently objective manner and financial derivatives for which the underlying assets are equity instruments and which are settled through the delivery of the same.

ii) The fair value of a financial asset on a given date is defined as the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value of an asset is the price being quoted for the asset on an active market where the market is organised, transparent and of reasonable depth. Where there is no market price for a particular financial asset, its fair value is estimated based on that established in recent transactions involving similar instruments and, failing that, on sufficiently tested valuation models such as discounting of flows, multiples, etc. Also to be borne in mind are the specific peculiarities of the assets to be valued and, particularly, the various types of risk associated with the financial asset.

iii) The fair value of financial derivatives with quoted prices on an active market that are included in the financial instruments held for trading is the daily quoted price; if for exceptional reasons, the quoted price on a given date cannot be established, they must be valued, as is the case of financial derivatives, by sufficiently tested methods such as the Black-Scholes or Monte Carlo methods.

The basic assumptions employed in the measurement of financial derivatives are based on the Risk-neutral principle, ensuring that the differential equations to be resolved are expressed maintaining the price of the risk factor as the probability theory with the choice of appropriate measure or cash (listed price of underlying, interest rate *forward*s, FX *forward*s, etc.).

iv) Loans and receivables and the held-to-maturity portfolio are valued at their amortised cost, using the effective interest rate method to establish this cost . Amortised cost is the cost of acquisition of a financial asset adjusted by the repayments of principal and the portion allocated to the profit and loss account, using the effective interest rate method, of the difference between the initial cost and the related repayment value at maturity, minus any reduction of value for impairment directly recognised as a decrease in the amount of the asset or through a value adjustment account. In the event that they are hedged through fair value hedges, those variations in fair value related to the risk or risks hedged through such hedging transactions are recorded.

The effective interest rate is the discount rate which makes the value of a financial instrument exactly equal to the estimated cash flows over the expected life of the instrument, based on the contractual conditions, such as early repayment options, but disregarding future credit risk losses. For fixed interest financial instruments, the effective interest rate is the contractual interest rate at the time of purchase plus, if appropriate, the commissions and fees which may, by nature, be similar to an interest rate. In the case of floating interest rate financial instruments, the effective interest rate is the current rate of return under all headings until the first revision of the reference interest rate takes place.

v) Investments in the capital of other companies whose fair value cannot be determined with sufficient objectivity and the financial derivatives whose underlying asset are such instruments and which are settled by delivery thereof, are carried at their cost, adjusted, if appropriate, by the losses for impairment which may have occurred.

vi) Valuation methodologies. Financial instruments and in particular derivatives require frequent and accurate measurement for management, risk, regulatory and accounting reasons.

There are basically two types of valuation: Mark-to-Market and Mark-to-Model

Mark-to-Market: The Mark-to-Market measurement methodology is based on the possibility of assigning market prices to instruments identical to those included in the Bank's portfolio.

These market prices may derive from the quoted prices of market makers within financial reporting systems, operations carried out on trading platforms, clearing houses or organised markets.

Their accuracy and validity depend on the number of quotes and transactions carried out on the instrument, the frequency of updating and their degree of liquidity. This means that only simple, standardised financial instruments belonging to active markets can be measured correctly using a Mark-to-Market method (sovereign bonds, financial futures, etc.).

This methodology corresponds to the revaluation group, or level 1 (market prices), in international accounting regulations.

Mark-to-Model: The Mark-to-Model methodology has to be applied in all cases where, due to liquidity, exotic characteristics, etc., it is not feasible to assign a market valuation (Mark-to-Market) to financial instruments. This methodology assumes a reasonable behaviour, usually framed within standard market models, of the basic underlying financial instrument and on that basis it will infer an accurate valuation for more complex instruments. It may be said that a valuation by model is a sophisticated way to interpolate the value of a financial instrument that is not listed on a stock exchange, from the quoted prices of those that are.

In general, these standard market models (e.g. stochastic trends resolved by the Monte Carlo method) could be interpreted as an assignment of values and probabilities to each of the possible scenarios for the financial instrument, which, when combined, generate its valuation. The most common models in the market are usually free of internal and external arbitrage.

This method corresponds to revaluation groups or levels 2 and 3 (valuation based on market parameters and valuation based on unobservable parameters respectively) in the international accounting standards.

The sophistication of the models used in the Banco Popular Group depends on the degree of complexity of the instrument to be measured and the optimisation of computational performance versus accuracy in the measurement, i.e. to calculate on a daily basis the revaluation of all operations of the Banco Popular Group as accurately as possible.

Valuation of equity products

Financial instruments linked to *equity* are mostly valued by the *Mark-to-Model method*. Listed shares, futures and equity options traded on organised markets with standard features could be excluded from this generalisation.

The *equity* valuation models most commonly used on the market are usually found in a *Black* valuation framework (this is an arbitrage-free model with lognormal evolution of the underlying stock) and take into account, for calibration and adjustment to the market, inputs relating to interest rates in the currency in which the stock is traded (no risk rate), the volatility of the stock based on its term and *strike*,price and the dividends estimated by the market (market consensus, *dividend swaps*, etc.).

The models currently developed in Banco Popular for variable income securities include Monte Carlo *flat volatility*, calculators, stochastic simulation processes of local volatility and analytical solutions where possible (*Black-Scholes* formula for *plain vanilla* options and application of absence of arbitrage opportunity for instruments without pay-off asymmetries).
in the pay-off).

Valuation of interest rate, fixed income and credit products

The bond market (fixed income) is broad and varied and therefore it is relatively common to find liquid quotes for identical instruments that are to be measured (Mark-to-Market methodology). In the absence of quoted prices or if they are illiquid, it is necessary to develop a Mark-to-Model valuation.

If the debt instruments are sufficiently homogeneous (senior debt, mortgages, etc) it is possible to obtain the necessary inputs for the Mark-to-Model valuation based on market prices. In the worst-case scenario, usually linked to hybrid and equity instruments, there are no observable parameters in the market and no widely distributed models and therefore a Mark-to-Model valuation must be performed based on reasonable financial assumptions and models that combine credit and interest rates.

The valuation of most interest rate derivatives is performed using standard market models and inputs with the highest liquidity possible. In this case, it is not the prices that are calculated but the parameters to be used in a model accepted by all (as in the case of calculating Cap volatilities rather than their prices because they are assumed to be equivalent since the entire market uses the Black-Scholes-Merton model). For exotic interest rate instruments more sophisticated models are needed which, although claiming to be the most commonly used, need stronger assumptions concerning the dynamics of the core assets and which involve parameters that are less observable on the market because these exotic instruments are less liquid. Some examples of these sophisticated models are the *Libor Market Model* (interest rate stochastic dynamics model) or the SABR (stochastic dynamic model of interest rate volatilities). Any of these models must coincide for *plain vanilla* products with market prices, free from internal arbitrage and with appropriate inputs (market), and free of external arbitrage.
the market), as well as also being free of external arbitrage.

The valuation of derivatives includes carrying amount adjustment for underlying credit risk (DVANDVA) in accordance with IFRS 13.

For the calculation of this adjustment, internally developed mathematical models are applied which involve the combination of three factors:

- EAD (*Exposure at Default*): measures, by simulating different market variables, the future exposure that the Bank has in each derivative at any time until maturity. The calculation takes into account the guarantees posted by counterparties.

- PD (Probability of Default): measures the likelihood that a counterparty will default on its payment obligations, applying the PDs of the Bank's internal models.

- LGD (*Loss Given Default*): Measures the post-recovery net loss in the event of default, applying a 60% rate in line with market standards.

The models that the Bank has developed and which are used in accordance with the needs of the product are the absence of arbitrage opportunity model for the simplest products, the Black implied volatility model for plain vanilla interest rate options and the Libor Market Model with implied volatility for exotic interest rate products..

Valuation of foreign exchange derivatives

The different types of foreign exchange derivatives can be measured using the methods described above.

This allows us to obtain prices for foreign exchange futures directly on financial information platforms, which means that the applicable method would be Mark-to-Market.

On the other hand, we can get the prices *Forward* not directly quoted, without model, with absence of arbitrage opportunity in a *Mark-to-Model* methodology also within this group we could include assessment of could be included, since although they require a model (Black-Scholes), this model is widespread and extracts all the market parameters.

The most exotic structures also come under the Mark-to-Model methodology, since it is necessary to develop a theoretical framework within accepted market standards, although sometimes with certain unobservable parameters, to carry out the valuations. This theoretical framework broadens depending on the complexity of the derivative, and in most cases, Monte Carlo simulation methods are necessary. An important factor for effecting valuations within a theoretical framework is the quality and accuracy of the inputs used to develop the model. In general for these products, the inputs used in said models are quoted, for example volatility.

The models currently developed in the Bank for foreign exchange derivatives include Monte Carlo *flat volatility* calculators, stochastic simulation processes of local volatility and analytical solutions where possible (Black-Scholes formula for *plain vanilla* options and application of absence of arbitrage opportunity for instruments without pay-off asymmetries).
in the pay-off).

Valuation of commodity products

The commodities market is very diverse with a variety of different products and trading in a wide variety of markets (LME, NYMEX, IPE, etc.), although it is true that the Bank's operations in this area are currently rather limited, and low-volume, particularly in comparison with other types of business.

For commodities instruments which are indexes or futures on organised markets, valuations can be obtained directly using the Mark-to-Market method, as these are fairly liquid markets, particularly as regards short-term transactions.

For products where the Mark-to-Market method is not appropriate, the Mark-to-Model method may be employed, which is used in the market to carry out the relevant valuations.

Apart from *commodities* a number of variables which differ from those we are accustomed to must be taken into account in the commodities market. These include storage costs, *convenience yield* and *lease rate*. These variables are not directly quoted on the market but are estimated on the basis of the prices of other instruments.

The models currently developed in Banco Popular for commodities are analytical solutions for the application of the absence of arbitrage opportunities.

Among the securities included in Level 3, it is not considered that a reasonable variation in some assumption could entail a significant change in fair value.

Regarding financial instruments in non-active markets classified in Level 2 of the fair value hierarchy, these are assets in which few transactions are carried out, so the market price does not adequately reflect the fair value and therefore the mark-to-model method is used.

Changes in the carrying amount of financial assets are generally recognised with a balancing entry in the consolidated profit and loss account, differentiating between those arising from the accrual of interest and similar items, which are recognised under Interest and similar income, and those arising from other causes, which are recognised at their net amount under Gains or losses on financial transactions in the consolidated profit and loss account, or under Impairment losses on financial assets (net) if this should be the reason for the change in value. However, changes in the carrying amounts of instruments included under Available-for-sale financial assets are temporarily recognised under Valuation adjustments in Consolidated equity, net of the tax effect, unless they arise from exchange differences. The amounts included under the Valuation adjustments heading continue to form part of consolidated equity until the asset giving rise to them is removed from the consolidated balance sheet, or in the case of negative adjustments, when impairment is considered irreversible, at which time they are charged to the consolidated profit and loss account.

Similarly, changes in the carrying amount of items included under Non-current assets held for sale and meeting certain requirements are recognised with a balancing entry in Valuation adjustments in Consolidated equity.

For financial assets designated as hedged items and accounting hedges, valuation differences are recognised taking account of the following criteria:

i) For fair value hedges, the changes in both the hedging instruments and the hedged items, as regards the type of risk hedged are recognised directly in the consolidated profit and loss account under Gains/ losses on financial transactions.

ii) The valuation differences relating to the ineffective portion of cash flow hedges and of hedges of net investments in foreign operations are recognised directly in the consolidated profit and loss account, in the Financial operations result.

iii) In cash flow hedges, valuation differences arising in the effective portion of the hedging instruments are recognised temporarily under Valuation adjustments in Consolidated equity, net of the tax effect.

iv) In hedges of a net investment in a foreign operation, the valuation differences arising in the effective portion of the hedge elements are recorded temporarily in the Consolidated equity valuation adjustments caption, net of the tax effect.

In the latter two cases, the valuation differences are not recognised in profit and loss until the losses or gains on the hedged item are recognised in the consolidated profit and loss account or until the maturity of the hedged item.

With regard to hedges applied, there remain the individually applied micro-hedging transactions in respect of deposit-capturing campaigns in place at reporting date, the characteristics of which, as regards start date, term and remuneration offered to each depositor, were identical. treatment. In order to justify this accounting treatment, we contracted a derivative corresponding to the total of the specific campaign to be hedged, with flows receivable, from the financial derivative, similar to those payable to all the depositors and distributed in proportion to their balances.

Macro-hedge transactions were also carried out, either through the sale of options to hedge the intrinsic value of options purchased which are embedded in a set of mortgage loans granted to our customers (floors) [or to cover a fixed interest loan portfolio]. The hedged assets (mortgage loans and floors) meet the requirements for being considered as hedged items. Changes in the fair value of the risks hedged have been credited to the profit and loss account with a balancing entry in "Adjustments to financial assets in respect of macro-hedges".

In cash flow interest rate risk hedges in a portfolio of financial instruments, the effective portion of the variation in the value of the hedging instrument is recorded temporarily in the Consolidated equity valuation adjustments caption, net of the tax effect, until the transactions envisaged take place, and then are recorded in the consolidated profit and loss account. The change in the value of the hedging derivatives for the ineffective portion of the hedge is recognised directly in the consolidated profit and loss account.

f) Financial liabilities

Financial liabilities are classified in the consolidated balance sheet as follows:

i) Financial instruments held for trading, including the financial liabilities acquired for realisation at short term, form part of a portfolio of financial instruments that are identified and managed jointly for which recent actions have been performed in order to obtain short-term gains or are derivatives not designated as accounting hedge instruments, or arise from outright sales of financial assets acquired temporarily or received on loan.

ii) Other financial liabilities designated at fair value through profit or loss, corresponding to those which, not forming part of the financial instruments held for trading, are by nature hybrid financial instruments and it is decided to include in this category, irrespective of whether or not the embedded derivative is separated, or those which are managed jointly with financial assets at fair value through profit or loss.

iii) Financial liabilities at amortised cost that relate to financial liabilities that cannot be included in other captions of the consolidated balance sheet and which relate to the Group's typical fund-raising activities, regardless of how they are arranged and their maturity.

iv) Fair value changes of the hedged items in portfolio hedges of interest rate risk relating to the balancing entry of the amounts credited to the consolidated profit and loss account resulting from the valuation of the financial instrument portfolios which are efficiently hedged against the interest rate risk through fair value hedging derivatives.

v) Hedging derivatives that include the negative valuations of financial derivatives acquired or issued by the Group that have been designated as accounting hedges.

vi) Liabilities associated with non-current assets held for sale, corresponding to the credit balances on non-current assets held for sale.

vii) Liabilities related to insurance contracts refer to the technical provisions recorded by the Group to cover claims associated with insurance contracts which are in effect at year-end and the fair value of the amounts pending receipt from technical guarantees.

Financial liabilities are recorded at amortised cost, as defined for financial assets in Note 15.e, except in the following cases:

i) The financial liabilities included in the captions of Financial instruments held for trading, Other financial liabilities designated at fair value through profit or loss and Financial liabilities at fair value through profit or loss, which are valued at fair value, as defined for financial assets in Note 15.e. Financial liabilities hedged by fair value hedges are adjusted, and the changes in their fair value with respect to the risk hedged are recognised in Gains/losses on financial transactions in the profit and loss account.

ii) Financial derivatives whose underlying element is equity instruments the fair value of which cannot be determined with sufficient objectivity and are settled by delivery thereof are valued at cost.

Changes in the carrying amount of financial liabilities are generally recognised with the balancing entry in the consolidated profit and loss account, differentiating between those arising from the accrual of interest and similar expenses, which are recognised under Interest and similar expenses, and those which relate to other causes, which are recognised at their net value under Gains/losses on financial transactions in the consolidated profit and loss account. In the case of financial liabilities designated as hedged items and accounting hedges, valuation differences are recognised having regard to the criteria indicated for financial assets in Note 15.e.

g) Transfers and removals from the consolidated balance sheet of financial instruments

Transfers of financial instruments are recorded having regard to whether or not the risks and benefits associated with the financial instruments transferred are retained, on the basis of the following criteria:

i) If the risks and benefits are substantially transferred to third parties, as in unconditional sales, sales with agreement for repurchase at fair value at the repurchase date, sales of financial assets with a purchase option acquired or sale option issued deeply out of the money, securitisations of assets in which the assignor does not retain subordinated financing and does not grant any kind of credit enhancement to the new owners, etc., the financial instrument transferred is removed from the consolidated balance sheet with simultaneous recognition of any right or obligation retained or created as a result of the transfer.

ii) If all the risks and benefits associated with the financial instrument transferred are retained, as in sales of financial assets under repos for a fixed price or the selling price plus interest, security loan contracts in which the borrower is required to return the same or similar assets, etc., the financial instrument transferred is not written off the consolidated balance sheet and continues to be measured using the criteria used prior the transfer. Nonetheless, the associated financial liability is recognised for accounting purposes in an amount equal to the price received, which is subsequently measured at amortised cost. In order to reflect the net financing received under liabilities, entities should present financial instruments (securitisation bonds) acquired from the entity to which the financial assets have been transferred by deducting the associated financial liability.

Also, the Group includes in its scope of consolidation, by the full or proportionate consolidation method, as appropriate, the securitisation vehicles to which the assets were transferred. In consolidation the related eliminations were therefore made between the associated financial liability by the companies which individually recognised the transfer and the financial assets recorded for accounting purposes by the special-purpose vehicle. Also eliminated was the interest income and interest expense arising from the aforementioned assets and liabilities eliminated in consolidation. Consequently, the consolidated balance sheet reflects the original assets not derecognised and recognition is given to the liabilities issued by the securitisation vehicle which are held by third parties outside the Group.

Notes 35 and 69 to these consolidated financial statements offer more information on the Group's securitisations.

iii) If the risks and rewards associated with the financial instrument transferred are not substantially transferred or retained, as in sales of financial assets with an option to purchase acquired or an option to sell issued which are not deeply in or out of the money, the securitisations in which the transferor assumes subordinated financing or another kind of credit improvement for a portion of the asset transferred, a distinction is made between the following cases:

- If the Group does not retain control of the financial instrument transferred, it is removed from the consolidated balance sheet and recognition is given to any right retained or obligation created as a result of the transfer.

- If the Group does retain control of the financial instrument transferred, it continues to recognise it in the consolidated balance sheet at an amount equal to its exposure to changes of value that it may experience and recognises a financial liability associated with the financial asset transferred. The net amount of the asset transferred and of the associated liability will be the amortised cost of the rights and obligations retained if the asset transferred is measured by its amortised cost, or the fair value of the rights and obligations retained if the asset transferred is measured at its fair value.

Therefore, financial assets are only removed from the consolidated balance sheet when the cash flows they generate are extinguished or when the implicit risks and benefits have been substantially transferred to third parties. Similarly, financial liabilities are removed from the consolidated balance sheet only when the obligations that they generate have been extinguished or when they are acquired with the intention of cancelling or reselling them.

h) Financial asset impairment

The carrying amount of financial assets is generally adjusted with a charge to the consolidated profit and loss account when there is objective evidence that an impairment loss has arisen, which occurs:

i) In the case of debt instruments, i.e. loans and securities representing debt, if after their initial recognition an event occurs or the combined effect arises of several events with a negative impact on their future cash flows. Possible events pointing to objective evidence of impairment include:

a) When the party obliged to pay has entered into or may enter into receivership or has significant financial difficulties.
b) When the contractual conditions have been breached, for example by non-payment of principal or interest on the agreed date.
c) When the obligor of the payment has been granted financing or the debt has been restructured on account of financial difficulties.
d) When there is data that provides evidence of a a quantifiable diminution in the future cash flows from a group of debt instruments.

ii) In the case of equity instruments, if after their initial recognition an event occurs or the combined effect arises of several events indicating that it will not be possible to recover their carrying amount. Evidence of impairment exists when any of the following cases arises:

a) The issuer has entered, or is likely to enter into receivership or has significant financial difficulties.
b) There have been significant changes in the issuer's economic environment which may have adverse effects on recovery of the investment.
c) The fair value of the instrument suffers a significant or prolonged decrease below the carrying amount.

A fall in value over a period of one and a half years or a significant fall (40% or more) in listed price is considered objective evidence of impairment.

As a general rule, the carrying amount of financial instruments is adjusted for impairment against the consolidated profit and loss account for the period in which such impairment is detected and recoveries of previously recognised impairment losses, if any, are recognised in the consolidated profit and loss account for the period in which such impairment is eliminated or reduced. If the recovery of any amount recognised for impairment is considered remote, the amount is eliminated from the consolidated balance sheet, although the Group may take the necessary action to attempt to achieve collection for as long as its rights have not definitively been extinguished due to prescription, forgiveness or other reasons.

In the case of debt instruments valued at amortised cost, the amount of the losses incurred for impairment is equal to the negative difference between their carrying amount and the present value of their estimated future cash flows. In the case of listed debt instruments, market value is used provided that this is sufficiently reliable to be considered representative of the value that might be recovered by the Group.

The estimated future cash flows of a debt instrument are all the amounts of principal and interest which the Group estimates it will obtain during the life of the instrument. Consideration is given in this estimate to all relevant information available at the date of preparation of the consolidated financial statements which provides data about the possibility of future collection of the contractual cash flows. Also, in estimating the future cash flows of secured instruments, regard is had to the flows which would be obtained from their realisation , less the amount of the costs necessary to obtain and subsequently sell them, regardless of the probability of execution of the guarantee.

In calculating the present value of the estimated future cash flows, the discount rate used is the original effective interest rate of the instrument, if the contractual rate is fixed; if the contractual rate is floating, the discount rate used is the effective interest rate at the date of the consolidated financial statements determined in accordance with the contract conditions.

Portfolios of debt instruments, contingent risks and contingent commitments, regardless of the obligor, the form in which they are evidenced or the security/collateral, are analysed to determine the credit risk to which the Group is exposed and to estimate the impairment provision required. For preparation of the consolidated financial statements, the Group classifies its transactions based on their credit risk, analysing separately the risk of insolvency attributable to the customer and the country risk, if any, to which the transactions are exposed.

Objective evidence of impairment is determined individually for all debt instruments that are individually significant, and collectively for groups of debt instruments that are not individually significant. When a particular instrument cannot be included in any group of assets with similar risk features, it is analysed solely on an individual basis to determine whether it is impaired and, if so, to estimate the impairment loss.

Debt instruments not measured at fair value with changes in profit and loss, contingent risks and contingent commitments are classified on the basis of the insolvency risk attributable to the customer or to the transaction in the following categories: standard risk, substandard risk, doubtful risk due to customer arrears, doubtful risk for reasons other than customer arrears and write-off risk. For debt instruments not classified as normal risk, the specific provisions needed for impairment are estimated based on the Group’s and the sector’s experience, taking into account the ageing of the unpaid amounts, the guarantees provided and the financial position of the customer and, where applicable, of the guarantors. This estimate is generally based on arrears schedules which are based in turn on the experience of the Group and the information it has of the sector, except for those which have been handled by means of case-by-case analysis.

The collective evaluation of a group of financial assets to estimate their impairment losses is performed in order to identify possible losses that have not yet been identified but which the Group knows, on the basis of historical experience and other specific information, have arisen at the year-end date although they will not materialise until later.

These provisions for credit risk are calculated taking estimated losses incurred as a reference and using the methodology developed by the Group, which takes the following aspects into account:

- In order to carry out a collective assessment of impairment, financial assets are grouped together on the basis of similarities in credit risk characteristics, indicating the debtor's capacity to pay all amounts in accordance with the terms of the contract. The characteristics chosen are those relevant in estimating future cash flows by groups of assets and are indicative of debtors' capacity to pay all amounts due under the terms of the contract being assessed. The Group uses classification models with variables indicating debtors' payment capacity based on historical experience.

- In order to assess impairment of a group of financial assets collectively, cash flows are estimated based on experience of historical losses for assets with similar risk characteristics to those of the group. The experience of historical losses is adjusted based on observable data, in order to reflect the effect of current conditions which did not affect the period from which the historical experience was drawn, and to eliminate the effects of the conditions of the historical period which do not currently exist. The Group uses a methodology which estimates impairment losses by linking the Group's historical default and severity data with other observable data such as macro-economic variables which reflect only the current situation.

- When historical loss rates are used to estimate future cash flows, the information on such rates is applied to the groups that have been defined in a manner consistent with that in which it was applied to the groups for which the historical rates have been observed. Therefore the method enables each group to be associated with information on past loss experience with groups of assets with similar credit risk characteristics and also with relevant observable data reflecting current conditions. In this respect, in the methodology used by the Group, parameters of loss incurred are estimated for historical internal data, segmenting the loan portfolio on the basis of the characteristics of the assets that it comprises.

In this respect, using the information base provided by its internal models, that have taken into account the evolution of the factors affecting the various assumptions and other aspects observed within the AQR, used to calculate regulatory capital under Basel III, the Group has constructed a methodology to calculate the loss incurred, using the risk parameters PD (probability of default), LGD (loss given default - severity) and EAD (exposure at default).

In order to comply with the criteria for estimating impairment losses specified by IAS 39, the Group estimates the risk parameters of the model with the following specifications:

Probability of default (PD): When determining the loss incurred, the Group estimates a probability of default based on internal historical data in such a way as strictly to reflect the current situation (loss incurred) with respect to both the status of payments by borrowers included in the group and the local or national economic conditions where there is a correlation with default on assets in the group. The Group estimates PD "point in time" at 31 December 2013, projecting the historical probabilities of default observed through lineal regressions with the relevant explanatory macro-economic variables.

This estimate of the probability of default is similar to that defined under Basel (capital framework agreement) as "PD point in time", agreeing with the present time in the economic cycle since it uses the default frequencies observed in the most recent periods.

Conversely, the parameter used to estimate regulatory capital requirements for credit risk under the IRB, the PD Through-the-Cycle (PD TTC), is an average estimate which, since it is estimated in an economic cycle context, incorporates both the historical and future effects of macro-economic variables and their link to default in each portfolio.

A population of transactions and customers classified as normal has been identified that do not meet the criteria to be individually classified as doubtful. However, they present weaknesses that may result in losses. The calculation of "PD point in time" has been distinguished for the two samples in order to reflect in the calculation the situation of greater credit impairment of the population with indications.

LGD - loss given default (severity): For the purposes of estimating impairment losses, loss given default is also estimated so as strictly to reflect the current situation (loss incurred) of recoverability of future flows from assets.

In this respect, estimating LGD based on historical experience (as established by point GA89 of IAS 39) presents the difficulty of determining the effective loss percentage in cycles which have not yet closed. This problem is accentuated in the current context of the recent increase seen in cases of default.

Additionally, the current situation makes it difficult to determine the loss rate on recent cases of default observed, given the difficulty of measuring the value of collateral assets associated with the defaulting transaction.

Therefore, in order to estimate LGD in a way that accords with the definition of loss incurred and reflects the current situation, the Group has established the following main methodology:

1. Assets which do not belong to the development segment with a mortgage guarantee: For such assets, the historical LGDs observed are projected through lineal regressions with the relevant macro-economic variables.
2. Development segment assets secured by real estate asset collateral: LGD on such assets is highly dependent on the value of the associated collateral. In order to include the specific characteristics of the valuation of such collateral – valuations differentiated on the basis of geographical area, use made of the asset and year of last appraisal – specific LGD is estimated, including a specific individual analysis of such collateral items.

The methodology developed by the Group to arrive at the loss incurred involves the following stages, in sequential order: determining the scope of application; segmentation; exposure reconciliation; estimate of parameters of loss incurred; calculation of the loss incurred.

However, the estimation of impairment losses on loans and receivables complies, in turn, with Circular 4/2004 of Banco de España, since the results of the calculation of loss incurred with the methodology described above show amounts of provisions that do not differ significantly from those estimated based on the aforementioned Circular.

Similarly, debt instruments not carried at fair value through profit and loss and contingent risks, irrespective of the customer, are analysed to determine the credit risk owing to the country-risk. Country risk is the risk associated with customers resident in a given country due to circumstances other than normal commercial risk.

The amount of impairment losses incurred on debt securities and equity instruments included under Available-for-sale financial assets is equal to the positive difference between acquisition cost, net of any amortisation of the principal, and fair value less any impairment loss previously recognised in the consolidated profit and loss account.

When there is objective evidence that the fall in fair value is due to impairment, the latent capital losses recognised directly in Valuation Adjustments in Consolidated equity, net of the tax effect, are immediately recognised in the consolidated profit and loss account. If all or part of the impairment losses are subsequently recovered, the amount is recognised, for debt securities, in the consolidated profit and loss account for the recovery period, and for equity instruments, in Valuation Adjustments in Consolidated equity.

In the case of debt and equity instruments classified under Non-current assets held for sale, the losses previously recognised in Consolidated equity are considered to have been realised and are recognised in the consolidated profit and loss account at their classification date.

Impairment losses on equity instruments carried at acquisition cost are accounted for as the difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of return for other similar securities. Such impairment losses are recognised in the consolidated profit and loss account for the period in which they arise and directly reduce the cost of the financial asset. The amount involved may not be recovered except in the event of their sale.

For investments in associates, the Group estimates impairment losses by comparing their recoverable amount with their carrying amount. Such impairment losses are recognised in the consolidated profit and loss account for the period in which they arise, and any subsequent recoveries are recognised in the consolidated profit and loss account for the relevant period.

i) Valuation of accounts in foreign currency

The presentation currency of the consolidated financial statements is the euro, which is also the functional currency of Banco Popular Español, S.A. Therefore all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

The equivalent value in euro of assets, liabilities and contingent exposures denominated in foreign currency, classified by nature, recorded by the Group at 31 December 2014 and 2013 is as follows:

€ thousands	**2014**	**2013**
ASSETS		
Cash and balances with central banks	50,534	44,631
Financial instruments held for trading	-	-
Available-for-sale financial assets	430,920	504,772
Loans and receivables	3,998,170	3,277,448
Held-to-maturity portfolio	-	-
Hedging derivatives	-	-
Non-current assets held for sale	7,013	21,166
Investments	97,324	-
Tangible assets	23,904	18,278
Intangible assets	15,250	12,749
Other assets	51,730	58,769
Total assets	4,674,845	3,937,813
LIABILITIES		
Financial liabilities at amortised cost	4,280,125	3,661,728
Other liabilities	27,853	8,503
Total liabilities	4,307,978	3,670,231
Contingent risks	741,367	747,160

The Notes concerning the most significant captions of the consolidated balance sheet set out detailed information on the basis of the principal currencies in which foreign currency balances are denominated. These Notes are 22, 23 and 35, which relate to Available-for-sale financial assets, Loans and receivables and Financial liabilities at amortised cost, respectively. A summary of the currencies other than the euro in which the Group carries out most of its transactions is as follows:

€ thousands	Assets		Liabilities	
Currencies	**2014**	**2013**	**2014**	**2,013**
USD	3,247,568	2,500,819	3,878,593	3,332,237
GBP	98,357	118,418	128,210	112,930
CHF	290,881	299,292	20,981	25,027
JPY	687,435	831,774	38,959	3,186

According to these data, the USD and Yen are the main currencies in which the Group operates apart from the euro, representing 88.82% of assets in foreign currency and 93.55% of liabilities in foreign currency as at 31 December 2014. These percentages relating to year-end 2013 were 88.06% and 93.00% respectively.

On initial recognition, debit and credit balances denominated in foreign currencies are translated into the functional currency using the spot exchange rate on the date of recognition, understood as the exchange rate for immediate delivery. Subsequent to initial recognition, the following rules are applied for translation of balances denominated in foreign currency to euro:

i) Monetary assets and liabilities are translated at the year-end exchange rate, i.e. the average spot exchange rate on the date of the financial statements, as published by the European Central Bank.

ii) Non-monetary items valued at historical cost are translated at the exchange rate prevailing on the date of acquisition.

iii) Non-monetary items valued at fair value are translated at the exchange rate prevailing on the date on which the fair value is determined.

iv) Revenues and expenses are translated at the exchange rate on the transaction date. However, an average exchange rate for the period may be used for all transactions during the period, unless there have been significant variations. Depreciation and amortisation are translated at the exchange rate applied to the asset concerned.

Exchange differences arising on the conversion of debit and credit balances denominated in foreign currency are generally recognised in the consolidated profit and loss account. However, in the case of exchange differences arising on non-monetary items measured at fair value for which adjustments to fair value are recognised under Valuation adjustments in Consolidated equity , the exchange rate component of the revaluation of the non-monetary item is disclosed.

At the investee companies whose functional currency is other than the euro, the balances in their financial statements are translated to euros as follows:

i) Assets and liabilities are translated at the year-end exchange rate.

ii) Revenues and expenses and cash flows are translated at the average exchange rates during the year.

iii) Equity is translated at historical exchange rates.

Exchange differences arising on translation of the financial statements of investee companies whose functional currency is other than the euro are recognised under Valuation adjustments in Consolidated equity.

None of the functional currencies of the investee companies relate to economies classified as highly inflationary by currently established criteria. Consequently, at the accounting close of 2014 and 2013, it was not necessary to adjust the financial statements of any investee company to correct them for the effects of inflation.

j) Offset of balances

Debit and credit balances arising from transactions which contractually or by force of law provide for possible offset, and where the intention is to settle them at their net amount or to realise the asset and pay the liability simultaneously, are presented in the consolidated balance sheet at their net amount.

Balance offsetting is basically concentrated in reciprocal accounts with credit institutions. The following table shows the starting total amount for the Group's credit institutions and the offsets of balances of €55,166 thousand in 2014 and €22,822 thousand in 2013. The intragroup eliminations leading to the balances in the consolidated balance sheet are made from the total net balances at individual level of the companies.

€ thousands	**2014**		**2013**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Accounting balances	191,388	246,554	240,464	195,739
Offsets	(55,166)	(55,166)	(22,282)	(22,282)
Net balances	136,222	191,388	218,182	173,457
Eliminations	(59,685)	(59,686)	(177,709)	(173,457)
Consolidated	76,537	131,702	40,473	-

k) Recognition of revenues and expenses

Interest and similar income and interest and similar charges are generally recognised for accounting purposes on the basis of their accrual period and by applying the effective interest rate method. Dividends received from other companies are recognised as revenues when the right to receive them arises.

Financial services fee and commission expenses or income, however contractually denominated, are classified in the following categories, which determine their allocation in the profit and loss account:

i) Financial fees and commissions are those which are an integral part of the effective cost or yield of a financial transaction and are allocated to the consolidated profit and loss account in two stages: first, recognition is given in the consolidated profit and loss account to the portion of the fee or commission compensating direct costs, and second, the remainder is accrued over the expected term of the transaction as an adjustment to the effective cost or yield thereof.

The amount of these commissions and fees is disclosed in Notes 49 and 50.

ii) Non-financial commissions and fees are those arising from the provision of services and can be of two kinds:

- Those arising from the provision of a service over a period of time, which are recognised in the consolidated profit and loss account over the period of the service.
- Those arising from the provision of a service in a single act. These commissions and fees are accrued and recognised in the consolidated profit and loss account when the single act is carried out.

Commissions and fees received and expense and similar items are generally recognised in the consolidated profit and loss account, in accordance with the following criteria:

i) Those linked to financial assets and liabilities carried at fair value through profit or loss are recognised at the time of collection.
ii) Those relating to transactions or services taking place over a period of time are recognised during the period of such transactions or services.
iii) Those relating to a transaction or service performed in a single act are recognised when such act takes place.

Non-financial fees received and paid are recognised on an accruals basis. Receipts and payments deferred over time are recognised in the accounts at the amount resulting from discounting the projected cash flows to present value at market rates.

l) Asset Exchanges

Swaps of tangible and intangible assets are acquisitions of such assets in exchange for the delivery of other non-monetary assets or a combination of monetary and non-monetary assets, except for foreclosed assets which are treated in accordance with the rules for Non-current assets held for sale.

The asset received in an asset swap is recognised at the fair value of the asset delivered plus, if appropriate, any monetary consideration given in exchange, unless there is clearer evidence of the fair value of the asset received.

m) Securities lending agreements

Securities loans are transactions in which the borrower receives full ownership of securities merely by paying certain commissions and fees, with the commitment to return to the lender securities of the same class as those received upon maturity of the contract.

Securities lending agreements in which the borrower is obliged to return the same assets or substantially identical assets or other similar assets with an identical fair value are considered as transactions in which the risks and benefits connected with ownership of the asset are substantially retained by the lender. The lending entity maintains them in portfolio, because they do not meet the conditions for removal from the balance sheet, and the borrowing entity does not reflect them in its balance sheets.

n) Financial guarantees

Contracts under which the Group is required to pay specific amounts to reimburse the creditor for the loss incurred when a specific debtor fails to comply with a payment obligation under the contract terms are considered financial guarantees, irrespective of their legal form, which may be a guarantee, a financial guarantee, an insurance contract or a credit derivative, among others.

Financial guarantees are carried at fair value, which will be the premium received plus the present value of the cash flows to be received over the term of the contract.

The classification of a financial guarantee contract as doubtful entails its reclassification to Provisions for contingent risks and commitments.

For calculation of impairment loss, financial guarantees are classified on the basis of the risk of insolvency attributable to the customer or to the transaction and, if appropriate, the need is estimated for recording provisions for them using criteria similar to those indicated in Note 15.h. for debt instruments valued at amortised cost, based on estimates of the amounts considered to be non-recoverable.

ñ) Leases

Leases are presented on the basis of the economic substance of the transaction, irrespective of its legal form, and are classified at inception as finance or operating leases.

i) A lease is considered a finance lease when substantially all the risks and rewards inherent in ownership of the leased asset are transferred.

When the Group acts as lessor of an asset, the sum of the present values of the amounts that will be received from the lessee plus the guaranteed residual value, usually the price of the purchase option price at the end of the lease, is recognised as financing provided to third parties. It is therefore included under Loans and receivables in the consolidated balance sheet, in accordance with the nature of the lessee.

This amount, the gross investment in the lease, is the sum of: the minimum payments to be received for the finance lease plus any unguaranteed residual value that pertains to the debtor.

The detail of the reconciliation of these items in relation to the operations of the Group's credit institutions is as follows:

€ thousands	2014	2013
Present value of the minimum payments to be received	1,998,671	2,107,682
Residual values not guaranteed	204,924	200,380
Gross investment in finance lease	2,203,595	2,308,062

The distribution by period of the gross investment and present value of the minimum payments to be received is as follows:

€ thousands	Gross investment		Present value of minimum payments to be received	
	2014	2013	2014	2013
Up to 1 year	464,499	496,956	448,972	467,890
From 1 to 5 years	1,143,458	1,178,600	1,062,305	1,106,686
More than 5 years	595,638	632,506	487,394	533,106
Total	2,203,595	2,308,062	1,998,671	2,107,682

The value adjustments covering bad debts relating to the minimum payments under leases amounted to €70,126 thousand and €82,068 thousand at the end of these two years.

Conversely, if the Group were to act as lessee, the cost of the assets leased would be recognised in the consolidated balance sheet in accordance with the nature of the leased asset and at the same time a liability would be recognised for the same amount, which would be the lower of the fair value of the asset leased or the sum of the present values of the amounts payable to the lessor plus, if appropriate, the exercise price of the purchase option. These assets would be depreciated by methods similar to those used for all the tangible assets for own use. The Group has not entered into finance leases as the lessee with third parties in 2014 or 2013.

The financial revenues and expenses arising from these contracts are credited and charged, respectively, to the consolidated profit and loss account so that the return remains constant over the term of the contracts

ii) Lease contracts not considered to be finance leases are classified as operating leases. The basic conditions that must be fulfilled to treat a lease as such are as follows:

- There must be no purchase option at the maturity of the lease period, or any such option must allow the lessee to purchase the asset at its fair value.

- At lease inception, the present value of the future lease payments must be considerably lower than the leased asset's fair value.

- The lease period must not encompass virtually all the useful life of the leased assets.

When the Group acts as lessor of an asset, the acquisition cost of the leased assets is reflected in tangible assets. These assets are depreciated in accordance with the policies applied for similar tangible assets, based on their estimated useful life, and the initial direct revenues and costs allocable to the lease contracts are recognised on a straight- line basis in the consolidated profit and loss account.

In 2012, as a result of the acquisition and subsequent absorption of Banco Pastor, the Group appeared as the lessor under an operating lease due to the addition of Grupo La Toja Hoteles, S.L. which had contracts of this kind in effect. This situation continued in 2013.

When the Group is the lessee, the lease expenses, including incentives, if any, granted by the lessor, are recorded on a straight line basis in the consolidated profit and loss account.

As a result of the property divestment process which was started in 2008, the Group acts as lessee of various properties under sale and lease-back arrangements, described in more detail in Note 31.

o) Assets managed

Assets managed by the Group which are owned by third parties are not included on the consolidated balance sheet. Commissions and fees generated by this activity are recognised under Fee and commission income in the consolidated profit and loss account.

The detail by nature of these assets managed by the Group is as follows:

€ thousands	**2014**	**2013**
Investment funds	9,499,195	8,341,528
Asset management	1,088,738	764,781
Pension plans	5,231,493	5,038,528
Insurance premiums	1,895,041	1,808,398
Total	17,714,467	15,953,235

p) Personnel expenses – post-employment remuneration

Post-employment benefits are defined as benefits paid to employees after the end of their period of employment. Post-employment benefits, including those covered by internal or external pension funds, are classified as defined contribution plans or defined benefit plans, based on the conditions of these obligations, taking into account all the commitments undertaken within and outside the terms formally agreed with the employees.

The liability recognised for defined benefit plans is the present value of the liability at the balance sheet date less the fair value of the assets allocated to the plan. The liabilities for defined benefits are calculated annually by independent actuaries using the projected unit credit method.

Plan assets are those with which the liabilities will be settled directly, including insurance policies, which meet the following conditions:

a) They are not owned by the Bank but by a legally separate, non-related third party.

b) They are available only to pay or fund employee benefits and are not available to creditors of the Bank, even in the event of the Bank becoming insolvent.

c) They cannot be returned to the Bank unless the assets remaining in the scheme are sufficient to meet all obligations of the scheme and of the Bank relating to employee benefits, or unless assets are to be returned to the Bank to reimburse it for employee benefits previously paid.

d) They are not non-transferable financial instruments issued by the Bank.

The assets contracted with Pastor Vida in cover of commitments to personnel are not plan assets, since they were contracted with a party related to the Bank, and they are recognised as reimbursement rights linked to employee benefits.

The amendment to IAS 19 in 2013 entailed a number of changes in the treatment of post-employment benefits:

- Actuarial gains and losses arising during the year due to changes in financial or actuarial assumptions or to differences between the assumptions and the actual situation are recognised immediately in the period in which they occur, directly in “Other comprehensive income”.

- Recognition of past service costs, which must be recognised immediately in the Consolidated profit and loss account under "Personnel expenses".

- Interest cost of the liability and the expected return on assets allocated to defined benefit plans will be determined as a net amount calculated by applying the interest rate at the beginning of the year to the liability (asset) of the defined benefit plan.

The present value of the defined benefit obligations to personnel is determined by discounting the estimated future cash flows at rates for corporate bonds with high credit ratings that are consistent with the currency and estimated terms in which the liabilities for post-employment benefits will be settled.

The expected return on assets allocated to defined benefit plans and reimbursement rights is determined using the same discount rate as for calculating the present value of the liabilities.

a) Post-employment employee benefits: Banks in Spain

As at 31 December 2014 and 2013, the Group banks operating in Spain had outsourced their pension commitments towards serving and retired employees by means of defined-contribution and defined-benefit pension plans and group insurance contracts, pursuant to the terms of Royal Decree 1588/1999.

Defined contribution plans

These are defined contribution pension plans that cover retirement contingencies for employees taken on after 8 March 1980.

The contributions made each year are recognised under “Personnel expenses - Social charges” in the profit and loss account. Any amounts not yet contributed at each year end are recognised, if any, at their present value, under "Provisions for pensions and similar obligations" under liabilities on the balance sheet.

The contributions made by the banks running the defined contribution pension plans amounted to €8,502 thousand in 2014 and €7,800 thousand in 2013.

Defined benefit plans

Post-employment defined benefit plans for the Bank’s serving and retired personnel are summarised below.

Serving and retired employees

Pension commitments to retired employees prior to 8 November 2001 of Banco Popular Español, S.A. were outsourced in October 1995 through insurance arranged by the banks with Allianz Compañía de Seguros y Reaseguros, S.A.

On 8 November 2001, Banco Popular Español, S.A. outsourced its defined benefit pension commitments to its serving employees by contributing the internal provisions already established to the respective defined-benefit pension plans that had been set up – which simultaneously took out insurance contracts to cover these commitments – or to insurance contracts covering the financial limit overrun.

The pension commitments for serving and retired personnel are underwritten by the insurance company Allianz, Compañía de Seguros y Reaseguros, S.A. with an irrevocable joint and several guarantee from its parent company Allianz A.G.. Contributions were fully paid in as at 31 December 2001 to cover past service costs at that date. This represented the completion of the outsourcing agreements signed in 2000 and 2001 by the Bank and employee representatives.

In the case of Banco Pastor, commitments to retired personnel prior to August 2002 were outsourced in November 1999 through insurance policies to BBVA Seguros, S.A. de Seguros y Reaseguros. In August 2002 Banco Pastor outsourced its commitments to BBVA Seguros, S.A. de Seguros y Reaseguros. Contributions were completed on 29 August 2002.

Pension plans cover defined benefit commitments for disability and death and retirement for the group of qualifying employees (those hired prior to 8 March 1980) and defined contribution commitments for the retirement of other employees (those hired after 8 March 1980).

Although the principal actuarial and financial risks relating to the benefits insured to date have been transferred to the insurance company, it cannot be concluded that they have been transferred in full, and therefore they should be regarded as defined benefit plans.

Early retirees

The Group has commitments to certain of its employees of the banks in Spain under early retirement agreements. For those commitments arranged up until December 2004, a temporary annuity insurance contract was entered into with the insurance company Allianz, S.A. which bears all the actuarial and investment risk in relation to the commitments assumed.

This insurance was designed so that the benefits periodically received from the insurance company match, in term and amount, the Group's obligations to its early retirees. These obligations consist of both income paid monthly to pre-retirees and the amounts equivalent to the special agreement that each pre-retiree has arranged with the Social Security and the amounts needed to cover benefits for non-serving employees: pension and loss of spouse and loss of parent payments and the premiums necessary to maintain adequate coverage of occupational risks until the agreed retirement age is reached.

The remainder relates to the extraordinary pre-retirement plans implemented after 2004, maintained in an internal fund. Accordingly, the Entity has established, under the Provisions heading, a provision to cover commitments to early retirees, for both salaries and other social charges, from the date of their early retirement until that of their effective retirement, and for the total amount of the necessary supplementary contributions to the pension plan until effective retirement or for risks of death of spouse and death of parent if these events were to occur previously.

Other commitments

The Group has assumed other pension and welfare commitments for personnel on retirement, such as the company store, voluntary bonus payments, Christmas gifts, etc.

b) Post-employment benefits: Banco Popular Portugal, S.A.

The Banco Popular Portugal Pension Plan is a defined benefit plan that provides for the benefits laid down by the Working Conditions Authority (ACT) governing bank employment in Portugal.

Following the publication of Decree Law no. 1-A/2011 of 3 January, workers covered by the ACT who were of working age at 4 January 2011, were transferred to the General Social Security Regime, with respect to retirement benefits. From that date, the defined benefit plan for persons included in the ACT has been financed through the Pension Fund and Social Security, with respect to retirement coverage. However, coverage of responsibility for death, disability and widowhood benefits, together with the age complement, remains with the Pension Fund after 4 January 2011, in order to bring member retirement under the Pension Fund into line with the values of the current pension plan.

In accordance with Decree Law 127/2011 of 31 December, Banco Popular Portugal transferred pension liabilities payable at 31 December 2011 to the Social Security.

The liabilities transferred amounted to €6.3 million, 55% of which was paid in 2011 while the remaining 45% was paid in 2012, after an independent entity certified the value of the liabilities transferred.

q) Income tax

Spanish corporate income tax and taxes of a similar nature applicable to investee companies abroad are treated as expense and recognised under Income tax expense in the consolidated profit and loss account, except when they arise as a consequence of a transaction recognised directly in consolidated equity or of a business combination, in which case the deferred tax is recognised as forming part of the value of the transaction.

The income tax expense is determined by tax payable calculated with respect to the tax base for the year, taking into account the variations during that year deriving from permanent differences, deductions and credits and tax loss carry-forwards. The taxable base for the year may differ from the consolidated net income for the year per the consolidated profit and loss account since it excludes the items of revenues or expenses that are taxable or deductible in other years and the items that are never taxable or deductible.

Deferred tax assets and liabilities relate to the differences between the carrying amounts of the assets and liabilities in the financial statements and the related taxable bases, and are quantified by applying to the relevant temporary difference or credit the tax rate at which it is expected to be recovered or settled.

A deferred tax asset, such as prepaid tax, tax credits for deductions and allowances and a tax credit for tax loss carry-forwards, is recognised provided that the Group is likely to obtain sufficient taxable income in the future against which to realise it. It is considered probable that the Group will obtain in the future sufficient taxable income when, among other cases:

i) There are deferred tax liabilities which can be cancelled in the same year as that of the realisation of the deferred tax asset or in another subsequent year in which the existing tax loss carry-forward or caused by the amount prepaid can be offset.

ii) The tax loss carry forwards have arisen for identified reasons which are unlikely to recur.

Nonetheless, the deferred tax asset resulting from the recording of investments in subsidiaries, jointly-controlled companies or associates is only recognised when its future realisation is probable and sufficient tax income is expected to be obtained in the future against which to apply it. Nor is it recognised when an equity item which is not a business combination and that at the time of recognition did not affect the accounting or tax result is initially recognised.

Deferred tax liabilities are always recorded except when goodwill is recognised or when they arise in the recording of investments in subsidiaries and jointly-controlled companies or associates, if the Group is capable of controlling the date of reversal of the timing difference and, also, it is probable that this difference will not reverse in the foreseeable future. A deferred tax liability is not recognised either upon initial recognition of an asset that is not a business combination and which at the time of recognition has not affected either the accounting or the tax result.

At each accounting close the recorded deferred tax assets and liabilities are reviewed in order to check that they are still current, and the appropriate corrections are made to them

r) Tangible assets

The tangible assets for own use are the property items of which the Group considers it will make ongoing use, and the property items acquired under finance lease. They are measured at acquisition cost less the relevant accumulated amortisation and, if appropriate, any impairment loss resulting from comparing the net value of each asset and the relevant recoverable amount.

Amortisation is calculated systematically by the straight line method, applying the years of estimated useful life of the items to the acquisition cost of the assets minus their residual value. In the case of the land on which the buildings and other structures are located, this land is deemed to have an indefinite life and therefore is not depreciated. The annual provisions for amortisation of tangible assets are charged to the consolidated profit and loss account and are calculated on the basis of the following average years of estimated useful life of the various groups of items:

	Years of estimated useful life
Buildings	TV 25/-75
Furniture	TV 4/-8
Installations	TV 4/-16

At each accounting close, the Group checks for internal and external indications that the carrying amount of tangible assets exceeds the recoverable amount, understood as the higher of fair value less selling costs and value in use. In this case, the Group reduces the carrying amount of the relevant asset to its recoverable amount and adjusts future depreciation charges in proportion to the adjusted carrying amount and new remaining useful life if it is necessary to re-estimate it. When there is an indication that the value of an asset has been recovered, the Group recognises the reversal of the impairment loss recognised in prior periods and adjusts future depreciation charges accordingly. The reversal of the impairment loss of an asset may in no case entail an increase in its carrying amount in excess of what it would have been if such prior year impairment losses had not been recognised.

At least at the end of each year the Group reviews the estimated useful lives of its tangible assets for own use in order to detect significant changes therein which, if they occur, are adjusted by correction of the charge for depreciation in the consolidated profit and loss account for that year and the following years based on the new estimated useful life.

Expenses for the upkeep and maintenance of tangible assets for own use are recognised in the consolidated profit and loss account in the year in which they occur.

The investment properties included in tangible assets correspond to the net values of the land, buildings and other structures which the Group holds for rental or for obtaining a capital gain on their sale and which are not expected to be realised in the ordinary course of business and are not dedicated to own use.

The criteria applied by the Group to recognise the acquisition cost of the assets assigned under operating lease with respect to depreciation and the estimation of their respective useful lives and the recording of impairment losses, agree with those described for tangible assets for own use.

s) Intangible assets

Intangible assets are non-monetary assets that are identifiable but have no physical appearance. Intangible assets are deemed to be identifiable when they are separable from other assets because they can be individually sold, leased or used or arise as a result of a contract or other kind of legal procedure. An intangible asset is recognised when, in addition to meeting the foregoing definition, the Group estimates that economic benefits are likely to be received from the item and its cost can be reliably estimated.

Intangible assets are initially recognised at acquisition or production cost, and are subsequently valued at cost less, where appropriate, accumulated amortisation and any impairment loss.

Goodwill

Goodwill is an asset that represents the future economic benefits deriving from net assets acquired in a business combination, which cannot be individually or separately identified or recognised.

It is initially measured as the algebraic sum of the consideration transferred (assets transferred less liabilities assumed) on the acquisition plus the amount of any non-controlling interest in the acquiree (minority interests) plus the fair value at the acquisition date of the interest in the acquiree's equity held by the acquirer before obtaining control over the entity involved in the combination less the fair value at the acquisition date of the acquiree's identifiable net assets.

Positive differences between the cost of business combinations in subsidiaries, joint ventures and associates and their underlying carrying amounts, adjusted at the date of initial consolidation, are allocated as follows:

i) If they are allocable to specific assets and liabilities in the acquirees, they are recognised by increasing or decreasing the value of the assets or liabilities the fair values of which are higher or lower, respectively, than the carrying amounts at which they were recognised in their balance sheets and the accounting treatment of which is similar to that of the same assets or liabilities, respectively, of the Group.

ii) If they are assignable to specific intangible assets, they are allocated by explicit recognition in the consolidated balance sheet, provided that their fair value at the acquisition date can be reliably determined, irrespective of whether they were not previously recognised in the acquiree.

iii) The remaining non-allocable differences are recorded as goodwill, which is assigned to one or more specific cash-generating units which are expected to benefit from the synergies deriving from the business combination.

Goodwill acquired since 1 January 2004, remains valued at its acquisition cost and goodwill acquired prior to that date continues to be carried at its recognised net value as at 31 December 2003. At each accounting close the Group estimates whether there has been any impairment in the Goodwill which reduces its recoverable value to below its recognised net cost and, if so, recognises the necessary write-down with a balancing entry in the consolidated profit and loss account. Losses for impairment of Goodwill cannot subsequently be reversed.

Impairment testing of goodwill

Banco Popular Group performs annual reviews to assess the existence of potential impairment of its goodwill by comparing the recoverable values with carrying amounts.

There is impairment when the carrying amount of the Cash Generating Unit (CGU) to which goodwill is assigned exceeds its recoverable amount. That value is generally calculated using the discounted cash flow method. According to this method, the value of a banking business is the present value of potential distributable dividends and depends on a series of basic variables:

- Business variables: growth of assets and liabilities, margins, impairment losses, etc. These variables are estimated from a prudent perspective, on the basis of the type of business, foreseeable macro-economic performance, etc., at all times ensuring the consistency of the assumptions with the Group's strategy in general and for each business in particular. Broadly speaking, the assumptions used envisage weak business growth in the short term and persistently high rates of default. For the middle years, moderate growth is projected which levels off at the end of the projected period.

- Projection period: the projection period covers the period strictly necessary for the entity to be in a position in which it can calculate a complete stable and normalised year to take as a reference to perpetuity, on a going-concern basis. This situation is characterised by fixed growth and consistent and sustainable asset performance.

They are 10-year projections calculated in a conservative manner in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates from the fifth year incorporate flat or negative growth rates versus previous years, whereas these cash flow projections for a period of 10 years comply with the stipulations in IAS 36.

Given the current economic environment, it is possible to justify a longer period than five years set by preference by the standard, taking into account the following considerations:

• Banco Popular Group since its founding more than 85 years ago has been developing a retail model that has not significantly changed, so we believe Management has the ability to project ten years, given the recurrent nature of the business.

• The current as well as future years continue to show moderate growth due to the current financial crisis, making it more appropriate to extend the projection period to allow for more specific growth rates compared with those that would be included in the expected growth rate used to calculate the terminal and standardised value of the CGU.

• This is in line with the provisions of standard practice for business valuation exercises, which recommend that the projection period should be long enough for the company to reach a stable situation from which to calculate a stable and normalised full year in order to be able to use it as a reference to perpetuity, on a going concern basis. This situation is characterised by fixed growth and consistent and sustainable asset performance. The Bank applies this valuation policy to any kind of corporate transaction and to internal analysis of its businesses

• In our models this results in two years of weak growth in lending, a few middle years of somewhat larger increases and a final stage of moderation until a nominal growth rate close to "g" growth in the last year and in perpetuity . We believe that these growth rates are prudent and are aligned with those of the sector.

• Given the experience of the Bank's management with ten-year projections, we believe that they are reliable. It is noted that the business model is sustainable and that there is sufficient historical information. The key assumptions underpinning the cash flow projections are growth in lending, the interest margin on average total assets, the cost/income ratio and the risk premium (loan provisions).

Considering the current circumstances, cash flow projections made in the ten-year period reflect more clearly and reliably the economic environment, and are justified for the reasons discussed, and thus are being made in all impairment analyses of goodwill in the Banco Popular Group.

Details are provided below of the parameters applied to the discount rate and residual value:

	BPE Commercial CGU	Pastor Commercial CGU	Targobank	Banco Popular Portugal	Totalbank
Key Assumptions					
Risk-free rate	1.60%	1.60%	1.60%	2.63%	2.52%
Beta Coefficient	1.26	1.26	1.26	1.26	1.15
Risk premium	6.00%	6.00%	6.00%	6.00%	6.96%
Cost of Capital	9.16%	9.16%	9.16%	10.19%	10.54%
"G" growth	2.50%	2.50%	2.50%	2.50%	4.00%

In order to determine the cost of own funds, the present value of the projected flows, the following assumptions based on external sources were used in setting the discount rate:

- The risk-free rate corresponding to the long-term interest rate on risk-free financial assets. The yield on ten-year Spanish government bonds as at 31 December 2014 (valuation date) was used to analyse the CGUs of the business in Spain (Acquisition Banco Pastor, New Banco Pastor and Targobank). For CGUs of the business in Portugal, the risk-free rate was obtained using the yield on Spanish bonds as at 31/12/2014 plus an average spread of Portuguese bonds over Spanish bonds and the US ten-year bond yield was used. In all cases, external sources were used.

- The beta coefficient is a factor for weighting the sensitivity of a company's profitability relative to the trend of market performance in general. It reflects the difference between the sector's inherent risk and the average risk of the stock market and thereby measures the volatility of systematic risk. The beta considered the beta for Banco Popular is calculated as the average of daily exposures over a 5-year period.

- The market risk premium represents the difference between the rate of return of an efficiently diversified portfolio and the risk-free asset. It reflects the inherent risk of the evaluated business, and has been estimated as the excess of the historical average return of the capital market over that of long-term government bonds, according to various empirical studies. For the United States business, this premium was calculated over the long-term (1926-2014) as the difference between the profitability of the S&P 500 index minus the IRR of the ten-year US bond.

In the growth rate to perpetuity ("g") for Spain and Portugal, normalised growth was used for the sector in the years immediately following the projected period, placing the growth rate at 2.5%, pursuant to the consensus of external analysts consulted and the correlation between nominal GDP growth and loans granted to the private sector. The growth rate used for the analysis of the Goodwill of Totalbank was the average GDP growth rate in the United States since 2000.

Other intangible assets

The remaining intangible assets may have either an indefinite useful life when, based on analyses of all the relevant factors, it is concluded that there is no foreseeable limit to the period during which net cash flows may be expected to be generated for the Group, or a finite useful life in other cases. Intangible assets with an indefinite useful life are not amortised, although at each accounting close the Group reviews the remaining useful lives in order to ensure that they are still indefinite or, alternatively, take the relevant action. Intangible assets with a finite useful life are amortised on the basis thereof, applying methods similar to those for tangible assets.

In any event, the Group records for accounting purposes any loss that may have arisen in the recorded value of these assets arising from impairment with a balancing entry in the consolidated profit and loss account. The methods for recognition of losses for impairment of these assets and, if appropriate, of recoveries of losses for impairment recorded in prior years are similar to those applied for tangible assets.

t) Inventories

Inventories are non-financial assets that are held for sale in the ordinary course of business and that are under production, construction or development for such purpose. This heading also includes land and other properties that are held for sale in the performance of property development activities. Inventories are at all times carried at the lower of cost and net realisable value, calculated by deducting all damages and impairment, reductions in the sale price and taking into account obsolescence and other losses.

u) Insurance operations

The subsidiaries that are insurance companies credit the consolidated profit and loss account for the premiums that they write and charge to the consolidated profit and loss account the cost of the claims that they must meet when final settlement thereof is reached. Also, accruals are recorded at the end of each year both for the amounts credited to the consolidated profit and loss account but unearned at the year end, and for the costs incurred but not charged to the consolidated profit and loss account.

The principal technical provisions relating to the direct insurance activity are as follows:

i) Technical reserve for unearned premiums, relating to the rate premium collected in one year allocable to future years net of the loading for contingencies.

ii) Technical reserve for outstanding risks which supplements the technical reserve for unearned premiums by the amount by which the latter is insufficient to reflect the valuation of the risks and expenses to be covered relating to the unelapsed coverage period at year-end.

iiii) Technical reserve for benefits, which relates to the estimated valuations of the outstanding obligations arising from claims occurred before year-end. This technical reserve includes the unsettled or unpaid claims and the undeclared claims. The outstanding obligations are calculated by deducting the payments made on account and taking into consideration the internal and external expenses of settlement of the claims and, if appropriate, the additional provisions which may be necessary to cover variances in the valuations of claims requiring lengthy procedures.

iv) Technical reserve for life insurance:

- For life insurance policies whose coverage period exceed one year, mathematical technical provision is calculated as the difference between the actuarial present value of future obligations of the insurer and the policyholder or insured, based on calculating the premium accrued during the year which is constituted by the pure premium plus a charge for administration costs as per the technical rules.

- In life insurance where the investment risk is borne by the policyholders, the technical provision is determined by the assets specifically assigned to determine the value of rights.

v) Technical provision for profit-sharing and refunds, which relates to the profit accruing to the policyholders, insured or beneficiaries of the insurance and that of premiums that must be refunded to the policyholders or insured, because of the conduct of the risk insured unless they have been individually assigned to each of the former.

The technical provisions for accepted reinsurance are calculated by methods similar to those used for direct insurance, and generally on the basis of the information provided by the ceding companies.

The technical provisions of direct insurance and of accepted reinsurance are included under Liabilities under insurance contracts in the consolidated balance sheet.

The amounts which the Group is entitled to receive for reinsurance contracts are recorded under Reinsurance assets in the consolidated balance sheet. The Group checks whether these assets are impaired and if so recognises the related loss in the consolidated profit and loss account with a direct charge to that heading.

v) Provisions

The Group's present obligations resulting from past events are considered provisions when their nature is clearly defined at the date of the financial statements but the amount or time of settlement are not defined, and upon the maturity of which and in order to settle them the Group expects an outflow of resources which embody economic benefits. These obligations may arise as follows:

i) A legal or contractual requirement.
ii) An implicit or tacit obligation, arising from a valid expectation created by the Group for third parties for the assumption of certain kinds of responsibilities. These expectations arise when the Group publicly accepts responsibilities, and derive from past performances or business policies in the public domain.
iii) The virtually certain evolution of the regulations on certain aspects, in particular, draft legislation which the Group cannot disregard.

Provisions are booked on the basis of the probability of an event occurring. Events are classified as probable when they are more likely to occur than not; as possible, when they are less likely to occur than not; and remote, when their occurrence is extremely rare.

The Group includes in its consolidated financial statements all the material provisions with regard to which it is considered that the likelihood of having to meet the obligation is greater than not.

Provisions are quantified based on the best information available about the consequences of the event giving rise to them and are estimated at each accounting close. They are used to meet the specific obligations for which they were recognised, and are fully or partly released when these obligations cease to exist or decrease.

This balance sheet heading reflects provisions for pensions, taxes and legal contingencies, contingent risks and commitments and other provisions.

As at 31 December 2014 and 2013 various legal proceedings and claims instigated against the Group resulting from its ordinary business activities were ongoing.

w) Contingent assets and liabilities

Contingent assets are possible assets arising as a result of past events whose existence is conditional and must be confirmed when events outside the control of the Group occur or do not occur.

Contingent assets are not recognised in the consolidated balance sheet or in the consolidated profit and loss account. The Group discloses their existence if the increase in funds including economic benefits for this reason is probable.

Contingent liabilities are the possible obligations of the Group arising as a result of past events whose existence is conditional on the occurrence or not of one or more future events which are independent of the Group’s decision. Contingent risks include the Group’s present obligations the settlement of which is unlikely to give rise to a decrease in resources that embody economic benefits or the amount of which, in extremely rare cases, cannot be sufficiently reliably quantified.

x) Employee share-based remuneration

In order to bring the Banco Popular’s remuneration system into line with the requirements of Directive 2010/76/EU of 24 November 2010 on the supervision of remuneration policies and the principles of the CEBS, the last four General Shareholders’ Meetings, held on 8 April 2011, 11 June 2012, 10 June 2013 and 7 April 2014, approved deferred and conditional Bonus Plans for 2011, 2012, 2013 and 2014, applicable to the executive directors, senior management and those employees who assume risks or exercise control functions. These Plans laid down specific conditions for the receipt of bonuses.

Thus, remuneration of the personnel referred to. with reference to the above-mentioned plans are detailed in Note 10 (Remuneration of Directors and Senior Management) to the Financial Statements corresponding to each of the years mentioned.

On 10 June 2013, the shareholders, in a General Shareholders' Meeting, approved a Long-Term Bonuses Plan in Banco Popular stock for years 2013 to 2016 for the members of the executive team and Senior Management (including executive directors and members of the Management Committee). This Plan is based on the allocation to the beneficiaries of a number of units, to be granted in cycles, each with a duration of four years(2013, 2014, 2015 and 2016), which will form the basis for calculating the shares to be delivered to the Plan beneficiaries in 2017, 2018, 2019 and 2020, if appropriate and provided that the objectives laid down in the Plan are met.

y) Non-current assets held for sale and liabilities associated with non-current assets held for sale

Non-current assets for held sale on the consolidated balance sheet include assets, irrespective of their nature, which, not forming part of operating activities, include amounts whose initial realisation or recovery period exceeds one year, but which the Group intends to dispose of within no more than one year of the date to which the consolidated financial statements refer. Among other things the carrying amount of foreclosed assets the sale of which is highly likely to take place in their current state is recognised under this heading.

In the performance of its operations, the Group has obtained assets through either the enforcement of the guarantees taken to ensure collection or the dation in payment of mortgaged properties. Note 27 sets out information on this kind of assets.

For foreclosed assets classified as non-current assets held for sale, the acquisition cost is the net amount of the financial assets delivered in exchange for foreclosure, taking into account the value adjustments linked to such financial assets.

Consequently, the recovery of the carrying amount of these items, which may be of either a financial or non-financial nature, will probably be obtained through the price at which they are disposed of rather than through continuing use.

Therefore, the real estate and other non-current assets received by the Group in total or partial settlement of its debtors payment obligations to it are classified as non-current assets held for sale, unless the Group has decided to make continuing use of them, in which case they are classified as assets for own use or investment properties.

Liabilities associated with non-current assets held for sale includes the credit balances connected with disposal groups or discontinued operations of the Group, if any; at the end of 2014 and 2013, the Group did not have any balance of this nature.

The assets classified as non-current assets held for sale are generally measured at the lower of the carrying amount at the time they are considered such and fair value net of their estimated selling costs.

The impairment of foreclosed property is calculated by comparing the property's fair value less selling costs with its carrying amount. This fair value is determined by the valuation of the foreclosed asset drawn from the latest available appraisal value. If the carrying amount of the property is higher, impairment is recognised in the amount of the difference. To determine the appraised value at the time of foreclosure, in accordance with the policy of the Group, appraisals are to be made using different appraisal companies outside the Group and recorded in the Special Register of Banco de España, as per Order ECO/805/2003 of 27 March or performed by applying this methodology.

While they continue to be classified as non-current assets held for sale, depreciable tangible assets and amortisable intangible assets are not depreciated or amortised. In the event that the carrying amount exceeds the fair value of the assets, net of selling costs, the Group adjusts the carrying amount of the assets by the amount of the excess and makes a balancing entry in Gains/losses on non-current assets held for sale not classified as discontinued operations in the consolidated profit and loss account. In the event of any subsequent increases in the fair value of the assets, the Group reverses the losses previously recorded and increases the carrying amount of the assets up to the limit of the amount prior to their possible impairment.

Nonetheless, financial assets, deferred tax assets and insurance contract assets which form part of a disposal group or discontinued operation are not valued as described. Instead, they are valued in accordance with the principles and standards applicable to these items, as explained earlier in this Note.

The results in the year of disposal groups classified as discontinued operations are recorded under Result of discontinued operations (net) in the consolidated profit and loss account both if the disposal group has been eliminated from assets and if it is still included in assets at year-end. Note 9 sets out further information on discontinued operations.

z) Consolidated cash flow statement

Set out below is a description of certain items used in the consolidated cash flow statement:

i) Cash flows that are inflows and outflows of cash and cash equivalents, the latter being defined as high liquidity short-term investments with low risk of alteration in value, irrespective of the portfolio in which they are classified.

ii) Operating activities are the activities of the Group and other activities that cannot be classified as investment or financing and interest paid on any financing received.

iii) Investing activities relating to the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents. The main lending or funding transactions that have not entailed the use of cash or equivalents relate to the purchase, dation in payment or foreclosure of assets to cancel loans in the broadest sense.

iv) Financing activities are activities that result in changes in the size or composition of consolidated equity and liabilities that are not part of operating activities.

16. DUTY OF LOYALTY OF THE DIRECTORS

With regard to the provisions of Article 229 of the Revised Text of the Investment Companies Act, the Members of the Board of Directors of Banco Popular Español, SA have not reported any conflicts of interest with the Bank.

17. CUSTOMER SERVICE

Ministry of Economy Order 734/2004, of 11 March, stipulated, among other matters, the obligation for the customer service departments and services of financial institutions to prepare a report explaining the performance of their functions during the preceding year. The Order also required a summary of this report to be included in the notes to the institution's financial statements.

In accordance with this legal requirement, the Banco Popular Group's customer service department prepared the 2014 Activities Report, which was submitted to the Board of Directors of Banco Popular in its meeting on 25 February 2015.

This Report states that a total of 17,839 complaints, claims and enquiries were made to the Group, 9.9% down on the previous year. The number of matters settled in 2014 totalled 21,793, (of which 5,088 related to the previous year), an increase of 31.6% on 2013.

The above figures include matters processed by Bancopopular-e (Cardiff/Citi operation) in the period running from September to December 2014.

It is worth noting that on 31 December 2014, only 1,271 cases had not yet been settled. Of these, 783 were pending resolution by the Banco de España's Complaints Service, Spanish National Securities Market Commission and the General Directorate of Insurance and Pensions, with the remaining 488 pending resolution by the Customer Service Department within the legally established time frame to provide a response.

In 2014, a total of 20,827 findings have been issued, which are set out below together with comparative data for the previous year.

Findings	2014	2013
In favour of the complainant	6,647	3,792
In favour of BPE Group	7,898	10,773
In favour of both parties	163	109
No findings issued	1,090	1,029
Settlements	1,800	-
Acceptances	3,229	-
Total	20,827	15,703

Of the above matters, 3,765 were handled through the Financial Services Customer Ombudsman Offices, which issued 1,188 findings, as follows:

	Banco de España		CNMV		Dir. Directorate for Insurance		Total	
Findings	2014	2013	2014	2013	2014	2013	2014	2013
In favour of the complainant	385	501	67	75	10	6	462	582
In favour of BPE Group	559	145	30	57	12	10	601	212
No findings issued	120	18	5	4	-	2	125	24
Total	1,064	664	102	136	22	18	1,188	818

18. RISK MANAGEMENT

The various risks implicit in the banking activities conducted by the Group are managed based on criteria of prudence, in such a way as to safeguard at all times the basic objectives of solvency, profitability, efficiency and adequate liquidity.

In December 2014 Board of Directors approved the Risk Appetite Framework, a governing instrument that contributes to an effective and comprehensive management of the Group's risk appetite. This is a flexible framework as part of which risks to which the Group is exposed are identified and objectives, alerts and limits pursuant to the Group's consolidated strategy are defined. Its goal is to maintain a low-to-medium risk profile by controlling risks to which the Group is exposed on account of its business model. For the large part, such risks include credit risk and liquidity risk, however, other risks associated with the objective of capital are also relevant: business risk, operational risk, interest rate risk, market risk, reputational risk and compliance risk.

The risk policy is a synthesis of strictly professional criteria for the study, assessment, assumption, monitoring and control of risks by all the Entities forming the Group, which are conducive to the maximisation of the risk/profitability ratio inherent to credit and market risk, and the minimisation of other risks mentioned above. To this end, supervision and control procedures have been established by Senior Management encompassing all activities in which the Group is involved, primarily commercial banking. Also, the respective areas involved have formal procedures for analysis, authorisation, and monitoring and control, applied in a manner consistent with their nature and amount, which are supervised, if necessary, by collegiate decision-making bodies.

Internal policies, which are known and applied by all of the Group's business units for an integral management and control of risks, are set out in an Investment Policies Manual approved by the Board of Directors, effective compliance with which is monitored by Risk Management, the Management Committee and the Risk Committee of the Board of Directors.

Risk Management is characterised by the following key points and criteria:

- Defining the Risk Appetite Framework, in which the risks to which the Group is exposed are identified and objectives and limits according to the business model are defined.
- Risk management and limits granted for each customer or associated group of customers, when such a relationship exists.
- Diversification of the risk attached to lending, setting or complying with the limits extended to borrowers, sectors and distribution by maturities.
- Involvement of Senior Management: among other things, the Group's Senior Management regularly monitors the evolution process in the internal management of risks in order to align the risk assumed by the Bank with the Risk Appetite Framework, creating a suitable risk policy and ensuring their constant adaptation to the changes in market, customers and regulations as they occur. Additionally, Senior Management is responsible for ensuring the proper implementation of international capital regulations (Basel II and Basel III), which are already used in daily risk management, allocating material means and necessary personnel.
- Priority of risk policies aimed at guaranteeing the Group’s stability and its viability in the short-, medium- and long-terms, and at maximising the risk-return relationship.
- Geared to maintaining a healthy balance sheet.
- Separation between the risk and commercial areas.
- “Tailor-made”. Terms are negotiated with the customer based on each customer's overall relationship with the Bank, the risk assumed and the return it offers.
- Profitable and quality lending, opting for profitable, balanced and sustained growth overall and for returns commensurate with the risk on each individual borrower.
- Reasonable balance between loans and advances and deposits captured.
- Scrupulous compliance with current legislation in every way, with particular attention paid to the monitoring of the current Money laundering Prevention and Terrorism Financing legislation.
- The Group has in place a formal system of discretionary powers for the extension of credit, under which the various hierarchical levels in the organisation have been assigned different delegated powers for the authorisation of transactions.
- Differentiated analysis and treatment of refinancing and debt restructuring operations.
- Nimble response in deciding on proposed transactions, as a basic differentiating instrument, without detriment to rigour.
- Evaluation and rigorous documentation of the risk and the guarantees.
- Application of automatic internal systems based on *rating* or *scoring*.
- Monitoring of risk from analysis to termination.
- Flexibility of the target-oriented organisational structure.
- Systematisation and automation of processes.

Credit risk

This risk arises from possible losses from the failure of counterparties to comply with contractual obligations. In the case of refundable financing granted to third parties (in the form of credits, loans, deposits, securities and other), credit risk arises as a consequence of non-recovery of principal, interest and other items, in the terms – with respect to amount, period and other conditions – stipulated in the contracts.

For the correct management of credit risk, the Group has established a methodology, the main features of which are described in the following paragraphs.

Analysis of Credit Risk

The Group has established a formal system of discretionary powers for the approval of risks, whereby the various hierarchical levels in the organisation are assigned delegated powers for the authorisation of transactions which vary depending on various factors, such as:

- Probability of default based on internal BIS II models
- The amount of the transaction
- Type of transaction
- Purpose of the financing
- Maximum term of the transaction
- Parties to the transaction
- Risk ratings and policies that may be assigned
- Business sector
- Profitability. (The financial terms of the transaction).

For these purposes, the steps in the organisation with delegated powers for authorising transactions are as follows:

- Branch Office
- Regional Management
- Territorial Management / Corporate Banking / Group Banks & Companies
- Risk Acceptance / Risks with Financial Institutions and Market Risk / Retail Risks
- Risk Management
- Risk Committee
- Board of Directors or its Delegated Committee

The initiative for a new transaction always starts at a Branch Office: for decision, if it is within its powers, or for reporting and submission to a higher level if it exceeds them. The same rule applies at the following levels, and thus the largest transactions are evaluated all along the chain of risk analysis and authorisation. No other office or area of the group, regardless of the hierarchical level of its Management, has the capacity to carry out, or even propose, risk transactions outside of the indicated circuit. Exceptions to this principle are:

- International Financial Institutions and Risk Management (Financial Management) offices, through the units to which they report, may propose, to Risk Management, the acceptance of Financial Institution risks, or public and private sector fixed-income issues in the various forms of financial assets traded on capital markets.

- Wholesale Banking may propose to Risk Management, through Risk Acceptance, the authorisation of risks which, in view of the complexity of their structure and design, require such a procedure.

In the other business areas, a similar process applies: risk proposals originate in the relevant operating office, which likewise has decision-making powers delegated to it. Above this level, the transaction is referred, along with the pertinent preliminary reports, to Risk Management and, if it is outside the scope of its powers, is passed on to the Risk Committee.

Transactions originated by the network of retail agents always enter the system through a branch office and are subject to the controls described above.

Risks with related parties, such as transactions with significant shareholders, members of the Board, General Managers or similar, or with companies related to these persons, and with Group companies, are expressly excluded from the aforementioned delegated powers, and can only be authorised by the Board of Directors or its Delegated Risk Committee, following a report from the Risk Committee. Exceptions are made when such operations are formalised through standardised contracts or with generally-stipulated conditions or involve very minor amounts, and in certain other cases established by the Regulations.

Structure of Credit Risk Limits

Banco Popular Group has designed a credit limit structure in order to control exposure to credit risk and to achieve adequate diversification of its portfolio based on the following characteristics:

- **Concentration of risk by borrower.**Limits are defined for the maximum exposure to groups or individual customers and limits for individual transactions, as well as the use of Group financing for a group or customer with respect to risk as per CIRBE, the Risk Information Centre of Banco de España. Potential exceptions to these limits are managed directly by the Board of Directors or its Delegated Committee as the maximum decision-taking body within the Group's system of discretionary powers.

- **Concentration of risk by sector,**where specific maximum exposure limits against real estate and construction activities have been defined. Additionally, 24 sectors of activity have been analysed and evaluated, assigning a degree of credit quality to each and defining thresholds in terms of the rating given.

- **Concentration of risks by segment,**factor for which thresholds have been defined in terms of a percentage of maximum risk to be assumed with respect to the large company segment.

- **Concentration of risk by product,**an aspect in which the Group pays special attention to two types of operations for which a restrictive policy will apply; lending against mortgages on land, and property developments.

- **Concentration of risk based on geographical location,**the levels of risk assumed in the various Autonomous Regions of Spain are analysed regularly and these levels are reported to Senior Management who, if they deem it appropriate, will propose all pertinent corrective action.

Guarantees

Guarantees are involved in the acceptance of risk as an element whose analysis is a determining factor, as they serve to mitigate the risk assumed. However, they will never justify the granting of transactions by themselves since the criteria for granting credit are primarily based on capacity of the borrower to make repayment, and considering additional guarantees as a second and exceptional item that may be invoked when the first has failed. In view of the substantial legislative evolution regarding eligible guarantees and their proper management within the Group, compliance with regulatory requirements is subject to particular monitoring for a dual purpose: to ensure the mitigation of the risks assumed and, in addition, to economise on the calculation of own funds by reducing exposure.

Refinancing/restructuring transactions

Refinancing/restructuring operations are included in the Group’s on-going loan portfolio management and are the result of continuous monitoring to anticipate portfolio destabilisation or debt collection difficulties and prepare solutions in advance, and to effectively monitor and control the risks involved and act flexibly in seeking solutions adapted to the particularities of each customer.

In compliance with their continuous supervision duties, the risk, business, restructuring and recovery areas are responsible for identifying potential refinancing/restructuring operations.

When studying and analysing the advisability of refinancing/restructuring operations and when defining their specific conditions, an individual analysis is performed for each of the operations in order to establish the viability of that transaction by rigorously applying the general criteria and the specific criteria applicable to the refinancing transactions established by the Group, sometimes taking into account exceptional circumstances.

Differentiated criteria are applied based on whether the refinancing/restructuring of non-real estate risk involves individuals or legal persons, or real-estate risk with legal persons (there are differences, in turn, between refinancing land, real estate developments in progress or developments that have been completed).

The Group specifically monitors refinancing/restructuring operations to the extinction of the obligation, analysing in detail the evolution of the operations and fulfilment of agreed terms. This special monitoring procedure will only be discontinued if the conclusion is drawn, following a comprehensive review of the borrower's assets and finances, that the borrower is unlikely to have financial difficulties and will therefore be in a position to make payments of principal and interest on all loans from the Bank, in due time and form. Principal and interest payments must have been made, at least two years must have elapsed since the operation and the loan principal must have decreased by at least 20%. Such situations will also be specifically addressed by the Group's internal auditors.

Furthermore, the Group's accounting policies take into account the circumstances under which a refinanced asset should be considered to be impaired. In order to derecognise refinanced loans, the Group uses quantitative and qualitative criteria to identify substantial changes. However, given the nature of the operations, habitual practice is to maintain the essential conditions of the transactions and therefore the impact of any eliminations from the balance sheet was not significant in 2014 or 2013.

Credit risk measurement and analysis models

For the acceptance of risks and the rating of customers based on their credit profile, and as support for decision-making, the Group has internal credit risk analysis and measurement (rating and scoring) models. For the retail segment (individuals and micro-companies), credit scoring models adapted to each kind of product are used. For the business segment, an internal rating is calculated based on the analysis of variables representative of economic and financial position and business sector. The Group has replica models for the large companies and financial institutions segments. Finally, for the project finance sector, Banco Popular Group analyses the portfolio using the qualitative analysis suggested by the Basel Committee, with minor adaptations to the type of financing and situation.

As at 31 December 2014 the Bank continued to use advanced models for risk management within the Basel framework for its portfolios of large companies, small and medium-sized companies, financial institutions and retail mortgages. Furthermore, the project finance model under the IRB slotting method approach is simultaneously being used.

The Bank has developed its own complete credit risk and concentration risk measurement model in order to estimate the economic capital adequate for its risk profile and to comply with the self-evaluation of capital obligations established in Pillar II of the Accord, which is supported by, and integrated into, the calculations made to estimate the risk parameters included in the aforementioned models.

To increase permanent internal transparency, in line with the standards of Pillar III of the New Capital Accord, the Network has carried out numerous training activities focusing on the philosophy and objectives of Basel in order to adapt to its requirements and to the new concepts, tools and management models.

In addition, the Bank has an authorised lending policies manual approved by the Board of Directors containing:

- The Bank's risk profile.
- Credit risk operating standards.
- Risk analysis, approval and monitoring policies.
- System of discretionary powers and process of delegation.
- Credit rating models.
- Definition of and exposure to other risks.

Internal Validation

The Group has an Internal Validation unit in line with the guidelines established by the supervisor.

The opinion of the Internal Validation unit is a fundamental requirement for the approval of the internal risk rating models, and for the monitoring thereof and any changes that are required in them after approval.

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

The scope of this unit focuses on the measurement of credit risk and it covers the essential elements of an advanced risk management system, involving review of the following items:

- Methodology: Review of the methodology used in the scoring/rating models. This makes reference of the adequacy of the statistical methodology, the assumptions and the techniques applied, which remain unchanged until the design of the models is modified.

- Documentation: Review of the quality of the documentation that supports these models.

- Data Used: Review of the quality of the data and databases used when developing the models during the rating assignment process and in estimating the risk parameters, as well as other databases used to calculate the minimum capital requirement.

- Quantitative aspects: Review of the quantitative information provided regarding the validation and monitoring of the models. A number of measures are developed that permit the periodic evaluation of the validity and efficiency of the various parameters and models.

- Qualitative aspects: This area has a dual objective: the review of the information generated by the models and their appropriate interpretation. Secondly, the validation of compliance with the minimum regulatory qualitative requirements, which include the Use Test, the role of the credit risk control units, the aspects relating to corporate governance and the adequacy of the internal controls.

- Technological Environment: Review of the integration into systems, the application environment and the quality of the information provided by the systems.

Currently, the office is working on expanding its scope with a view to adapting to the new single supervisory mechanism; specifically, since the second half of 2013 it has been validating the management model for pricing at the required intervals. The strategic plan of the office includes:

- Validation of the Economic Capital model. A model which estimates the Economic Capital required to cover the Group's possible losses at a solvency level set by the Bank. To estimate the Group's economic capital, the Group's risk portfolio is divided into Risk Units, based on business criteria and considering the impact of risk diversification. Risks taken into consideration when calculating the Group's economic capital are as follows:

    - Credit risk
    - Market risk
    - Operational Risk
    - Structural Interest Rate Risk
    - Business Risk

- Reporting on the effect that the development, recalibration or modification of internal credit risk models will have on capital requirements after the Bank's existing mitigation techniques have been applied.

- Validation of PD and LGD Stress Models and their impact on expected losses.

Risk Monitoring

The monitoring of approved transactions makes it possible to assess their quality at borrower level and establish mechanisms for the special surveillance of their progress and to react to avoid situations of default. The Group has a surveillance system in place based on "Technical Alerts" and "Information Alerts" which monitors trends in rating levels. This makes it possible to anticipate problematic situations and apply preventive measures in respect of current risks. The Technical Alerts are based fundamentally on an analysis of a group of variables relating to transactions and to customers that allow possible anomalous behaviour deviations to be detected and to provide alerts regarding situations such as:

- Negative information.
- Financial statements.
- Variation in *rating levels*.
- Past due loan accounts.
- Overruns.
- Account overdrafts.
- Non-payment of trade bills discounted.
- Loan repayments not made at due date.

The informative alerts are generated by any unit that is responsible for risk management and respond to the need to review the creditworthiness of a name based on knowledge of a significant event.

Alerts are processed by the Risk Monitoring teams located at each of the territorial headquarters, among other units, and the Risk Monitoring office is responsible for assigning ratings to customers, as the senior level of decision, in addition to supervising the process.

The customer credit rating system evaluates the customer's overall risk quality and proposes the policy to be followed in relation to the risks assumed. Depending on the particular circumstances of each case analysed, the information is introduced graphically into the borrower's electronic case file by means of a teleprocessing application which includes all the customer information and positions, for consideration in risk-related decision-making. This report, in its preparation and definition, also takes into consideration default probability parameters based on BIS II. This system of alerts is supplemented by an "analyst's report", also included in the customer's electronic case file, which, by means of a questionnaire regarding the evolution of the customer, of the customer's risks and incidents, assets position, guarantees, etc., summarises the policy to be followed and identifies the measures required to ensure the satisfactory outcome of risks.

The Risk Management Office carefully monitors the risks of certain clients and economic groups with high volumes of assumed risk or those involved in certain incidents.

In coordination with the monitoring teams at the territorial headquarters and other units, the Risk Monitoring office also performs periodic monitoring of various risk portfolios which due to their nature require control over their evolution, prepares sectoral reports, and has developed a number of computer applications which have made it possible. Among other things, to monitor firms in receivership under Article 5-bis of the Spanish Law on Bankruptcy by preparing a monthly status report and a monthly report on the monitoring of rated property developments.

Management of non-performing balances and recovery of impaired assets

To manage items in default and to recover impaired assets, the Group has a General Retail Banking Department to which the Restructuring and Default Office reports while supervising the Restructuring and NPL Offices in each Territorial Management, as well as at the Documentation Preparation Office.

In addition, an external provider (EOS CARI) is responsible for the early recovery of items in accordance with the Restructuring and Default guidelines.

It should also be indicated that in mid-2013 the Specialised Business Unit (SBU) was created and started restructuring, collection and recovery activities from customers relating to the real estate market: developers, constructors and other customers linked to this sector. Since January 2014, Aliseda Sociedad de Gestión Inmobiliaria, participates in the management of the recovery of non-performing debtors who have mortgage collateral, although the final decision rests with the Bank. Aliseda SGI manages, within authorised limits, the sale of the properties sold. Since January 2015 the S.B.U. only manages specific customers in the developers' sector, with the remainder up to that time becoming the responsibility of the Territorial Management teams.

In order to streamline and strengthen recoveries, new responsibilities for action at various levels of the Organisation have been defined. The number of employees on the recovery teams created at the Regional and Territorial Offices has been increased, with 198 individuals currently dedicated to the management of distressed debt, in addition to the network. These people only manage assets in difficulty corresponding to the scope of the Bank, since Aliseda has its own template for managing its assets.

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

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

For these purposes, in order to recover defaults the items have been classified based on the amount of the risk concerned:

- Cases of less than €60,000 (customer risk)
- Cases between €60,000 and €1 ,000,000 (customer risk)
- Cases of more than €1 ,000,000 (customer risk)

Also, since March 2011 the process of preparing documentation for litigation in cases in which it has not been possible to restructure the transaction has been centralised.

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

Responsible lending to consumers

Pursuant to Banco de España Circular 5/2012 of 27 June on the transparency of banking services and responsibility for granting loans and the principles referred to in Annex 6 of said circular, the principles and practices for the responsible granting of credits and loans to consumers have been included in a document authorised by the Bank's Board of Directors dated 18 December 2012. To ensure compliance with said principles and criteria, the Group has implemented a range of measures and controls as part of its risk management system; these items feature in policy and procedure manuals, also authorised by the Board, and in operating systems to ensure appropriate levels of management and control. These controls are based on: discretionary authorisation levels; risk limits; procedures for analysing transactions by product type, including the necessary information; evaluation of ability to pay; maximum LTV thresholds ; management and valuation of guarantees; appraisal policies; marketing and sales policies for credits and loans, including those in foreign currencies; marketing of risk hedging products; and, debt renegotiation and restructuring policies. Furthermore, controls and ongoing monitoring are employed to ensure their correct application and effectiveness

The Group's exposure to credit risk derives basically from its main business area, commercial banking (loans and advances to customers and off-balance sheet risks such as contingent liabilities and available credit lines, mainly).

The credit quality of the risks assumed is analysed in the following table, which shows internal ratings for credit risk exposure, including credit institutions, companies and institutions, 6.25% of which have an A or higher rating.

Rating	**2014**	**2013**
AAA	0.14%	-
AA	-	-
A	6.11%	3.05%
BBB	18.88%	18.17%
BB	29.45%	25.58%
B	23.30%	20.70%
Remainder	22.12%	32.50%
Total	100.00%	100.00%

Set out below is an analysis of the Group's maximum exposure to credit risk in 2014 and 2013.

€ thousands	**2014**	**2013**	**% change**	**Weight (%) 2014**
Commercial activity:				
Loans and advances to customers	108,379,386	109,017,430	(0.59%)	67.73%
Contingent risks	12,554,148	14,749,016	(14.88%)	7.85%
Total commercial activity	120,933,534	123,766,446	(2.29%)	75.58%
Market activity (including counterparty risk)	32,646,077	24,944,396	30.88%	20.40%
Total exposure	153,579,611	148,710,842	3.27%	95.98%
Drawable by third parties	6,430,379	8,816,509	(27.06%)	4.02%
Maximum credit risk exposure	160,009,990	157,527,351	1.58	100.00

The table below sets out the risk concentration by activity and geographical area, based on the borrower's place of residence, at 31 December 2014, by subject:

€ thousands	TOTAL*	Spain	Rest of the European Union	America	Rest of the world
1 Credit institutions	14,134,350	7,822,459	5,384,890	915,118	11,883
2 General government	29,242,364	28,633,431	238,998	369,136	799
2.1 Central government	26,511,860	25,902,927	238,998	369,136	799
2.2 Other	2,730,504	2,730,504	-	-	-
3 Other financial institutions	6,869,266	6,113,088	223,996	900	531,282
4 Non-financial corporations and individual entrepre-neurs	75,802,602	69,154,363	4,739,812	1,849,821	58,606
4.1 Construction and real estate development	15,488,177	14,187,415	583,545	714,671	2,546
4.2 Civil engineering	3,202,021	2,912,263	188,074	100,381	1,303
4.3 Other purposes	57,112,404	52,054,685	3,968,193	1,034,769	54,757
4.3.1 Large companies	22,893,007	20,953,031	1,233,404	687,228	19,344
4.3.2 SMEs and individual entrepreneurs	34,219,397	31,101,654	2,734,789	347,541	35,413
5 Other households and non-profit institutions serving households (ISFLSH)	28,610,918	25,438,993	2,404,507	574,349	193,069
5.1 Housing	22,668,819	19,900,696	2,156,344	426,423	185,356
5.2 Consumption	2,508,153	2,362,085	112,351	30,102	3,615
5.3 Other purposes	3,433,946	3,176,212	135,812	117,824	4,098
SUBTOTAL	154,659,500	137,162,334	12,992,203	3,709,324	795,639
6 Less: Asset impairment adjustments not allocated to specific loans	-	-	-	-	-
7 TOTAL	154,659,500	-	-	-	-

* Includes the balance of loans and advances to credit institutions, Loans and advances to customers, Debt securities, Equity instruments, held-to-maturity portfolio, Trading derivatives, Investments and Contingent exposures in the consolidated financial statements.

Regarding the total risk concentration balance in 2014, €7,861,100 thousand corresponded to Banco Popular Portugal, the majority of it under "Rest of the European Union", and €1,947,007 thousand to Totalbank, most of it under "America".

This same breakdown by Autonomous Region is as follows:

€ thousands	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria
1 Credit institutions	7,822,458	24,416	37,467	240	7	-	1,378,067
2 General government	28,633,432	366,106	39,387	42,212	73,772	62,206	67,731
2.1 Central government	25,902,928	-	-	-	-	-	-
2.2 Other	2,730,504	366,106	39,387	42,212	73,772	62,206	67,731
3 Other financial institutions	6,113,088	249,381	25	240	1	4	1,330,642
4 Non-financial corporations and individual entrepreneurs	69,154,363	9,332,690	1,301,227	1,107,409	1,176,921	1,558,751	252,348
4.1 Construction and real estate development	14,187,415	2,835,554	388,936	239,054	123,169	297,206	28,357
4.2 Civil engineering	2,912,263	343,947	30,251	25,927	15,955	29,481	6,679
4.3 Other purposes	52,054,685	6,153,189	882,039	842,428	1,037,797	1,232,063	217,312
4.3.1 Large companies	20,953,031	992,949	271,019	362,477	193,915	304,087	55,282
4.3.2 SMEs and individual entrepreneurs	31,101,654	5,160,240	611,020	479,951	843,883	927,977	162,030
5 Other households and non-profit institutions serving households (ISFLSH)	25,438,993	5,499,872	272,190	565,327	708,271	790,978	166,014
5.1 Housing	19,900,696	4,424,775	215,173	464,683	578,239	620,212	133,555
5.2 Consumption	2,362,085	380,420	17,480	32,430	53,803	51,443	9,374
5.3 Other purposes	3,176,212	694,678	39,536	68,213	76,229	119,323	23,085
SUBTOTAL	137,162,334	15,472,467	1,650,294	1,715,428	1,958,972	2,411,939	3,194,802
6 Less: Asset impairment adjustments not allocated to specific loans	-	-	-	-	-	-	-
7 TOTAL	137,885,789	-	-	-	-	-	-

€ thousands	Castilla - La Mancha	Castilla y León	Catalonia	Extremadura	Galicia	Madrid	Murcia
1 Credit institutions	-	3,855	1,095,482	-	3,855	3,747,514	-
2 General government	91,110	483,827	321,427	81,472	300,565	551,495	22,260
2.1 Central government		-	-	-	-	-	-
2.2 Other	91,110	483,827	321,427	81,472	300,565	551,495	22,260
3 Other financial institutions	364,573	-	1,232,171	-	82	920,324	-
4 Non-financial corporations and individual entrepreneurs	1,521,501	3,026,396	9,054,319	558,321	4,606,688	24,958,666	1,873,270
4.1 Construction and real estate development	333,469	597,374	1,204,072	69,646	853,881	4,534,025	604,306
4.2 Civil engineering	31,019	92,456	207,121	13,014	359,659	1,483,971	64,167
4.3 Other purposes	1,157,013	2,336,566	7,643,126	475,660	3,393,148	18,940,670	1,204,797
4.3.1 Large companies	135,179	391,298	2,881,100	45,656	667,571	12,181,466	239,114
4.3.2 SMEs and individual entrepreneurs	1,021,834	1,945,267	4,762,026	430,004	2,725,576	6,759,204	965,683
5 Other households and non-profit institutions serving households (ISFLSH)	766,455	1,482,334	3,692,871	338,958	2,537,413	5,203,974	554,368
5.1 Housing	588,874	1,153,196	3,065,015	266,528	1,928,352	3,758,467	439,222
5.2 Consumption	51,734	102,994	209,787	22,495	229,151	953,246	33,770
5.3 Other purposes	125,847	226,143	418,068	49,935	379,910	492,261	81,376
SUBTOTAL	2,743,639	4,996,411	15,396,269	978,751	7,448,603	35,381,974	2,449,897
6 Less: Asset impairment adjustments not allocated to specific loans	-	-	-	-	-	-	-
7 TOTAL	-	-	-	-	-	-	-

€ thousands	Navarra	Valencia	Basque Country	La Rioja	Ceuta & Melilla
1 Credit institutions	-	272,123	1,259,433	-	-
2 General government	91,368	49,975	59,462	26,121	8
2.1 Central government	-	-	-	-	-
2.2 Other	91,368	49,975	59,462	26,121	8
3 Other financial institutions	-	-	2,015,644	1	-
4 Non-financial corporations and individual entrepreneurs	1,082,829	3,903,038	3,273,645	518,695	47,651
4.1 Construction and real estate development	202,599	1,113,718	439,911	320,677	1,461
4.2 Civil engineering	23,581	87,665	91,374	2,215	3,779
4.3 Other purposes	856,649	2,701,655	2,742,360	195,803	42,411
4.3.1 Large companies	240,125	556,713	1,415,164	12,863	7,053
4.3.2 SMEs and individual entrepreneurs	616,524	2,144,942	1,327,196	182,940	35,358
5 Other households and non-profit institutions serving households (ISFLSH)	251,175	1,799,846	683,041	86,774	39,134
5.1 Housing	187,939	1,450,489	533,590	64,418	27,969
5.2 Consumption	25,047	125,202	53,053	7,170	3,486
5.3 Other purposes	38,189	224,156	96,398	15,186	7,678
SUBTOTAL	1,425,372	6,024,983	7,291,225	631,590	86,792
6 Less: Asset impairment adjustments not allocated to specific loans	-	-	-	-	-
7 TOTAL	-	-	-	-	-

The tables below set out the risk concentration by activity and geographical area at 31 December 2013.

€ thousands	TOTAL*	Spain	Rest of the European Union	America	Rest of the world
1 Credit institutions	8,895,614	4,868,205	2,940,723	726,969	359,717
2 General government	12,735,605	12,092,085	233,318	403,184	7,019
2.1 Central government	10,802,514	10,218,837	180,493	403,184	-
2.2 Other	1,933,092	1,873,248	52,825	-	7,019
3 Other financial institutions	9,863,142	9,243,908	118,802	976	499,456
4 Non-financial corporations and individual entrepreneurs	78,774,687	72,287,608	4,739,290	1,517,290	230,499
4.1 Construction and real estate development	17,332,739	15,977,822	613,177	697,951	43,789
4.2 Civil engineering	3,564,076	3,230,255	186,743	142,770	4,308
4.3 Other purposes	57,877,872	53,079,531	3,939,370	676,569	182,402
4.3.1 Large companies	24,557,824	22,814,601	1,160,433	518,584	64,206
4.3.2 SMEs and individual entrepreneurs	33,320,049	30,264,931	2,778,937	157,985	118,196
5 Other households and non-profit institutions serving households (ISFLSH)	32,466,681	28,939,332	2,519,815	407,201	600,333
5.1 Housing	23,431,245	20,737,859	2,228,828	291,944	172,614
5.2 Consumption	2,896,685	2,305,803	142,418	33,176	415,288
5.3 Other purposes	6,138,751	5,895,670	148,569	82,081	12,431
SUBTOTAL	142,735,729	127,431,138	10,551,948	3,055,620	1,697,024
6 Less: Asset impairment adjustments not allocated to specific loans	-	-	-	-	-
7 TOTAL	142,735,729	-	-	-	-

* Includes the balance of loans and advances to credit institutions, Loans and advances to customers, Debt securities, Equity instruments, held-to-maturity portfolio, Trading derivatives, Investments and Contingent exposures in the consolidated financial statements.

This same breakdown by Autonomous Region is as follows:

€ thousands	TOTAL*	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria
1 Credit institutions	4,868,205	83,884	76,257	394	1,015	75	948,971
2 General government	12,092,085	218,615	13,953	50,033	70,654	45,209	71,063
2.1 Central government	10,218,837	-	-	-	-	-	-
2.2 Other	1,873,248	218,615	13,953	50,033	70,654	45,209	71,063
3 Other financial institutions	9,243,908	2,794,038	164,860	-	-	1	-
4 Non-financial corporations and individual entrepreneurs	72,287,608	9,144,833	1,330,477	1,084,699	1,078,456	1,506,317	231,327
4.1 Construction and real estate development	15,977,822	3,285,768	446,211	257,342	140,594	331,940	39,816
4.2 Civil engineering	3,230,255	306,249	26,990	32,614	18,381	35,808	8,837
4.3 Other purposes	53,079,531	5,552,816	857,276	794,742	919,481	1,138,569	182,674
4.3.1 Large companies	22,814,601	848,396	248,646	360,951	199,671	271,038	49,389
4.3.2 SMEs and individual entrepreneurs	30,264,931	4,704,420	608,630	433,791	719,810	867,530	133,285
5 Other households and non-profit institutions serving households (ISFLSH)	28,939,332	6,391,084	313,245	627,620	806,764	890,819	187,703
5.1 Housing	20,737,859	4,671,134	228,584	484,300	600,534	636,200	141,679
5.2 Consumption	2,305,803	345,287	17,076	30,346	50,486	45,726	7,904
5.3 Other purposes	5,895,670	1,374,663	67,585	112,973	155,744	208,894	38,120
SUBTOTAL	127,431,138	18,632,455	1,898,793	1,762,746	1,956,888	2,442,422	1,439,064
6 Less: Asset impairment adjustments not allocated to specific loans	-	-	-	-	-	-	-
7 TOTAL	127,431,138	-	-	-	-	-	-

€ thousands	Castilla - La Mancha	Castilla y León	Catalonia	Extremadura	Galicia	Madrid	Murcia
1 Credit institutions	-	-	940,211	-	163,144	1,505,766	-
2 General government	28,663	170,165	299,280	37,285	203,020	424,099	24,161
2.1 Central government	-	-	-	-	-	-	-
2.2 Other	28,663	170,165	299,280	37,285	203,020	424,099	24,161
3 Other financial institutions	279,681	27	2,268,172	-	76	2,373,666	97
4 Non-financial corporations and individual entrepreneurs	1,554,431	2,927,192	8,916,882	582,762	4,660,459	28,585,165	1,947,812
4.1 Construction and real estate development	477,275	709,842	1,513,276	78,644	1,184,778	4,178,459	795,753
4.2 Civil engineering	30,819	103,410	248,832	14,972	275,702	1,804,016	90,251
4.3 Other purposes	1,046,338	2,113,940	7,154,774	489,146	3,199,978	22,602,690	1,061,808
4.3.1 Large companies	139,825	400,946	2,974,800	145,595	644,144	14,273,895	210,288
4.3.2 SMEs and individual entrepreneurs	906,513	1,712,994	4,179,974	343,551	2,555,835	8,328,796	851,520
5 Other households and non-profit institutions serving households (ISFLSH)	867,294	1,851,901	4,173,353	407,830	2,895,003	5,605,661	640,373
5.1 Housing	605,379	1,230,813	3,218,072	284,115	1,997,612	3,827,262	460,006
5.2 Consumption	45,046	103,047	196,786	20,225	233,640	981,254	36,825
5.3 Other purposes	216,870	518,041	758,496	103,490	663,752	797,146	143,542
SUBTOTAL	2,730,069	4,949,284	16,597,899	1,027,878	7,921,701	38,494,357	2,612,443
6 Less: Asset impairment adjustments not allocated to specific loans	-	-	-	-	-	-	-
7 TOTAL	-	-	-	-	-	-	-

€ thousands	Navarra	Valencia	Basque Country	La Rioja	Ceuta & Melilla
1 Credit institutions	91	228,445	919,954	-	-
2 General government	34,067	113,062	40,271	29,639	8
2.1 Central government	-	-	-	-	-
2.2 Other	34,067	113,062	40,271	29,639	8
3 Other financial institutions	-	229,731	1,133,559	1	-
4 Non-financial corporations and individual entrepreneurs	1,123,400	3,895,470	3,155,953	528,184	33,787
4.1 Construction and real estate development	223,636	1,372,038	624,926	316,025	1,499
4.2 Civil engineering	34,665	113,779	81,933	2,622	373
4.3 Other purposes	865,099	2,409,653	2,449,094	209,536	31,915
4.3.1 Large companies	260,116	502,239	1,258,344	16,603	9,714
4.3.2 SMEs and individual entrepreneurs	604,983	1,907,414	1,190,750	192,933	22,201
5 Other households and non-profit institutions serving households (ISFLSH)	310,864	2,026,164	789,200	109,531	44,921
5.1 Housing	194,060	1,497,570	563,090	69,278	28,173
5.2 Consumption	24,575	117,873	39,319	6,689	3,700
5.3 Other purposes	92,229	410,721	186,791	33,564	13,048
SUBTOTAL	1,468,422	6,492,872	6,038,937	667,355	78,716
6 Less: Asset impairment adjustments not allocated to specific loans	-	-	-	-	-
7 TOTAL	-	-	-	-	-

Notes 23, 47 and 48 of these Financial Statements contain detailed information on this type of risk, including guarantees. In addition, the risk management section of the Directors' Report provides further comments and quantitative information, analysing credit risk, related monitoring and control, bad debt management, total exposure to credit risk, risk concentration and country risk, including information by geographical segment, counterparty and available credit lines.

Market activity

In the market activity, all the issuer or counterparty risk arises from activities in the treasury, origination and capital market areas. For analysis purposes, the types of products are classified in three groups depending on the credit risk exposure measurement: (i) issuer risk , which affects the principal of held-to-maturity fixed income instruments and temporary acquisitions; (ii) counterparty risk consisting of the market value plus a factor that reflects the estimated future potential risk based on the term and volatility of the underlying, which affects interbank deposits, repos and simultaneous exchanges, and foreign currency dealing; and (iii) derivative counterparty risk (interest rates, equities, exchange rate and *commodities*) consisting of the market value plus a factor that reflects the estimated future potential risk based on the term and volatility of the underlying asset. In the case of exchange rate transactions, if not carried out through a clearing house the delivery risk is included.

At the end of the year this risk totals €32,696 million, with an overall year-on-year increase of 30.8%, equalling €7,702 million. This is attributable to the increase in fixed-income risk, €7,703 million, mainly in government debt, remaining stable in other activities. This risk mainly arises due to the issuer risk involving the fixed-income portfolio, representing 97.7% of the total.

As a result of the application of risk mitigation techniques to the framework agreements for offsetting profits and losses and the exchange of guarantees, which is revised daily, a positive mitigation effect of €2,429 million was obtained. Without the mitigation benefit, the overall risk would be €32,696 million. Out of the total without the mitigation effect, 91% relates to fixed income financial assets, 8.72% to interest rate, exchange rate and equity derivatives and 0.3% to repos, simultaneous transactions and interbank deposits. As regards geographical distribution, 98.78% of the risks are concentrated in the euro zone, 0.97% in non-euro Europe and 0.24% in the dollar-yen zone.

Credit risk includes an additional category named country risk, which may be defined as the risk arising from customers resident in a specific country due to circumstances other than ordinary commercial risks. Country risk also includes sovereign risk, transfer risk and other risks arising from international financial activities:

a) Sovereign risk arises when legal actions against a borrower or guarantor may be ineffective by reason of sovereignty.

b) Transfer risk arises when a country undergoes a generalised inability to pay its debts or lacks the currencies in which the debts are denominated.

c) Other risks derive from serious economic or political events such as wars, revolutions, nationalisations, etc. resulting in contractual default.

A breakdown of the various areas of the balance sheet affected by country risk and the hedging performed by the Group at 31 December 2014 and 2013 is as follows.

€ thousands	Credit institutions		Loans and advances to customers		Contingent liabilities		Total	
2014	**Balances**	**Hedging**	**Balances**	**Hedging**	**Balances**	**Hedging**	**Balances**	**Hedging**
No appreciable risk	-	-	32,185	-	9,936	-	42,121	-
Substandard risk	-	-	650	71	104	15	754	86
Doubtful risk	-	-	842	841	107	90	949	931
Total	-	-	33,677	912	10,147	105	43,824	1,017
2013								
No appreciable risk	-	-	25,397	-	27,515	-	52,912	-
Substandard risk	-	-	231	40	479	76	710	116
Doubtful risk	-	-	1,180	1,106	103	87	1,283	1,193
Total	-	-	26,808	1,146	28,097	163	54,905	1,309

Structural balance sheet risk

This risk category covers risks deriving from possible adverse changes in interest rates corresponding to assets and liabilities, in the exchange rates for currencies in which asset and liability groups or on- or off-balance sheet items are denominated, and in the market prices of negotiable financial instruments.

It also includes business risk, defined as the possibility that the gross income is not sufficient to cover the fixed costs due to changes in the volumes of the balance sheet items and the fee and commission income, caused in turn by changes in the economic conditions. Given the Bank's cost/income ratio, this risk is absolutely remote although regular estimates of growth and changes in the balance sheet structure are carried out, and their impact on gross income is measured.

The exchange rate risk of the business in Spain and Portugal is practically non-existent as a result of the criterion applied in this respect: treasury and financial asset positions in currencies other than the euro are confined to the placement of surplus cash arising from the commercial banking activities in the same currency and at similar terms.

The investment in TotalBank, a resident of the United States, represents an open dollar position on the entity's goodwill. This risk is monitored and at times, depending on the expected evolution of the currency, it is partially hedged.

Balancing entries are recognised for these exchange differences in the Group's equity (see Note 15.i).

Interest rate risk

In relation to the control of the interest rate risk, an analysis is made of the sensitivity of the financial margin to changes in interest rates, monitoring the maturities and repricing gap in the consolidated balance sheet, analysed by sensitivity and non-sensitivity to interest rates.

For sensitive assets and liabilities that mature or change the interest rate in a given period, only the first contract revision has to be taken into account. For balance sheet items with no maturity but with interest rate revision, albeit not on a fixed date, the frequency of review is based on historical performance.

The impact of an adverse movement in rates is also evaluated with respect to economic value. The Group regularly measures changes in value, as well as its sensitivity to changes in interest rates. This is done by considering all of the positions sensitive to interest rates, including both the implicit and explicit interest rate derivatives, and excluding the positions that form part of the financial instruments held-for-trading, the risk of which is measured separately.

The economic value is calculated as the sum of the fair value of the net assets and liabilities sensitive to the interest rate and the net carrying value of assets and liabilities that are not sensitive to interest rates. The fair value of the items sensitive to interest rates is obtained as the present value based on the interest rate curve in the inter-bank market at the date of reference, for future flows of principal and interest relating to all items sensitive to interest rates. The sensitive positions that form part of the financial instruments held-for-trading are also taken into consideration.

Interest rate risk management is instrumented mainly through derivatives. The policy is to arrange the most perfect possible hedges, and this is why the preference is to arrange individual hedges. Consequently, most of the hedge volume is concentrated on financing transactions in the wholesale market. An exceptional case consists of the liability and derivative positions for rates sold to customers in the commercial network which, due to their amount, are covered when a suitable volume has been accumulated. The interest rate risk relating to the fixed-income portfolio is also hedged with financial swaps.

At the year end, the effect of a 200 basis point increase in the euro interest rates, with respect to the current implicit rates, has a positive impact of 2.54% on the economic value. Additionally, a drop in interest rates of the same magnitude also promotes economic value due to the low level found in the rate curve, which is limited to 0%. The impact of rate shifts on currencies other than the euro is considered to be immaterial in view of the Group's negligible position at the year end.

As may be observed, the sensitivity of the economic value to very stressed variations in interest rates is well below the maximum thresholds permitted by current legislation.

At 31 December 2014, interest-rate sensitive assets totalled €122,693 million, compared with €120,152 million of similarly sensitive liabilities, with an aggregate positive gap of €2,541 million. For a good part of 2015 maturities of sensitive assets exceed those of sensitive liabilities, which means that falling interest rates would have a positive impact in the short term.

Maturity and repricing gap in the consolidated balance sheet at 31 December 2014:

€ millions									
2014	**Total**	**No sensi-tive**	**Sensi-tive**	**Up to 1 month**	**From 1 to 2 months**	**From 2 to 3 months**	**From 3 to 6 months**	**6 to 12 months**	**Over 12 months**
Loans and receivables	107,828	16,191	91,637	19,773	6,836	13,413	19,883	23,401	8,331
Deposits with credit institutions	5,050	1,248	3,802	3,447	-	314	1	1	39
Loans and advances to customers	100,583	12,748	87,835	16,326	6,836	13,099	19,882	23,400	8,292
Other assets and valuation adjust-ments	2,195	2,195	-	-	-	-	-	-	-
Securities market	32,227	2,425	29,802	659	504	139	747	1,070	26,683
Other assets	21,401	20,147	1,254	353	78	129	165	137	392
Total assets	**161,456**	**38,763**	**122,693**	**20,785**	**7,418**	**13,681**	**20,795**	**24,608**	**35,406**
Financial liabilities at amortised cost	142,228	26,032	116,196	34,972	6,823	9,266	16,575	21,498	27,062
Deposits from credit institutions	27,707	619	27,088	10,007	1,991	953	1,238	1,859	11,040
Customer deposits	96,036	24,167	71,869	24,007	4,510	5,536	14,674	17,040	6,102
Marketable debt securities	15,962	148	15,814	958	322	2,542	663	2,599	8,730
Subordinated and preference lia-bilities	1,425	-	1,425	-	-	235	-	-	1,190
Valuation adjustment (+/-) (Debt securities)	1,098	1,098	-	-	-	-	-	-	-
Other liabilities	6,558	2,602	3,956	3,166	271	-	493	26	-
Equity	12,670	12,670	-	-	-	-	-	-	-
Total liabilities and equity	**161,456**	**41,304**	**120,152**	**38,138**	**7,094**	**9,266**	**17,068**	**21,524**	**27,062**
Off-balance sheet transactions				**1,817**	**61**	**1,221**	**4,014**	**719**	**(7,832)**
Gap		**(2,541)**	**2,541**	**(15,536)**	**385**	**5,636**	**7,741**	**3,803**	**512**
Accumulated gap				**(15,536)**	**(15,151)**	**(9,515)**	**(1,774)**	**2,029**	**2,541**

€ millions									
2013	**Total**	**No sensitive**	**Sensitive**	**Up to 1 month**	**From 1 to 2 months**	**From 2 to 3 months**	**From 3 to 6 months**	**6 to 12 months**	**Over 12 months**
Loans and receivables	108,036	15,799	92,237	19,328	8,112	15,085	17,223	24,771	7,718
Deposits with credit institutions	5,532	1,320	4,212	3,804	59	25	5	5	314
Loans and advances to customers	101,124	13,099	88,025	15,524	8,053	15,060	17,218	24,766	7,404
Other assets and valuation adjust-ments	1,380	1,380	-	-	-	-	-	-	-
Securities market	16,994	1,746	15,248	109	366	146	343	1,384	12,900
Other assets	21,679	18,527	3,152	886	196	325	414	343	988
Total assets	**146,709**	**36,072**	**110,637**	**20,323**	**8,674**	**15,556**	**17,980**	**26,498**	**21,606**
Financial liabilities at amortised cost	130,313	19,061	111,252	29,055	7,125	10,152	15,651	13,109	36,160
Deposits from credit institutions	21,693	512	21,181	9,596	604	1,721	703	1,278	7,279
Customer deposits	89,262	17,655	71,607	18,533	5,181	6,474	13,218	11,432	16,769
Marketable debt securities	16,282	142	16,140	740	1,340	1,852	1,730	253	10,225
Subordinated and preference liabilities	2,324	-	2,324	186	-	105	-	146	1,887
Valuation adjustment (+/-) (Debt securities)	752	752	-	-	-	-	-	-	-
Other liabilities	4,920	1,990	2,930	1,927	114	889	-	-	-
Equity	11,476	11,476	-	-	-	-	-	-	-
Total liabilities and equity	**146,709**	**32,527**	**114,182**	**30,982**	**7,239**	**11,041**	**15,651**	**13,109**	**36,160**
Off-balance sheet transactions				**2,024**	**235**	**749**	**690**	**(1,155)**	**(2,543)**
Gap		**3,545**	**(3,545)**	**(8,635)**	**1,670**	**5,264**	**3,019**	**12,234**	**(17,097)**
Accumulated gap				**(8,635)**	**(6,965)**	**(1,701)**	**1,318**	**13,552**	**(3,545)**

Market risk

This item includes the risks resulting from possible adverse changes in the market prices of traded financial instruments managed by the Group's Treasury as a result of changes in interest rates, credit spreads, exchange rates, share prices and stock market indexes for commodities and the volatility affecting these items.

Also included is the liquidity risk linked to these positions. This is understood to refer to the impossibility of unwinding positions in the market within a short period of time. For this purpose, positions are valued over a time scale equal to the estimated time it will take to close the risk.

Treasury activity risk

The Treasury Risk Management area, for the purpose of controlling the market risk in this area's activity, undertakes daily monitoring of operations contracted, calculation of the result implied by the impact of market trends on positions, quantification of market risk assumed, calculation of regulatory capital consumed and monitoring of compliance with limits.

The activity of the Treasury area in financial markets is exposed to market risk resulting from unfavourable trends in the following risk factors: euro and foreign currency interest rates, exchange rates, share prices, credit spreads, volatility and correlation. The indicator used to measure market risk is *Value at risk* (VaR), which is defined as a potential maximum loss estimated based on historical data regarding variations in the risk factors and calculated with a confidence level for a specific time horizon. In measuring the Group's overall risk VaR methodology by historical simulation is used, calculated with a confidence level of 99 %, taking into account historical variations over a period of 250 days with more weight being placed on most recent observations [decay factor: 0.94], and using a term of 1 day to measure possible losses, since all open positions are liquid.

To complete the VaR figures for historical simulation, complimentary limits are calculated in terms of position and sensitivity, as well as Treasury *Stop Loss* limits. In addition, financial instruments held for trading are subjected to acute changes in market variables (stress testing).

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

In 2014, the average VaR of the Treasury trading activity was €0.213 million.

The risk figure for Treasury trading activity is close to the yearly average in the final month of the year, as open positions in several portfolios are reduced, thus reducing sensitivity to movement on the market.

Table 1 includes a calculation of the average VaR attributable to the various Treasury trading activities: Money Market and Asset Trading Book, which includes interest rate risk and exchange rate risk; Equities, which includes share price risk and volatility risk; Structured Derivatives, which includes interest rate risk and volatility risk, and Investments, which includes share price risk and volatility risk. It may be observed that the risk is concentrated mainly on interest rate risk produced by the Asset Trading Book.

Table 1: Average VaR 2014

€ thousands	Money market	trading	Structured derivatives	Financial investments	Aggregate VaR
Average VaR 2014	63	91	15	82	213
Average VaR 2013	191	92	29	71	265

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

- ***Clean Backtesting***: relates to the daily results from active transactions at the close of the previous session with the one-day estimated VaR, calculated using the active positions at the end of the preceding session. This exercise is the most suitable for the self-evaluation of the methodology used to measure market risk.

- ***Complementary or dirty backtesting***: evaluates the result obtained during the day (including any intraday trades) with the VaR amount over a horizon of one day calculated on the transactions alive at the close of the previous session. This makes it possible to evaluate the importance of the intra-day trading in the generation of earnings and in the estimation of the total portfolio risk.

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

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

- Analysis of theoretical scenarios (systematic *stress*) calculates the change in value of the portfolio in response to certain extreme changes in the principal risk factors. According to the composition of the Bank's portfolio, the principal risk factors are interest rate risk and equity price risk, since they account for more than 97% of the total VaR. To include the possible combinations of the various movements in risk factors, 9 joint scenarios are analysed on a monthly basis and the three scenarios that are the most harmful in the analysis are reported daily.

The fair value measurement of financial instruments has been performed by observing variables obtained from active markets and the market prices of certain instruments, using generally accepted procedures, or internal models in the absence of observable market variables or because a market becomes illiquid.

Set out below is information on the consolidated balance sheet items carried at fair value, showing the valuation method used:

€ thousands	Fair value of financial instruments		Level 1: Financial instruments traded in active markets		Level 2: Financial instruments whose fair value is based on market observations		Level 3: Financial instruments whose fair value is calculated using internal models	
	2014	2013	2014	2013	2014	2013	2014	2013
Assets								
Financial instruments held-for-trading	1,689,644	1,510,574	46,790	454,981	1,616,929	1,055,593	25,925	-
Debt securities	40,339	253,615	40,339	253,615	-	-	-	-
Equity instruments	163,923	201,366	6,451	201,366	131,547	-	25,925	-
Trading derivatives	1,485,382	1,055,593	-	-	1,485,382	1,055,593	-	-
Other financial assets at fair value with changes in profit and loss account	510,799	363,680	462,353	363,680	48,446	-	-	-
Debt securities	351,544	248,206	348,943	248,206	2,601	-	-	-
Equity instruments	159,255	115,474	113,410	115,474	45,845	-	-	-
Available-for-sale financial assets	29,765,352	16,175,138	28,457,417	15,083,641	554,745	618,336	753,793	473,161
Debt securities	29,363,902	15,796,454	28,383,130	14,997,536	523,476	618,336	457,296	180,582
Equity instruments at fair value	401,450	378,684	74,287	86,105	31,269	-	296,497	292,579
Hedging derivatives	441,156	579,029	-	-	441,156	579,029	-	-
Liabilities								
Financial instruments held-for-trading	1,397,389	954,426	-	-	1,397,389	954,426	-	-
Trading derivatives	1,397,389	954,426	-	-	1,397,389	954,426	-	-
Short positions	-	-	-	-	-	-	-	-
Other financial liabilities at fair value with changes in profit and loss account	649,354	601,367	-	-	649,354	601,367	-	-
Hedging derivatives	2,161,074	1,473,749	-	-	2,161,074	1,473,749	-	-

A three-level scale of fair value has been established based on the valuation method used:

- Level 1 includes financial instruments measured using the *mark-to-market* method, which is based on the possibility of assigning market prices to instruments identical to those included in the Group's portfolio. These prices are obtained from the quoted prices of market makers within financial reporting systems, operations carried out on trading platforms, clearing houses or organised markets.

- Level 2 includes financial instruments with fair values based on market observations, measured using the *mark-to-model* method which assumes reasonable behaviour, usually framed within standard market models, of the basic underlying financial instrument. On that basis it will infer an accurate valuation for more complex instruments. A valuation by model is a sophisticated way to interpolate the valuation of a financial instrument for which a reliable market quotation is not available, from the quoted prices and variables observable in the market.

- Level 3 includes financial instruments with fair values calculated by applying the *mark-to-model,* in which one or more significant parameters are not based on observable market data.

The following table shows the evolution of the values of each category of financial assets and liabilities measured at fair value in 2014, calculated using variables that may not be observed in the market or internal models (Level 3).

€ thousands	ASSETS			LIABILITIES	
	Financial instruments held-for-trading	Available-for-sale assets	Hedging derivatives	Financial instruments held-for-trading	Hedging derivatives
Opening balance 01-01-2014	-	473,161	-	-	-
Movements:					
in profit and loss	-	-	-	-	-
in equity	-	25,919	-	-	-
Procurement	25,925	276,441	-	-	-
Issues	-	-	-	-	-
Sales	-	(21,728)	-	-	-
Settlements	-	-	-	-	-
Other transfers	-	-	-	-	-
Level 1 and 2 transfers	-	-	-	-	-
Closing balance 31-12-2014	25,925	753,793	-	-	-

Includes transfers from levels 1 or 2 to level 3 amounting to €233,832 thousand, of which €176,832 thousand relates to debt securities and €57,000 thousand to equity instruments.

The purchase of level 3 securities relates to the acquisition of SAREB shares during the year.

No significant transfers have been made between levels 1 and 2.

€ thousands	ASSETS			LIABILITIES	
	Financial instruments held-for-trading	Available-for-sale assets	Hedging derivatives	Financial instruments held-for-trading	Hedging derivatives
Opening balance 1 Jan. 2013	-	271,280	-	-	-
Movements:	-		-	-	-
in profit and loss	-	-	-	-	-
in equity	-	(25,493)	-	-	-
Procurement	-	14,785	-	-	-
Issues	-	-	-	-	-
Sales	-	-	-	-	-
Settlements	-	(20,000)	-	-	-
Other transfers	-		-	-	-
Level 1 and 2 transfers	-	232,589	-	-	-
Closing balance 31-12-2013	-	473,161	-	-	-

Liquidity risk

The liquidity risk reflects the possibility of a credit institution encountering difficulties in disposing of liquid resources, or of accessing liquid resources, of a sufficient amount and at adequate cost, in such a way that it is able to meet its payment obligations at all times. Since the onset of the global financial crisis in 2007, the Group has considered it essential to reduce its dependence on capital markets (short-term and long-term) as well as to extend financing terms. In this connection, the priority financing strategy for the Group has been to obtain retail liabilities through products that meet the needs of its customers while, at the same time, providing stability to its balance sheet. This strategy is based on the capacity to access private individual and company customers through the Group's broad commercial network.

At 31 December 2014 the commercial gap was €11,092 million, attaining a loan to deposit ratio of 113.4%. Since 31 December 2011, there has been a significant improvement in the commercial gap amounting to €12,194 million, maintaining a loan to deposit ratio of around 110% in recent years.

In 2014, the Group decreased its retail financing during the year by €2,333 million to €82,905 million, which is 58.6% of all of the Group's financing, excluding equity, and has the following composition: (i) 51.3% in demand accounts, term deposits and promissory notes, (ii) 6.2% in loans mediated by the Official Credit Institute (ICO) and the European Investment Bank, (iii) 0.6% in other securities distributed through the commercial network, and (iv) 0.5% in tax collection accounts and valuation adjustments. However, retail financing is proving to be very stable in this phase of the economic cycle, in which demand and term deposits have increased since 31 December 2012 by €4.06 billion, which shows the loyalty of our customers.

On the other hand, retail financing, which represents 12.8% of all the Group's financing, has increased by €91 million. Retail financing is diversified among a broad variety of instruments, notably mortgage covered bonds, which represent 57% of this heading and the collateral for which may be reused. In 2014, the Bank took advantage of the issue opportunities that existed in the wholesale markets and placed €2,185 million during the year, €600 million in senior debt and €1,585 in mortgage covered bonds. Wholesale markets remain open, demonstrating a growth in demand and an increase in the number and type of investors with an appetite for Spanish paper. These circumstances have allowed the Bank to carry out the first issue of senior debt among private Spanish banks in 2015, amounting to €500 million at a term of 5 years.

The financing from clearing houses and other market repos represents 21.5% of total financing at €30,510 million during the year. Since 2010, the Bank has formed part of the three main European counterparty clearing houses, LCH London, LCH Paris and Eurex repo, together with other international banks. This activity forms part of the Group's strategy to diversify sources of financing and reduce costs, increasing sources of liquidity guaranteed by liquid assets other than those offered by the ECB. The counterparty clearing houses act as guarantors of the transactions carried out between financial institutions, which allows risks to be minimised. The maturity of these transactions makes it possible to reuse available collateral.

Finally, financing from the European Central Bank amounted to €9,992 million, which represents 7.1% of all the Group's financing. This amount is related to the measures approved by the European Central Bank that seek to support real economy financing through the private sector.

To this end, in September and December, the Bank responded to the first two "targeted longer term refinancing operations" (TLTRO) calls made by the European Central Bank, for a total of €5,696 million. These auctions made it possible to raise four-year funding at a competitive price, the ECB reference rate plus 0.10%.

Measurement and oversight of liquidity risk

The Group's liquidity risk is centrally controlled by means of formal procedures which are used to analyse and monitor the Group's liquidity; these include contingency plans to cope with possible variations in its liquidity arising either as a result of internal factors or due to market trends. For this purpose, periodic analyses are made of the sensitivity of liquidity in a variety of asset and liability cancellation scenarios, in periods which range from one day up to one year, in the short term, from one year to five years, in the medium term and long term, and over five years in the very long term.

Liquidity risk analysis is based on a breakdown of the consolidated balance sheet, considering the residual maturity terms of assets and liabilities; the result is These maturities are compared to arrive at the positive or negative liquidity gap in each time interval. For issues of securities, and for reasons of prudence, the shortest cancellation period is considered in all cases.

The balance sheet in question is used to simulate situations arising in different scenarios in terms of market liquidity, combined with assumptions with respect to changes in application and equity aggregates and with the use of available liquidity lines. It is possible in this way to estimate the sensitivity of the balance sheet to changes in these variables. Simulations take into account two risks: systemic risk, which would affect the entire financial system and specific risk, affecting only Banco Popular. The assumptions on which these are based differ, as do the impacts on the balance sheet and on the liquidity position.

The measures to be adopted, which are defined in the contingency plan, take into consideration the particular natures of each of these types of crisis. These simulations allow a quantification of a minimum amount of available eligible assets as a second line of liquidity that ensures that the simulated scenarios can be comfortably surpassed.

In addition, the Group updates and analyses its liquidity position using the assumptions and criteria applied by regulators.

At 31 December 2014, flows from assets with fixed maturities amount to €139,866 million, as compared with €115,122 million in liabilities having the same nature, representing a positive gap of €24,744 million. However, during the first 36 months, the flows of maturing liabilities is faster than the assets, generating a negative gap that would reach €43,450 million. This is explained basically by the maturities of assets sold under short-term repos to financial entities, which finance a part of the assets held for trading that mature later. Bearing in mind the high credit quality of the assets sold under repos, mostly government debt securities, the repos are highly likely to be renewed at maturity. If this is not the case, this collateral could be used at any time in financial transactions in the Eurosystem.

To cover this trend, the Group has liquid assets available at 31 December 2014 with which it could obtain financing of €12,376 million. Table 2 includes the balance of the available liquid assets at any given moment, taking into consideration that the maturities of repos reduce their balance and acquisitions increase the balance. As may be observed, Banco Popular has sufficient liquid assets available at all times to cover the negative liquidity gap.

Available assets are eligible for both European Central Bank discounting operations and as collateral in operations with financial entities and customers. Therefore, if faced by a liquidity contingency, the Group could obtain funds without suffering any losses in a time-frame not exceeding one week.

The 2014 and 2013 liquidity gaps show the maturities of principal and interest on the Group's balance sheet:

€ millions								
2014	**To 3 months**	**Between 3 and 6 months**	**Between 6 and 36 months**	**Between 36 and 60 months**	**Over 60 months**	**Total Maturities**	**Without Maturities**	**Total**
Loans and advances to customers	9,545	4,721	24,695	12,275	46,254	97,490	12,525	**110,015**
Money market and repos	8,525	120	258	54	3,038	11,995	1,883	**13,878**
Debt securities	762	839	6,043	12,545	10,192	30,381	2,332	**32,713**
Other assets	-	-	-	-	-	-	21,956	**21,956**
Total assets	**18,832**	**5,680**	**30,996**	**24,874**	**59,484**	**139,866**	**38,696**	**178,562**
Customer deposits	14,388	9,368	20,881	48	2	44,687	27,433	72,120
Repos, ICO, Treasury and other	34,833	2,370	5,023	7,258	1,854	51,338	614	51,952
Negotiable securities and subordi-nated liabilities	2,058	249	9,788	3,773	3,229	19,097	152	19,249
Other liabilities	-	-	-	-	-	-	7,298	7,298
Equity	-	-	-	-	-	-	12,670	12,670
Total liabilities	**51,279**	**11,987**	**35,692**	**11,079**	**5,085**	**115,122**	**48,167**	**163,289**
GAP	**(32,447)**	**(6,307)**	**(4,696)**	**13,795**	**54,399**	**24,744**	**(9,471)**	**15,273**
CUMULATIVE GAP	**(32,447)**	**(38,754)**	**(43,450)**	**(29,655)**	**24,744**	**-**	**15,273**	**-**
Derivatives	(74)	(73)	(575)	(1,409)	(1,814)	-	-	-
Available liquid assets	41,410	43,386	50,370	59,303	60,537	**-**	-	-
Adjusted accumulated GAP	**8,889**	**4,559**	**6,345**	**28,239**	**83,467**	**-**	-	-

€ millions								
2013	**To 3 months**	**Between 3 and 6 months**	**Between 6 and 36 months**	**Between 36 and 60 months**	**Over 60 months**	**Total Maturities**	**Without Maturities**	**Total**
Loans and advances to customers	8,729	4,949	27,109	13,539	50,010	104,336	13,342	**117,678**
Money market and repos	11,359	446	103	481	1,802	14,191	2,160	**16,351**
Debt securities	275	359	5,309	4,285	7,565	17,793	1,734	**19,527**
Other assets	-	-	-	-	-	-	19,112	**19,112**
Total assets	**20,363**	**5,754**	**32,521**	**18,305**	**59,377**	**136,320**	**36,348**	**172,668**
Customer deposits	16,438	8,032	25,923	-	1	50,394	23,929	74,323
Repos, ICO, Treasury and other	26,387	723	5,257	2,840	2,251	37,458	543	38,001
Negotiable securities and subordi-nated liabilities	2,724	1,574	8,760	4,950	3,222	21,230	146	21,376
Other liabilities	-	-	-	-	-	-	5,510	5,510
Equity	-	-	-	-	-	-	11,476	11,476
Total liabilities	**45,549**	**10,329**	**39,940**	**7,790**	**5,474**	**109,082**	**41,604**	**150,686**
GAP	**(25,186)**	**(4,575)**	**(7,419)**	**10,515**	**53,903**	**27,238**	**(5,256)**	**21,982**
CUMULATIVE GAP	**(25,186)**	**(29,761)**	**(37,180)**	**(26,665)**	**27,238**	**-**	**21,982**	**-**
Derivatives	(74)	(137)	(593)	(880)	(823)	-	-	-
Available liquid assets	35,324	36,524	41,070	45,863	47,227	**-**	-	-
Adjusted accumulated GAP	**10,064**	**6,626**	**3,297**	**18,318**	**73,642**	**-**	-	-

To evaluate the adequacy of the available effective liquid assets, the Bank carries out stress tests that assume the non-renewal of all the maturities of wholesale financing sources.

19. CASH AND BALANCES WITH CENTRAL BANKS

These headings in the consolidated balance sheet comprise the cash balances of Group companies, basically the banks. The balances with Banco de España relate to deposits by the Group's Spanish banks. These deposits are obligatory, in part, in order to maintain minimum reserves in each central bank, based on the credit institution's eligible liabilities. Interest is paid on the balances by the central banks. Note 49 provides details of the interest received.

€ thousands	2014	2013
Cash	451,251	463,880
Central banks:		
Banco de España	630,128	2,338,483
Other central banks	111,420	24,361
Valuation adjustments	15	114
Total	1,192,814	2,826,838

The breakdown of deposits with other central banks, by position held by Banco Popular Portugal, S.A, and TotalBank, is as follows:

€ thousands	2014	2013
Banco de Portugal	85,678	4,950
US Federal Reserve	25,742	19,411
Total	111,420	24,361

20. FINANCIAL INSTRUMENTS HELD FOR TRADING

This heading includes the amounts of asset and liability items originally defined by the Group as realisable in the short term or corresponding to the valuation of derivatives not designated as hedging instruments.

The breakdown of these headings in the consolidated balance sheets at 31 December 2014 and 2013 is as follows:

€ thousands	Assets		Liabilities	
	2014	2013	2014	2013
Deposits with/from credit institutions	-	-	-	-
Loans and advances to/deposits from customers	-	-	-	-
Debt securities	40,339	253,615	-	-
Debt certificates	-	-	-	-
Other equity instruments	163,923	201,366	-	-
Trading derivatives	1,485,382	1,055,593	1,397,389	954,426
Short positions	-	-	-	-
Other financial liabilities	-	-	-	-
Total	**1,689,644**	**1,510,574**	**1,397,389**	**954,426**

The fair value of the financial instruments held for trading was calculated as follows:

The fair value of all assets and liabilities was calculated based on market quotations, prices and interest rate curves, as applicable. Most debt securities and marketable debt securities in this portfolio are traded in organised markets. In all cases, their quotations and prices are exactly the same as their market values. Listed financial assets deemed to be illiquid are measured using observable market variables or internal models. For derivatives traded bilaterally with an individual counterparty (OTC), fair value is determined by reference to derivative contracts in the organised market. Where there is no applicable reference value in an organised market, due to the nature of the derivative contract, the value is obtained using techniques that include a realistic estimate of the instrument's price, in accordance with habitual market practice, based on factors such as the time value of money, credit risk, foreign exchange rates, prices of equity instruments, volatility, liquidity, early repayment risk and administrative overheads.

As regards the option provided by regulations to reclassify non-derivative financial assets outside financial instruments held for trading in exceptional circumstances, in 2014, the Group reclassified €20,808 thousand (nominal) of Investments in a Banco Popular Portugal, S.A. venture capital fund, as recommended by the Portuguese regulatory authority. In 2013, no reclassifications were made.

The year-end balances of financial instruments held for trading are provided in euros, except for the currency purchase and sale values, which are reflected in the item Trading derivatives. Note 45 contains a breakdown of the consolidated financial statements by maturity of this caption.

The effect of this consolidated balance sheet item on the consolidated profit and loss account reflected in the item Gains/(losses) on financial transactions (net) (see Note 54) for the financial years ended 31 December 2014 and 2013 is set out below:

€ thousands	**Net amount**	
	2014	**2013**
On debt securities	81,089	13,263
On equity instruments	13,517	20,982
On derivatives	(62,387)	(10,577)
On other assets	-	-
Total	32,219	23,668

a) Debt securities

Set out below is a breakdown of the balances of debt securities included under financial instruments held for trading in the consolidated balance sheets at 31 December 2014 and 2013:

€ thousands	Net amount	
	2014	2013
Spanish government debt securities	40,339	29,777
Treasury bills	-	-
Government bonds	40,339	29,777
Other book-entry debt securities	-	-
Other Spanish government debt securities	-	87
Foreign government debt securities	-	-
Issued by credit institutions	-	216,848
Resident sectors	-	81,902
Non-resident sectors	-	134,946
Other debt securities	-	6,903
Issued by the public sector	-	-
Issued by other resident sectors	-	6,903
Issued by other non-resident sectors	-	-
Doubtful assets	-	-
Total	40,339	253,615

b) Equity instruments

Set out below is a breakdown of equity instruments included in financial instruments held for trading in the consolidated balance sheets at 31 December 2014 and 2013:

€ thousands	2014	2013
Investments in Spanish companies	131,186	157,865
Credit institutions	122,103	144,668
Other resident sectors	9,083	13,197
Investments in foreign entities	32,737	43,501
Total	163,923	201,366

c) Trading derivatives

Set out below is a breakdown of trading derivatives included under financial assets and liabilities held for trading in the consolidated balance sheets at 31 December 2014 and 2013:

€ thousands	2014			2013		
	Notional amount	Valuation		Notional amount	Valuation	
Type of risk and instrument		Positive	Negative		Positive	Negative
Exchange risk	3,573,477	48,783	49,282	4,684,303	35,832	22,777
Forward transactions	3,272,777	45,098	45,330	4,378,999	31,783	18,619
Purchase of foreign currency against foreign currency	413,545	734	817	978,579	13,701	-
Procurement	1,053,055	44,364	-	1,593,519	18,082	-
Sales	1,806,177	-	44,513	1,806,901	-	18,619
Financial swaps in different currencies	11,015	453	453	10,904	1,103	1,103
Currency options	289,685	3,232	3,499	294,400	2,946	3,055
Purchased	134,433	3,232	-	146,107	2,946	-
Sold	155,252	-	3,499	148,293	-	3,055
Interest rate risk	27,204,316	1,224,597	1,330,852	30,781,488	769,483	857,333
Financial futures (organised markets)	276,807	-	-	155,529	-	-
Options (organised markets)	12,378	139	159	-	-	-
Forward interest rate agreements (FRA)	200,000	228	4	-	-	-
Financial swaps (IRS, CMS, etc.)	12,521,531	640,280	779,734	17,439,928	445,915	460,875
Interest rate options	13,831,600	582,730	550,829	13,186,031	323,568	396,458
Purchased	7,570,384	582,730	-	7,269,828	323,568	-
Sold	6,261,216	-	550,829	5,916,203	-	396,458
Other products	362,000	1,220	126	-	-	-
Share price risk	368,291	207,388	12,641	495,072	245,992	70,030
Financial futures (organised markets)	26,444	-	-	33,662	-	-
Options (organised markets)	1,373	3	185	185	8	32
Financial swaps (IRS, CMS, etc.)	27,577	360	801	3,133	377	377
Options on securities	61,122	20,938	11,655	206,317	77,540	69,621
Purchased	41,122	20,938	-	114,417	77,540	-
Sold	20,000	-	11,655	91,900	-	69,621
Other products	251,775	186,087	-	251,775	168,067	-
Commodities risk	6,373	4,614	4,614	6,311	4,286	4,286
Total	31,152,457	1,485,382	1,397,389	35,967,174	1,055,593	954,426

The Group contracts derivatives to hedge customer interest rate risk through the branch office network, in the form of financial swaps and options. The Group in turn contracts those derivatives with other credit institutions or on organised futures and options markets. A breakdown of this type of transactions with customers through the branch office network for the past two years is as follows:

€ thousands	**2014**			**2013**		
	Notional amount	**Valuation**		**Notional amount**	**Valuation**	
		Positive	**Negative**		**Positive**	**Negative**
Customers:						
Financial swaps	13,280	669	-	91,290	4,436	-
Options	29,107	16	1	53,467	70	20
Total network customers	42,387	685	1	144,757	4,506	20
Entities:						
Financial swaps	50,702	35	1,537	265,744	582	8,150
Options	244,647	1	1	272,710	52	71
Total entities	295,349	36	1,538	538,454	634	8,221
Total activities	**337,736**	**721**	**1,539**	**683,211**	**5,140**	**8,241**

The notional amount of trading derivative contracts does not reflect the risk assumed by the Group. This may be inferred from the difference between the fair values of the instruments recognised in assets and liabilities to which a risk and results valuation, management and control system is permanently applied, allowing the monitoring of all the assets included and the verification that the risk is effectively and significantly mitigated.

21. OTHER FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Assets include hybrid financial assets that are not included in financial instruments held for trading and are measured in full at fair value, and assets managed together with “other liabilities at fair value through profit or loss”, or with derivative financial instruments whose purpose is to significantly reduce exposure to changes in fair value, or that are managed jointly with financial liabilities and derivatives for the purpose of significantly reducing overall exposure to interest rate risk. Financial assets may be included in this category only at the date of origination or acquisition and must be permanently measured, managed and controlled to identify risks, gains and losses so as to monitor all the financial assets and verify that risk is effectively and significantly reduced.

Financial liabilities at fair value through profit or loss include all hybrid financial liabilities not included in financial instruments held for trading that are measured in full at fair value because the embedded derivative cannot be separated and measured. They also include the deposit component of life insurance policies linked to investment funds, which are in turn measured at fair value through profit or loss. The balances under these headings relate entirely to the Group's insurance companies. Set out below is a breakdown of these headings in the consolidated balance sheets for 2014 and 2013:

€ thousands	**Assets**		**Liabilities**	
	2014	**2013**	**2014**	**2013**
Deposits with/from credit institutions	-	-	-	-
Loans and advances to/deposits from customers	-	-	-	-
Debt securities	351,544	248,206	-	-
Debt certificates	-	-	-	-
Equity instruments	159,255	115,474	-	-
Subordinated liabilities	-	-	-	-
Other financial liabilities	-	-	649,354	601,367
Total	510,799	363,680	649,354	601,367

These balances relate in full to transactions denominated in euros. Note 45 to these consolidated financial statements contains a breakdown by maturity.

The balances recognised under "Other financial liabilities" relate to balances for the subsidiary Eurovida, Portugal and relate to unit-linked products, contracts in which the insurance policyholder fully assumes both market risk and credit risk, and are recognised in accordance with this principle to avoid accounting mismatches. The assets of the investment portfolios associated with these unit-linked products are classified under financial assets at fair value through profit or loss. Changes in the fair value of the assets invested are assumed by the policyholder and, therefore, give rise to adjustments in the fair value of the financial liability for the same amount.

Changes in the fair value of these financial liabilities are therefore determined mainly by market risk, as there are no changes attributable to credit risk for these liabilities.

The effect of these consolidated balance sheet headings on the consolidated profit and loss account included under Gains/(losses) on financial transactions (net) (see Note 54) for the years ended 31 December 2014 and 2013 is set out below:

€ thousands	**Net**	
	2014	**2013**
On debt securities	-	(164)
On equity instruments	1,998	19
On derivatives	-	-
On other assets*	(26,666)	(24,436)
Total	(24,668)	(24,581)

* Most of the balance relates to the portfolio of Eurovida, S.A. (Portugal).

a) Debt securities

A breakdown of debt securities is as follows:

€ thousands	2014	2013
Spanish government debt securities	-	-
Treasury bills	-	-
Government bonds	-	-
Other book-entry debt securities	-	-
Other Spanish government debt securities	-	-
Foreign government debt securities	63,012	115,436
Issued by credit institutions	92,578	20,083
Resident sectors	8,640	20,083
Non-resident sectors	83,938	-
Other fixed-income securities	195,954	112,687
Issued by the public sector	-	-
Issued by other resident sectors	20,192	10,752
Issued by other non-resident sectors	175,762	101,935
Doubtful assets	-	-
Total	351,544	248,206

A breakdown by maturities of foreign government debt securities, which pertains to Portugal, at 31 December 2014 and 2013 is as follows:

	Portugal	
€ thousands	2014	2013
Within 3 months	508	-
3 months to 1 year	2,459	13,052
1 to 2 years	6,001	8,700
2 to 3 years	2,777	27,317
3 to 5 years	8,888	21,352
5 to 10 years	41,070	38,990
More than 10 years	1,309	6,025
Total	63,012	115,436

Below is a breakdown by maturity of non-resident Other Fixed-Income Securities, corresponding to the Eurovida, at 31 December 2014 and 2013:

	Portugal	
€ thousands	2014	2013
Within 3 months	13,354	7,026
3 months to 1 year	7,076	11,182
1 to 2 years	23,382	13,170
2 to 3 years	9,886	15,099
3 to 5 years	57,810	16,865
5 to 10 years	61,755	37,643
More than 10 years	2,499	950
Total	175,762	101,935

b) Equity instruments

Set out below is a breakdown of equity instruments:

€ thousands	2014	2013
Investments in Spanish companies	878	338
Credit institutions	489	-
Other resident sectors	389	338
Investments in foreign entities	158,377	115,136
Total	159,255	115,474

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading includes debt securities and equity instruments not classified in other categories. These debt securities are debentures and other securities that recognise a debt for the issuer, may or may not be marketable and accrue remuneration consisting of implicit or explicit interest.The interest rate may be fixed or linked to other rates and is stipulated contractually, and the securities may take the form of certificates or book entries.

Equity instruments comprise those not included under financial instruments held for trading and not related to joint ventures or associates. They are presented in the consolidated balance sheet at fair value and value differences, net of the tax effect, are adjusted through equity. In 2014, €20,800 thousand (nominal) has been transferred from the Banco Popular Portugal, S.A. financial instruments held-for-trading to the available-for-sale portfolio, corresponding to investments in a venture capital fund, as recommended by the Portuguese regulatory authority.

a) On the balance sheet

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2014 and 2013:

€ thousands	2014	2013
Debt securities	29,363,902	15,796,454
Spanish government debt securities	19,378,868	8,136,647
Treasury bills	1,227,161	374,567
Government bonds	18,151,704	7,707,927
Other book-entry debt securities	3	54,153
Other Spanish government debt securities	379,580	195,397
Foreign government debt securities	900,188	745,099
Issued by credit institutions	5,250,936	4,706,841
Resident sectors	4,344,324	4,103,220
Non-resident sectors	906,612	603,621
Other debt securities	3,453,733	2,037,144
Issued by the public sector	-	-
Issued by other resident sectors	2,330,544	1,699,470
Issued by other non-resident sectors	1,123,189	337,674
Doubtful assets	-	-
Valuation adjustments (+/-)	597	(24,674)
Micro-hedge adjustments	597	381
Value corrections	-	-
Other	-	(25,055)
Equity instruments	401,450	378,684
Investments in Spanish companies	231,675	223,361
Credit institutions	170	123
Resident sector	231,505	223,238
Investments in foreign entities	169,775	155,323
Total	29,765,352	16,175,138

Note 45 to these consolidated financial statements provides a breakdown by maturity.

The balance at 31 December 2014 and 2013 of €900,188 thousand and €745,099 thousand, respectively, in foreign government debt securities reflected in the above table relate to fixed-interest balances distributed by country as follows: Does not include CDS risks.

2014					
€ thousands	**USA**	**Portugal**	**Belgium**	**Luxembourg**	**Other countries**
Within 3 months	-	-	2,853	-	3,075
3 months to 1 year	-	-	284,652	6,122	1,891
1 to 2 years	-	-	2,482	-	833
2 to 3 years	2,158	-	10,962	-	5,366
3 to 5 years	509	14,014	1,780	-	-
5 to 10 years	33,123	81,613	9,018	15,180	16,092
More than 10 years	333,907	5,467	18,884	27,579	22,628
Total	369,697	101,094	330,631	48,881	49,885

2013					
€ thousands	**USA**	**Portugal**	**Italy**	**Germany**	**Other countries**
Within 3 months	-	-	-	2,134	808
3 months to 1 year	-	1,536	223,365	-	1,571
1 to 2 years	-	-	-	6,220	102
2 to 3 years	-	-	1,802	-	340
3 to 5 years	2,135	8,488	276	1,601	1,894
5 to 10 years	22,747	37,901	1,710	6,011	1,222
More than 10 years	378,302	2,942	12,826	22,849	6,317
Total	403,184	50,867	239,979	38,815	12,254

In 2014, the balance in "Other countries" mainly comprised the following: Ireland, €18,543 thousand; France, €8,931 thousand; Belgium, €5,660 thousand; Austria, €3,415 thousand; United Kingdom, €3.091 thousand; and the Netherlands, €2,567 thousand.

In 2013, the balance in "Other countries" comprised the following: Austria, €3,655 thousand; Belgium, €1,314 thousand; France, €2,000 thousand; the Netherlands, €808 thousand; and Luxembourg €4,477 thousand.

In 2014 no financial instruments were reclassified from the available-for-sale portfolio to other portfolios.

In 2013, the most significant change in the available-for-sale portfolio arose on the sale of part of the held-to-maturity portfolio held by Banco Popular Español, S.A. Under Rule 22 of the Banco de España accounting circular, the transfer was made from the portfolio to the held-to-maturity portfolio, and the difference between amortised cost and fair value was recognised in equity under “Valuation adjustments: Available-for-sale financial assets”. The nominal amount transferred was €11,463,147 thousand, with an effect on valuation adjustments of (€71,744 thousand).

b) Gains/losses on financial assets and liabilities

The effect of this item on the consolidated profit and loss accounts is reflected in the item Gains/(losses) on financial operations (net) (see Note 54).

€ thousands	2014	2013
On debt securities	707,122	360,393
Gains	876,613	428,284
Losses	169,491	67,891
On equity instruments	12,847	9,951
Gains	13,793	11,593
Losses	946	1,642
Total	719,969	370,344

c) Valuation adjustments

The balance under Valuation adjustments to equity at 31 December 2014 and 2013 resulting from changes in the fair value of the assets included in Available-for-sale financial assets, net of the tax effect, is as follows:

€ thousands	2014	2013
Debt securities	(137,595)	(373,633)
Equity instruments	7,954	10,175
Total	(129,641)	(363,458)

The balance under Valuation adjustments relating to investments in equity instruments in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to €7,954 thousand, which is broken down into €16,834 thousand in positive adjustments and €8,880 thousand in negative adjustments.

The balance under Valuation adjustments relating to debt securities in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to a negative €137,595 thousand, consisting of €299,710 thousand in positive adjustments and €437,305 thousand in negative adjustments.

A breakdown of the relevant gross amounts recorded in equity in the year as gains and losses is included in Note 42, Valuation adjustments in equity, to these consolidated financial statements.

The balance under Valuation adjustments relating to investments in equity instruments in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to €10,175 thousand, which is broken down into €15,771 thousand in positive adjustments and €5,596 thousand in negative adjustments.

The balance under Valuation adjustments relating to debt securities in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to a negative €373,633 thousand, consisting of €221,165 thousand in positive adjustments and €594,798 thousand in negative adjustments.

A breakdown of the relevant gross amounts recorded in equity in the year as gains and losses is included in Note 42, Valuation adjustments in equity, to these consolidated financial statements.

The losses and gains included in this table and associated with the positions in foreign debt detailed in the table in Note 42.a) are as follows:

€ thousands	USA	Portugal	Italy	Germany	Other countries
Gains/(Losses)	6,253	5,012	2,544	1,425	5,736
% calculated on position balance	1.89%	10.25%	2.52%	15.96%	1.40%

The amount included under "Other countries" mainly breaks down as follows: United States, €1,336 thousand; Belgium, €969 thousand; Canada, 948 thousand; and United Kingdom €699 thousand.

d) Breakdown by currency

Set out below is a breakdown by currency, other than the euro, of Available-for-sale financial assets in the consolidated balance sheets at 31 December 2014 and 2013:

	Debt securities		Other equity instruments	
€ thousands	2014	2013	2014	2013
USD	415,479	491,836	14,475	12,254
CHF	-	-	696	682
Total	415,479	491,836	15,171	12,936

e) Impairment losses

A breakdown of the balance in Impairment losses on assets (net) - Available-for-sale financial assets in the consolidated profit and loss accounts (Note 62) for the years ended 31 December 2014 and 2013 is set out below:

€ thousands	2014	2013
Debt securities	394	210
Equity instruments	17,606	33,347
Total	18,000	33,557

Reflected in the consolidated profit and loss accounts as follows:

€ thousands	2014	2013
Impairment losses charged to profit and loss	18,089	33,877
Determined individually	18,089	33,877
Determined collectively	-	-
Recoveries	89	320
Total	18,000	33,557

Among the investments in equity instruments recognised in the available-for-sale financial asset portfolio, indications of impairment have been observed in the case of the investment in Inmobiliaria Colonial, which is detailed as follows:

The investment in Inmobiliaria Colonial shares, the acquisition cost of which amounted to €417,747 thousand, taking into account various acquisitions made since 2008, had a fair value of €11,045 thousand as at 31 December 2013, which was calculated by applying the listed price on the stock market at that date. The impairment losses resulting from applying this fair value were recognised in full in the profit and loss account, such that an additional impairment loss of €30,878 thousand was recognised in 2013. Accumulated impairment losses on this investment amounted to €406,702 thousand, 97% of the initial investment.

The balance changes in 2014 and 2013 as regards Impairment of Asset Value Corrections in the Debt Securities caption are as follows:

€ thousands	Specific provision	Collective allowance	Total
Opening balance 2013	-	-	-
Allocated to profit or loss:	-	-	-
Additions to Provisions for the year	210	-	210
Releases for the year	-	-	-
Reversal of impairment losses recognised in prior years	-	-	-
Provisions applied	-	-	-
Other transfers	(210)	-	(210)
Closing balance 2013	-	-	-
Allocated to profit or loss:	-	-	-
Additions to Provisions for the year	394	-	394
Releases for the year	-	-	-
Reversal of impairment losses recognised in prior years	-	-	-
Provisions applied	-	-	-
Other changes and transfers	(394)	-	(394)
Closing balance 2014	-	-	-

23. LOANS AND RECEIVABLES

This consolidated balance sheet heading includes financial assets carried at amortised cost using the effective interest method.

The first table shows the data for typical lending activities, loans and advances made to other institutions and other debts incurred by users of financial services.

€ thousands	2014	2013
Loans and advances to credit institutions	5,049,952	5,531,536
Loans and advances to customers	100,582,923	101,123,996
Debt securities	2,194,741	1,380,055
Total	107,827,616	108,035,587

With regard to country distribution of the €2,194,741 thousand in debt securities, €22,462 thousand relates to Italy, €220,278 thousand to the Netherlands, €29,969 thousand to France, €800 thousand to the United Kingdom, and the remainder relates to Spain. In 2013, the €1,380,055 thousand in debt securities was broken down as follows: €75,801 thousand related to the United States, €51,008 thousand to Luxembourg, €25,290 thousand to the Netherlands, €11,985 thousand to Portugal, €899 thousand to the United Kingdom, and the remainder related to Spain.

The following table expands the above information, showing gross lending and valuation adjustments, together with certain additional details:

€ thousands	**2014**	**2013**
Loans and advances to credit institutions	5,052,132	5,532,981
Loans and advances to customers	108,379,386	109,017,430
Accounts receivable from public authorities	6,075,612	1,575,801
Resident sectors	6,065,612	1,565,801
Non-resident sectors	10,000	10,000
Other private sectors	102,303,774	107,441,629
Resident sectors	91,742,410	97,575,206
Non-resident sectors	10,561,364	9,866,423
Debt securities	2,119,803	1,380,055
Subtotal	115,551,321	115,930,466
Valuation adjustments (±):	(7,723,705)	(7,894,879)
Value corrections for impairment of assets	(8,236,591)	(8,365,969)
Loans and advances to credit institutions	(2,810)	(2,469)
Loans and advances to customers	(8,233,781)	(8,363,500)
Debt securities	-	-
Other valuation adjustments	512,886	471,090
Loans and advances to credit institutions	630	1,024
Loans and advances to customers	437,318	470,066
Debt securities	74,938	-
Total	107,827,616	108,035,587

Set out below is a breakdown of loans and receivables, in euros and foreign currencies, in the consolidated balance sheets at 31 December 2014 and 2013:

€ thousands	**2014**		**2013**	
	Euros	**Foreign currency**	**Euros**	**Foreign currency**
Loans and advances to credit institutions	4,929,817	122,315	5,429,719	103,262
Loans and advances to customers	104,457,796	3,921,590	105,809,536	3,207,894
Debt securities	2,119,803	-	1,380,055	-
Subtotal	111,507,416	4,043,905	112,619,310	3,311,156
Valuation adjustments (±):				
Loans and advances to credit institutions	(784)	(1,396)	796	(2,241)
Loans and advances to customers	(7,752,124)	(44,339)	(7,861,967)	(31,467)
Debt securities	74,938	-	-	-
Subtotal	(7,677,970)	(45,735)	(7,861,171)	(33,708)
Total	103,829,446	3,998,170	104,758,139	3,277,448

Set out below is a breakdown of the gross amounts of loans and advances to credit institutions by instrument:

€ thousands	**2014**	**2013**
Reciprocal accounts	76,537	40,473
Term accounts	245,293	356,242
Asset repos	268,339	2,226,448
Other accounts	4,232,077	2,808,604
Cheques	94,630	101,208
Clearing house	135,256	6
Doubtful assets	-	-
Total	5,052,132	5,532,981

Note 45 to these financial statements provides details of the residual terms of these consolidated balance sheet captions. A breakdown of the gross amounts of Loans and advances to credit institutions in the Loans and receivables caption at 31 December 2014 and 2013, without accounting for valuation adjustments, is as follows:

€ thousands	**2014**	**2013**
By nature		
Banks operating in Spain	1,602,157	1,258,019
Savings banks	977	157
Credit cooperatives	61	20
Resident credit establishments	-	124,020
Non-resident credit institutions	2,950,712	1,823,103
Asset repos	268,339	2,226,448
Banks operating in Spain	-	1,141,447
Savings banks	-	223,861
Credit cooperatives	-	-
Non-resident credit institutions	268,339	861,140
Cheques	94,630	101,208
Clearing house	135,256	6
Doubtful assets	-	-
Other	-	-
Total	5,052,132	5,532,981
By currency		
Euros	4,929,817	5,429,719
Foreign currency	122,315	103,262
Total	5,052,132	5,532,981
Non-performing loans and related provisions	-	-
Doubtful assets	-	-
Value corrections for impairment of assets	(2,810)	(2,469)
Of which: country risk	-	-

The average interest rate in 2014 and 2013 was 0.37% and 0.51% respectively, as explained in detail in the chapter on yields and costs in the accompanying Management Report. Set out below is a breakdown of gross lending in foreign currencies, showing the main currencies in which loans are denominated:

€ thousands	**2014**	**2013**
USD	100,751	69,435
GBP	4,651	10,412
CHF	3,007	4,014
JPY	7,922	12,508
Other	5,984	6,893
Total	122,315	103,262

The balances of Loans and advances to customers under Loans and receivables at 31 December 2014 and 2013, excluding valuation adjustments, by type, were as follows:

€ thousands	**2014**	**2013**
Commercial loans	3,709,669	3,370,774
Mortgage loans	38,096,706	42,040,253
Other secured loans	818,209	965,635
Asset repos	6,586,483	7,102,146
Other term loans	34,668,817	29,340,482
Finance leases	2,203,596	2,322,267
Overdrafts and other	2,132,816	2,891,893
Other loans	239,417	246,826
Doubtful assets	19,923,673	20,737,154
Total loans and advances to customers	108,379,386	109,017,430
Valuation adjustments (±)	(7,796,463)	(7,893,434)
Of which: value corrections for asset impairment	(8,233,781)	(8,363,500)
Total	100,582,923	101,123,996

The amounts recognised under “Mortgage loans” and in “Other secured loans” concern loans formally backed by mortgages, securities pledged, cash deposits or other collateral securing the full repayment of the loans. Loans that are partially secured are recognised under “Other term loans”.

In the case of non-performing assets, the renewal or restructuring of loans does not interrupt the classification of default, unless there is reasonable certainty that the customer will make payment as scheduled or effective new collateral is furnished and, in both cases, outstanding ordinary interest is received.

The Group has a number of guarantees for each type of risk which partially or fully mitigate the risks to which commercial activities are exposed and may be called in should the principal debtor default. The Group prudently manages its guarantee policy to minimise the risks to which its lending activity is exposed. The following table contains an analysis of the guarantees, which are ordered in terms of liquidity and assurance of repayment. Surplus guarantees for over-guaranteed loans were eliminated when the table was prepared. The efforts made by the Group in the past year to strengthen collateral for its lending activities may be observed in the table.

€ thousands	2014	2013
Loans and advances to customers	108,379,386	109,017,430
Related collateral		
Cash	12,481,586	12,411,487
Public sector and credit institutions	11,645,032	11,628,910
Mortgages	78,326,580	77,162,388
Securities	1,635,133	1,608,459
Bank guarantees and other	3,552,500	3,232,692
Total collateral	107,640,831	106,043,936
% cover		
Cash	11.52	11.38
Public sector and credit institutions	10.74	10.67
Mortgages	72.27	70.78
Securities	1.51	1.48
Bank guarantees and other	3.28	2.97
Total collateral	99.32	97.28
Correction for impairment	8,233,781	8,363,500
% cover	7.60	7.67

Set out below is an analysis of Loans and advances to customers by borrower sector. The residual terms of these balances are indicated in Note 45.

€ thousands	**2014**	**2013**
Accounts receivable from public authorities	6,075,612	1,575,801
Resident sectors	6,065,612	1,565,801
Central government	3,872,441	52,514
Other term loans	3,492,484	52,514
Asset repos	379,957	-
Regional government	1,877,186	1,403,118
Other term loans	1,877,186	1,403,118
Asset repos	-	-
Local government	312,228	103,932
Other term loans	312,228	103,932
Asset repos	-	-
Social security	744	875
Other term loans	744	875
Asset repos	-	-
Doubtful assets	3,013	5,362
Non-resident sectors: Other term loans	10,000	10,000
Private sectors:	102,303,774	107,441,629
Resident sectors:	91,742,410	97,575,205
Commercial loans	3,312,171	3,044,732
Secured loans	34,817,047	39,259,135
Mortgages	34,016,129	38,311,901
Remainder	800,918	947,234
Asset repos	6,206,526	7,102,146
Other term loans	24,517,838	23,364,555
Finance leases	1,875,768	1,999,138
Overdrafts and other	1,667,683	2,441,355
Other loans	237,870	246,487
Doubtful assets	19,107,507	20,117,657
Non-resident sectors:	10,561,364	9,866,424
Commercial loans	328,981	326,042
Secured loans	4,097,868	3,746,753
Mortgages	4,080,577	3,728,352
Remainder	17,291	18,401
Asset repos	-	-
Other term loans	4,527,004	4,405,488
Finance leases	327,828	323,129
Overdrafts and other	464,983	450,538
Other loans	1,547	339
Doubtful assets	813,153	614,135
Total loans and advances to customers	108,379,386	109,017,430
Valuation adjustments (±)	(7,796,463)	(7,893,434)
Of which: value corrections for asset impairment	(8,233,781)	(8,363,500)
Total	100,582,923	101,123,996

Set out below is a breakdown of loans and advances to customers net of value adjustments by activity at 31 December 2014, also showing the value of collateral and the carrying amount of the loans as a percentage of the collateral:

€ thousands				Secured loans, Loan to value				
	Total	**Of which: Mortgage guarantee**	**Of which: Other collateral**	**Less than or equal to 40%**	**Greater than 40% and less than or equal to 60%**	**Greater than 60% and less than or equal to 80%**	**Greater than 80% and less than or equal to 100%**	**Greater than 100%**
1 General government	**6,075,612**	**183,220**	**14,899**	**30,375**	**22,845**	**48,014**	**33,436**	**63,448**
2 Other financial institutions	**6,690,121**	**-**	**6,206,022**	**-**	**-**	**-**	**6,206,022**	**-**
3 Non-financial corporations and individual entrepreneurs	**59,411,500**	**32,609,327**	**2,399,260**	**5,848,283**	**12,548,186**	**7,135,204**	**2,957,122**	**6,519,790**
3.1 Construction and property development (b)	14,818,670	13,525,936	353,745	1,907,195	4,506,944	3,344,936	1,244,885	2,875,720
3.2 Civil engineering	1,901,736	794,359	64,982	38,139	222,224	134,679	67,869	396,430
3.3 Other purposes	42,691,095	18,289,032	1,980,533	3,902,949	7,819,018	3,655,589	1,644,368	3,247,640
3.3.1 Large companies (c)	10,857,168	2,696,176	623,895	400,523	1,404,779	416,889	415,488	682,392
3.3.2 SMEs and individual entrepreneurs (c)	31,833,927	15,592,856	1,356,638	3,502,426	6,414,239	3,238,700	1,228,880	2,565,248
4 Other households and non-profit institutions serving households (ISFLSH)	**28,405,689**	**25,832,579**	**166,291**	**5,065,314**	**7,386,821**	**9,799,222**	**2,439,297**	**1,308,216**
4.1 Housing (d)	22,665,970	22,483,482	20,555	4,089,894	6,363,833	8,870,335	2,205,340	974,636
4.2 Consumption (d)	2,418,887	888,781	46,612	297,831	225,614	262,246	66,134	83,567
4.3 Other purposes (d)	3,320,832	2,460,316	99,124	677,589	797,374	666,641	167,823	250,013
SUBTOTAL	100,582,923	58,625,126	8,786,471	10,943,972	19,957,852	16,982,440	11,635,876	7,891,454
5 Less: Asset impairment adjustments not allocated to specific loans	-	-	-	-	-	-	-	-
6 TOTAL	100,582,923	58,625,126	8,786,471	10,943,972	19,957,852	16,982,440	11,635,876	7,891,454
MEMORANDUM ITEMS								
Refinancing, refinanced and restructured loans	**11,866,172**	**9,861,758**	**436,640**	**1,171,747**	**3,220,377**	**2,525,460**	**895,400**	**2,485,414**

The following table shows the same information at 31 December 2013:

€ thousands				Secured loans, Loan to value				
	Total	**Of which: Mortgage guarantee**	**Of which: Other collateral**	**Less than or equal to 40%**	**Greater than 40% and less than or equal to 60%**	**Greater than 60% and less than or equal to 80%**	**Greater than 80% and less than or equal to 100%**	**Greater than 100%**
1 General government	**1,619,699**	**67,767**	**9,051**	**13,331**	**10,838**	**32,995**	**14,370**	**5,284**
2 Other financial institutions	**7,527,975**	**36,471**	**7,104,461**	**9,244**	**19,766**	**7,460**	**7,104,462**	**-**
3 Non-financial corporations and individual entrepreneurs	**62,236,609**	**34,981,177**	**1,422,296**	**8,639,851**	**9,406,804**	**8,682,686**	**4,147,116**	**5,527,016**
3.1 Construction and property development (b)	16,798,999	15,225,751	231,958	2,941,205	3,399,466	4,201,873	2,333,898	2,581,267
3.2 Civil engineering	2,253,439	870,446	90,871	172,400	96,844	185,587	157,475	349,011
3.3 Other purposes	43,184,171	18,884,980	1,099,467	5,526,246	5,910,494	4,295,226	1,655,743	2,596,738
3.3.1 Large companies (c)	11,234,625	2,560,308	525,719	731,793	633,240	477,968	156,156	1,086,870
3.3.2 SMEs and individual entrepreneurs (c)	31,949,546	16,324,672	573,748	4,794,453	5,277,254	3,817,258	1,499,587	1,509,868
4 Other households and non-profit institutions serving households (ISFLSH)	**29,739,712**	**26,619,354**	**132,258**	**5,515,519**	**7,610,999**	**9,835,774**	**2,921,693**	**867,627**
4.1 Housing (d)	23,145,175	22,999,572	13,426	4,314,784	6,544,770	8,949,198	2,571,295	632,951
4.2 Consumption (d)	2,860,897	771,185	50,726	298,233	206,623	194,451	84,393	38,211
4.3 Other purposes (d)	3,733,640	2,848,597	68,106	902,502	859,606	692,125	266,005	196,465
SUBTOTAL	101,123,995	61,704,769	8,668,066	14,177,945	17,048,407	18,558,915	14,187,641	6,399,927
5 Less: Asset impairment adjustments not allocated to loans	-	-	-	-	-	-	-	-
6 TOTAL	101,123,995	61,704,769	8,668,066	14,177,945	17,048,407	18,558,915	14,187,641	6,399,927
MEMORANDUM ITEMS								
Refinancing, refinanced and restructured loans	**11,429,090**	**9,660,134**	**222,736**	**1,831,683**	**2,014,748**	**2,570,992**	**1,446,724**	**2,018,723**

Loans and advances to customers include refinanced or restructured loans. Set out below are the balances of these loans in the consolidated balance sheet at 31 December 2014:

	PERFORMING					
€ thousands	**Fully secured by mortgages**		**Secured by other assets**		**Unsecured**	
	No. of loans	**Amount Gross**	**No. of loans**	**Amount Gross**	**No. of loans**	**Amount Gross**
1. Public administrations	-	-	-	-	17	70,187
2. Other legal entities and individual entrepreneurs	8,836	2,418,743	283	94,339	9,406	847,463
Of which: Financing for construction and property development	1,071	695,813	28	15,508	248	41,382
3. Other individuals	9,048	656,999	65	13,509	16,393	201,092
TOTAL	17,884	3,075,742	348	107,848	25,816	1,118,742

SUBSTANDARD						
€ thousands	**Fully secured by mortgages**		**Secured by other assets**		**Unsecured**	
	No. of loans	**Amount Gross**	**No. of loans**	**Amount Gross**	**No. of loans**	**Amount Gross**
1. Public administrations	-	-	-	-	1	4,025
2. Other legal entities and individual entrepreneurs	1,631	1,887,257	21	12,692	534	178,526
Of which: Financing for construction and property development	448	1,019,396	2	5,095	43	62,959
3. Other individuals	910	126,913	11	4,766	612	26,156
TOTAL	2,541	2,014,170	32	17,458	1,147	208,707

DOUBTFUL						
€ thousands	**Fully secured by mortgages**		**Secured by other assets**		**Unsecured**	
	No. of loans	**Amount Gross**	**No. of loans**	**Amount Gross**	**No. of loans**	**Amount Gross**
1. Public administrations	-	-	-	-	-	-
2. Other legal entities and individual entrepreneurs	11,253	6,983,161	102	88,810	5,825	1,577,465
Of which: Financing for construction and property development	4,037	4,988,751	40	62,329	393	656,410
3. Other individuals	4,198	343,841	19	1,620	2,603	45,202
TOTAL	15,451	7,327,002	121	90,430	8,428	1,622,667

TOTAL			
€ thousands	**No. of loans**	**Gross amount**	**Specific provision**
1. Public administrations	18	74,212	604
2. Other legal entities and individual entrepreneurs	37,891	14,088,456	3,630,027
Of which: Financing for construction and property development	6,310	7,547,643	2,468,686
3. Other individuals	33,859	1,420,098	85,963
TOTAL	71,768	15,582,766	3,716,594

The average probability of default (PD) of refinanced/restructured loans classified as performing are as follows:

	Average PD
1. Public administrations	-
2. Other legal entities and individual entrepreneurs	15.0%
Of which: Financing for construction and property development	14.3%
3. Other individuals	11.7%

The balances of these refinanced or restructured loans at 31 December 2013 are shown below:

PERFORMING						
€ thousands	Fully secured by mortgages		Secured by other assets		Unsecured	
	No. of loans	Amount Gross	No. of loans	Amount Gross	No. of loans	Amount Gross
1. Public administrations	-	-	-	-	14	63,337
2. Other legal entities and individual entrepreneurs	7,123	1,800,660	570	294,837	6,131	781,328
Of which: Financing for construction and property development	1,202	568,877	103	105,284	167	31,893
3. Other individuals	6,342	450,941	572	63,033	8,041	96,965
TOTAL	13,465	2,251,601	1,142	357,870	14,186	941,630

SUBSTANDARD						
€ thousands	Fully secured by mortgages		Secured by other assets		Unsecured	
	No. of loans	Amount Gross	No. of loans	Amount Gross	No. of loans	Amount Gross
1. Public administrations	-	-	-	-	1	4,625
2. Other legal entities and individual entrepreneurs	1,792	1,539,436	213	651,501	832	214,171
Of which: Financing for construction and property development	674	1,138,237	79	293,370	72	97,149
3. Other individuals	908	99,030	90	8,423	930	28,478
TOTAL	2,700	1,638,466	303	659,924	1,763	247,274

DOUBTFUL						
€ thousands	Fully secured by mortgages		Secured by other assets		Unsecured	
	No. of loans	Amount Gross	No. of loans	Amount Gross	No. of loans	Amount Gross
1. Public administrations	-	-	-	-	-	-
2. Other legal entities and individual entrepreneurs	10,080	5,662,373	1,028	1,938,687	4,715	850,574
Of which: Financing for construction and property development	3,425	3,669,964	406	1,605,761	238	326,623
3. Other individuals	4,404	327,109	299	56,029	1,422	26,190
TOTAL	14,484	5,989,482	1,327	1,994,716	6,137	876,764

TOTAL			
€ thousands	No. of loans	Gross amount	Specific provision
1. Public administrations	15	67,962	694
2. Other legal entities and individual entrepreneurs	32,484	13,733,568	3,372,052
Of which: Financing for construction and property development	6,366	7,837,159	2,329,438
3. Other individuals	23,008	1,156,198	81,133
TOTAL	55,507	14,957,728	3,453,879

Refinancing/restructuring policy:

Refinancing/restructuring operations form part of the Group's ongoing loan portfolio management and are the result of continuous monitoring to anticipate portfolio destabilisation or debt collection difficulties and prepare solutions in advance.

There are two scenarios, depending on whether the original agreement is amended or a new loan is granted:

- Refinancing: loans arranged to repay one or more loans granted. In this case, the original agreement(s) is cancelled and replaced by new agreements.

- Restructuring: the financial terms of the original loans are modified without replacing them with new loans.

The number of transactions of this kind increases substantially in unfavourable macroeconomic environments, since they are caused by customers' inability to meet the obligations contracted with the Bank. The Group then detects the alert signals and assesses the possibility of adapting the terms of the obligations to the customer's new payment capacity and/or of improving collateral obtained for the original loan.

The Group's use of refinancing/restructuring transactions requires basic common practices that allow effective monitoring and control over the risks inherent in the loans, as well as a flexible approach to solutions tailored to each customer's circumstances.

The Banco Popular Group confines refinancing/restructuring transactions to cases in which the following circumstances apply:

- The customer has the capacity and the intention to make payments.
- The refinancing/restructuring operation will improve the Bank's position in terms of expected loss.
- The new terms will not encourage the customer to delay or suspend the fulfilment of payment obligations.

The Group's arrangement of refinancing/restructuring transactions is governed by the following general principles:

- Refinancing/restructuring transactions are only applicable to loans granted by the Banco Popular Group. Refinancing/restructuring operations for loans granted by third parties will not be considered in any circumstances.
- The proposed refinancing/restructuring will not increase the expected loss on the original loan.

Refinancing transactions that are detrimental to collateral will not be considered under any circumstances.

- In general, mortgage loans may not be novated into personal loans, unless the mortgages are insufficient at the novation date and the new personal guarantee furnished provides additional surety.

- In order to access refinancing/restructuring, certain conditions must be fulfilled; in particular, the Group must have a minimum experience of 24 months with the borrower and payments must have been made in due time and form for at least 12 months.

The following principles are rigorously applied in studying the appropriateness of a refinancing/restructuring transaction and in setting the specific terms, while also taking into account exceptional circumstances:

- Customer risk is considered as a whole and not only the risk of the original loan.

- Before approving a debt restructuring, all alternatives and possible impacts must be evaluated to ensure effectiveness and restrict excessive use of restructuring operations.

- Collateral, consolidation of collateral and expected evolution of collateral values are analysed in detail.

- The Bank's Legal Services must be involved until the transaction is completed, taking care to correctly formalise new guarantees and avoid any detrimental impact on existing collateral.

- The proposal/design or decision process will involve the Bank's risk and debt restructuring areas at the relevant functional levels.

- Once the transaction is approved, it will be specifically monitored until the obligations are extinguished. To this end, the most representative operations will be subject to special monitoring and may even be individually assigned to Group managers.

The Banco Popular Group has defined different treatment for refinancing/restructuring operations based on risk type:

- Non-property exposure to legal entities: to authorise any refinancing/restructuring operation, the Group must demonstrate the borrower's capacity to fulfil the obligations deriving from the proposed loan novation. If the overall restructuring of the borrower's debt is deemed necessary, it must be studied and negotiated with the financial entities to which the borrower is contractually bound. Refinancing/restructuring operations for borrowers without a suitable obligation fulfilment record will not be contemplated.

Efforts will be made to improve collateral, provided this does not result in a loss for the Bank.

- Non-property exposure to natural persons: to authorise any refinancing/restructuring operation, the Group must demonstrate the borrower's capacity to fulfil the obligations deriving from the proposed loan novation. This must include all the borrower's loans under personal guarantee that show signs of impairment, particularly overdrafts and credit card balances, in view of the greater risk associated with these products. Refinancing/restructuring operations for borrowers without a suitable obligation fulfilment record will not be contemplated.

The coverage level (collateral level) of the transactions must be improved so as to avoid a loss for the Group.

- Property exposure to legal entities: to authorise any refinancing/restructuring operation, the Group will seek to facilitate fulfilment of the borrower's obligations by bringing payment periods into line with the customer's fund generation dates. The Group will also seek new property or personal guarantees and suitable management of the mortgaged assets by the borrower in order to preserve their value. In land refinancing operations, grace periods for principal and interest will not be admissible, as a general rule. A grace period for principal may be established by adapting the period to the borrower's circumstances and the market situation. The ultimate purpose of refinancing of property developments in progress will be to facilitate completion of the development until the first occupancy licence is obtained. In completed property developments, the Group will analyse the possibility of providing facilities while the finished product is marketed.

The Group specifically monitors refinancing/restructuring transactions to the extinction of the obligation, analysing in detail the performance of the transactions and fulfilment of agreed terms. This special monitoring procedure will only be discontinued if the conclusion is drawn, following a comprehensive review of the borrower's assets and finances, that the borrower is unlikely to have financial difficulties and will therefore be in a position to make payments of principal and interest on all loans from the Bank, in due time and form. Principal and interest payments must have been made, at least two years must have elapsed since the operation and the loan principal must have decreased by at least 20%. Such situations will also be specifically addressed by the Group's internal auditors.

Ratings and impairment of refinanced loans

For the reasons explained above, the refinancing policy is a necessary management tool. Nonetheless, it is at times a sign of loan impairment. The Group's accounting principles address the circumstances in which a refinanced loan must be deemed impaired. In order to derecognise refinanced loans, the Group uses quantitative and qualitative criteria to identify substantial changes. However, in view of the nature of these operations, the essential terms are usually maintained, meaning that the impact of any derecognition was not significant in 2014 or 2013.

In both refinancing and restructuring transactions, the loans and borrowers are analysed to identify any signs of impairment and, if applicable, to determine the amount of the impairment charge necessary. Impairment losses are recognised in the consolidated income statement as value corrections for asset impairment.

This ongoing review process is performed using the Group's ordinary risk management systems, so that refinancing analysis forms part of daily management activities. Refinancing transactions are reviewed using the same management tools, such as advanced credit risk evaluation models, in which default probabilities and expected losses may be assigned to each specific customer or loan, and the risk monitoring system, through specialised departments that analyse and assess the outstanding risk portfolio, assigning ratings to customers and determining specific policies to detect impairment. Consequently, the portfolio is permanently subject to systematised impairment evaluation processes.
The classification of a transaction as a refinancing transaction entails additional analyses to confirm the existence of impairment. Where the analysis reveals impairment, the necessary provisions are calculated. Where mitigating factors are sufficient, impairment is deemed not to have occurred and performing status is maintained.

The Bank analyses borrowers with impairment arising from their activities, assessing their viability and the level of recoverability of the debt, comparing the carrying amount with the present value of the future cash flows available and of guarantees not assigned to operations. In cases that are not considered to be viable, total security, including guarantors, is evaluated in order to determine the level of impairment and the provisions necessary to cover this impairment.

Signs of impairment:

- Internal customer ratings and alerts, maintained and supervised by the Group's Risk Management.
- Status of the original loan refinanced or restructured without new collateral being provided.
- Principal grace period or bullet repayment more than 30 months from origination.
- Interest grace period or settlement exceeding 12 months.
- Irregular payments or no defined payment schedule.
- Reasonable doubts as to sufficiency of *cash flows* to cover the debt.

There may be mitigating factors, such as:

- Loan recoverability is endorsed by the effort rate.
- New collateral or solvent guarantors provided.
- Updated in rem guarantees covering the value of the debt.
- Payment of interest and/or principal.

The following table shows changes in refinancing stock at 31 December 2014:

€ thousands	Performing		Substandard		Doubtful		Total	
	Risk	Provisions	Risk	Provisions	Risk	Provisions	Risk	Provisions
Situation as at 31 December 2013	3,551,071	-	2,545,663	383,260	8,860,962	3,070,619	14,957,696	3,453,879
New transactions	1,962,434	-	293,807	44,000	1,110,280	405,052	3,366,521	449,052
Other changes (cancellations, collections, other)	(1,211,174)	-	(599,135)	(120,680)	(931,142)	(65,657)	(2,741,451)	(186,337)
Situation as at 31/12/2014	4,302,331	-	2,240,335	306,580	9,040,100	3,410,014	15,582,766	3,716,594

In 2013 the Group revised the definition of signs and mitigating factors. The impact of this analysis has been reflected in the financial statements as at 31 December 2013 as follows

€ thousands	Performing		Substandard		Doubtful		Total	
	Risk	Provisions	Risk	Provisions	Risk	Provisions	Risk	Provisions
Situation as at 31/12/2012	7,662,187	-	1,354,473	423,725	5,026,093	1,410,610	14,042,753	1,834,334
Estimate changes according to Banco de España criteria	(3,978,157)	17,294	1,319,488	135,854	2,658,669	864,654	-	1,017,802
Other changes	(132,959)	(17,294)	(128,298)	(176,319)	1,176,200	795,355	914,943	601,743
Of which: new transactions	1,909,334	-	161,910	25,042	833,981	256,401	2,905,225	281,442
Of which: other changes (cancellations, collections, other)	(2,042,293)	(17,294)	(290,208)	(201,360)	342,219	538,954	(1,990,282)	320,301
Situation as at 31 December 2013	3,551,071	0	2,545,663	383,260	8,860,962	3,070,619	14,957,696	3,453,879

In 2014, the balance of refinancing operations classed as doubtful rose by €179,138 thousand and the balance of refinanced loans increased by only €625,070 thousand. 24% of all refinancing transactions classified as doubtful related to situations other than arrears. Allocated provisions rose by €262,715 thousand in 2014.

In 2013 the balance of refinancing transactions classified as doubtful grew by €3,847,430 thousand, loans classified as substandard increased by €1,196,180 thousand and the balance of refinanced loans grew by €953,239 thousand. 34% of all refinancing transactions classified as doubtful related to situations other than arrears. Allocated provisions grew by €1,623,919 thousand in 2013.

The other net changes in provisions in 2013 relate mainly to amounts allocated to specific cases from the generic provision, of which €393,251 thousand in updated estimates and €325,370 thousand in other changes.

For loans classified as doubtful or substandard, following initial classification, cure criteria is applied so that subsequent developments may allow reclassification to performing loans. This criteria may be applied when refinanced loans have been effectively repaid (fulfilment of terms for one year as of arrangement and for six months in the case of mortgages and monthly payments, or repayment of 10% of the principal), removing doubts as to collection, taking into account both the amount repaid and the period during which the borrower has fulfilled the terms. The cure scenario allows the accounting classification to be upgraded, but in any event the loans continue to be identified as refinancing or restructuring transactions.

The refinanced loans are reclassified from performing to doubtful in those cases in which weakness is evidenced regarding the borrower's ability to pay and make this classification advisable, taking into account factors such as granting interest grace periods greater than 12 months, the repayment of capital over 30 months, or a single repayment on maturity.

In those cases in which there are signs of impairment, but the factors do not become clearly apparent, or if they do exist but there are mitigating conditions that significantly improve the possibilities of collection – for example, provision of new effective guarantees considering updated values, recoverability of the loan endorsed by the effort rate or new guarantors (CCC+ rating)–, these loans are generally classified as substandard, unless their viability or recoverability is taken into account, in which case they are considered performing.

This criteria is periodically reviewed for the purpose of detecting changes in the refinancing terms and conditions (extensions of principal and interest grace periods) and in the mitigating factors (effort rates, guarantors or decrease in value of guarantees), which may evidence weakness in the borrower's ability to pay and lead to the subsequent reclassification of the risk to substandard or doubtful categories.

The updated estimates include the impact of changes in estimates after taking into consideration additional information received and the classification transfers.

In 2014, no changes have been made to signs and mitigating factors.

Set out below is a breakdown of information on the refinancing impairment losses recognised in 2014 under Impairment losses on financial assets (net) for loans and receivables:

€ thousands	
Increase in provisions arising from new estimates, recognised in profit and loss	449,052
Provisions for new refinancing transactions in 2013 recognised in profit and loss	(186,337)
	262,715

The information as at 31 December 2013 is as follows:

€ thousands	
Increase in provisions arising from new estimates, recognised in profit or loss	624,551
Provisions for new refinancing transactions in 2013 recognised in profit and loss	281,442
	905,993

Securitisations

Balances of securitisation operations completed by the Group in 2014 and 2013 that have not been derecognised in assets because the risks and rewards have not been substantially transferred are carried at amortised cost on the basis of the instrument securitised.

Note 69 provides information and comments on the securitisation operations completed. The items Public sector and Private sector, Residents include €2,360,568 thousand and €3,465,963 thousand, respectively, at year-end 2014 and 2013 in respect of securitised receivables; they remain in the balance sheet because derecognition requirements have not been fulfilled, due mainly to the Group’s acquisition of bond series having the lowest credit rating, reflecting the expected loss on the loan portfolio assigned.

Note 2 to these consolidated financial statements describes the special-purpose vehicles formed as asset securitisation vehicles in the last two years. Pursuant to disclosure requirements for this type of operations, set out below is a breakdown of the securitised receivables, including the initial amounts and balances outstanding at each year end, and the date of the operations, for each securitisation fund:

€ thousands			Balances at 31 December	
	Transaction date	Initial amount	2014	2013
IM Banco Popular FTPYME1, FTA	Dec 2004	2,000,000	108,812	141,850
IM Grupo Banco Popular Empresas 1, FTA	Sept 2006	1,832,400	197,139	250,324
IM Grupo Banco Popular FTPYME I, FTA	Dec 2006	2,030,000	284,633	354,039
IM Grupo Banco Popular FTPYME II, FTA	Jul 2007	2,039,000	178,929	233,422
IM Banco Popular MBS 2, FTA	Mar 2010	685,000	512,430	546,390
EDT FTPYME Pastor 3, FTA	Dec 2005	520,000	30,547	37,670
GC FTPYME Pastor 4, FTA	Nov 2006	630,000	69,259	84,401
IM Grupo Banco Popular Empresas 5, FTA	Feb 2013	2,650,000	978,818	1,817,867
Total		12,386,400	2,360,568	3,465,963

Note 69 “Securitisations” includes all relevant information on these operations; further information is provided in Note 35 “Financial liabilities at amortised cost”, in the item “Debt certificates”.

A breakdown by nature of these securitised lending operations is as follows:

€ thousands	2014	2013
Public administrations	156	700
Personal	1,059,776	1,913,991
Leases	-	-
Mortgages	1,300,463	1,550,798
Other collateral	173	474
Total	2,360,568	3,465,963

Set out below is a breakdown by Autonomous Region of Spain, based on the location of the branches where loans and advances to public and private sector resident customers were arranged, and transactions generated in the Portuguese branch office network with Spanish residents, irrespective of the use of the funds:

€ thousands	2014	2013
Branches in Spain	97,781,152	99,108,703
Andalusia	15,848,788	16,705,746
Aragón	1,354,688	1,484,290
Asturias	1,641,446	1,830,897
Balearic Islands	1,781,075	1,776,014
Canary Islands	2,144,702	2,213,873
Cantabria	350,487	363,420
Castilla-La Mancha	2,301,299	2,273,655
Castilla y León	5,282,881	5,472,174
Catalonia	10,752,018	12,236,561
Extremadura	934,518	899,465
Galicia	8,293,799	5,323,489
Madrid	33,944,060	34,087,612
Murcia	2,804,808	3,003,231
Navarra	1,047,886	1,142,282
Basque Country	2,746,954	3,097,090
La Rioja	541,936	606,422
Valencia	5,946,095	6,533,163
Ceuta	29,196	26,851
Melilla	34,516	32,468
Branches in Portugal	26,870	32,303
Total	97,808,022	99,141,006

Set out below is a breakdown by country of the branches in which the lending transactions with non-residents were arranged:

€ thousands	2014	2013
Spain	3,259,984	3,092,472
Portugal	5,819,311	5,666,020
USA	1,492,069	1,117,932
Total	10,571,364	9,876,424

The average interest rate on loans and advances to customers was 4.08% in 2013 and 4.49% in 2012.

Set out below is a breakdown of loans and advances to customers into euros and foreign currencies, based on the currency in which the loan will be repaid, irrespective of the currency in which it was arranged:

€ thousands	2014		2013	
	Euros	Foreign currency	Euros	Foreign currency
Loans to public authorities	6,075,612	-	1,575,801	-
Resident sectors:	6,065,612	-	1,565,801	-
Central government	3,872,441	-	52,514	-
Regional government	1,877,186	-	1,403,118	-
Local government	312,228	-	103,932	-
Social security	744	-	875	-
Doubtful assets	3,013	-	5,362	-
Non-resident sectors:	10,000	-	10,000	-
Private sectors:	98,382,184	3,921,590	104,233,735	3,207,894
Resident sectors:	90,103,076	1,639,334	96,070,911	1,504,294
Commercial loans	3,311,935	236	3,044,550	182
Secured loans	33,882,299	934,748	38,133,921	1,125,214
Mortgages	33,083,902	932,227	37,223,308	1,088,593
Remainder	798,397	2,521	910,613	36,621
Asset repos	6,206,526	-	7,102,146	-
Other term loans	23,872,319	645,519	23,055,549	309,006
Finance leases	1,875,768	-	1,999,138	-
Overdrafts and other	1,663,326	4,357	2,424,040	17,315
Other loans	237,865	5	246,480	7
Doubtful assets	19,053,038	54,469	20,065,087	52,570
Non-resident sectors:	8,279,108	2,282,256	8,162,824	1,703,600
Commercial loans	328,981	-	326,042	-
Secured loans	2,635,204	1,462,664	2,625,926	1,120,827
Mortgages	2,618,211	1,462,366	2,608,321	1,120,031
Remainder	16,993	298	17,605	796
Asset repos	-	-	-	-
Other term loans	3,731,007	795,997	3,868,334	537,154
Finance leases	327,828	-	323,129	-
Overdrafts and other	454,606	10,377	421,356	29,182
Other loans	-	1,547	-	339
Doubtful assets	801,482	11,671	598,037	16,098
Total loans and advances to customers	104,457,796	3,921,590	105,809,536	3,207,894
Valuation adjustments (±)	(7,752,124)	(44,339)	(7,861,967)	(31,467)
Total	96,705,672	3,877,251	97,947,569	3,176,427

A breakdown of gross loans and receivables denominated in foreign currencies by the currency in which the transactions were arranged is as follows:

€ thousands	2014	2013
USD	2,716,593	1,927,294
GBP	93,706	108,006
CHF	287,178	294,596
JPY	679,513	819,266
Other	100,261	27,265
Total	3,877,251	3,176,427

The breakdown of “Other loans” under Loans and advances to customers is as follows:

€ thousands	2014	2013
Financial transactions pending settlement	16,137	26,722
Cash guarantees provided	82,998	74,320
Commissions and fees for financial guarantees	24,179	27,035
Other	116,103	118,749
Total	239,417	246,826

The balance of “Cash guarantees provided” includes those lodged with various European clearing houses covering the sale of securities from our portfolio.

Financial guarantee commissions and fees reflect the present value of future cash flows pending collection, with a balancing entry in “Other financial liabilities”, from where they are taken to the profit and loss account on a straight-line basis as fee and commission income.

The changes in the impairment of loans and receivables through the profit and loss account (Note 62) in 2014 and 2013 were as follows:

€ thousands	2014	2013
Loans		
Additions to provisions	6,216,684	7,626,720
Current year releases	(1,436,159)	(1,568,708)
Reversal of impairment losses recognised in prior years	(2,879,973)	(4,666,301)
Depreciation and Amortisation	4,438	2,610
Recoveries of written-off assets	(214,158)	(260,416)
Total	1,690,832	1,133,905

Set out below is a breakdown of Value corrections for asset impairment in Loans and receivables at 31 December 2014 and 2013:

€ thousands	2014	2013
By type of cover		
Specific provision	8,235,678	8,364,816
Credit institutions	2,810	2,469
Resident sectors	7,620,030	7,907,941
Non-resident sectors	612,838	454,406
Generic provision	-	-
Resident sectors	-	-
Non-resident sectors	-	-
Country-risk provision	913	1,153
Credit institutions	-	-
Resident sectors	1	-
Non-resident sectors	912	1,153
Total	8,236,591	8,365,969

The changes in 2014 and 2013 in value corrections for asset impairment under Loans and advances to customers were as follows:

€ thousands	Specific provision	Generic provision	Country-risk provision	Total
Opening balance 2013	9,059,616	-	1,300	9,060,916
Allocated to profit or loss:				
Additions to provisions	6,057,869	-	143	6,058,012
Recoveries	4,666,027	-	274	4,666,301
Provisions applied	1,821,174	-	-	1,821,174
Other changes and transfers*	(265,468)	-	(16)	(265,484)
Closing balance 2013	8,364,816	-	1,153	8,365,969
Allocated to profit or loss:				
Additions to provisions	4,780,432	-	93	4,780,525
Recoveries	(2,879,675)	-	(298)	(2,879,973)
Provisions applied	(1,347,503)	-	-	(1,347,503)
Other changes and transfers	(682,392)	-	(35)	(682,427)
Closing balance 2014	8,235,678	-	913	8,236,591

Set out below is a breakdown showing individual and collective provisions:

€ thousands	2014
Determined individually	2,785,996
Determined collectively	4,847,424
Collective provisions for losses incurred but not reported (IBNR)	603,171
Total	8,236,591

These specific provisions arrived at a total amount of €8,365,969 thousand for 2013.

Set out below is a breakdown of the carrying amounts of Loans and advances to customers past-due and not impaired, by debtor residence and period since default:

€ thousands	2014			2013		
	Resident sectors	Non-resident sectors	Total	Resident sectors	Non-resident sectors	Total
Up to 1 month	396,851	2,532	399,383	644,485	44,341	688,826
1 to 2 months	82,733	5,079	87,812	145,383	1,026	146,409
2 to 3 months	62,548	2,232	64,780	148,603	480	149,083
Total	542,132	9,843	551,975	938,471	45,847	984,318

Accrued interest accumulated, past-due and receivable on impaired financial assets, up until the date on which accrual was interrupted due to their classification as doubtful assets, totalled €551,975 thousand in 2014 and €984,318 thousand in 2013.

Not taking into account the adjustments or eliminations on consolidation, the following table shows written-off assets, defined as the principal of impaired financial assets plus interest accrued and receivable that have been written off the balance sheet when chances of recovery are deemed to be remote.

Derecognition does not in any case preclude the instigation by the Group of legal actions to recover the debts.

The definitive derecognition of these accounts occurs when the amounts due are recovered, the debt is forgiven, the statute-of-limitations period expires or for other reasons.

€ thousands	2014	2013
Balance at 31 December of the previous year	4,664,825	4,350,631
Additions: Charged to value corrections for asset impairment	-	1,631,836
Charged directly to profit and loss account*	1,339,092	270,430
Uncollected past-due amounts	4,232	66,355
Other	177,949	304,927
Change in scope of consolidation (B. Pastor)	187	-
Total recognition	1,521,460	2,273,548
Derecognition: Recovery in cash of principal	160,924	131,597
Due to recovery of uncollected past-due amounts in cash	14,486	6,742
Due to forgiveness	480,658	819,536
Due to expiry of the statute-of-limitations period	-	-
Due to foreclosure of tangible assets	26,160	15,009
Due to foreclosure of other assets	-	-
Due to debt restructuring	-	1
Due to other reasons	387,915	986,470
Total reductions	1,070,143	1,959,355
Net change due to exchange differences	1	1
Balance at 31 December of reporting year	6,186,286	4,664,825

*Includes losses arising from agreements to cancel amounts due from customers over and above actual repayments.

Property market

As part of the policy to continuously improve the Banco Popular Group's transparency policy, which is its calling card, set out below is information on the Group's exposure to the property market in Spain at 31 December 2014.

Construction and property development

The Group's exposure to these market sectors in Spain is analysed in the following tables:

Financing for construction and property development and related allowances

€ thousands			
	Gross amount	**Surplus over value of collateral**	**Specific provision**
Financing for construction and property development (transactions in Spain)	18,151,259	7,022,870	4,399,894
- *Of which: Doubtful*	10,888,389	4,092,648	4,103,565
- *Of which: Substandard*	2,172,667	883,901	296,329
Memorandum item:			
- Written-off assets	1,914,844	-	-
Memorandum items:	**Carrying amount**		
Total loans and advances to customers, excluding public authorities (transactions in Spain)	94,395,408	-	-
Total assets (total businesses)	161,456,478	-	-
Valuation adjustments and credit risk provisions. Total generic provision (all transactions)	-	-	-

Set out below is a breakdown of this financing by type of collateral and purpose of the transaction:

Breakdown of financing for construction and property development

€ thousands	
	Gross amount
Unsecured	1,851,360
Secured	16,299,899
1 Completed buildings	7,840,446
1.1 Housing	4,090,126
1.2 Other	3,750,320
2. Buildings under construction	1,577,496
2.1 Housing	1,122,352
2.2 Other	455,144
3 Land	2,802,511
3.1 Developed land	2,539,478
3.2 Other land	263,033
4 Other collateral	4,079,446
TOTAL	18,151,259

As regards exposure to the retail mortgage market, the following table contains details of home loans granted in Spain:

€ thousands		
	Gross amount	*Of which:* Doubtful
Home purchase loans	17,154,957	867,460
- Without mortgage guarantee	43,233	6
- With mortgage guarantee	17,111,724	867,454

The following table shows exposure as a percentage of the appraised value of properties for the home loans with mortgage guarantees reflected in the previous table:

Breakdown of secured home loans by total risk as a percentage of the latest available appraisal (loan-to-value).

€ thousands						
	RISK AS % OF LATEST AVAILABLE APPRAISAL (loan to value)					
	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Gross amount	3,585,576	5,462,862	5,790,441	1,568,607	704,238	17,111,724
Of which: Doubtful	129,893	164,057	355,817	154,845	62,842	867,454

Lastly, set out below is information on the assets foreclosed in Spain by Group entities (non-current assets held for sale, inventories and investment property):

€ thousands		
	Carrying amount	***Of which:* Value corrections for impairment of assets**
Real estate assets from financing for construction and property development	6,355,880	4,611,423
1 Completed buildings	3,055,296	1,347,961
1.1 Housing	2,014,611	912,646
1.2 Other	1,040,685	435,315
2 Buildings under construction	278,602	120,439
2.1 Housing	221,865	101,815
2.2 Other	56,737	18,624
3 Land	3,021,982	3,143,023
3.1 Developed land	1,369,517	1,129,478
3.2 Other land	1,652,465	2,013,545
Real estate assets from home purchase mortgage loans to households	982,461	425,370
Other real estate assets received in settlement of debt	1,756,234	659,649
Equity instruments, investments and financing provided to non-consolidated companies holding these assets	202,000	467,000

Set out below are the figures for 2013:

€ thousands			
	Gross amount	**Surplus over value of collateral**	**Specific provision**
Financing for construction and property development (transactions in Spain)	20,247,507	6,374,189	4,959,442
- *Of which: Doubtful*	11,560,056	3,804,343	4,571,078
- *Of which: Substandard*	2,524,441	797,560	388,364
Memorandum item:			
- Written-off assets	1,615,723		
Memorandum item:	**Carrying amount**		
Total loans and advances to customers, excluding public authorities (transactions in Spain)	92,153,147		
Total assets (total businesses)	146,709,478		
Valuation adjustments and credit risk provisions. Total generic provision (all transactions)	-		

€ thousands	
	Gross amount
Unsecured	2,655,811
Secured	17,591,696
1 Completed buildings	8,677,700
1.1 Housing	4,446,374
1.2 Other	4,231,326
2. Buildings under construction	1,675,411
2.1 Housing	1,354,935
2.2 Other	320,476
3 Land	3,353,697
3.1 Developed land	2,988,871
3.2 Other land	364,826
4 Other collateral	3,884,888
TOTAL	20,247,507

€ thousands		
	Gross amount	***Of which:* Doubtful**
Home purchase loans	17,390,145	934,888
- Without mortgage guarantee	81,204	923
- With mortgage guarantee	17,308,941	933,965

€ thousands						
	RISK AS % OF LATEST AVAILABLE APPRAISAL (loan to value)					
	Less than or equal to 40%	**More than 40% and less than or equal to 60%**	**More than 60% and less than or equal to 80%**	**More than 80% and less than or equal to 100%**	**More than 100%**	**Total**
Gross amount	3,422,949	5,282,619	6,608,895	1,561,111	433,367	17,308,941
Of which: Doubtful	131,412	168,766	397,269	186,734	49,784	933,965

€ thousands		
	Carrying amount	*Of which:* Value corrections for impairment of assets
Real estate assets from financing for construction and property development	5,254,951	4,505,428
1 Completed buildings	2,670,220	1,401,567
1.1 Housing	1,932,719	1,031,480
1.2 Other	737,501	370,087
2 Buildings under construction	252,464	162,750
2.1 Housing	202,181	128,718
2.2 Other	50,283	34,032
3 Land	2,332,267	2,941,111
3.1 Developed land	1,263,775	1,404,532
3.2 Other land	1,068,492	1,536,579
Real estate assets from home purchase mortgage loans to households	786,222	394,417
Other real estate assets received in settlement of debt	1,086,119	506,211
Equity instruments, investments and financing provided to non-consolidated companies holding these assets	259,780	830,345

Property risk management:

In view of its depth and significance, property risk is managed by two specialised units with a thorough knowledge of the Spanish property market:

- The Specialised Business Unit (UNE in its Spanish acronym), which reports to Retail Banking Management, is responsible for centralised decision-making on the healthy portfolio of lending to customers related to the real estate sector. The purpose is to manage property risk on a case-by-case basis, taking into account the characteristics and situation of each customer.

- Aliseda SGI, a subsidiary set up in December 2013, bringing on board new shareholders, Värde and Kennedy Wilson, to which the management of real estate assets received through foreclosure, purchase or payment-in-kind has been sold in order to facilitate the orderly disposal of the assets. The company has also been assigned the management of impaired loans and receivables to customers linked to the property sector with the aim of boosting the transformation into buildings of transactions in which the borrowers are not considered viable so as to streamline their sale. However, decisions on lending are channelled through the Specialised Business Unit.

As well as managing healthy risk, the Specialised Business Unit takes decisions on restructuring, and asset purchase and sale transactions that are outside the remit of Aliseda, SGI. For this purpose there is a specific hierarchy of authority, similar to that for wholesale or retail banking, which is described briefly below.

When a customer is having difficulties, this may give rise to:

a) A refinancing or restructuring proposal
b) A purchase or payment-in-kind proposal

Proposals for refinancing or restructuring originate at the branches, which have the support of specific UNE advisers assigned to them at each territorial headquarters.

Purchase or payment-in-kind proposals come directly from the regional/territorial headquarters and are drawn up by specialised advisers.

The review of any of the risks of these customers follows the same Group system for its control: the proposal travels from the branch to the territorial headquarters (where there are specialised advisers) and then on to the specific risk area set up at the Specialised Business Unit. Proposals are therefore approved within the limits of authority of the UNE itself or passed up to a higher level, which means that in any event transactions follow the normal Group process as regards approval and communication to the Bank's Risk Committee.

Proposals for purchase or payment-in-kind also reach the UNE risk area where, depending on the level of authority, they are submitted to the UNE Management and then, if necessary, to the Purchasing Committee.

The Purchasing Committee meets weekly and submits monthly reports on its activities to the Management Committee. Transactions proposed by Aliseda SGI are also reviewed by the UNE when they are beyond its scope of authority. It should be noted that although the management of part of the property business has been sold, as described above, the property loans and assets are still owned by the Group.

The management of real estate assets aims to maximise their sale value and obtain the profitability stipulated by the Group, taking into account capital invested, liquidity absorbed by the business and expected results. Different policies and strategies are applied depending on the asset in question: finished product held for sale or lease, work in progress or land.

24. HELD-TO-MATURITY PORTFOLIO

At 31 December 2014 and 2013, there was no balance in the Group's held-to-maturity portfolio because a significant part of the portfolio was sold in June 2013; under IAS 39-Financial instruments: recognition and measurement, the remaining balance recognised by both the parent company and the Group entities had to be transferred to the available-for-sale portfolio under the so-called contamination rule. Assets were sold in the amount of €2,605,839 thousand for a gain of €51,957 thousand.

25. ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES IN RESPECT OF MACRO-HEDGES

In 2014, the Group maintained the portfolio hedges in force in 2013. The balance of this item in the current year amounts to €261,023 thousand, as compared with €159,571 thousand at year-end 2013.

Changes in the fair value of the hedged assets were recognised in profit and loss, with a balancing entry in "Adjustments to financial assets in respect of macro-hedges". No portfolio hedges were arranged for financial liabilities.

26. ASSET AND LIABILITY HEDGING DERIVATIVES

These balance sheet captions reflect the fair values for (Assets) or against (Liabilities) of the entities in respect of derivatives designated as hedging instruments in accounting hedges.

The criteria for determining the conditions and recognition of hedges are explained in Note 15.d). The net gain/(loss) on hedging derivatives is reflected on the line "Other" in the table in Note 54, as analysed below:

€ thousands	2014			2013		
	Gain	Loss	Net	Gain	Loss	Net
Hedging instruments	630,641	1,428,567	(797,926)	824,775	718,399	106,376
Hedged items	1,418,073	593,518	824,555	559,282	639,237	(79,955)
Total	2,048,714	2,022,085	26,629	1,384,057	1,357,636	26,421

a) Fair value hedges

The following table shows the type of risks hedged, the instruments used for fair value hedges and the notional and carrying amounts of the hedges.

€ thousands	2014			2013		
	Notional amount	Valuation		Notional amount	Valuation	
Risk hedged and instrument used		Positive	Negative		Positive	Negative
Exchange risk	94,817	-	1,060	40,000	-	134
Forward transactions	-	-	-	40,000	-	134
Purchase of foreign currency against foreign currency	-	-	-	-	-	-
Procurement	-	-	-	40,000	-	134
Sales	-	-	-	-	-	-
Financial swaps (CCS)	94,817	-	1,060	-	-	-
Currency options	-	-	-	-	-	-
Purchased	-	-	-	-	-	-
Sold	-	-	-	-	-	-
Interest rate risk	39,148,624	405,646	2,125,436	29,874,171	528,826	1,417,500
Financial futures (organised markets)	457,559	-	-	432,040	-	-
Options (organised markets)	-	-	-	-	-	-
Forward interest rate agreements (FRA)	-	-	-	-	-	-
Financial swaps (IRS, CMS, etc.)	33,667,065	405,646	1,788,486	23,648,131	528,826	1,111,999
Interest rate options	5,024,000	-	336,950	5,794,000	-	305,501
Purchased	-	-	-	-	-	-
Sold	5,024,000	-	336,950	5,794,000	-	305,501
Share price risk	1,113,172	35,510	34,578	367,265	50,203	56,115
Options on securities	374,187	6,070	68	15,812	1,236	-
Purchased	364,018	6,070	-	15,812	1,236	-
Sold	10,169	-	68	-	-	-
Financial swaps (CDS)	738,985	29,440	34,510	351,453	48,967	56,115
Total	40,356,613	441,156	2,161,074	30,281,436	579,029	1,473,749

The notional amounts of fair value hedging instruments reflected in the above table relate to the following hedged balance sheet items:

€ thousands	2014	2013
Asset hedges	29,376,150	16,076,527
Loans and advances to credit institutions	-	-
Loans and advances to customers	6,887,380	7,234,202
Available-for-sale assets	22,488,770	8,842,325
Liability hedges	10,980,463	14,204,909
Deposits from credit institutions	-	-
Customer deposits	1,150,085	515,804
Debt certificates	9,830,378	13,689,105
Total	40,356,613	30,281,436

b) Cash flow hedges

The following table shows the notional and carrying amounts at year-end 2014 and 2013 of the types of cash flows that are fully hedged at that date, Debt certificates. As explained in Note 42, in Valuation adjustments in equity, the amount recognised in this item is the value of the effective portion of 2014 cash flow hedges, which matured in 2014.

€ thousands	2014			2013		
	Notional amount	Valuation		Notional amount	Valuation	
Risk hedged and instrument used		Positive	Negative		Positive	Negative
Interest rate risk:						
Financial swaps (IRS, CMS, etc.)	295,000	-	21,368	295,000	7,502	-
Cross currency swap (CCS)	94,817	-	2,713	-	-	-
Total	389,817	-	24,081	295,000	7,502	-

The gross amount recognised in Valuation adjustments in equity deriving from the valuation of cash flow hedging derivatives totalled €33,805 thousand (in negative) in 2014 and €10,717 thousand in 2013. (Note 42).

Cash flow hedges correspond to operations covering liability issues with variable rates starting in 2016 totalling €295 million and relate to the same operations as on 31 December 2013 and one new operation contracted in 2014 amounting to €94 million in foreign operations corresponding to Banco Popular's 24.9% stake in the Mexican financial group Ve Por Más S.A. de C.V.

c) Hedges of net investments in foreign operations

In 2014 and 2013 the Group did not effect transactions of this kind for significant amounts.

27. NON-CURRENT ASSETS HELD FOR SALE

This caption in the Group's consolidated balance sheet relates basically to purchased or foreclosed assets received by the Group from its borrowers or other debtors for total or partial settlement of financial assets representing debt claims against the borrowers or debtors. Additionally, the Group has obtained buildings by means of purchase or the payment-in-kind of debt claims so as to avoid, in many cases, difficulties that could be encountered by debtors when repaying their debts. These assets are initially recognised at the net amount of the financial assets delivered, taking into account any valuation adjustments to the assets. The amounts for both periods are analysed below.

€ thousands	2014	2013
Non-current assets held for sale	8,201,378	6,296,601
Debt securities	-	-
Equity instruments	-	-f
Tangible assets	8,201,378	6,296,601

The Group recognised a net loss of €51,987 thousand (profit of €301,232 thousand and loss of €353,219 thousand) in 2014 and a net profit of €14,928 thousand (profit of €153,111 thousand and loss of €138,383 thousand) in 2013.

Additions to this caption relate basically to foreclosed assets, payment-in-king in payment of debt claims and purchases of assets that secured loans which were not repaid on a timely basis. Disposals arise in all cases from the sale or transfer of the assets to tangible fixed assets for own use, investment property or inventories.

Transactions in 2014 and 2013 in Non-current assets held for sale are as follows:

€ thousands	
Opening balance 2013	4,894,968
Additions	2,937,369
Disposals	449,917
Change in value corrections	1,085,819
Closing balance 2013	6,296,601
Additions	3,537,430
Disposals	1,510,306
Change in value corrections (1)	122,347
Closing balance 2014	8,201,378

(1) Includes €381,742 thousand arising from the contribution of real estate by the banks and related value adjustments due to the capital increase in the group's real estate companies, mainly Aliseda, S.A., Inversiones Inmobiliarias Canvives, S.A. and Inversiones Inmobiliarias Tamadaba, S.A.

The impairment of foreclosed property is calculated by comparing the property's fair value less costs to sell with its carrying amount. If the carrying amount of the property is higher, impairment is recognised in the amount of the difference. The appraisal value at foreclosure is determined for the Group's Spanish entities by valuation companies registered with Banco de España.

Transactions recognised in Profits/losses on non-current assets held for sale in the consolidated profit and loss accounts in 2014 and 2013 are as follows:

€ thousands	**2014**	**2013**
With balancing entry in profit and loss (Note 66)		
Gains on sale	301,232	153,311
Losses on sale	353,219	138,383
Impairment losses	444,471	1,013,418
Additions to Provisions for the year	1,041,150	1,025,911
Releases for the year	(213,197)	(10,914)
Reversal of impairment losses recognised in prior years	(383,482)	(1,579)
Total	(496,458)	(998,490)

28. INVESTMENTS

This caption in the Group's consolidated balance sheets solely covers equity-consolidated associates and joint ventures.

The carrying amount includes the balances of the subordinated loans granted by the Group, if applicable. The changes in these investments in 2014 and 2013 are set out below:

€ thousands	**2014**	**2013**
Joint ventures	614,407	248,706
Credit institutions	455,267	160,082
Insurance companies	-	-
Other joint ventures	159,140	88,624
Total carrying amount of joint ventures	614,407	248,706
Value corrections for impairment of assets	-	-
Other valuation adjustments	381,838	172,875
Total joint ventures	996,245	421,581
Associates	484,019	494,732
Credit institutions	-	-
Insurance companies	86,445	99,984
Other associates	397,574	394,748
Total carrying amount of associates	484,019	494,732
Value corrections for impairment of assets	-	-
Other valuation adjustments	390,521	346,823
Total associates	874,540	841,555
Total Investments	1,870,785	1,263,136

In accordance with IFRS 11, joint ventures have been accounted for using the equity method since January 2014.

In 2014, as a result of the sale of the 51% interest of Bancopopular-e, S.A., said company was reclassified as a joint venture, and Popular-e Operador de Banca Seguros Vinculado, S.A.U., Popular-e Cobros A.I.E., and IM Tarjetas 1 F.T.A., including part of the transaction with Bancopopular-e, S.A., were also classified as such, while Platja Amplaries, S.L. was sold.

In relation to associates, a 50% interest was acquired in Euro Automatic Cash Entidad de Pago, S.L., and a 24.99% interest in Grupo Financiero Ve por Más, S.A. de CV, while Nuevo Agora Centro de Estudios, S.L., Inversiones Area Sur, S.L., and Ronáutica Marinas Internacional, S.A. were sold.

“Other valuation adjustments” under Joint Ventures includes the revaluation relating to the 51% interest of Bancopopular-e sold in 2014 (€208,963 thousand) and the sale of the 50% interest of TargoBank in 2010 (€172,875 thousand).

“Other valuation adjustments” under Associates includes the revalued acquisition of Grupo Financiero Ve por Más, S.A. de CV (€43,698 thousand) and the revaluation of the retained investment carried out as a result of the creation in 2011 of a new company, Allianz Popular, S.L. (€346,823 thousand).

The shares of these associates are not listed on organised markets.

Of the goodwill included, tests are run to check for impairment, pursuant to the provisions of IAS 36.. For operations carried out in 2014, no tests have been run pending the allocation of said amounts between assets with a finite useful life and goodwill. Given that the transaction was made in 2014, the transaction price is considered to reflect the market value on the basis that two independent parties established the price. Moreover, the results for the year met the expectations of the entities' Business Plan.

Goodwill of Targobank

Goodwill amounts to €172.9 million at 31 December 2014.

The Bank tested the goodwill for impairment by comparing the CGU’s recoverable value with its carrying amount. Cash flow projections estimated by Group Management were used. The projections were calculated conservatively at ten years, in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates made from year five on will include flat or negative growth rates compared with previous years.

In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts’ consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 9.16% discount rate, comprising a risk-free rate (Spanish 10-year bond) plus a premium reflecting the risk inherent in the business evaluated, estimated to be the variable income risk premium on Spanish bonds, to which Banco Popular’s beta has been applied.

It was not considered necessary to recognise impairment as at 31 December 2014 or 2013 as a result of this evaluation.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), yield on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), efficiency ratio applied to the terminal value (+/- 50 points) and provisions for loans and receivables, applied to the terminal value (+/- 5 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by -6.6% and 7.7%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by 1.6% and -2.9% respectively.

The sensitivity analyses performed revealed a sufficient difference between the CGU’s value and its carrying amount.

Goodwill of Allianz-Popular

Goodwill amounts to €346.8 million at 31 December 2014.

The Bank tested the goodwill for impairment by comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by Entity Management were used. The projections were calculated conservatively at ten years, in view of the current phase of the cycle. This CGU includes three different business types: life, pensions and asset management, with estimates made separately. Growth rates of 3.5%, 2.10 and 0% have been used respectively. As regards the discount rate used, it is also different on account of the different correlation concerning these businesses with the risk-free premium. The rates of 6.99%, 8.19% and 8.19% have been used respectively.

It was not considered necessary to recognise impairment as at 31 December 2014 or 2013 as a result of this evaluation.

Other investments

In 2013, the Group formed Universal Pay, in which it held a 50% interest at year-end 2013. The Group also increased its interest in Sistema 4B and Metrovacesa by 0.66% and by 0.67%, respectively, to hold a 27.42% interest in Sistema 4B, S.A. and a 12.64% interest in Metrovacesa, S.A. at year-end 2013.

Regarding the significant influence exercised on Metrovacesa, S.A., as indicated in Note 2 c to the financial statements, it should be noted that in 2014 and 2013:

- As a significant corporate milestone, a public acquisition offer was made in May 2013, to delist the company's shares from the stock market; the offer was made by the shareholder banks, except for Bankia (i.e. by Santander, BBVA, Sabadell and Banco Popular), on the free float existing at the time (around 4.4%). The delisting public acquisition offer represented an increase in control by the current shareholders, whereby Banco Popular's ownership interest in the share capital Metrovacesa increased to 12.64%, since the shareholder banks that made the public acquisition offer acquired the shares included in the offer in proportion to their previous shareholdings (11.97% in the case of Banco Popular) and by Bankia (as this bank did not take part in the public acquisition offer, as indicated above).

- At Board meetings held in 2013, very important decisions were adopted, with the favourable vote of Banco Popular, regarding the company's future, such as the commencement of the Jupiter project, which will contribute to the company's sustainability by restructuring its debt. This project, after many months of work, was carried out in June and July 2014 through the sale of the shareholdings that Metrovacesa had in Gecina. The amount obtained from the sale was used to repay a large portion of tranche A of the syndicated financing.

As mentioned in Note 2 c), the conditions in which the Group participates in the management of said entity calls for its consideration as an associate.

The investees amount includes goodwill recorded in the balance sheets for these companies. Worth particular mention is the goodwill of Aliseda SGI, which recorded intangible assets of €642 million, of which 49% (€315 million) form part of the group's stake. During 2014, the purchase price allocation was carried out by an independent third party, who deemed that 85.7% of said intangible assets were finite useful life assets associated to the significance of the exclusive agreement with Banco Popular Group, the brand, relationship with suppliers, etc. with the remainder, 14.3% corresponding to goodwill (€45 million). Over the course of the year, the company has carried out, via an independent expert, the appropriate impairment test which did not reveal impairment to the goodwill.

In 2014, Universal Pay recorded goodwill of €31 million and carried out a purchase price allocation; said activity was performed by an independent third party, allocating 87.2% to finite useful life intangible assets and the remaining 12.8% (€4million) to goodwill.

All companies have carried out the corresponding impairment tests on goodwill, which have been reviewed by the entity; the results of these tests have been considered for the purpose of the Group's consolidated financial statements.

The investments in Pérez Torres Handling, S.A. and Mercavalor, S.V., S.A. were derecognised (see further details in Note 2).

The change in investments during the year is as follows:

€ thousands	**Total**	**Insurance companies**	**Credit institutions**	**Other entities**
Opening balance 2013	1,158,865	442,266	333,661	382,938
Additions	110,002	-	-	110,002
Disposals	2,608	-	-	2,608
Changes in value	(3,123)	4,541	(704)	(6,960)
Profit or loss for the year	58,994	2,673	(3,013)	59,334
Impairment	(3,500)	-	-	(3,500)
Adjustments	(58,617)	1,868	2,309	(62,794)
Closing balance 2013	1,263,136	446,807	332,957	483,372
Additions	413,583	-	281,037	132,546
Disposals	42,251	-	-	42,251
Changes in value	236,317	(13,539)	223,111	26,745
Profit or loss for the year	16,951	(13,628)	15,391	15,188
Impairment	-	-	-	-
Adjustments	219,366	89	207,720	11,557
Closing balance 2014	1,870,785	433,268	837,105	600,412

Set out below is a breakdown of the carrying amounts of the companies included in this heading in 2014 and 2013:

€ thousands	**2014**	**2013**
Joint ventures	996,245	421,581
Aliseda SGI	144,347	73,374
Targo Inmuebles	-	-
Inverlur Águilas I	2,241	2,244
Inverlur Águilas II	6,962	6,962
IberiaCard	9,496	7,308
TargoBank	331,836	325,649
Bancopopular-e, S.A.	495,773	-
Platja Amplaries	-	656
Saite	5,590	5,388
Saite-Cobal	-	-
Associates:	874,540	841,555
Sistema 4B, S.A.	308	5,727
Inversiones Área Sur, S.L.	-	12,526
Inversiones en Resort Mediterráneos, S.L.	-	-
Trindade Fundo Investimento Inmobiliario Fechado	22,044	22,185
Aviación Intercontinental, A.I.E.	25,765	24,525
Allianz Popular, S.L.	433,268	446,807
Metrovacesa, S.A.	202,349	253,508
Puertos Futuros, S.L.	70	71
Nuevo Ágora Centro de Estudios, S.L.	-	26,960
Pérez Torres Handling, S.A.	-	-
Amarres Deportivos, S.L.	-	155
Ronáutica Marinas Internacional, S.A.	-	4,242
Mercavalor S.V., S.A.	-	-
Universal Pay	39,077	36,879
Euro Automatic Cash Entidad de Pago, S.L.	36,832	-
Fotovoltaica Monteflecha, S.L.	7,597	7,970
Aevis Europa, S.L.	262	-
Master Red Europa, S.L.	265	-
Gestora Patrimonial c/Francisco Sancha, 12	5,152	-
Grupo Financiero Ve Por Más S.A. de CV	101,551	-

29. INSURANCE CONTRACTS LINKED TO PENSIONS

This heading includes the technical mathematical provisions for post-employment obligations outsourced to the insurance company Allianz S.A. and technical mathematical provisions or fair values of pension and similar obligations insured by Group companies.

The retirement bonuses arranged through insurance policies with Allianz Popular Seguros S.A. are first reflected, together with the fair value of the fund administered in relation to Banco Popular Portugal, S.A.'s obligations.

Accordingly, "Other entities" includes the technical mathematical provisions for the early retirement policy taken out with the insurance company Allianz, S.A. de Seguros y Reaseguros.

€ thousands	**2014**	**2013**
Group companies	154,511	128,731
Other entities	8,143	14,217
Total	162,654	142,948

30. REINSURANCE ASSETS

Set out below is a breakdown by company of this consolidated balance sheet heading at 31 December 2014 instrument:

€ thousands	**2014**	**2013**
Eurovida, S.A. (Portugal)	15,048	12,638
Popular Seguros, S.A.	1,873	1,824
Total	16,921	14,462

31. TANGIBLE ASSETS

There follows a breakdown of the reported investment in tangible fixed assets, net of amortisation and impairment adjustments. Tangible assets for the Group's own use include, if applicable, assets acquired under finance leases from consolidated Group companies engaged in leasing activities.

Property leased between Group companies has also been classified as tangible assets for own use.

€ thousands	**2014**	**2013**
Tangible assets for own use:	746,830	798,603
IT equipment and installations	19,570	38,726
Furniture, vehicles and other installations	144,804	157,719
Buildings for own use	463,840	508,199
Assets under construction	121,995	100,205
Other	12,405	15,503
Value corrections for asset impairment (-)	(15,784)	(21,749)
Assets assigned under operating leases	10,339	26,160
Tangible assets at amortised cost	10,363	26,184
Value corrections for asset impairment (-)	(24)	(24)
Investment property	954,055	1,011,140
Buildings and other structures	1,663,764	1,720,644
Value corrections for asset impairment (-)	(709,709)	(709,504)
Total	1,711,224	1,835,903

The "Investment property" activity relates, in a small portion, to activities undertaken by the majority of the Group's banks and, additionally, to the Group's real estate subsidiaries that hold these investments to obtain income or gains and are not expected to sell them in the ordinary course of business.

The changes in this consolidated balance sheet heading showing gross amounts, accumulated depreciation, valuation adjustments and net amounts at 31 December 2014 and 2013, are set out below:

€ thousands	For own use	Investment property	Assets leased out under operating leases	Total
Gross				
Balance at 01/01/2013	2,065,072	1,675,185	26,762	3,767,019
Additions	55,265	246,556	-	301,821
Disposals	208,494	165,381	578	374,453
Balance at 31/12/2013	1,911,843	1,756,360	26,184	3,694,387
Additions	86,912	219,879	-	306,791
Disposals	246,439	276,189	15,821	538,449
Balance at 31/12/2014	1,752,316	1,700,050	10,363	3,462,729
Accumulated amortisation				
Balance at 01/01/2013	1,190,564	41,238	-	1,231,802
Additions charged to profit and loss	74,118	8,187	-	82,305
Disposals	173,191	13,709	-	186,900
Balance at 31/12/2013	1,091,491	35,716	-	1,127,207
Additions charged to profit and loss	53,582	7,634	-	61,216
Disposals	155,371	7,064	-	162,435
Balance at 31/12/2014	989,702	36,286	-	1,025,988
Value corrections for impairment of assets				
Balance at 01/01/2013	14,715	621,934	24	636,673
Additions	7,034	93,084	-	100,118
Disposals	-	5,514	-	5,514
Balance at 31/12/2013	21,749	709,504	24	731,277
Additions	-	6,353	-	6,353
Disposals	5,965	6,148	-	12,113
Balance at 31/12/2014	15,784	709,709	24	725,517
Net				
Balance at 01/01/2013	859,793	1,012,013	26,738	1,898,544
Balance at 31/12/2013	798,603	1,011,140	26,160	1,835,903
Balance at 31/12/2014	746,830	954,055	10,339	1,711,224

Impairment losses recognised in the year can be seen in Note 63 to the consolidated profit and loss account.

Set out below is an analysis of tangible assets for own use in the consolidated balance sheets for each period:

€ thousands	Gross	Accumulated depreciation	Impairment adjustments	Net
At 31 December 2014:				
Furniture, IT equipment & installations	1,078,845	914,471	-	164,374
Buildings for own use	538,287	74,446	15,784	448,057
Other tangible assets for own use	135,183	784	-	134,399
Total	1,752,316	989,702	15,784	746,830
At 31 December 2013:				
Furniture, IT equipment & installations	1,213,069	1,016,624	-	196,445
Buildings for own use	582,248	74,049	21,749	486,450
Other tangible assets for own use	116,526	818	-	115,708
Total	1,911,843	1,091,491	21,749	798,603

The Group has been divesting property for own use since 2008. As a result, a number of buildings (branches and other premises) were sold, mostly under sale and lease-back arrangements. The Group has recognised the results of these transactions in the profit and loss account because they were completed at fair value and all the lease-back operations fulfil the requirements to be treated as operating leases.

The agreed terms, which are common practice in the operating lease market, include the provision that the Group's lessees have the right not to extend the lease for a longer period than that stipulated as the first maturity, although the majority of leases include options for the Group to extend the lease for equal periods subject to the update or revision of rentals.

These clauses related to the rental review tie the revision to the performance of the consumer price index. The standard clause included in the lease agreements is as follows:

"RENTAL REVIEW
The monthly rental agreed upon will be updated on a yearly basis in accordance with the changes in the Spanish General Consumer Price Index (CPI, General Index), published by the Spanish National Statistics Institute or such body as might replace it.

The Lessee shall be required to pay the updated rental at the end of each year of the lease agreement. For the purposes of determining the updated rental, the rental that the Lessee has been paying in the immediately preceding month, resulting from the various updates that may have been applied in previous years, will be used as a basis for the calculation. For the first year of the agreement, the total rental will be obtained by multiplying the monthly rental by twelve.

Given that this index is published with a certain delay, if the index is not available at the time of the rental review, the Lessee will continue to pay the rental stipulated for the previous period. Once the final index is published, the Lessee will pay the updated rental in the next monthly payment in accordance with the stipulations of this clause. In addition, at this date and according to whether the index has decreased or increased, the parties will adjust the accounts by paying each other the amounts not received since the date on which the rental should have been adjusted. For such purposes, the Lessor must notify the Lessee of the new updated rental in writing, including the new percentage applied and the appropriate certificate from the Spanish National Statistics Institute.

In the event that the Spanish National Statistics Institute should cease to publish the indices referred to in this clause, the stipulated review will be calculated based on such indices or modules as may replace them."

This clause on rental review does not include adding a spread to the performance of the consumer price index, but rather only increases or decreases the rental based on the performance of the reference index.

The average maturity period of the lease agreements was set at 13 years on the date of execution, while agreements in force at year-end 2014 had an average residual maturity of 8.1 years, whereas this figure was 8.3 years for 2013.

The accounting treatment applied is that the embedded derivative is not separated, given that it is considered to be closely related to the host contract, since:

- It is not leveraged, i.e. it is tied to the CPI without a multiplier
- The index refers to the same economic environment: Spain

The specific paragraph of the standard on which this treatment is based is included in paragraph AG 33.f) of IAS 39: an embedded derivative in a host lease contract is closely related to the host contract if the embedded derivative is (i) an inflation-related index such as an index of lease payments to a consumer price index (provided that the lease is not leveraged and the index relates to inflation in the entity's own economic environment), (ii) contingent rentals related to sales made, and (iii) contingent rentals relate to variable interest rates.

With regard to the counterparty, of the 962 lease agreements in force on 31 December 2014, only 6 agreements were entered into with related parties, at market conditions, which represent 0.6% of the total agreements and 3.9% of the lease payments made. In 2014, €5,832 thousand was paid, an immaterial amount. In other words, 99.4% of the agreements were executed with counterparties not included in the Group.

In 2013, of the 1,002 lease agreements in force, 6 agreements were entered into with related parties, at market conditions, which also represent 0.6% of the total agreements and 4.5% of the lease payments made. €5,833 thousand was paid, an immaterial amount. In other words, in 2013, 99.4% of the agreements were executed with counterparties not included in the Group.

In 2014, a total of €80.0 million was recognised as an expense for the period in respect of operating lease payments made. In 2013, recognised expense totalled €81.8 million.

Amounts payable in 2015 (based on current rental data) are estimated at €80.1 million and payments for the next four years (2016 to 2019) are estimated at €261.9 million. Lease payments made after more than five years, from 2020 until maturity, will amount to €277.2 million.

As regards the leases that contain a purchase option, the option exercise price is the market value of the buildings on the lease expiration dates. That price will be determined in all cases by independent experts. The Group has not provided the buyers with any additional guarantees to reduce possible losses arising from early termination of the leases or changes in the residual values of the leased buildings.

The Group bears any costs payable as the lessee relating to operating and upkeep expenses and taxes.

Rentals collected under these leases in 2014 totalled €572.7 thousand (€457 thousand in 2013). For 2015, the related receivable (using current rent data) amounts to €595 thousand; the amounts estimated for the coming four years (2016 to 2019) and from 2020 to lease maturity are €2,283 thousand and €4,610 thousand, respectively.

The general terms and conditions of the lease agreements linked to virtually all sales are usually the same in all leases arranged, including minimum periods during which the Bank must lease the premises of between 10 and 15 years, rental reviews in line with the consumer price index and payment obligations relating to taxes, insurance and other costs payable by the Bank as the lessee.

In 2014, 47 premises for own use were sold (20 premises for own use in 2013) for a total of €11.1 million. (€8 million in 2013) with a capital gain of €5.4 million being recognised (€5.5 million in 2013). Furthermore, as a result of the sale of other tangible assets, capital gain of €18.6 million (€23.6 million 2013) was recognised. These results are recorded in the Gains (losses) on disposal of assets not classified as non-current held for sale caption.

32. INTANGIBLE ASSETS

The balance of intangible assets recognised by the consolidated entites as described in Note 15.s are analysed below, distinguishing between goodwill and other intangible assets:

€ thousands	2014	2013
Goodwill	2,058,470	2,043,480
Other intangible assets	434,205	414,070
Total intangible assets	2,492,675	2,457,550
Goodwill		
In company balance sheets:	1,756,868	1,755,582
On consolidation:	301,602	287,898
Total goodwill	2,058,470	2,043,480
Other intangible assets		
Amortised cost	434,448	414,313
on company acquisitions	183,100	201,616
computer software	251,348	212,697
Value corrections for asset impairment (-)	(243)	(243)
Total other intangible assets	434,205	414,070

Goodwill recognised on the subsidiaries' balance sheets relates to the items already recorded by the subsidiaries when they joined the Group, and/or as a result of transactions completed. Set out below is a breakdown:

€ thousands		2014			2013		
	Business segment with which the CGU is associated	Gross	Impairment adjustments	Net	Gross	Impairment adjustments	Net
Banco Popular Español, S.A.	Commercial Banking	1,601,065	-	1,601,065	1,601,065	-	1,601,065
Banco Pastor, S.A.	Commercial Banking	145,056	-	145,056	145,056	-	145,056
TotalBank	Commercial Banking	10,747	-	10,747	9,461	-	9,461
Total		1,756,868	-	1,756,868	1,755,582	-	1,755,582

Goodwill on consolidation arises as the difference between: (i) the sum of the payment made, the amount of the investments not controlled in the target company and, in acquisitions completed in phases, the fair value of the interest in the target's equity held previously by the acquiring party; and (ii) the net amount of the identifiable assets acquired and liabilities assumed at the acquisition date.

Set out below is a breakdown of goodwill on consolidation by consolidated company:

€ thousands		2014			2013		
	Business segment with which the CGU is associated	Gross	Impairment adjustments	Net	Gross	Impairment adjustments	Net
Popular Factoring (Portugal), S.A.	Commercial Banking	2,615	-	2,615	2,615	-	2,615
Banco Popular Portugal, S.A.	Commercial Banking	184,447	-	184,447	214,447	30,000	184,447
TotalBank	Commercial Banking	114,540	-	114,540	100,836	-	100,836
Total		301,602	-	301,602	317,898	30,000	287,898

The Group has performed the necessary impairment tests on the goodwill, using the method described in Note 15.s, with the following results:

Goodwill on companies' balance sheets

Goodwill from the acquisition of Banco Pastor (Banco Popular Español)

In 2012, Banco Popular took control of Banco Pastor, which was subsequently absorbed by the parent company. The acquisition generated goodwill of €1,746 million.

As far as 2013 is concerned, Note 8 on Business combinations describes the segregation of the Galicia business and creation of the new Banco Pastor. Accordingly, at 31 December 2014, goodwill is allocated in the amount of €1,601 million to the Commercial Banking Spain CGU; this groups together the retail banking business in Spain, excluding the new Banco Pastor business (see analysis in the item below).

The Bank has tested the goodwill assigned to the Commercial Banking Spain CGU for impairment, comparing its recoverable amount with its carrying amount. We used cash flow projections estimated by Group management, not taking into account restructuring or improvements not carried out, although they are expected, and using, as far as possible, outside sources of information on the performance of its key parameters. In accordance with the provisions of current legislation, the projections were based on and are in line with the Banco Popular Group's latest Business Plan.

They are 10-year projections calculated in a conservative manner in view of the current phase of the cycle, as explained in Note 15 s.

In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 9.16% discount rate, comprising a risk-free rate (Spanish 10-year bond) of 1.6% plus a premium reflecting the risk inherent in the business evaluated of 7.56%, estimated to be the risk premium of an efficiently diversified variable income portfolio on Spanish bonds, to which Banco Popular's beta has been applied.

This evaluation has revealed that no impairment need be recognised at 31 December 2014 and 2013.

Additionally,sensitivity analysis was performed based on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), yield on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), efficiency ratio applied to the terminal value (+/- 50 points) and provisions for loans and receivables, applied to the terminal value (+/- 5 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by -7.2% and +8.3%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by +1.4% and -2.5% respectively.

The sensitivity analyses performed revealed a sufficient difference between the CGU's value and its carrying amount.

The valuation of this goodwill, required as it amounts to more than 5% of the Group's equity, has been reviewed by an independent expert who concluded favourably on the process, and on the reasonability of the impairment test performed by the Bank, having carried out its work on the basis of IFRS and Circular 4/2004 and, specifically, it concluded favourable on the following aspects of the impairment test:

- Reasonability of the various components of the valuation parameters (discount rate, residual value, valuation premises, etc.).

- Appropriateness and reasonableness of the 10-year period used for the projections included in the calculation of the value in use of the CGUs. Application of the appropriate valuation method according to the purpose and nature of the business and intangible asset valued.

- Attainment of the value range by using generally accepted valuation methods, such as the dividend discount model and market multiples.

- Sensitivity analysis.

Furthermore, the independent expert concluded there was no impairment to the goodwill.

Goodwill of the new Banco Pastor

As far as 2013 is concerned, Note 8 on Business combinations describes the segregation of the Galicia business and creation of the new Banco Pastor. As a result of this operation, goodwill totalling €145,056 thousand was assigned to the Pastor CGU following the segregation of the branch office network in Galicia from the Commercial Banking Spain CGU at 31 December 2014. This CGU pools the retail banking business in Galicia.

The Bank tested the goodwill for any possible impairment by comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by Group Management were used. The projections have been calculated at ten years, as mentioned, as at the end of this year it will be possible to obtain a stable and normalised full year to be used as a reference to perpetuity, on a going concern basis. In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 9.16% discount rate, comprising a risk-free rate (Spanish 10-year bond) of 1.6% plus a premium reflecting the risk inherent in the business evaluated, of 7.56%, estimated to be the variable income risk premium on Spanish bonds, to which Banco Popular's beta has been applied, considered applicable to Banco Pastor.

This evaluation has revealed that no impairment need be recognised at 31 December 2014 or for 2013.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), yield on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), efficiency ratio applied to the terminal value (+/- 50 points) and provisions for loans and receivables, applied to the terminal value (+/- 5 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by -7.1% and 8.2%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by +4% and -4.7% respectively.

The sensitivity analyses performed revealed a sufficient difference between the CGU's value and its carrying amount.

As in the case of the Commercial Banking CGU of Banco Popular (retail banking in Spain excluding Galicia), the goodwill of the Banco Pastor CGU, which represents 84% of the Bank's total goodwill, has been reviewed by an independent expert who has deemed that there is no impairment. The following valuation methods were used: estimated present value of future capital flows, multiples of comparable transactions and cost methods.

Taking the current circumstances into account, we consider the cash flow projections made for the 10-year period to clearly and reliably reflect the economic environment.

Goodwill on consolidation

Goodwill of Banco Popular Portugal

At 31 December 2014, the goodwill is carried at a gross amount of €184.4 million, following recognised impairment of €30 million in 2013.

The Bank tested this goodwill for impairment, comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by Group Management were used. The projections were calculated conservatively at ten years, in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates made from year five on include flat or negative growth rates compared with previous years. In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 10.19% discount rate, comprising a risk-free rate (yield on the Spanish bond at 31 December plus a spread normalised with the Portuguese bond) plus a premium reflecting the risk inherent in the business evaluated, estimated to be the variable income risk premium on Spanish bonds, to which Banco Popular's beta has been applied.

As a result of the evaluation performed, no impairment was recognised as at 31 December 2014, compared to recognised impairment of €30 million in 2013.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), yield on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), efficiency ratio applied to the terminal value (+/- 1 point) provisions for loans and receivables, applied to the terminal value (+/- 5 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by -7.1% and 8.1%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by 2.4% and -2.1% respectively.

The sensitivity analyses performed revealed a sufficient difference between the CGU's value and its carrying amount for the macroenonomic environments most typical of low interest rates.

Goodwill of Totalbank

At 31 December 2014, this goodwill amounts to €125.2 million, of which €10.7 million was recognised in subsidiaries and €114.5 million on consolidation. At 31 December 2013, this goodwill amounted to €110.2 million, of which €9.4 million was recognised in subsidiaries and €100.8 million on consolidation.

The Bank tested this goodwill for impairment, comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by Group Management were used. The projections were calculated conservatively at ten years, in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates made from year five on include flat or negative growth rates compared with previous years.

In order to determine the present value of projected flows, a sustainable growth rate of 4% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts), and a 10.54% discount rate, comprising a risk-free rate (profitability of American 10-year bond) plus a premium reflecting the risk inherent in the business evaluated, estimated to be the variable income risk premium on Spanish bonds, to which Banco Popular's beta has been applied.

It was not considered necessary to recognise impairment as at 31 December 2014 or 2013 as a result of this evaluation.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), yield on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), efficiency ratio applied to the terminal value (+/- 1 point) provisions for loans and receivables, applied to the terminal value (+/- 5 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by -6.6% and 7.6%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by +4.7% and -4.1% respectively.

The sensitivity analyses performed revealed a sufficient difference between the CGU's value and its carrying amount.

Other intangible assets

Set out below is a breakdown of the gross amount, accumulated amortisation and deterioration and net balance of "Other intangible assets":

€ thousands	2014	2013
Intangible assets (gross)	826,594	736,243
Accumulated amortisation	(392,389)	(322,173)
Intangible assets (net)	434,205	414,070

Other intangible assets are classified as follows on the basis of their useful lives:

- The trademark is considered to have an indefinite useful life; it relates to the intangible asset recognised when Banco Pastor was acquired and has a balance sheet amount of €47,945 thousand at 31 December 2014.

- IT projects have a useful life of four years, barring significant projects which are individually analysed to estimate their useful life. The corresponding amount was €251,105 thousand as at 31 December 2014.

- Customer relationships capitalised as a result of business combinations are estimated on the basis of a useful life of ten years. The corresponding amount was €129,212 thousand as at 31 December 2014.

- The remaining Other intangible assets amounted to €5,943 thousand as at 31 December 2014.

At 31 December 2013, the breakdown was the following:

- The trademark balance sheet rose to €47,945 thousand as at 31 December 2013.

- At the end of that year, IT projects showed a balance of €210,842 thousand.

- Customer relationships at 31 December 2013 had a balance of €152,410 thousand.

- The remaining Other intangible assets amounted to €2,873 thousand as at 31 December 2014.

Other intangible assets recognised in the year were as follows:

€ thousands	**2014**	**2013**
Intangible assets	90,351	91,907
Deriving from capitalisation of internal costs	5,364	6,387
Deriving from external costs borne	84,987	85,520

The following table shows transactions in the past two years in goodwill and other intangible assets: The exchange differences "on consolidation" arise from the translation to euros of the goodwill (denominated in US dollars) attributable to Totalbank.

€ thousands	**Goodwill**		**Other intangible assets**
	On consolidation	**In subsidiaries**	
Balance at 01 January 2013	343,311	1,753,211	385,687
Change in consolidation scope	-	-	-
Exchange differences and other movements (net)	(25,413)	2,371	96,700
Amortisation/Impairment	30,000	-	68,317
Closing balance 2013	287,898	1,755,582	414,070
Change in consolidation scope (*)	-	-	1,472
Exchange differences and other movements (net)	13,704	1,286	101,977
Amortisation/Impairment	-	-	83,314
Closing balance 2014	301,602	1,756,868	434,205

(*) see Notes 2.d, 8 and 67

33. TAX ASSETS AND LIABILITIES

Set out below is a breakdown of these items in the consolidated balance sheets as at 31 December 2014 and 2013:

€ thousands	Assets		Liabilities	
	2014	2013	2014	2013
Current taxes	**181,610**	**379,392**	**97,047**	**179,099**
Corporate income tax	139,341	249,319	52,537	42,380
Value added tax and other taxes	42,269	130,073	44,510	136,719
Deferred taxes	**3,436,488**	**3,137,435**	**621,412**	**307,002**
1. Deferred taxes recognised in equity	486,310	268,682	417,115	106,387
2. Adjustments for temporary differences (charged/credited to Profit and Loss)	2,950,178	2,868,753	204,297	200,615
Of which: Monetisable	1,737,980	1,767,152	-	-
Repayments	13,425	13,368	22,360	45,183
Goodwill	7,613	3,177	73,864	74,927
Commissions, fees and financial expenses	3,518	4,623	-	-
Provisions for credit losses and real estate assets	1,799,584	1,832,205	50,948	15,521
Of which: Monetisable	1,599,480	1,676,480	-	-
Pension funds and similar obligations	113,405	101,378	-	-
Of which: Monetisable	138,500	90,672	-	-
Tax loss carry-forwards	873,960	802,909	-	-
Tax adjustment for impairment of investments and other funds	74,161	61,089	1,378	21,861
Accounting consolidation adjustments	33,763	34,739	2,616	1,106
Reinvestment deduction pending application	17,871	4,473	-	-
Revaluation of investment property (IFRS)	-	-	6,372	8,373
Tax regime for mergers	6,079	7,781	-	-
Tax bases recognised	-	-	18,882	15,431
Other deferred taxes	6,799	3,011	27,877	18,213

In accordance with prevailing income tax applicable to Banco Popular and its investee companies in 2014 and 2013, certain differences between accounting and tax principles gave rise to the recognition of deferred tax assets and liabilities for corporate income tax purposes.

Transactions in deferred tax assets and liabilities in 2014 and 2013 are set out below:

€ thousands	Assets		Liabilities	
	2014	2013	2014	2013
Opening balance	3,137,435	3,527,198	307,002	371,927
Adjustments for differences recognised in equity	217,628	(145,758)	310,728	77,340
Adjustments for differences recognised in profit and loss	81,425	(244,005)	3,682	(142,265)
Accounting depreciation and amortisation	57	848	(22,823)	(3,182)
Goodwill	4,436	(386)	(1,063)	(14,886)
Commissions, fees and financial expenses	(1,105)	(1,038)	-	-
Provisions for credit losses and real estate assets	(32,621)	(220,198)	35,427	13,318
Pension funds and similar obligations	12,027	(8,730)	-	-
Tax loss carry-forwards	71,051	46,511	-	-
Tax adjustment for impairment of investments and other funds	13,072	(46,385)	(20,483)	18,892
Consolidation and property revaluation adjustments	(976)	8,493	(491)	(29,964)
Reinvestment deduction pending application	13,398	(13,681)	-	-
Tax bases recognised	-	-	3,451	3,971
Tax regime for mergers	(1,702)	(6,312)	-	(130,630)
Other deferred taxes	3,788	(3,127)	9,664	216
Closing balance	3,436,488	3,137,435	621,412	307,002

The following table shows the foreseeable reversal periods for deferred taxes, including amounts arising from valuation adjustments:

€ thousands	Assets		Liabilities	
Reversal period	2014	2013	2014	2013
From 0 to 1 year	246,800	203,162	98,000	36,272
From 1 to 5 years	1,707,456	1,784,252	391,966	153,162
From 5 to 10 years	1,359,052	1,066,853	51,065	58,446
More than 10 years	123,180	83,168	80,381	59,122
Total	3,436,488	3,137,435	621,412	307,002

As at 31 December 2014, the BPE Group carried deferred tax assets in its balance sheet totalling €3,436 million, of which €486 million related to valuation adjustments, €874 million to tax loss carry-forwards and €2,076 million to temporary differences, of which €1,800 million relates to credit loss provisions and real estate assets, arising largely from the balance sheet clean-up completed in recent years.

In order to determine its capacity to absorb these assets, the Group made projections based on different results scenarios. Set out below is the result obtained by applying the full analyst estimates of January and February 2015 to the 2015-2017 period.

The calculation took into account the following suppositions:

a) No new deferred tax assets will be generated.
b) Offset of deferred tax assets against deferred tax liabilities.
c) Limitations in reversal of certain temporary differences and of tax loss carryforwards, to the percentages of 25%, 60% and 70% for the respective years of 2015, 2016 and 2017, as well as the absorption of tax credits by non-applied deductions, taking into account the limits stated in Corporate Income Tax Act (Law 27/2014).

€ millions	Full analyst estimates	Calculations to justify the capacity to absorb deferred taxes			
Full analyst estimates	Profit /(loss) before tax	Estimated income tax	Annual net absorption of deferred taxes	Net balance pending reversal	% pending reversal
2014 balance				**2,815**	
2015	515	155	(149)	2,666	95%
2016	1,113	334	(307)	2,359	84%
2017	1,183	355	(339)	2,020	72%

As can be seen, at the end of the third year the Group would already have reduced its Deferred Tax Assets net of Liabilities to 72%, and as explained previously, they would be fully absorbed in eight years, bearing in mind the new limits introduced under tax legislation in 2014 as regards the reversal of certain temporary differences and offsetting tax loss carry-forwards.

It should be noted that of the total €3,436 million in deferred tax assets, €1,738 million is monetisable (€1,599 million due to timing differences in credit loss provisions and real estate assets, and €139 million due to pensions) under RD 14/2013, of 29 November, meaning that they will be converted into a receivable from the Tax Administration in any of the following circumstances:

a) The taxpayer posts accounting losses in its financial statements audited and approved by the relevant body. In this case, the amount of the deferred tax assets converted will be determined by the result of applying to the total figure the percentage of accounting losses for the year in relation to the sum of capital and reserves.

b) A court declares the entity to be in liquidation or insolvent.

Having regard to current taxes, set out below is a breakdown of the main Group entities that have generated current and deferred taxes:

€ thousands	Type of tax	Assets		Liabilities	
		2014	2013	2014	2013
Banco Popular Español, S.A.	Current	142,139	302,138	71,418	115,189
	Deferred	2,316,123	2,151,291	484,020	198,613
Banco Popular Portugal	Current	24,203	25,389	5,283	3,426
	Deferred	125,901	134,593	6,600	6,655
Other Group entities	Current	15,268	51,865	20,346	60,484
	Deferred	994,464	851,551	130,792	101,734
Consolidated Group total	Current	181,610	379,392	97,047	179,099
	Deferred	3,436,488	3,137,435	621,412	307,002

Note 44 provides details of the Group's tax situation.

34. OTHER ASSETS

This heading consists of inventories and other assets not recognised under other balance sheet headings.

	Assets	
€ thousands	**2014**	**2013**
Inventories	881,084	715,256
Carrying amount	1,502,002	1,345,187
Value corrections for impairment	(620,918)	(629,931)
Other assets	813,255	816,378
Accruals	293,539	261,880
Transactions in transit	126,316	123,755
Other	393,400	430,743
Total	1,694,339	1,531,634

The balances included in "Other items" are broken down by type as follows. It will be seen that they are immaterial relative to Total assets:

€ thousands	**2014**	**% of total assets**	**2013**	**% of total assets**
Transitory balances	98,898	0.06%	151,444	0.10%
Operations by methods of payment	979	0.00%	4,425	0.00%
Miscellaneous accounts relating to forward currency transactions	54,499	0.03%	61,024	0.04%
Miscellaneous material in stock	4,045	0.00%	6,411	0.00%
Sundry debtors in Group companies	232,416	0.14%	205,300	0.14%
Other assets	2,563	0.00%	2,139	0.00%
Total	393,400	0.24%	430,743	0.29%

The balances of Sundry debtors in Group Companies refer to balances with trade debtors.

Movements over the course of the year in the "Other concepts" balance were as follows:

Balance at 31 December 2013	430,743
Additions	266,803
Disposals	304,146
Balance at 31 December 2014	393,400

Changes during the year were as follows:

Balance at 31 December 2012	341,839
Additions	451,936
Disposals	363,032
Balance at 31 December 2013	430,743

Movements in value corrections for impairment on inventories were as follows:

€ thousands	
Opening balance 2013	575,263
Additions	77,332
Disposals	22,664
Closing balance 2013	629,931
Additions	129,538
Disposals	138,551
Closing balance 2014	620,918

For the years ended 31 December 2014 and 2013, the net charge to the income statement totalled -€40,770 thousand and €34,885 thousand respectively (Note 63).

35. FINANCIAL LIABILITIES AT AMORTISED COST

This consolidated balance sheet caption includes repayable amounts received in cash, arranged as deposits, marketable debt securities or subordinated liabilities. It also includes guarantee deposits and other deposits received in cash by the Group. These liabilities are valued at amortised cost using the effective interest method.

A breakdown by residual term of the items in this heading is presented in Note 45 to these financial statements.

Set out below is a breakdown of this heading in the consolidated balance sheets as at 31 December 2014 and 2013:

	Assets	
€ thousands	**2014**	**2013**
Deposits with central banks	9,993,427	3,417,099
Loans and advances to credit institutions	17,713,731	18,276,123
Customer deposits	96,036,196	89,261,822
Debt certificates	15,962,018	16,282,375
Subordinated liabilities	1,424,645	2,324,019
Other financial liabilities	1,097,761	751,719
Total	142,227,778	130,313,157
of which:		
euros	137,947,653	126,651,429
foreign currency	4,280,125	3,661,728

Deposits

Set out below is a breakdown of deposits from credit institutions by type of financial instrument:

€ thousands	2014	2013
Reciprocal accounts	131,702	-
Term accounts	9,849,971	8,995,894
Asset repos	7,148,219	8,768,210
Other accounts	457,032	462,695
Clearing house	89,608	3,078
Valuation adjustments	37,199	46,246
Total	17,713,731	18,276,123

A breakdown by counterparty and by currency (euros or foreign currency) is as follows:

€ thousands	2014		2013	
	Euros	Foreign currency	Euros	Foreign currency
Banks operating in Spain	4,942,561	223,767	2,323,220	142,992
Savings banks	444	-	3,042,624	-
Credit cooperatives	1,113,979	-	906,779	-
Instituto de Crédito Oficial (ICO, Spain's state finance agency)	6,404,123	82,366	6,666,768	-
Non-resident credit institutions	3,948,112	658,679	4,259,951	471,579
Specialised credit institutions	212,893	-	412,886	-
Clearing house	89,608	-	3,078	-
Valuation adjustments	36,519	680	45,878	368
Total	16,748,239	965,492	17,661,184	614,939

Set out below is a breakdown of foreign currency balances showing the currencies in which the balances are repayable:

€ thousands	2014	2013
USD	839,428	515,780
GBP	50,636	34,711
CHF	4,418	5,442
JPY	37,055	489
Other	33,955	58,517
Total	965,492	614,939

The average annual interest rate in 2014 and 2013 on loans and advances to credit institutions was 1.05% and 1.33% respectively.

Set out below is a breakdown by sector of "Customer deposits" in the consolidated balance sheets at 31 December 2014 and 2013:

€ thousands	**2014**	**2013**
Public administrations	17,402,066	10,831,358
Resident sectors	17,095,696	10,468,541
Non-resident sectors	306,370	362,817
Private sector	78,273,183	78,246,506
Resident sectors	69,650,225	69,730,458
Non-resident sectors	8,622,958	8,516,048
Total customer deposits	95,675,249	89,077,864
Valuation adjustments	360,947	183,958
Total	96,036,196	89,261,822

Set out below is a breakdown of "Valuation adjustments" by sector:

€ thousands	**2014**	**2013**
Public administrations	10,016	9,672
Private sector - residents	311,535	142,284
Private sector - non-residents	39,396	32,002
Total	360,947	183,958

Set out below is a breakdown of "Customer deposits" by type of instrument:

€ thousands	**2014**	**2013**
Current accounts	18,756,446	15,820,262
Savings accounts	8,253,941	7,836,810
Term deposits	44,838,593	50,376,553
Asset repos	23,360,679	14,522,942
Other accounts	465,590	521,297
Valuation adjustments	360,947	183,958
Total	96,036,196	89,261,822

The following table shows an itemised breakdown of Valuation adjustments:

€ thousands	2014	2013
Accrued interest	299,613	323,599
Micro-hedging transactions (±)	95,832	(81,569)
Premiums and discounts (±)	(34,498)	(58,072)
Other valuation adjustments	-	-
Total	360,947	183,958

Deposits of customers resident in Spain, including General Government and the Private Sector, at each year end, indicating the Autonomous Region in which they were captured, and deposits in the Portuguese branch office network from Spanish residents, are as follows:

€ thousands	2014	2013
Branches in Spain		
Andalusia	6,691,356	6,622,902
Aragón	776,874	827,225
Asturias	1,176,848	1,199,677
Balearic Islands	830,951	824,128
Canary Islands	1,158,519	1,065,276
Cantabria	373,452	408,271
Castilla-La Mancha	1,347,303	1,407,570
Castilla y León	5,666,033	5,731,097
Catalonia	6,560,721	6,812,229
Extremadura	566,691	589,045
Galicia	9,525,632	2,763,256
Madrid	43,280,073	42,748,953
Murcia	1,074,623	1,072,044
Navarra	1,150,435	1,163,534
Basque Country	2,236,894	2,328,546
La Rioja	345,013	434,794
Valencia	3,842,364	3,921,055
Ceuta	47,885	44,330
Melilla	69,678	70,228
Branches in Portugal	24,576	65,496
Total	86,745,921	80,099,656

Set out below is a breakdown by country of the geographic zones in which the foreign branches and entities captured non-resident deposits:

€ thousands	2014	2013
Spain	3,690,716	3,744,078
Portugal	3,915,601	3,987,938
USA	1,323,011	1,146,849
Total	8,929,328	8,878,865

An overall breakdown of "Customer deposits" by euros and foreign currency is as follows:

€ thousands	2014		2013	
	Euros	Foreign currency	Euros	Foreign currency
General government	17,377,794	24,272	10,828,108	3,250
Current accounts	1,941,930	1,024	917,271	374
Savings accounts	7,723	-	7,740	-
Term deposits	1,905,142	23,248	2,323,678	2,876
Asset repos	13,522,999	-	7,579,419	-
Private sector	75,084,130	3,189,053	75,284,626	2,961,880
Resident sectors	68,831,550	818,675	68,916,309	814,149
Current accounts	14,550,395	182,609	12,953,024	252,212
Savings accounts	7,659,220	30,462	7,306,560	19,496
Term deposits	36,357,513	597,340	41,278,103	529,131
Asset repos	9,837,680	-	6,943,523	-
Other accounts	426,742	8,264	435,099	13,310
Non-resident sectors	6,252,580	2,370,378	6,368,317	2,147,731
Current accounts	1,350,563	729,925	1,116,413	595,988
Savings accounts	445,603	110,933	411,720	91,294
Term deposits	4,429,685	1,525,665	4,784,956	1,457,809
Asset repos	-	-	-	-
Other accounts	26,729	3,855	55,228	2,640
Valuation adjustments (±)	352,183	8,764	177,493	6,465
Total	92,814,107	3,222,089	86,290,227	2,971,595

The average annual interest rate on customer deposits was 1.11% in 2014 and 1.67% in 2013. Set out below is a breakdown of foreign currency balances by currency:

€ thousands	2014	2013
USD	3,039,165	2,816,457
GBP	77,574	78,219
CHF	16,563	19,585
JPY	1,904	2,697
Other	86,883	54,637
Total	3,222,089	2,971,595

Debt certificates

Debt certificates comprise bearer or demand debt securities such as cash or treasury bonds, covered bonds, mortgage securities, debentures, commercial paper, certificates of deposit and similar instruments.

Set out below is a breakdown by instrument of the marketable securities issued by Group companies and held by third parties outside the Group, which are carried at amortised cost:

€ thousands	2014	2013
Commercial paper and bills	791,949	995,924
Mortgage securities	10,529,398	10,414,055
Debentures and bonds	4,487,927	4,507,963
Valuation adjustments	152,744	364,433
Total	15,962,018	16,282,375

Commercial paper and bills

Banco Popular has a corporate promissory note issuance programme, the prospectus for which is registered with the Spanish National Securities Market Commission. The features of this issuance programme are as follows:

The nominal outstanding balance has a maximum limit of €5,000 millions. The nominal value of each note is €100,000. The notes are represented by book entries and mature at between three business days and 731 calendar days as of the date of issuance. They are issued at a discount and their effective value is determined at the issuance date on the basis of the agreed interest rate.

The programme is listed on the AIAF organised secondary market. Banco Popular also sells commercial paper in international markets through a Euro Commercial Paper (ECP) programme registered in Ireland.

This programme allows the issuance of notes in any currency (including the euro), up to a maximum limit of €5,000 millions until 5 June 2015. The current programme also provides for the issuance of certificates of deposit at a discount, subject to the same limit.

A breakdown by instrument of the balances of these issuance programmes is as follows:

€ thousands	2014		2013	
	Euros	Foreign currency	Euros	Foreign currency
Treasury notes	783,781	8,168	973,496	22,428
Certificates of deposit	-	-	-	-
Total	783,781	8,168	973,496	22,428

Mortgage securities

The item “Mortgage securities” includes the outstanding balance held by third parties from the successive issues of Mortgage covered bonds under the Fixed Income and Structured Securities issuance programme, the prospectus for which is registered with the Spanish National Securities Market Commission.

The current programme allows the issuance of different types of securities up to a maximum nominal limit of €12,000 millions.

The outstanding balance held by third parties of Mortgage covered bonds issued under the current programme and under previous programmes is analysed below:

€ thousands	2014	2013
Mortgage covered bonds	10,529,398	10,414,055

Debentures and bonds

The amount recognised in “Debentures and bonds” mainly comprises Euronotes issued by the Group and bonds issued by the securitisation vehicles, after eliminating intragroup balances and other bonds issued basically by Banco Popular Español, S.A.

€ thousands	2014	2013
Notes issued by securitisation vehicles	1,328,475	2,491,112
Euronotes	2,133,278	1,460,211
Other	1,026,174	556,640
Total	4,487,927	4,507,963

The outstanding balance of notes issued by securitisation vehicles and held by non-Group parties is as follows:

€ thousands	2014	2013
IM Cédulas 1 Grupo Banco Popular, FTA	-	1,040,600
IM Cédulas Grupo Banco Popular 3, FTA	921,200	916,200
Total covered bond securitisations	921,200	1,956,800
IM Banco Popular FTPYME 1, FTA	18,754	44,020
IM Grupo Banco Popular Empresas 1, FTA	83,330	95,409
IM Grupo Banco Popular FTPYME I, FTA	179,942	205,321
IM Grupo Banco Popular FTPYME II, FTA	44,649	99,438
GC FTPYME PASTOR 4	62,466	66,395
EDT FTPYME PASTOR 3	18,134	23,729
Total loan securitisations	407,275	534,312
Total	1,328,475	2,491,112

As regards the securitisation vehicles for which no balance is reflected, the Group has acquired all the outstanding notes, which have therefore been eliminated from the consolidated balance sheet.

In 2014, no securitisation was carried out by Banco Popular Group . Banco Popular Group completed a securitisation in 2013 (IM GBP Empresas V), for which all the notes issued have been repurchased.

In 2014 and 2013 the Group's banks recorded in their balance sheets the amounts of €2,098,123 thousand and €3,101,894 thousand respectively, of the bonds issued by loan securitisation vehicles (Note 69), which were eliminated on consolidation.

The following table contains a breakdown of Euronote issues by different Group entities, recognised in the item "Debentures and bonds":

€ thousands	**2014**	**2013**
BPE Financiaciones, S.A.	2,133,278	1,460,211
Total	2,133,278	1,460,211

In order to diversify medium- and long-term financing sources, Banco Popular sells euro and foreign currency bonds under a Euronote issuance programme registered in Ireland: Euro Medium Term Note Programme.

This programme allows the issuance of notes in any currency (including the euro), up to a maximum limit of €5,000 millions in 2014.

All issues in currencies other than the euro are hedged by swaps against euros and are referenced to Euribor, meaning that the actual cost of the issues for the Group is in euros.

The following table shows the residual maturities of Euronotes in 2014 and 2013. In the case of issues with early redemption options, the earliest option maturity date has been applied.

€ thousands	**2014**	**2013**
Up to 1 year	892,160	-
From 1 to 2 years	724,799	1,430,211
From 2 to 5 years	516,319	30,000
More than 5 years	-	-
Total	2,133,278	1,460,211

Movements in the item "Euronotes" in 2014 and 2013 are set out below:

€ thousands	**2014**	**2013**
Beginning balance	1,460,211	1,346,503
Issues	600,000	1,700,000
Depreciation and Amortisation	40,000	1,500,406
Other movements	113,067	(85,886)
Closing balance	2,133,278	1,460,211

The following table contains a breakdown of issues by Group entities of "Other debentures and bonds" held by third parties:

€ thousands	2014	2013
Banco Popular Español, S.A.	971,675	295,000
Banco Popular Portugal, S.A.	54,499	261,460
Total	1,026,174	556,460

In 2014, Banco Popular Español, S. A. completed three issues in the amount of €135,000 thousand, in addition to the issue of 67 Official Credit Institute bond initiatives in the amount of €541,674,615. Banco Popular Portugal carried out new issues totalling €8,622 thousand.

The following table provides a breakdown of outstanding issues for 2014 and 2013:

€ thousands	Amount		Issue	Maturity	Cost rate
	2014	2013			
Banco Popular Español, S.A.					
Regional covered bonds	200,000	200,000	25/05/2012	25/05/2020	Euribor 6m+0.895%
Regional covered bonds	95,000	95,000	14/03/2013	14/03/2023	Euribor 6m+2.95%
Regional covered bonds	135,000	-	21/07/2014	21/07/2022	Euribor 6m+2.9%
	430,000	295,000			
Banco Popular Portugal, S.A.					
Senior debt	-	50,000	29/12/2011	29/12/2014	6.50%
Senior debt	10,000	10,000	24/04/2012	24/04/2015	6.50%
Senior debt	-	4,148	17/09/2012	17/09/2014	4.25%
Senior debt	-	27,630	02/10/2012	02/01/2014	5.75%
Senior debt	20,000	20,000	26/10/2012	26/10/2016	6.50%
Senior debt	-	37,031	13/11/2012	13/05/2014	4.00%
Senior debt	-	9,319	26/11/2012	26/02/2014	5.00%
Senior debt	-	29,548	11/12/2012	11/06/2014	4.00%
Senior debt	-	11,715	21/12/2012	21/03/2014	5.00%
Senior debt	-	11,037	21/12/2012	21/06/2014	4.00%
Senior debt	-	15,000	20/12/2012	20/01/2014	4.50%
Senior debt	-	1,214	21/12/2012	21/01/2014	4.50%
Senior debt	-	4,585	12/02/2013	12/02/2014	3.75%
Senior debt	-	4,060	12/02/2013	12/02/2014	4.00%
Senior debt	-	12,492	18/02/2013	18/05/2014	5.00%
Senior debt	6,676	6,728	26/02/2013	26/02/2016	3.65%
Senior debt	6,530	6,628	26/03/2013	26/03/2016	6.50%
Senior debt	-	5,093	12/04/2013	12/07/2014	5.00%
Senior debt	4,984	5,142	30/04/2013	30/04/2016	3.65%
Senior debt	5,692	5,695	28/05/2013	28/05/2016	3.65%
Senior debt	5,738	5,785	25/06/2013	25/06/2016	3.65%
Senior debt	4,576	4,586	30/07/2013	30/07/2016	3.00%
Senior debt	1,834	1,834	27/08/2013	27/08/2016	3.00%

€ thousands	Amount		Issue	Maturity	Cost rate
	2014	2013			
Senior debt	-	40,000	13/09/2013	13/09/2015	3.65%
Senior debt	-	2,275	19/09/2013	19/09/2015	3.68%
Senior debt	-	1,366	19/09/2013	19/09/2014	3.68%
Senior debt	4,475	4,475	30/09/2013	30/09/2017	4.00%
Senior debt	2,664	2,664	21/10/2013	21/10/2015	3.60%
Senior debt	928	928	28/10/2013	28/10/2016	3.60%
Senior debt	4,650	4,650	30/10/2013	30/10/2017	4.00%
Senior debt	2,660	2,660	29/11/2013	29/11/2017	4.00%
Senior debt	1,300	1,300	30/12/2013	30/06/2017	3.50%
Senior debt	6,518	-	10/01/2014	10/01/2017	3.00%
Senior debt	649	-	23/01/2014	23/01/2017	3.00%
Senior debt	1,455	-	26/02/2014	26/02/2016	3.00%
	91,329	349,588			
	521,329	644,588			

The interest on debt certificates recognised in the profit and loss account totalled €494,076 thousand in 2014 and €545,020 thousand in 2013.

Subordinated liabilities

For credit seniority purposes, issues classed as subordinated debt are after all common creditors and are jointly and severally, and irrevocably, guaranteed by Banco Popular Español, S.A., including the principal and interest of the issues of BPE Financiaciones, S.A, Popular Capital, S.A., BPE Preference International, LTD and Pastor Participaciones Preferentes, S.A.U.

They may all be redeemed as of the start of year six at the issuer's discretion, subject to authorisation by Banco de España, or the Bank of Portugal in the case of issues by Banco Popular Portugal, S.A., except for the issue of Banco Pastor and the first issue of Pastor Participaciones Preferentes, which may be redeemed as of the start of year eleven.

Set out below is a breakdown of this balance sheet item:

€ thousands	2014	2013
Subordinated debt certificates	1,390,509	2,291,268
Subordinated marketable securities - Convertible	516,667	1,324,196
Subordinated marketable securities - Non-convertible	873,842	967,072
Subordinated deposits	-	-
Preferred investments and shares	-	-
Total subordinated liabilities issued	1,390,509	2,291,268
Valuation adjustments	34,136	32,751
Total	1,424,645	2,324,019

Set out below is a breakdown of outstanding balances by issuer, including Popular Capital, S.A., the issuer of preferred shares in Spain.

€ thousands	2014	2013
Banco Popular Español, S.A.	1,117,752	1,921,459
BPE Financiaciones, S.A.	148,166	238,103
BPE Preference International, Ltd.	7,810	8,268
Popular Capital, S.A.	104,491	111,134
Pastor Participaciones Preferentes, S.A.	12,290	12,304
Total	1,390,509	2,291,268

In 2014, no new subordinated bonds were issued by the Group.

In 2013, the Group completed the issue "Participaciones Preferentes de Banco Popular Español, S.A. I/20013", amounting to €500,000 thousand in the form of necessarily convertible perpetual bonds (Tier 1). This issue meets the requirements of Directive 2013/36/EU to be treated from the outset as Tier-1 capital instruments.

The convertible bond issues meet the conditions of Recommendation EBA/REC/2012/1, "EBA recommendation on the creation and supervisory oversight of temporary capital buffers to restore market confidence" of 8 December 2012. These convertible bonds may be considered from the outset as core capital for the purposes of the EBA ratio required for June 2013.

The following table provides details of the outstanding issues of Subordinated Mandatorily Convertible Notes as at 31 December 2014:

€ thousands	Currency	Issue date	Issue amount	Amount outstanding 31.12.14	Cost rate
Banco Popular Español, S.A.					
MCN I 2012	EUR	04/04/2012	1,109,376	-	6.75%
MCN III 2012	EUR	29/06/2012	256,900	-	4.00%
MCN IV 2012	EUR	28/06/2012	50,000	16,667	9.50%
PARTICIPACIONES PREFERENTES DE BANCO POPULAR ESPAÑOL, S.A. I 2013	EUR	10/10/2013	500,000	500,000	11.50%
TOTAL(*)				516,667	

(*) Excluding treasury shares

€516,667 thousand of the outstanding balance of these convertible subordinated issues is held by third parties

The following conversions were completed in 2014: '

- Subordinated Mandatorily Convertible Notes I/2012:

In January 2014, notes totalling €696,398 thousand were converted into 158,892,388 new shares, thus cancelling the issue. In April 2013, notes totalling €20,652 thousand were converted into 26,819,945 new shares. In October 2013, notes totalling €187,413 thousand were converted into 46,853,200 new shares.

- Subordinated Mandatorily Convertible Notes III/2012:

In March 2014, notes totalling €85,633 thousand were converted into 15,916,745 new shares, thus cancelling the issue. In April 2013, notes totalling €85,634 thousand were converted into 131,743,543 new shares. In October 2013, notes totalling €85,634 thousand were converted into 20,437,344 new shares.

- Subordinated Mandatorily Convertible Notes IV/2012:

In January 2014, notes totalling €16,667 thousand were converted into 3,977,723 new shares.
In June 2014, notes totalling €16,667 thousand were converted into 3,162,555 new shares.

In 2013, the new Banco Pastor, S.A. issued preferred participating investments totalling €67,000 thousand and subordinated debt in the amount of €90,000 thousand, both of which were purchased by Banco Popular Español, S.A.
Set out below is an analysis of outstanding issues of non-convertible subordinated bonds by issuer at 31 December 2014 and 2013:

		Amount		Maturity	Cost rate (*)
		2014	2013		
Banco Popular Español, S.A.					
USD	26/07/2004	12,000	12,000	17/09/1934	Libor 3m+262bps
USD	28/07/2005	12,000	12,000	15/09/1935	Libor 3m+155bps
USD	29/03/2006	12,000	12,000	15/06/1936	Libor 3m+145bps
USD	24/08/2006	12,000	12,000	15/09/1936	Libor 3m+165bps
EUR	22/12/2009	105,050	105,050	22/12/2019	MID-SWAP 5 years+3.10
EUR	29/07/2011	200,000	200,000	29/07/2021	8.00%
EUR	19/10/2011	250,000	250,000	19/10/2021	8.25%
EUR	11/06/2004	12,400	12,400	Indefinite	Euribor 3m+90 bps
Banco Pastor, S.A.					
EUR	30/12/2013	90,000	90,000	Indefinite	6%
EUR	30/12/2013	67,000	67,000	Indefinite	9%
BPE Financiaciones, S.A. (**)					
EUR	30/06/2004	0	78,843	30/06/2014	Euribor 3m+25bps
EUR	23/12/2005	69,600	69,600	23/12/2015	Euribor 3m+15bps
EUR	22/10/2010	108,450	108,450	22/10/2020	6.873%
BPE Preference International, Ltd.					
EUR	16/11/2000	3,654	3,654	Indefinite	3m+2.561%
EUR	21/12/2001	2,487	2,487	Indefinite	3m+2.535%
EUR	27/12/2002	2,197	2,197	Indefinite	3m+2.560%
Popular Capital, S.A.					
EUR	20/10/2003	64,697	64,847	Indefinite	Euribor 3m+0.095%
EUR	30/06/2004	24,876	26,680	Indefinite	Euribor 3m+0.093%
EUR	06/03/2007	16,400	17,550	Indefinite	Euribor 12m+0.7025%
EUR	30/03/2009	5,641	5,641	Indefinite	Euribor 3m+2.585%
Pastor Participaciones Preferentes, S.A.U:					
EUR	27/07/2005	7,492	7,492	Indefinite	4.56%
EUR	02/04/2009	4,818	4,818	Indefinite	Euribor 3m+460 bps

(*) Including hedge

(**) The spread on issues of BPE Financiaciones will increase by 50 bps from year six.

The outstanding balance of these non-convertible subordinated issues, including the USD 48,000 thousand, valued at the year-end exchange rate, totals €1,071,145 thousand, of which €873,842 thousand is held by third parties and €197,303 thousand by the Group.

During 2014, no purchases were made by Banco Popular Español. In 2013, Banco Popular Español, S.A. made no purchases, barring the repurchase of the two Banco Pastor, S.A. issues for €157,000 thousand (Note 54).

Interest recognised in the income statement on subordinate financing totalled €47,488 thousand in 2014 and €66,069 thousand in 2013, thanks to the combined effect of IRS hedges.

Other financial liabilities

This heading relates to payment obligations not included in other items:

€ thousands	2014	2013
Debentures payable	489,269	196,792
Dividends payable	10	24
Trade payables	73,375	140,216
Factoring payables	51,734	39,051
Other	364,150	17,501
Guarantee deposits received	39,684	26,755
Tax collection accounts	361,604	349,353
Special accounts	165,359	116,669
Financial guarantees	25,813	28,714
Other	16,032	33,436
Total	1,097,761	751,719

36. LIABILITIES UNDER INSURANCE CONTRACTS

This heading includes the technical provisions of the insurance companies included within the consolidation perimeter, comprising the life insurance companies: Eurovida, S.A. (Portugal) and Pastor Vida, S.A. and the non-life company Popular Seguros, S.A.

€ thousands	Total		Life		Non-life	
	2014	2013	2014	2013	2014	2013
Technical provisions for unearned premiums and unexpired risks	3,800	3,568	207	240	3,593	3,328
Technical mathematical provisions	341,213	231,817	341,213	231,817	-	-
Technical provisions for life insurance with investment risk borne by policyholders	1,628	2,129	1,628	2,129	-	-
Technical provisions for benefits	8,261	7,383	5,481	5,147	2,780	2,236
Technical provisions for profit-sharing and returns	12,770	13,832	12,770	13,832	-	-
Subtotal insurance companies	367,672	258,729	361,299	253,165	6,373	5,564
Commissions and fees pending accrual on technical guarantees	116,112	112,582	-	-	-	-
Total	483,784	371,311	-	-	-	-

Eurovida, S.A. (Portugal), Popular Seguros, S.A. and Pastor Vida, S.A. are wholly owned by the Group.

Also included are commissions and fees pending accrual in respect of bank guarantees and non-financial guarantees.

In 2013, the Group reclassified technical provisions for life insurance where the investment risk is assumed by policyholders, originating with investee company Eurovida, S.A.(Portugal), from liabilities under insurance contracts to liabilities at fair value through profit or loss, to ensure consistency with the associated assets.

37. PENSIONS AND SIMILAR COMMITMENTS

Provisions for pensions and similar defined benefit obligations

The following table shows where pensions and similar commitments are reflected in the financial statements:

€ thousands	2014	2013
On-balance sheet commitments for:		
Post-employment benefits	(4,539)	(4,278)
Other long-term benefits - early-retired personnel	(76,633)	(109,712)
Net on-balance sheet liabilities:	(81,173)	(113,991)
Assets linked to pensions (*)	47,083	39,952
Surrender rights	162,448	142,711
Net assets (provision)	(290,703)	(296,654)

(*) Financial assets in the subsidiary Pastor Vida, S.A.

Set out below is a breakdown of net on-balance sheet liabilities by country as regards employee benefits:

Breakdown by country	31-12-2014	31-12-2013
Spain	(81,282)	(114,075)
Portugal	109	84
Total	(81,173)	(113,991)

Charges to the consolidated profit and loss account in respect of defined benefit commitments with employees are as follows:

€ thousands	2014	2013
Charges to the consolidated profit and loss account:		
Personnel expenses		
Premiums for death and disability insurance (*)	7,319	(5,673)
Cost of current services	(16,051)	(16,334)
Net interest	(594)	(863)
Provisioning expenses	(11,084)	-
Actuarial losses/gains on long-term employee benefits	(2,621)	501
Total charges	(23,031)	(22,369)

(*) Premiums paid under annual insurance policies covering death and disability at work

Amounts recognised in equity:

€ thousands	2014	2013
Impacts on equity:		
Actuarial losses/gains on post-employment benefits	(28,222)	(19,390)
Asset limit	-	-
Total impact	(28,222)	(19,390)

The main actuarial-financial assumptions used are as follows:

€ thousands	2014		2013	
	Spain	Portugal	Spain	Portugal
Discount rate	0.30% - 1.80%	2.40%	0.86% - 3.10%	3.63%
Expected return on assets	0.30% - 1.80%	2.40%	0.86% - 3.10%	3.63%
Inflation	2.00%	-	2.00%	0.27%
Future salary increases	2.00%	0.75%	2.00%	1.50%
Increase in Social Security pensions	1.00%	-	1.00%	-
Retirement age	TV 60/-65	65	TV 60/-65	65
Disability tables (*)	85% 1977 Ministerial Order	ERC Frankona	85% 1977 Ministerial Order	ERC Frankona
Mortality tables	PERMF-2000P	TV 88/90	PERMF-2000P	TV 88/90
Life expectancy	-	-		
Persons retiring in 2014	-	-		
Men	22.44	17.07	22.31	16.94
Women	26.93	20.40	26.80	20.27
Persons retiring in 2034	-	-	-	-
Men	24.79	32.75	24.67	33.46
Women	29.14	37.83	29.04	38.62

(*) Applies only to supplementary retirement income

The assumptions for each country are applicable to all the commitments on a consistent basis, irrespective of the Entity of origin.

The interest rates used to determine the present value of post-employment commitments are applied based on the duration of each commitment; the reference curve is calculated using market yields, at the reporting date, on high-credit-quality bonds issued in the same currency and for the estimated post-employment benefit payment period.

The rate curve used to value all the commitments in Spain and Portugal was built using the rate-link methodology, by reference to high-quality corporate bonds (AA or higher) in the euro zone, selected using Bloomberg as the main data source. We selected 454 euro zone issues of a minimum of €500 million, with maturities of up to ten years, and a minimum of €10 million for maturities of more than ten years. In the rate-link model, the rate curve was built on the basis of qualifying yields in the 10 to 90 percentile for each group of maturities.

In 2014, the weighted average duration of the defined benefit commitments is 10.57 years for Banks in Spain and 23 years for the Bank in Portugal. The following discount rate was used for the various benefits: for Banks in Spain, post-employment retirement benefits: 1.80% for a duration of 10.57 years; benefits for early-retired personnel: 0.28% for a duration of 1.41 years; post-employment benefits of the Bank in Portugal: 2.40% for a duration of 23 years.

In 2013, the weighted average duration of the defined benefit commitments was 10.38 years for Banks in Spain and 24 years for the Bank in Portugal. The following discount rate was used for the various benefits: for Banks in Spain, post-employment retirement benefits: 3.01% for a duration of 11.02 years; benefits for early-retired personnel: 0.86% for a duration of 1.57 years; other post-employment commitments: 3.10% for a duration of 12.06 years. Post-employment benefits of the Bank in Portugal: 3.63% for a duration of 24 years.

The sensitivity of defined post-employment benefit commitments to changes in the main weighted assumptions corresponding to 2014 is shown below:

	Change	Increase in assumption		Decrease in assumption	
		Spain	Portugal	Spain	Portugal
Discount rate	0.50%	(6.03)%	(12.40)%	6.67%	13.40%
Salary growth rate	0.50%	0.47%	10.20%	(0.48)%	(9.60)%

The above sensitivity analysis is based on a change in one assumption while all other assumptions remain constant.

A) Post-employment defined benefit remuneration in Spain and Portugal

The amounts recognised in the balance sheet are as follows:

€ thousands	2014			2013		
	Spain	Portugal	Total	Spain	Portugal	Total
Present value of commitments financed	(1,978,065)	(154,196)	(2,132,261)	(1,728,672)	(128,411)	(1,857,083)
Fair value of plan assets	1,973,417	154,305	2,127,722	1,724,310	128,495	1,852,805
Net balance sheet liabilities:	(4,648)	109	(4,539)	(4,362)	84	(4,278)
Surrender rights	47,083	154,305	201,388	39,952	128,495	168,447
Net assets (provision)	(51,731)	(154,196)	(205,927)	(44,314)	(128,411)	(172,725)

Movements in post-employment defined benefit commitments were as follows:

€ thousands	2014			2013		
	Spain	Portugal	Total	Spain	Portugal	Total
As at 1 January	(1,728,672)	(128,411)	(1,857,083)	(1,798,281)	(108,961)	(1,907,241)
Transfers and other	(8,946)	-	(8,946)	(6,459)	-	(6,459)
Cost of current services	(12,230)	(3,558)	(15,788)	(13,406)	(2,928)	(16,334)
Interest expense	(50,486)	(4,721)	(55,207)	(52,664)	(4,975)	(57,639)
Additions to Provisions for the year	79	-	79	-	-	-
Gains and losses on plan settlements/ reductions	-	-	-	-	-	-
Recalculation of valuations:	-	-	-	-	-	-
- Gains/(Losses) due to changes in demographic assumptions	-	-	-	-	-	-
- Gains/(Losses) due to changes in financial assumptions	(309,493)	(19,255)	(328,748)	2,312	(13,196)	(10,884)
- Gains/(Losses) based on experience	31,947	-	31,947	49,713	-	49,713
Benefit payments	90,673	1,749	92,422	90,113	1,649	91,762
Acquired in a business combination	9,062	-	9,062	-	-	-
As at 31 December	(1,978,065)	(154,196)	(2,132,261)	(1,728,672)	(128,411)	(1,857,083)

Movements in post-employment defined benefit plan assets were as follows:

€ thousands	2014			2013		
	Spain	Portugal	Total	Spain	Portugal	Total
As at 1 January	1,724,310	128,495	1,852,804	1,792,152	121,796	1,913,948
Transfers and other	6,100	-	6,100	6,459	-	6,459
Interest income	50,624	4,724	55,348	52,677	5,553	58,230
Gains and losses on plan settlements/reductions	-	-	-	-	-	-
Recalculation of valuations:	-	-	-	-	-	-
- Yield on plan assets, excluding amounts included in interest (expense)/income	-	-	-	-	-	-
- Gains/(Losses) due to changes in financial assumptions	-	-	-	-	-	-
- Gains/(Losses) based on experience	267,743	836	268,578	(60,413)	2,194	(58,219)
- Change in asset limit, excluding amounts included in interest expense	-	-	-	-	-	-
Contributions:	-	-	-	-	-	-
- made by the Bank	26,012	22,000	48,012	16,365	600	16,965
- made by plan participants	-	-	-	-	-	-
Benefit payments	(95,272)	(1,749)	(97,021)	(82,930)	(1,648)	(84,578)
Acquired in a business combination	(6,100)	-	(6,100)	-	-	-
As at 31 December	1,973,417	154,305	2,127,722	1,724,310	128,495	1,852,805

Assets allocated to the plan comprise:

€ thousands	2014		2013	
	Spain	Portugal	Spain	Portugal
Equity instruments	0.00%	35.35%	0.00%	33.50%
Debt instruments	8.82%	46.73%	4.15%	60.49%
Investment properties	0.00%	3.94%	0.00%	5.03%
Qualifying insurance policies	0.00%	0.00%	0.00%	0.00%
Cash and cash equivalents	1.19%	13.98%	0.00%	0.98%
Other (insurance policies not linked to other products)	89.99%	0.00%	95.85%	0.00%
Total	100.00%	100.00%	100.00%	100.00%

Expected contributions to post-employment benefit plans in 2015, in addition to the weighted average duration of post-employment commitments are as follows:

€ thousands	Spain	Portugal
Expected contributions	26,551	3,497
Weighted average duration	10.57	23

€ thousands	2015	2016	2017	2018	2019	TV 2020/-2024
Probable post-employment benefits:						
Spain	94,070	96,738	99,010	101,072	103,994	518,242
Portugal	119	156	156	229	229	796
Total	94,189	96,894	99,166	101,301	104,223	519,038

B) Long-term remuneration for early-retired personnel in Spain

The amounts recognised in the balance sheet are as follows:

€ thousands	2014	2013
Present value of commitments financed	(105,645)	(123,929)
Fair value of plan assets	29,012	14,216
Net balance sheet liabilities:	(76,633)	(109,712)
Surrender rights	8,143	14,216
Net assets (provision)	(84,776)	(123,929)

Movements in long-term benefit commitments were as follows:

€ thousands	2014	2013
As at 1 January	**(123,929)**	**(193,352)**
Transfers and other	(16,204)	5,744
Cost of current services	(263)	-
Interest expense	(1,317)	(1,617)
Additions to Provisions for the year	(11,163)	-
Gains and losses on plan settlements/reductions	-	-
Recalculation of valuations:	-	-
- Gains/(Losses) due to changes in demographic assumptions	-	-
- Gains/(Losses) due to changes in financial assumptions	(4,456)	379
- Gains/(Losses) based on experience	(2,095)	(402)
Benefit payments	53,782	65,319
Acquired in a business combination	-	-
As at 31 December	(105,645)	(123,929)

Movements in long-term defined benefit plan assets were as follows:

€ thousands	2014	2013
As at 1 January	**14,216**	**22,530**
Transfers and other	16,227	-
Interest income	581	163
Gains and losses on plan settlements/reductions	-	-
Recalculation of valuations:	-	-
- Yield on plan assets, excluding amounts included in interest (expense)/income	-	-
- Gains/(Losses) due to changes in financial assumptions	-	35
- Gains/(Losses) based on experience	3,930	489
- Change in asset limit, excluding amounts included in interest expense	-	-
Contributions:	-	-
- made by the Bank	160	(120)
- made by plan participants	-	-
Benefit payments	(6,103)	(8,882)
Acquired in a business combination	-	-
As at 31 December	29,012	14,216

Estimated payments on long-term benefit plans for early-retired personnel in next ten years are as follows:

€ thousands	2015	2016	2017	2018	2019	TV 2020/-2024
Probable early-retired personnel benefits	40,153	23,446	11,372	5,251	1,402	3,598

38. PROVISIONS

Provisions are present obligations arising from past events for which, at the balance sheet date, it is more likely than not that the obligation will have to be settled.

Set out below is a breakdown of this heading in the consolidated balance sheets as at 31 December 2014 and 2013:

€ thousands	2014	2013
Provisions for pensions and similar liabilities	293,653	298,212
Provisions for taxes and other legal contingencies	31,780	55,375
Provisions for contingent risks and commitments	121,272	160,030
Provisions for contingent risks	121,272	160,030
Provisions for contingent commitments	-	-
Other provisions	23,293	19,347
Total	469,998	532,964

Provisions for pensions and similar obligations recognised in the consolidated balance sheet at year-end 2014 and 2013, in the amounts of €293,653 thousand and €298,212 thousand, respectively, relate basically to the successive early retirement plans approved by the Group's Banks in Spain, referred to elsewhere in these consolidated financial statements, and to the pension commitments of Banco Popular Portugal, S.A., amounting to €154,196 thousand and €128,411 thousand in 2013 and 2013, respectively. As the bank retains the risk arising from these commitments, they must be included in this balance sheet item.

In relation to Other provisions, on 17 July 2013 the European Commission's decision relating to the investigation into the Spanish tax lease regime for the acquisition of ships was announced. The Commission concluded that the regime is partially incompatible with European Union regulations on government aid, on the grounds that it allowed Economic Interest Groupings and their investors to obtain a selective advantage over their competitors. The Commission also concluded that the Spanish authorities must determine, based on the Commission's decision, the amounts of incompatible aid granted from April 2007 to date that must be recovered from the Groupings and their investors.

There is considerable uncertainty regarding various aspects of the decision. The Spanish Government had until 28 September 2013 to file any appeals deemed fit, an appeal having been filed at the European Court of Justice on 25 September 2013 against the Commission's decision.

Additionally, if the Spanish Government's appeal is not upheld, the uncertainty will shift to the amount of aid that may be deemed incompatible with European Union legislation, giving rise to refund requests; additionally, an appeal might be lodged by the investors. On 7 January 2014, under Article 263 of the Treaty on the Functioning of the European Union, Banco Popular Español, S.A. filed an appeal at the General Court of the European Union requesting the annulment of the decision and acceptance of the stance adopted by the Directorate General for Taxation in connection with the quantification of the aid to be reimbursed by each investor, as the Directorate General for Taxation provided the affected parties, at the end of December, with a calculation methodology that may be used to quantify the amount of aid to be reimbursed.

The amount of aid return is calculated based on this model drawn up by the General Directorate for Taxation (DOT), which has been perfected during 2014, and which was sent to the Economic Interest Groupings (EIGs). In this regard, the estimated amount of the impact for the Group based on the latest DGT model would be €6.7 million, of which €5.6 million would be principal and €1.1 million delay interest. However, the Group holds guarantees for certain amounts in respect of each structure, for a total of €2.5 million. These guarantees take the form of financial instruments (promissory notes, deposit, etc.) owned by the Shipbuilder and pledged by it to the EIG (i.e. to the participants in the EIG in proportion to their stakes). The real cost, once the guarantees are taken into account, would amount to approximately €4.2 million.

The appeal lodged by Banco Popular Español, S.A. on 7 January 2014 is currently pending resolution.

The Spanish Banking Association ("Asociación Española de Banca"), to which the Bank belongs, has also lodged an appeal in similar terms, which, like the appeal lodged by the Government, is also pending resolution.

As at 31 December 2014, the Bank had provisions to deal with different tax-related procedures or aspects. At the close of 2014 and 2013 these provisions stood at €6.7 million and €6.5 million respectively for the return of aid arising from tax lease structures, an amount which did not take into account the guarantees indicated in the preceding point.

Movements in the main Provisions items in 2014 and 2013 are set out below:

€ thousands	**Provision for pensions & similar obligations**	**Provision for taxes & other legal contingencies**	**Provisions for contingent risks and commitments**	**Other provisions**	**Total provisions**
Beginning balance 2013	336,263	70,854	85,336	15,594	508,047
Change in consolidation scope	-	-	-	-	-
Net additions to provisions charged to profit and loss:					
Gross additions to provisions	1,850	2,692	114,829	11,718	131,089
Provisions released	(762)	(6,387)	(26,583)	(11,413)	(45,145)
Provisions applied	(56,278)	(195)	-	-	(56,473)
Transfers and other movements	17,139	(11,589)	(13,552)	3,448	(4,554)
Closing balance 2013	298,212	55,375	160,030	19,347	532,964
Change in consolidation scope	-	-	-	-	-
Net additions to provisions charged to profit and loss:					
Gross additions to provisions	15,025	5,006	50,921	11,488	82,440
Provisions released	(1,813)	(5,482)	(102,267)	(17,968)	(127,530)
Provisions applied	(47,019)	(1,883)	-	(95)	(48,997)
Transfers and other movements	29,248	(21,236)	12,588	10,521	31,121
Closing balance 2014	293,653	31,780	121,272	23,293	469,998

Note 37 contains a breakdown of pension commitments and similar obligations.

For clarity, in view of the special characteristics of pension funds and similar obligations, movements are analysed hereunder:

Set out below are the movements in Provisions for contingent risks by type of provision.

€ thousands	**2014**	**2013**
Beginning balance	298,212	336,263
Additions to provisions charged to profit and loss:	49,890	40,987
Personnel expenses (Note 58)	30,573	29,898
Additions to provisions (net)	13,212	1,088
Interest and similar expenses	6,105	10,001
Transfer to equity	46,173	18,758
Payments to pensioners and early retirees	(47,019)	(56,278)
Change in consolidation scope	-	-
Provisions applied and other movements	(53,603)	(41,518)
Closing balance	293,653	298,212

Equity transferred to valuation adjustments corresponds to actuarial differences between the Group's different banks.

Set out below are the movements in Provisions for contingent risks by type of provision.

€ thousands	**Coverage**		
	Provision	**Country Risk**	**Total**
Beginning balance 2013	84,448	888	85,336
Change in consolidation scope	-	-	-
Additions to provisions	114,860	(31)	114,829
Recoveries	25,960	623	26,583
Other changes and transfers	(13,546)	(6)	(13,552)
Closing balance 2013	159,802	228	160,030
Change in consolidation scope	-	-	-
Additions to provisions	50,431	490	50,921
Recoveries	102,324	(57)	102,267
Other changes and transfers	13,000	(412)	12,588
Closing balance 2014	120,909	363	121,272

Risks covered by provisions for contingent risks are doubtful guarantees for which provisions have been allocated pursuant to applicable laws, calculated using similar criteria to those calculated for covering the impairment of financial assets valued at their amortised cost, and are recognised under "Provisions for contingent risks and commitments" in the balance sheet.

39. OTHER LIABILITIES

This heading includes liabilities not recognised in other balance sheet items.

€ thousands	2014	2013
Accruals	409,416	302,272
Transactions in transit	55,146	34,532
Other	214,213	163,820
Total	678,775	500,624

The balances included in "Other items" are broken down by type as follows. It will be seen that they are immaterial relative to Total assets:

Detailed explanation of "Other items":

		% assets		% assets
€ thousands	**2014**	**Total assets**	**2013**	**Total assets**
Transitory balances	145,237	0.10%	91,385	0.06%
Miscellaneous accounts relating to forward currency transactions	2,994	0.00%	4,349	0.00%
Credit balances	7,991	0.01%	63,179	0.04%
Sundry creditors in Group companies	57,991	0.04%	4,907	0.00%
Total	214,213	0.14%	163,820	0.11%

The item Other relates to credit balances payable to non-controlling interests of PBP Cartera Premium S.I.C.A.V., S.A. in the amount of €63,179 thousand in 2013. This company was derecognised from the scope of consolidation on account of its sale in July 2014.

Changes during the year were as follows:

Balance at 31 December 2013	163,820
Additions	450,643
Disposals	400,250
Balance at 31 December 2014	214,213

Changes during the previous year were:

Balance at 31 December 2012	294,680
Additions	195,768
Disposals	326,628
Balance at 31 December 2013	163,820

40. EQUITY

The Banco Popular Group's consolidated equity comprises capital and reserves, Valuation adjustments and Non-controlling interests, which are analysed and explained separately in Notes 41, 42 and 43 respectively.

The following table contains an analysis showing movements in equity during the last two years:

€ thousands	Share capital	Reserves	Profit/(loss) for the year	Treasury shares and equity instruments	Other equity instruments	Valuation adjustments	Equity attributable to BPE Group	Non-controlling interests	Equity
Balance as at 01 January 2013	840,855	11,794,508	(2,461,023)	(134,623)	680,894	(886,614)	9,833,997	44,157	9,878,154
Capital increase	56,962	393,038	-	-	-	-	450,000	-	450,000
Conversion of financial liabilities into capital	50,459	363,107	-	-	(34,363)	-	379,203	-	379,203
Valuation adjustments	-	-	-	-	-	548,629	548,629	4,502	553,131
Application of prior-year profit/(loss)	-	(2,461,023)	2,461,023	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Gains/(losses) on transactions with treasury shares and other	-	(63,565)	-	-	-	-	(63,565)	-	(63,565)
Actuarial differences	-	-	-	-	-	(13,131)	(13,131)	-	(13,131)
Equity instruments	-	-	-	134,584	-	-	134,584	-	134,584
Profit/loss for the year	-	-	251,543	-	-	-	251,543	2,850	254,393
Interim dividends	-	-	-	-	-	-	-	-	-
Change in Group's composition and other movements (net)	-	(97,905)	-	-	-	1,047	(96,858)	(132)	(96,990)
Balance as at 31 December 2013	948,276	9,928,160	251,543	(39)	646,531	(350,069)	11,424,402	51,377	11,475,779
Capital increase	11,043	(11,043)	-	-	-	-	-	-	-
Conversion of financial liabilities into capital	91,065	727,479	-	-	(3,333)	-	815,211	-	815,211
Valuation adjustments	-	-	-	-	-	250,891	250,891	-	250,891
Application of prior-year profit/(loss)	-	251,543	(251,543)	-	-	-	-	-	-
Dividends	-	(16,408)	-	-	-	-	(16,408)	-	(16,408)
Gains/(losses) on transactions with treasury shares and other	-	2,599	-	-	-	-	2,599	-	2,599
Actuarial differences	-	-	-	-	-	(33,899)	(33,899)	-	(33,899)
Equity instruments	-	-	-	(3,419)	-	-	(3,419)		(3,419)
Profit/loss for the year	-	-	330,415	-	-	-	330,415	(514)	329,901
Interim dividends	-	-	-	-	-	-	-	-	-
Change in Group's composition and other movements (net)	-	(119,473)	-	-	-	-	(119,473)	(31,315)	(150,788)
Balance as at 31 December 2014	1,050,384	10,762,857	330,415	(3,458)	643,198	(133,077)	12,650,319	19,548	12,669,867

41. SHAREHOLDERS' EQUITY

This includes shareholders' contributions, cumulative results recognised through the profit or loss account, permanent adjustments against consolidated equity due to revaluations arising from business combinations and treasury share issue or redemption costs, and actuarial losses or gains attributed to the parent company. Set out below is a breakdown of this heading in the consolidated balance sheets as at 31 December 2014 and 2013:

€ thousands	2014	2013
Share capital	1,050,384	948,276
Share premium	7,132,590	6,405,111
Reserves	3,630,267	3,523,049
Other equity instruments	643,198	646,531
Less: Treasury shares	(3,458)	(39)
Profit/(loss) for the year	330,415	251,543
Less: Dividends and remuneration	-	-
Total	12,783,396	11,774,471

Share capital

Capital includes all the share capital subscribed and paid up by the shareholders of Banco Popular Español, S.A.

As at 31 December 2014 and 2013, share capital consisted respectively of 2,100,769 thousand fully-subscribed and paid-up shares, each with a par value of €0.50, and 1.896.552 thousand fully-subscribed and paid-up shares, each with a par value of €0.50.

In 2014, Banco Popular Español, S.A. increased capital several times as a result of the exchange of mandatorily convertible debentures and by way of shareholder remuneration through the "Dividendo Banco Popular: Un dividendo a su medida" (Banco Popular Dividend: A made to measure dividend).

A breakdown is provided below:

€ thousands	
Exchange of mandatorily convertible debentures and mandatorily convertible subordinated notes	91,065
Issue of shares for Custom Dividend	11,043
Total	102,108

In 2013, Banco Popular Español, S.A. carried out a number of capital increases as a result of the exchange of mandatorily convertible debentures and the €450 million capital increase completed in the final quarter of 2013.

A breakdown is provided below:

€ thousands	
Exchange of mandatorily convertible debentures and mandatorily convertible subordinated notes	50,459
Capital increase €450 million	56,962
Total	107,421

Movements in capital in 2014 and 2013 are set out below:

€ thousands	**2014**	**2013**
Beginning balance	948,276	840,855
Issues	102,108	107,421
Depreciation and Amortisation	-	-
Closing balance	1,050,384	948,276

Appendix III contains details of the resolutions adopted as regards the capital increases adopted during the year, as appropriate.

All the shares of Banco Popular Español, S.A. are officially listed on the Spanish stock exchanges and are traded on the continuous market.

As at 31 December 2014 and 2013, no shareholder of the Bank owned a direct or indirect shareholding of 10% or more. The Management Report forming part of this document provides all the information required by Article 116 bis of Law 24/1988 of 28 July, the Securities Market Act.

As at 31 December 2014 and 2013, shareholdings of 10% or more in consolidated companies held by other non-Group entities, directly or through their subsidiaries, were as follows:

Subsidiaries	**Non-Group person or entity**	**2014**	**2013**
Popular Banca Privada, S.A.	Dexia	-	40.00
Popular Gestión Privada SGIIC, S.A.	Dexia	-	40.00
Grupo La Toja Hoteles	Marlolan S.L.	9.33	10.00
Pastor privada investment 1 (*)	Omura Servigroup, S.L.	15.00	15.00
	Holders of 5% shareholdings each	80.00	80.00
Pastor privada investment 3 (*)	Girbal, S.L.	30.00	30.00
	Holders of 5% shareholdings each	65.00	65.00
Hercepopular	Hercesa Inmobiliaria S.A.	49.00	-

(*) The Bank has appointed the majority of the members of these companies' administrative bodies under shareholder agreements.

Share premium

The share premium arises from capital increases and is calculated by multiplying the number of shares issued in the capital increase by the difference between the issue price and the par value per share. Under Spanish corporate law, the share premium may be used to increase capital, there being no restriction on its use.

Movements in the share premium balance in 2014 and 2013 are set out below:

€ thousands	**2014**	**2013**
Beginning balance	6,405,111	5,648,966
Issues	727,479	756,145
Depreciation and Amortisation	-	-
Closing balance	7,132,590	6,405,111

In 2014 there were a number of additions due to the capital increases and exchanges of mandatorily convertible debentures.

Set out below are the movements that took place in 2014:

€ thousands	
Exchange of mandatorily convertible debentures and mandatorily convertible subordinated notes	727,479
Total	727,479

In 2013 there were a number of additions due to the capital increases and exchanges of mandatorily convertible debentures, and due to the €450 million capital increase carried out in the last quarter of the year.

Set out below are the movements in 2013:

€ thousands	
Exchange of mandatorily convertible debentures and mandatorily convertible subordinated notes	363,107
Capital increase €450 million	393,038
Total	756,145

Reserves

This includes the net amount of retained earnings from previous years, used to strengthen consolidated equity when profits are appropriated, as well as permanent adjustments, equity instrument issue costs and actuarial gains or losses on pension plans.

Spanish corporate law stipulates that 10% of the profit for the year must be allocated to the legal reserve until the balance of the reserve is equal to 20% of share capital. The legal reserve may be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it may be used only to offset losses, provided sufficient other reserves are not available for this purpose.

Spanish corporate law also requires companies to set aside restricted reserves for transactions involving treasury shares or the shares of their parent company, in amounts equal to the relevant carrying amounts of treasury shares or assets (loans for the acquisition of, or secured by, the shares). These reserves are restricted until the circumstances giving rise to their recognition cease to exist.

Set out below is a breakdown of this heading as at 31 December 2014 and 2013:

€ thousands	**2014**	**2013**
Reserves of Banco Popular		
Restricted reserves:		
Legal Reserve	35,696	35,696
Reserves for own equity instruments:		
For transactions with own securities	-	-
For guarantees	144,040	150,137
For loans for their acquisition	7,752	11,262
Other restricted reserves	5,000	5,000
Unrestricted reserves	-	-
Statutory reserve	70,046	70,046
Voluntary and other reserves	5,638,154	5,000,814
Total	5,900,688	5,272,955
Consolidation reserve	(2,256,876)	(1,697,258)
Equity method reserve	(13,545)	(52,648)
Total	3,630,267	3,523,049

In 2014, the prior-year result of €281,426 thousand, which was readjusted by €60,078 thousand, was appropriated entirely to reserves.

Reserves also decreased as a result of the payment of shareholder remuneration under the formula “Banco Popular Dividend: A made to measure dividend” by €9,803 thousand corresponding to a payment made in February, €2,855 thousand in July and by €3,750 thousand in October, due to a scrip dividend payment. Furthermore, capital increases charged to reserves for the same reasons on the same dates amounted to a total of €11,043 thousand. As a consequence, reserves increased by €314,053 thousand.

By virtue of the adoption of IFRS 21, the allocation to the Deposit Guarantee Fund was readjusted in accordance with the annual accrual principle; this entailed a charge of €134,731 thousand to the Voluntary reserves of the parent company, applied from the end of 2012 year for purposes of comparison, with a reduction of €74,653 thousand in 2013 Reserves and a reduction of €60,078 thousand in 2013 Results.

In 2013, the prior-year result, (a loss of €2,719,525 thousand) was charged entirely to reserves.

Movements in this heading are set out below:

€ thousands		Movements in 2013			Movements in 2014		
	2012	Increases	Decreases	2013	Increases	Decreases	2014
Reserves of Banco Popular Español							
Restricted reserves:							
Legal reserve	35,696	-	-	35,696	-	-	35,696
Reserves for own equity instruments	-	-	-	-	-	-	-
For transactions with own securities	-	-	-	-	199	199	-
For guarantees	95,096	61,967	6,926	150,137	191,849	197,946	144,040
For loans for their acquisition	2,056	114,168	104,962	11,262	12,543	16,053	7,752
Other restricted reserves	5,000	-	-	5,000	-	-	5,000
Voluntary reserves:							
Statutory reserve	70,046	-	-	70,046	-	-	70,046
Voluntary and other reserves	6,839,068	1,412,042	3,250,296	5,000,814	5,124,562	4,487,222	5,638,154
Total	7,046,962	1,588,177	3,362,184	5,272,955	5,329,153	4,701,420	5,900,688
Reasons for changes:							
Appropriation of profit(loss) for the year	-	-	2,719,525	-	281,426	-	-
Transfers between reserves	-	288,023	288,023	-	204,591	204,591	-
Actuarial differences	-	17,680	17,752	-	-	-	-
Other movements	-	-	74,653	-	134,731	-	-
Consolidation adjustments	-	1,184,621	7,273	-	4,704,701	4,495,723	-
Transactions with own securities	-	97,853	254,958	-	3,704	1,106	-
Total		1,588,177	3,362,184		5,329,153	4,701,420	

The total balance in these reserves reflected in the consolidated balance sheets differs from the reserves carried in the individual balance sheets of Banco Popular (Note 1) due to certain adjustments and eliminations on consolidation.

The following table shows the effect of these adjustments, relating basically to intragroup dividends and transfers from reserves in consolidated companies to Banco Popular due to consolidation adjustments.

€ thousands	2014	2013
Amount in Banco Popular's balance sheet	3,034,593	2,861,297
Consolidation adjustments:	2,866,095	2,411,658
In respect of dividends	76,148	34,714
Others (net)	2,789,947	2,376,944
Amount in consolidated balance sheet	5,900,688	5,272,955

Set out below is a breakdown by entity of the balance of reserves/(losses) attributed to subsidiaries, joint ventures and associates as at 31 December 2014 and 2013:

€ thousands	2014	2013
Deposit-taking institutions:		
Bancopopular-e, S.A.	-	105,516
Banco Pastor, S.A.U.	(5,174)	(7)
Banco Popular Portugal, S.A.	(99,189)	(43,593)
Popular Banca Privada, S.A.	(62,360)	(43,559)
TotalBank	5,925	(1,936)
Financing institutions:		
Popular Factoring, S.A. (Portugal)	(6,691)	(7,029)
Popular de Factoring, S.A.	55,047	41,384
Portfolio companies:		
Gestora Popular, S.A.	6,613	6,807
Grupo La Toja Hoteles	309	464
Pastor privada eolica 2, S.L.	(1)	-
Pastor privada eolica 3, S.L.	(1)	-
Pastor privada investment 1, S.L.	(2)	-
Pastor privada investment 2, S.L.*	(249)	(89)
Pastor privada investment 3, S.L.*	(2)	(1)
Pastor servicios financieros E.F.C., S.A.	9,107	6,231
PBP Cartera Premium SICAV	-	4,515
Popular Bolsa S.V., S.A.	997	993
Popular Gestão de Activos, S.A.	436	482
Popular de Participaciones Financieras S.C.R de régimen simplificado, S.A.	6,179	8,499
Popular Gestión Privada SGIIC, S.A.	2,541	1,364
Sobrinos de José Pastor Inversiones, S.A.	2,674	(2,048)
Special-purpose entities:		
Aliseda, S.A.	(1,575,383)	(1,346,022)
BPE Financiaciones, S.A.	8,318	7,456
BPE Preference International Ltd.	(12)	(12)
BPE Representaçoes y Participaçoes, S.A.	(76)	(90)
BPP Asesores (PastorArgentina)	(354)	-
Centro de análisis y reclamaciones de incumplimientos, S.A.	(1)	(1)
Consulteam Consultores de Gestão, S.A.	(393,413)	(316,613)
EDT FTPYME Pastor 3	63	-
FIB Realty Corporation	-	-
Finespa, S.A.	7,898	10,280
Fondo Imopopular, FEIIF	(8,373)	(3,928)
Fundo Popular Predifundo	620	-
GC FTPYME Pastor 4	18	-
Gestora Europea de Inversiones, S.A.	(50,743)	(50,151)
Gold Leaf Title Company	423	242
Hercepopular	-	-

€ thousands	2014	2013
IM Banco Popular FPYME 1, FTA	8,117	12,372
IM Banco Popular MBS 2, FTA	5,684	3,188
IM Cédulas Grupo Banco Popular 1, FTA	-	(220)
IM Cédulas Grupo Banco Popular 3, FTA	(443)	(577)
IM Cédulas Grupo Banco Popular 5, FTA	-	-
IM Grupo Banco Popular Empresas 1, FTA	6,971	6,981
IM Grupo Banco Popular Empresas 5, FTA	23,452	-
IM Grupo Banco Popular FPYME I, FTA	7,114	5,342
IM Grupo Banco Popular FPYME II, FTA	12,622	13,329
Inmobiliaria Viagracia, S.A.	107,830	107,509
Intermediacion y Servicios Tecnológicos, S.A.	286	39
Inversiones Inmobiliarias Alprosa, S.L.	2,437	1,520
Inversiones Inmobiliarias Canvives, S.L.	(367,052)	(266,311)
Inversiones Inmobiliarias Cedaceros, S.L.	(60,239)	(42,184)
Inversiones Inmobiliarias Gercebio, S.L.	(9,673)	(7,685)
Inversiones Inmobiliarias Jeraguilas, S.L.	(37)	(21)
Inversiones Inmobiliarias Tamadaba, S.A.	(2,915)	(1,525)
Isla de los Buques, S.A.	1,239	1,541
Manberor, S.L.	(9)	(8)
Meglahe, S.L	(11)	(8)
Naviera Cañada, S.L.	(3)	(3)
Naviera Islas Cies, S.L.	(71)	(71)
Pastor Participaciones Preferentes, S.A.	213	-
Popular Arrendamiento Fundo FIIAH para Arrend. Habitacional	(9,678)	(3,444)
PopularCard	-	(1)
Popular Capital, S.A.	33,345	33,311
Popular de Mediacion, S.A.	(70)	(55)
Popular Español Asia Trade, LTD	-	-
Read Leaf Holding	(4,999)	(1,292)
Residencial Valdemar, S.L.	(1,233)	(2,262)
Total Sunset Inc.	-	-
Urbanizadora Española, S.A.	11,923	11,758
Velázquez, 34, S.L.	(7,582)	(3,800)
Non-financial companies:		
Cercebelo Assets, S.L.	(398)	(46)
Eurovida, S.A. (Portugal)	77,177	49,094
Finisterre, S.A.	-	-
Inti Entertainment	-	-
General de terrenos y edificios servicios integrales, S.L.	619	1,236
General de terrenos y edificios, S.L.	(12,567)	(491)
Gestora Inmobiliaria La Toja, S.A.	(56)	(31)
La Toja, S.A.	-	-
Pastor Vida, S.A.	27,832	2,790
Panorama Ibicenca, S.A.	-	-
Popular de Comunicaciones, S.A.	-	-

€ thousands	2014	2013
Popular de Informática, S.A.	-	-
Popular de Renting, S.A.	10,754	8,656
Popular Seguros, S.A.	1,637	1,395
Promoción Social de Viviendas, S.A.	201	200
Vilamar Gestión, S.L.	(24,437)	(6,638)
Total consolidation reserves	**(2,256,876)**	**(1,697,258)**
Joint ventures		
Aliseda_SGI	(219)	-
Bancopopular-e, S.A.	68,235	-
IM Tarjetas 1, F.T.A.	-	-
Inverlur Águilas I, S.L.	(11,185)	(11,183)
Inverlur Águilas II, S.L.	(34,600)	(34,598)
Platja Amplaries, S.L.	-	(8,330)
Popular-e Cobros A.I.E.	-	-
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	-	-
Saite, S.A.	934	390
Saite-Cobal, S.A.	(4,603)	(3,861)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	4,362	4,815
Targo Bank, S.A.	20,341	20,521
Targoinmuebles, S.A.	(15)	-
GAT FTGENCAT	-	-
Subtotal joint ventures	**43,250**	**(32,246)**
Associates		
Aevis Europa, S.L.	169	-
Allianz Popular, S.L.	38,708	56,055
Amarres Deportivos, S.L.	(128)	(128)
Aviación Intercontinental, A.I.E	4,644	3,569
Euro Automatic Cash Entidad de Pago, S.L.	1	-
Fotovoltaica Monteflecha, S.L.	177	146
Gestora Patrimonial c/Francisco Sancha, 12	3,589	-
Grupo Financiero Ve por Mas SA de CV	-	-
Inversiones Area Sur, S.L.	-	2,139
Inversiones en Resorts Mediterráneos, S.L.	(53,190)	(53,190)
Master Red Europa, S.L.	170	-
Mercavalor S.V., S.A.	-	-
Metrovacesa, S.A.	(45,834)	(29,339)
Nuevo Agora centro de estudios, S.L.	-	574
Perez Torres Handling, S.A.	-	-
Puertos Futuros, S.L.	(4)	(3)
Ronautica marinas internacional, S.A.	-	(37)
Sistema 4B, S.A.	(444)	3,185
Trindade Fundo de Investimento Inmobiliario Fechado	(4,886)	(3,373)
Universal Pay	233	-
Subtotal associates	**(56,795)**	**(20,402)**
Total equity method reserves	**(13,545)**	**(52,648)**

Other equity instruments

This item relates to the equity component of hybrid financial instruments having the nature of equity, equity increases for remuneration of personnel and other equity-type items not classified in different items in equity.

During the last quarter of 2009, the Group issued mandatorily convertible subordinated debentures amounting to €700 million. The purpose of this issue was to reinforce and optimise the Group's own funds, and it led to a significant increase in the percentage of the Group's Tier 1 capital. These debentures can be converted into shares, by virtue of the voluntary or mandatory conversion requests by owners of the securities, on 23 October 2010, 2011 and 2012, on a voluntary basis, or 23 October 2013 on a mandatory basis.

In 2014, €3,333 thousand were converted of Issue II-2012.

In 2013, Issue I-2009 of convertible subordinated debentures was redeemed through conversion into shares in the amount of €31,125 thousand, and €3,238 thousand were converted from Issue II-2012.

In October 2012, the Bank offered the holders of this issue (Issue I-2009) the possibility of exchanging their debentures for another issue of subordinated notes subject to similar terms and a new maturity date in November 2015 (Issue II-2012); acceptances and rejections totalled €656,511 thousand and €31,760 thousand respectively.

The nominal interest rate on the debentures was 7% to the first anniversary of the issue and the three-month Euribor plus 4% from that date to the maturity date of the issue or conversion into shares if sooner. The fixed annual nominal remuneration rate of new Issue II/2012 is 7%, subject to the conditions relating to the non-receipt of remuneration described in the issue prospectus.

For conversion purposes, the reference price of the shares in Banco Popular Español, S.A. was set at €7.1377 per share and the conversion ratio of the debentures (number of Bank shares per debenture) was 140.101153 shares per debenture. Consequently, the number of shares to be acquired by the debenture holders on conversion will be calculated by multiplying shares per debenture by the number of debentures held. If this calculation gives rise to fractions of shares, such fractions will be rounded down and Banco Popular Español, S.A. will pay the fractions in cash to the debenture holder on the same date as that on which the shares are registered in the holder’s name. For the purposes of this cash payment, fractions will be valued at the conversion price. Following the successive capital increases carried out in 2012, the conversion price of these issues was set at €3.64 per share for Issue II/2012 and €3.57 per share for Issue I/2009. Following the counter-split revised in 2013, the conversion price of these issues is €18.20 per share for issue II/2012.

The following table shows a breakdown of movement under this heading for 2014 and 2013:

€ thousands	**2014**	**2013**
Beginning balance	646,531	680,894
Issues	-	-
Cancellations on conversion	(3,333)	(34,363)
Other movements	-	-
Closing balance	643,198	646,531

Treasury shares

This item reflects all the own equity instruments held by all the Group entities. The number of shares held by the Group totals 805,026 and 9,000 as at 31 December 2014 and 2013 respectively.

Movement in own equity instruments bought and sold in 2014 and 2013 are set out below:

€ thousands	
Balance at 01 January 2013	134,623
Increases	450,736
Decreases	585,320
Balance at 31 December 2013	39
Increases	1,432,397
Decreases	1,428,978
Balance at 31 December 2014	3,458

Profit/(loss) for the year

The following table contains the accounting results attributable by each entity to the Group. The eliminations and adjustments shown at the end on a separate line give rise to the attributable amount, which connects the profit and loss account to equity.

€ thousands	**2014**	**2013**
Deposit-taking institutions:		
Banco Popular Español, S.A.	476,691	281,426
Bancopopular-e, S.A.	-	18,106
Banco Pastor, S.A.U.	21,873	(3,795)
Banco Popular Portugal, S.A.	2,282	(31,720)
Popular Banca Privada, S.A.	19,639	3,906
TotalBank	8,584	9,618
Financing institutions:		
Popular Factoring, S.A. (Portugal)	2,933	3,595
Popular de Factoring, S.A.	10,154	13,663
Holding and services companies:		
Gestora Popular, S.A.	(201)	(495)
Grupo La Toja Hoteles	4,143	793
Pastor privada eolica 2, S.L.	-	(1)
Pastor privada eolica 3, S.L.	-	(1)
Pastor privada investment 1, S.L.	-	-
Pastor privada investment 2, S.L.*	(177)	(160)
Pastor privada investment 3, S.L.*	-	-
Pastor servicios financieros E.F.C., S.A.	2,887	2,614
PBP Cartera Premium SICAV	-	3,577
Popular Bolsa S.V., S.A.	1,674	819
Popular Gestão de Activos, S.A.	290	(30)
Popular de Participaciones Financieras S.C.R de régimen simplificado, S.A.	(3,034)	65
Popular Gestión Privada SGIIC, S.A.	85	260

€ thousands	2014	2013
Sobrinos de José Pastor Inversiones, S.A.	(5,045)	(15,131)
Special-purpose entities:		
Aliseda, S.A.	(146,701)	(232,828)
BPE Financiaciones, S.A.	650	863
BPE Preference International Ltd.	-	-
BPE Representaçoes y Participaçoes, S.A.	45	14
BPP Asesores	(399)	(405)
Centro de Análisis y reclam de incumpl., S.A.	-	-
Consulteam Consultores de Gestão, S.A.	(59,801)	(213,142)
EDT FTPYME Pastor 3	(1,149)	(63)
Fib Realty Corporation	-	-
Finespa, S.A.	401	(2,357)
Fondo Imopopular, FEIIF	(1,490)	(3,316)
Fundo Popular Predifundo	(597)	-
GC FTPYME Pastor 4	10	42
Gestora Europea de Inversiones, S.A.	(167)	(2,823)
Gold Leaf Title Company	216	181
Hercepopular	-	-
IM Banco Popular FPYME 1, FTA	(2,847)	(4,255)
IM Banco Popular MBS 2, FTA	126	2,496
IM Cédulas Grupo Banco Popular 1, FTA	-	100
IM Cédulas Grupo Banco Popular 3, FTA	-	-
IM Cédulas Grupo Banco Popular 5, FTA	-	-
IM Grupo Banco Popular Empresas 1, FTA	(1,554)	(10)
IM Grupo Banco Popular Empresas 5, FTA	15,096	23,452
IM Grupo Banco Popular FPYME I, FTA	305	1,772
IM Grupo Banco Popular FPYME II, FTA	(740)	(707)
Inmobiliaria Viagracia, S.A.	1,273	2,894
Intermediacion y Servicios Tecnológicos, S.A.	(404)	247
Inversiones Inmobiliarias Alprosa, S.L.	446	918
Inversiones Inmobiliarias Canvives, S.L.	(51,966)	(98,475)
Inversiones Inmobiliarias Cedaceros, S.L.	(614)	(19,809)
Inversiones Inmobiliarias Gercebio, S.L.	(1,891)	(1,988)
Inversiones Inmobiliarias Jeraguilas, S.L.	(1)	(19,337)
Inversiones Inmobiliarias Tamadaba, S.A.	1,273	(1,390)
Isla de los Buques, S.A.	11	(302)
Manberor, S.L.	(2)	(37,503)
Meglahe, S.L	(1)	(2)
Naviera Cañada, S.L.	(2)	-
Naviera Islas Cies, S.L.	(18)	-
Pastor Participaciones Preferentes, S.A.	212	212
Popular Arrendamiento Fundo FIIAH para Arrend. Habitacional	(1,886)	(419)
PopularCard (SGC25)	-	-
Popular Capital, S.A.	306	352

€ thousands	2014	2013
Popular de Mediacion, S.A.	205	(15)
Popular Español Asia Trade, LTD	-	-
Read Leaf Holding	1,446	(2,165)
Residencial Valdemar, S.L.	2,230	1,027
Total Sunset Inc.	-	-
Urbanizadora Española, S.A.	70	166
Velázquez, 34, S.L.	(4,181)	(3,782)
Non-financial companies:		
Cercebelo Assets, S.L.	(10)	(352)
Eurovida, S.A. (Portugal)	13,318	28,668
General de terrenos y edificios servicios integrales, S.L.	368	(617)
General de terrenos y edificios, S.L.	(1,542)	(2,817)
Gestora Inmobiliaria La Toja, S.A.	(33)	(26)
Finisterre, S.A.	-	-
Inti Entertainment	-	-
La Toja, S.A.	-	-
Pastor Vida, S.A.	1,055	42,297
Popular de Renting, S.A.	1,533	2,099
Popular Seguros, S.A.	626	242
Promoción Social de Viviendas, S.A.	(2)	1
Vilamar Gestión, S.L.	(5,737)	(4,655)
Subtotal parent entity and subsidiaries	**300,264**	**(258,408)**
Joint ventures		
Aliseda_SGI	38,171	(219)
Bancopopular-e, S.A.	6,672	-
IM Tarjetas 1, F.T.A.	-	-
Inverlur Águilas I, S.L.	(5)	(4)
Inverlur Águilas II, S.L.	(7)	(9)
Platja Amplaries, S.L.	-	(2,229)
Popular-e Cobros A.I.E.	(1)	-
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	(1)	-
Saite, S.A.	389	525
Saite-Cobal, S.A.	(1,168)	(742)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	244	252
Targo Bank, S.A.	7,957	8,644
Targoinmuebles, S.A.	(141)	(16)
Subtotal joint ventures	**52,110**	**6,202**
Associates		
Aevis Europa, S.L.	1	-
Allianz Popular, S.L.	36,674	50,302
Amarres Deportivos, S.L.	-	-
Aviación Intercontinental, A.I.E.	1,911	1,746
Euro Automatic Cash Entidad de Pago, S.L.	6,687	-
Fotovoltaica Monteflecha, S.L.	25	21

€ thousands	2014	2013
Gestora Patrimonial c/Francisco Sancha, 12	120	-
Grupo Financiero Ve por Mas SA de CV	776	-
Inversiones Area Sur, S.L.	-	(1,263)
Inversiones en Resorts Mediterráneos, S.L.	-	-
Master Red Europa, S.L.	3	-
Metrovacesa, S.A.	(51,172)	(16,509)
Nuevo Agora centro de estudios, S.L.	-	707
Puertos Futuros, S.L.	(2)	(2)
Ronautica marinas internacional, S.A.	-	-
Sistema 4B, S.A.	75	284
Trindade Fundo de Investimento Inmobiliario Fechado	(70)	(1,442)
Universal Pay	2,336	371
Subtotal associates	**(2,636)**	**34,215**
Total	**349,738**	**(217,991)**
Consolidation adjustments and eliminations	**(19,323)**	**469,534**
Net income attributable to the Group	**330,415**	**251,543**

Finally, changes in equity in the consolidated balance sheets are set out below:

€ thousands	
Balance at 31/12/2012	10,720,611
Treasury shares	134,584
Capital increase	843,487
Remuneration of and other movements in convertibles	(107,253)
Gains/(losses) on transactions with treasury shares	(63,565)
Actuarial differences	-
Consolidation and other operations (net)	(4,936)
Net profit for 2013	251,543
Dividends paid/declared in 2013	-
Balance at 31/12/2013	11,774,471
Treasury shares	(3,419)
Capital increase	818,083
Remuneration of and other movements in convertibles	(86,134)
Gains/(losses) on transactions with treasury shares	2,599
Actuarial differences	-
Consolidation and other operations (net)	(52,619)
Net profit for 2013	330,415
Dividends paid/declared in 2013	-
Balance at 31/12/2014	12,783,396

42. EQUITY VALUATION ADJUSTMENTS

This equity item includes the amounts, net of the tax effect, of the portion attributable to the Group of the adjustments to assets and liabilities temporarily recognised in equity through the statement of comprehensive income until they are extinguished or realised, at which time they are definitively recognised in equity through the profit and loss account. The portion of the adjustments attributable to non-controlling interests is recognised in a specific item. Set out below is a breakdown of these consolidated balance sheet items at the end of the last two years:

€ thousands	**2014**	**2013**
Available-for-sale financial assets	(129,641)	(363,458)
Cash flow hedges	(23,580)	7,502
Hedges of net investments in foreign operations	-	-
Exchange differences	54,710	17,931
Non-current assets held for sale	-	-
Entities accounted for using the equity method	(667)	1,087
Other valuation adjustments	(33,899)	(13,131)
Total	(133,077)	(350,069)

Gross figures are set out below:

€ thousands	**2014**	**2013**
Available-for-sale financial assets	(185,165)	(510,204)
Debt securities	(196,592)	(524,687)
Equity instruments	11,427	14,483
Cash flow hedges	(33,805)	10,717
Hedges of net investments in foreign operations	-	-
Exchange differences	84,671	25,616
Non-current assets held for sale	-	-
Entities accounted for using the equity method	(954)	1,552
Other valuation adjustments	(46,173)	(17,951)
Corporate income tax	48,349	140,201
Total	(133,077)	(350,069)

The item Available-for-sale financial assets includes changes in the value of these financial assets, net of the tax effect, before they are transferred to the profit and loss account, in the event of their disposal or maturity, or asset impairment, should a negative value be obtained.

Movements in Equity valuation adjustments with respect to available-for-sale financial assets are set out below:

€ thousands	2014	2013
Beginning balance	(510,204)	(1,300,658)
Net transfer to profit and loss	(701,969)	(336,787)
Transfer to profit and loss due to financial transactions	(719,969)	(370,344)
Equity instruments	12,876	9,951
Gains	13,822	11,593
Losses	946	1,642
Debt instruments	707,093	360,393
Gains	876,584	428,284
Losses	169,491	67,891
Transfer to impairment losses	18,000	33,557
Valuation profit/(losses)	1,027,008	1,127,241
Equity instruments	(7,712)	2,459
Gains	15,427	50,549
Losses	23,139	48,090
Debt instruments	1,034,720	1,124,782
Gains	1,250,438	1,668,194
Losses	215,718	543,412
Other movements	-	-
Closing balance	(185,165)	(510,204)

The information on cash flow hedges at year-end 2014 and 2013 includes cumulative gains and losses on the hedging instrument (see Note 26). Consequently, movements for the year reflect the recognition of results due to the change in the value of the hedged item in respect of the hedged exposure, and the relevant tax effect.

€ thousands	2014	2013
Beginning balance	10,717	-
Net transfer to profit and loss	-	-
Valuation profit/(losses)	(44,522)	10,717
Closing balance	(33,805)	10,717

Set out below are the movements in equity valuation adjustments due to exchange differences:

€ thousands	2014	2013
Beginning balance	25,616	44,457
Net transfer to profit and loss	-	-
Valuation profit/(losses)	59,055	(18,841)
Closing balance	84,671	25,616

Information on other valuation adjustments includes actuarial differences relating to pension plans. Until 2012, these differences were recognised in equity.

€ thousands	2014	2013
Beginning balance	(17,336)	2,054
Net transfer to profit and loss	-	-
Valuation profit/(losses)	(28,837)	(19,390)
Closing balance	(46,173)	(17,336)

Set out below is a breakdown of corporate income tax relating to items in this heading:

€ thousands	2014	2013
Available-for-sale financial assets	(55,524)	146,746
Cash flow hedges	(10,225)	(3,215)
Hedges of net investments in foreign operations	-	-
Exchange differences	29,961	(7,685)
Non-current assets held for sale	-	-
Entities accounted for using the equity method	(287)	(465)
Other valuation adjustments	(12,274)	4,820
Total	(48,349)	140,201

Lastly, a breakdown is provided below by entity of the equity valuation adjustments resulting from the consolidation process:

€ thousands	2014	2013
Banco Popular Español, S.A.	(187,287)	(306,297)
Banco Popular Pastor, S.A.	222	-
BPE Representações e Participações, Ltda.	(78)	(80)
Pastor Representaciones Brasil	-	-
TotalBank	48,292	14,731
Inmobiliaria Viagracia, S.A.	897	897
Popular de Participaciones Financieras S.C.R. de régimen simplificado, S.A.	-	-
Banco Popular Portugal, S.A.	2,941	3,013
Popular Banca Privada, S.A.	(24,639)	(64,245)
Bancopopular-e, S.A.	(187)	651
BPP Asesores (PastorArgentina)	-	(2)
Eurovida, S.A. (Portugal)	(43)	(1)
Popular Seguros, S.A.	1,746	48
Targobank, S.A.	233	28
BPE Preference International Ltd.	-	-
Gold Leaf Title Company	(2)	(2)
Read Leaf Holding	154	(58)
BPE Finance International Ltd.	6,558	(1,268)
Sobrinos de José Pastor Inversiones, S.A.	-	-
Pastor Vida, S.A.	18,116	2,516
Total	(133,077)	(350,069)

43. NON-CONTROLLING INTERESTS

This balance sheet heading reflects the portion of the Group entities' equity attributable to third parties outside the Group, including income for the year and valuation adjustments through equity.

Set out below is a breakdown of this heading by subsidiary:

€ thousands	2014	2013
Popular Factoring (Portugal), S.A.	66	68
Urbanizadora Española, S.A.	306	304
Popular Gestión Privada, GGIIC, S.A.	-	1,350
Popular Banca Privada, S.A.	-	29,231
Fondo Popular Predifundo S.A.	2,777	
Grupo La Toja Hoteles	6,725	13,469
Hercepopular S.L.	3,104	-
Pastor Privada Investment 1, S.A.	5,057	5,357
Pastor Privada Investment 3, S.A.	1,459	1,544
Inti Entertainment S.A.	1	-
Promocion Social de Viviendas, S.A.	53	54
Total	19,548	51,377

Movements in Non-controlling interests in 2014 and 2013 are set out below:

€ thousands	2014	2013
Beginning balance	51,377	44,157
Net income	(514)	2,850
Dividends paid	-	-
Merger and other adjustments (net)	(31,315)	4,370
Closing balance	19,548	51,377

In 2014, the most significant amounts included in Consolidation and other adjustments were those relating to the following transactions:

- Acquisition of 40% of Popular Banca Privada and its subsidiary Popular Gestión Privada, which led to a reduction of €30,581 thousand in Non-Controlling Interests.
- Acquisition of 65.52% of Fondo Popular Predifundo, with an increase of €4,743 thousand in Non-Controlling Interests,
- Sale of Finisterre, part of the La Toja Hoteles Group, with a decrease of €6,824 thousand in Non-Controlling Interests.
- Acquisition of 51% of Hercepopular S.L.. leading to an increase in Non-Controlling Interests of €3,104 thousand.

In 2013, it includes equity valuation adjustments for the non-controlling interests in Popular Banca Privada.

44. TAX SITUATION

In regards to Corporate income Tax, since 2008, Banco Popular Español, S.A. has been the parent company of the Consolidated Tax Group, the Tax Group subsidiaries being the entities that fulfil the requirements of the Tax Consolidation Regime regulations. The rest of the Group entities are subject to the tax legislation applicable in each case.

Similarly, with regard to Value Added Tax, the Group applies the Special Regime for Groups of Entities provided by Law 36/2006, a regime that constitutes a differentiated sector of activity. The Group of Entities is formed by Banco Popular Español, S.A., as the parent company, and by the Spanish subsidiaries that fulfil the relevant requirements and opted to form part of the VAT Group. The rest of the Group entities are subject to the tax legislation applicable in each case.

Taxes payable by each consolidated entity are recognised in the balance sheet item "Tax liabilities", as required by regulations, net of tax withholdings and prepayments.

As at 31 December 2014, all the Group entities are open to inspection for the main taxes to which they are subject and the periods that are not statute barred. In September 2013, a tax inspection of Banco Pastor commenced for the periods 2009 to 2011.

At 31 December 2014, tax inspections had been raised against and contested by Banco Popular Español and the absorbed entities Banco de Castilla, Banco de Vasconia, Banco de Galicia and Banco Pastor for a total of €9,032 thousand for corporate income tax, withholding tax and value added tax, the relevant appeals having been lodged. In view of the provisions set up by the Group, the Directors of Banco Popular consider that any liabilities that may result from the appeals lodged against the assessments raised will not have a significant effect on the consolidated financial statements.

Due to the different interpretations that may be afforded to the tax regulations applicable to the Group's operations, there could be certain contingent tax liabilities for the years open to inspection that cannot be objectively quantified. However, in the opinion of the parent company's directors, any tax liabilities that might arise would not have a material impact on the consolidated financial statements.

On 28 November 2014 the Corporation Tax Act 27/2014 was published. This amendment includes provisions applicable to 2014, specifically relating to the limitation on the reversal of certain temporary differences and tax loss carry-forwards that are considered in the 2014 consolidated financial statements. It has not had a significant impact on them.

Tax benefits in the form of double taxation deductions, allowances, deductions for research and development, professional training, reinvestment, contributions to pension plans and donations are treated as a reduction in corporate income tax each year. The requirements of prevailing regulations must be met in order for these tax deductions to be applicable, having capitalised those corresponding to 2014.

The following table shows, for 2014 and 2013, the reconciliation of Banco Popular Español, S.A.'s reported income and the tax base of corporate income tax, and the calculations necessary to determine income tax expense, taking into account both pre-tax income and permanent differences with respect to reported income, and eliminations, additions and deductions from tax payable, as applicable under the tax consolidation regime.

€ thousands		2014	2013
Accounting income before tax		627,458	375,611
Permanent differences		10,276	(27,468)
Increases		27,336	26,322
Decreases		17,060	53,790
Temporary differences		(315,737)	87,013
Arising in the year		648,317	1,603,662
Increases		666,344	1,623,349
Decreases		18,027	19,687
Arising in prior years		(964,054)	(1,516,649)
Increases		23,886	63,579
Decreases		987,940	1,580,228
Deductible expenses charged to equity		(320,424)	(244,890)
Offsetting tax loss carry-forwards		(107,173)	-
Tax base		(105,600)	190,266
Gross tax charge	**30%**	(31,680)	57,080
Tax deductions		(3,803)	(5,228)
For double taxation		(3,803)	(148)
For reinvestment		-	(5,080)
Allowances		-	-
Corporate income tax payable		(27,877)	62,308
Tax due to deductible movements in equity		96,127	73,467
Tax relating to capitalisation of tax loss carry-forwards and tax deductions not applied		(33,415)	(25,565)
Deferred taxes (net)		96,478	(20,783)
Other		19,452	4,758
Total income tax		150,765	94,185

The same information provided in the above table is set out below for the consolidated Group as a whole.

€ thousands	2014	2013
Accounting income before tax	372,991	353,937
Permanent differences:	(17,639)	(47,640)
Increases	87,513	55,286
Decreases	105,152	102,926
Timing differences:	(293,820)	(256,207)
Arising in the year	207,132	538,791
Increases	225,164	558,479
Decreases	18,032	19,688
Arising in prior years	(500,952)	(794,998)
Increases	99,796	100,426
Decreases	600,748	895,424
Deductible expenses charged to equity	(341,895)	(139,350)
Tax loss carry-forwards	226,560	(16,107)
Tax base	(53,803)	(105,367)
Corporate income tax payable	(16,141)	(31,611)
Adjustment due to application of different tax rates	(1,375)	(3,618)
Tax recognised in equity	102,569	41,805
Deferred taxes (net)	88,146	96,715
Capitalisation of tax credits for tax loss carry-forwards and deductions	(154,452)	(23,513)
Other	24,343	19,766
Total income tax	43,090	99,544
Income tax in Portugal and USA	34,423	(26,562)
Income tax in Spain	8,667	126,106

Set out below is an itemised breakdown of the permanent and temporary differences reflected in the previous table:

€ thousands	Permanent differences			
	2014		2013	
	Increases	Decreases	Increases	Decreases
Donations	14,443	-	5,553	-
Additions to and releases and use of other provisions	2,900	7,811	-	1,482
Correction for monetary depreciation	-	1,683	-	1,913
Adjustments for tax-lease structures	-	5,858	10,301	17,737
Equity consolidation adjustments	54,842	89,711	21,455	53,722
Non-deductible rentals	7,387	-	8,397	-
Tax regime for mergers	-	-	-	28,072
Other	7,941	89	9,580	-
Total	87,513	105,152	55,286	102,926

€ thousands	Permanent differences			
	2014		2013	
	Increases	Decreases	Increases	Decreases
Pension funds and similar commitments	41,585	3,490	31,827	71,226
Credit loss provision	3,582	463,098	438,620	745,992
Depreciation and Amortisation	107,020	32,020	52,988	21,443
Goodwill	23,164	4,837	52,585	4,833
Additions to and releases and use of other provisions	80,868	64,875	41,434	20,736
Tax impairment of investments	59,800	-	35,171	21,248
Commissions, fees and financial expenses	2,970	4,241	-	2,179
Consolidation adjustments	-	6,527	-	-
Allocation of tax bases	-	13,189	-	14,843
Tax regime for mergers	-	5,673	-	12,013
Other adjustments	5,971	20,830	6,280	599
Total	324,960	618,780	658,905	915,112

Set out below is a breakdown of income tax by country for the main Group entities, after consolidation adjustments:

€ thousands	2014	2013
SPAIN		
Banco Popular Español, S.A.	85,298	255,804
Aliseda S.A.	(63,172)	(95,286)
Canvives S.A.	(20,058)	(43,175)
Rest of Consolidated Tax Group	(7,032)	(1,241)
Remainder	13,631	10,004
Total	8,667	126,106
PORTUGAL		
Banco Popular Portugal, S.A.	22,946	(25,596)
Heller Factoring Portuguesa, S.A.	1,456	1,533
Eurovida, S.A. (Portugal)	5,557	13,091
Consulteam Consultores de Gestão, S.A.	(2,389)	(18,837)
Remainder	1,225	(249)
Total	**28,795**	**(30,058)**
USA		
TotalBank	5,211	4,046
Remainder	417	(550)
Total	5,628	3,496
TOTAL	43,090	99,544

An analysis of the consolidated entities' corporate income tax by geographic zone and business sector is set out below:

€ thousands	SPAIN		PORTUGAL		USA		TOTAL	
Business sector	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Deposit-taking institutions	93,991	254,765	22,946	(25,596)	5,211	4,046	122,148	233,215
Insurance companies	489	7,021	5,765	13,186	-	-	6,254	20,207
Other companies	(85,813)	(135,680)	84	(17,648)	417	(550)	(85,312)	(153,878)
Total	8,667	126,106	28,795	(30,058)	5,628	3,496	43,090	99,544

Set out below is a breakdown of consolidated income tax on ordinary and non-recurring income. Non-recurring income arises generally from non-typical financial operations.

€ thousands	**2014**	**2013**
Corporate income tax on:		
Ordinary income	(71,923)	(166,381)
Non-recurring income	115,013	265,925
Total income tax	43,090	99,544

Set out below is an itemised breakdown of non-recurring income:

€ thousands	**2014**			**2013**		
	Amount Gross	**Corporate inc. Tax**	**Amount Net**	**Amount Gross**	**Corporate inc. Tax**	**Amount Net**
Other gains						
Gain on sale of tangible fixed assets	116,123	34,644	81,480	95,090	26,482	68,608
Gain on sale of investments	429,913	94,769	335,144	922,746	260,666	662,080
Other	49,245	14,774	34,472	-	-	-
Total	595,281	144,186	451,095	1,017,836	287,148	730,688
Other losses						
Losses on sale of tangible fixed assets	92,412	27,724	64,688	65,906	19,772	46,134
Losses on sale of investments	4,830	1,449	3,381	4,838	1,451	3,387
Total	97,242	29,173	68,069	70,744	21,223	49,521
Net amounts	498,039	115,013	383,026	947,092	265,925	681,167

The following table contains a breakdown of corporate income tax, distinguishing between tax expense accrued during the year (current and deferred) and other prior-year items. Tax credits pending application include those not applied due to a shortfall in tax which basically affects dividends (€43 million and €11 million for 2014 and 2013, respectively, R+D (€5 million and €4 million for 2014 and 2013, respectively) and reinvestment. In relation to this, the net change for deductions not applied due to non-compliance with the year-end reinvestment required by law, has also been taken into account. However, it is expected to be fulfilled in the planned three-year period (€47 million and -€4 million for 2014 and 2013, respectively).

€ thousands	2014	2013
Current and deferred tax expense accrued	104,376	108,129
Deferred tax expense	88,146	96,715
Current tax expense	16,230	11,414
Adjustments to income tax	(61,286)	(8,585)
Tax assessments and regularisations in prior years	37,696	10,677
Tax credit pending application	(99,951)	(14,665)
Other	969	(4,597)
Total	43,090	99,544

As at 31 December 2014 and 2013, the Group recognised corporate income tax loss carry-forwards and prior-year deductions and allowances pending offset or application for which no tax credits have been recorded because the necessary requirements are not fulfilled.

Set out below is a breakdown of these corporate income tax loss carry-forwards, deductions and allowances:

€ thousands	2014		2013	
Item	Amount	Tax rate	Amount	Tax rate
Tax loss carry-forwards	600,841	180,252	600,841	180,252

Set out below is the reconciliation of the consolidated Group's income tax expense calculated based on reported profit before tax, taking into account the different tax rates in Portugal and USA:

€ thousands	2014		2013	
	Amount	Rate (%)	Amount	Rate (%)
Accounting profit before tax	372,991	-	353,937	-
General tax rate on pre-tax profit	111,898	30.00	106,181	30.00
General tax rate on results of entities accounted for using the equity method	(10,461)	(2.80)	(9,680)	(2.73)
General tax rate on other permanent differences	5,169	1.39	(4,612)	(1.30)
Deductions from tax payable	(855)	(0.23)	6	0.00
Adjustments for rates other than the general rate	(1,375)	(0.37)	(3,618)	(1.02)
Tax assessments and regularisations in prior years	37,696	10.11	23,714	6.70
Capitalisation of deductions NOT applied	(99,951)	(26.81)	(14,665)	(4.14)
Other	969	0.26	2,218	0.63
Corporate income tax expense and average tax rate	43,090	11.55	99,544	28.14

Tax rates for corporate income tax or similar taxes in the main countries in which the Group operates in 2014 and 2013 are set out below:

Tax rate (%). Country	2014	2013
Spain	30.00	30.00
Portugal	26.50	26.50
USA*	37.63	37.63

*State and federal tax

45. RESIDUAL TERMS OF THE BALANCES IN THE CONSOLIDATED BALANCE SHEETS

Set out below is a breakdown by term to maturity of certain balances in the Group's consolidated balance sheets for 2014:

€ thousands	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
ASSETS							
Cash and balances with central banks	1,192,814	-	-	-	-	-	1,192,814
Financial instruments held for trading	127,217	784	1,672	9,342	474,201	1,076,428	1,689,644
Other financial assets designated at fair value through profit or loss	-	-	13,862	9,535	108,744	378,658	510,799
Available-for-sale financial assets	213,765	224,399	283,432	1,631,587	12,671,670	14,740,499	29,765,352
Loans and receivables:	1,834,280	9,279,808	5,892,365	14,851,083	22,124,979	53,845,101	107,827,616
Loans and advances to credit institutions	1,275,447	3,309,021	256,742	3,276	205,466	-	5,049,952
Loans and advances to customers	558,833	5,970,787	5,419,325	14,767,083	20,987,426	52,879,469	100,582,923
Debt securities	-	-	216,298	80,724	932,087	965,632	2,194,741
Held-to-maturity portfolio	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	1,172	324,030	115,954	441,156

€ thousands	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
LIABILITIES							
Financial instruments held for trading	-	716	577	9,495	821,421	565,180	1,397,389
Other financial assets designated at fair value through profit or loss	-	-	-	-	-	649,354	649,354
Financial liabilities at amortised cost	30,878,830	29,629,574	21,876,353	30,742,220	24,986,440	4,114,361	142,227,778
Deposits from central banks	808,858	879,181	8,305,388	-	-	-	9,993,427
Loans and advances to credit institutions	555,499	5,262,317	2,305,684	2,319,420	6,471,358	799,453	17,713,731
Customer deposits	29,514,473	22,033,236	9,670,171	25,846,694	8,485,143	486,479	96,036,196
Marketable debt securities	-	357,079	1,595,110	2,576,106	9,771,389	1,662,334	15,962,018
Subordinated liabilities	-	-	-	-	258,550	1,166,095	1,424,645
Other financial liabilities	-	1,097,761	-	-	-	-	1,097,761
Hedging derivatives	-	-	-	7,678	2,067,432	85,964	2,161,074

The same information is presented below for 2013:

€ thousands	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
ASSETS							
Cash and balances with central banks	2,826,838	-	-	-	-	-	2,826,838
Financial instruments held for trading	183,529	13,653	39,958	72,159	505,427	695,848	1,510,574
Other financial assets designated at fair value through profit or loss	-	-	7,026	24,234	102,503	229,917	363,680
Available-for-sale financial assets	-	51,035	1,034,395	2,312,052	6,996,154	5,781,502	16,175,138
Loans and receivables:	2,212,599	9,655,477	5,195,027	14,710,348	23,421,565	52,840,571	108,035,587
Loans and advances to credit institutions	1,085,614	4,214,663	117,770	30,013	18,459	65,017	5,531,536
Loans and advances to customers	1,126,985	5,440,814	5,067,523	14,498,358	22,686,238	52,304,078	101,123,996
Debt securities	-	-	9,734	181,977	716,868	471,476	1,380,055
Held-to-maturity portfolio	-	-	-	-	-	-	-
Hedging derivatives	-	-	70,568	26,283	406,580	75,598	579,029

€ thousands	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
LIABILITIES							
Financial instruments held for trading	-	9,337	27,745	44,670	217,782	654,892	954,426
Other financial assets designated at fair value through profit or loss	-	-	-	-	-	601,367	601,367
Financial liabilities at amortised cost	25,064,325	22,046,036	17,450,417	21,896,566	31,974,144	11,881,669	130,313,157
Deposits from central banks	-	-	3,417,099	-	-	-	3,417,099
Loans and advances to credit institutions	580,486	5,325,817	3,010,363	1,644,799	6,673,887	1,040,771	18,276,123
Customer deposits	24,477,798	15,675,729	9,131,103	18,118,661	21,250,384	608,147	89,261,822
Marketable debt securities	6,041	292,771	1,810,250	2,089,526	3,386,254	8,697,533	16,282,375
Subordinated liabilities	-	-	81,602	43,580	663,619	1,535,218	2,324,019
Other financial liabilities	-	751,719	-	-	-	-	751,719
Hedging derivatives	-	6,328	86,587	45,908	767,434	567,492	1,473,749

46. FAIR VALUE

46.1. Assets and liabilities not valued at fair value in the financial statements

Set out below is a breakdown of the fair value of the main balance sheet items carried at amortised cost and at acquisition cost.

The assets and liabilities reflected at amortised cost were measured by discounting future flows using a risk curve without a spread (zero coupon). This interest rate curve is generated using the rates for Spanish government debt securities, allowing the generation of pure discount factors to calculate present values accepted by the market as unbiased rates. The curve is built applying an equation that is in line with rates observed in the market and results in forward interest rates for any period or interim maturity..

€ thousands	2014		2013		2014	2013	2014	2013	2014	2013
Financial assets at amortised cost	**Accounting balances**	**Fair value**	**Accounting balances**	**Fair value**	**Level 1: Financial instruments traded in active markets**		**Level 2: Financial instruments whose fair value is based on market observations**		**Level 3: Financial instruments whose fair value is calculated using internal models**	
Cash and balances with central banks	1,192,814	1,192,794	2,826,838	2,343,637	1,192,794	2,343,637	-	-	-	-
Loans and receivables	107,827,616	116,565,117	108,035,587	114,504,354	2,393,066	1,380,055	114,169,051	113,124,299	3,000	-
Loans and advances to credit institutions	5,049,952	5,091,502	5,531,536	6,283,128	-	-	5,091,502	6,283,128	-	-
Loans and advances to customers	100,582,923	109,077,549	101,123,996	106,841,171	-	-	109,077,549	106,841,171	-	-
Debt securities	2,194,741	2,396,066	1,380,055	1,380,055	2,393,066	1,380,055	-	-	3,000	-
Held-to-maturity portfolio	-	-	-	-	-	-	-	-	-	-
Total financial assets at amortised cost	109,020,430	117,757,911	110,862,425	116,847,991	3,585,860	3,723,692	114,169,051	113,124,299	3,000	-

€ thousands	2014		2013		2014	2013	2014	2013	2014	2013
Financial liabilities at amortised cost	**Accounting balances**	**Fair value**	**Accounting balances**	**Fair value**	**Level 1: Financial instruments traded in active markets**		**Level 2: Financial instruments whose fair value is based on market observations**		**Level 3: Financial instruments whose fair value is calculated using internal models**	
Deposits from central banks	9,993,427	9,947,157	3,417,099	3,424,844	-	-	9,947,157	3,424,844	-	-
Deposits from credit institutions	17,713,731	18,579,504	18,276,123	19,490,166	-	-	18,579,504	19,490,166	-	-
Customer deposits	96,036,196	96,810,072	89,261,822	91,452,261	-	-	96,810,072	91,452,261	-	-
Debt certificates	15,962,018	17,384,830	16,282,375	19,656,939	17,384,830	19,656,939	-	-	-	-
Subordinated liabilities	1,424,645	1,552,377	2,324,019	2,782,661	1,552,377	2,782,661	-	-	-	-
Other financial liabilities	1,097,761	1,097,761	751,719	751,719	-	-	1,097,761	751,719	-	-
Total financial liabilities at amortised cost	142,227,778	145,371,701	130,313,157	137,558,590	18,937,207	22,439,600	126,434,494	115,118,990	-	-

46.2. Fair value of tangible assets and real estate assets

The breakdown of carrying amount and the fair value of Tangible Assets, non-current assets held for sale and Inventories is as follows:

€ thousands	2014		2013	
	Accounting balances	Fair value	Accounting balances	Fair value
Tangible assets	1,711,224	1,722,951	1,835,903	1,866,363
For own use	746,830	758,557	798,603	829,063
Assets assigned under operating leases	10,339	10,339	26,160	26160
Investment property	954,055	954,055	1,011,140	1,011,140
Non-current assets held for sale	8,201,378	8,201,378	6,296,601	6,296,601
Inventories	881,084	881,084	715,256	715,256

The Group values real estate assets at the lower of carrying amount or fair value, which is determined by the valuation of the foreclosed asset carried out on the basis of the latest appraisal value.

The Group requests all its appraisals from appraisal companies authorised by Banco de España, following a random procedure. The aforesaid appraisals are conducted taking into account the principles established by Ministerial Order ECO/805/2003 of 27 March Article 3, including the principle of greatest and best use, according to which the value of a property which may be used for different purposes will be that which results from assigning it, within the legal and physical possibilities, to the use that is economically most advisable, or if it is capable of being built with different degrees of density, the use resulting from building it, within the legal and physical possibilities, with the density that enables the highest value to be obtained.

Our measurements of the reasonable value of real estate assets are classified in Level 2 (additional variables are used in the valuation other than the listed prices in active markets for identical assets) and in Level 3 of the fair value hierarchy (use of significant non-observable variables).

The technical valuation methods used to determine the value of real estate assets are as follows:

1. Cost method (Level 3): This method is used to calculate a technical value, which is known as the replacement value. The investment in the land value, the building costs and the expenses needed to carry out the replacement, are added together in order to calculate the aforesaid value. The value can be gross or net. In order to calculate the net replacement value, the physical and functional depreciation of the finished building is subtracted from the gross replacement value.

The physical depreciation of the building is calculated using any one of these three methods: in accordance with its useful and functional life estimated by the appraisal company, by straight-line depreciation or adding up the costs and expenses necessary to transform the building into another similar one.

The residual method is used to value the land; for the cost of building, the tangible execution costs, general expenses, and, if applicable, business gains, shall be taken into account.

2. Comparison method (Level 2): This method is used to determine two technical values which are known as the comparison value, allowing the market value of a certain asset to be determined, and the adjusted comparison value, which can be used to determine its mortgage value. In order to be able to use the comparison method, it is necessary for there to be a representative market of comparable properties, sufficient data on transactions or offers, sufficient information regarding at least six transactions or offers by peers which adequately reflect the current situation on the aforesaid market.

The following general rules are used to calculate the comparison value:

a. Establish the characteristics of the appraised property which have an influence on its value.
b. Analyse the real estate market of peers based on transactions and real offers.
c. Select a representative sample from peers to which homogenisation methods can be applied.
d. Application of homogenisation methods to the selected peers.
e. Assign the property value, net of marketing expenses, in accordance with the homogenised prices.

3. Present value of rentals method (Level 2): This method is used to calculate a technical value known as the present value, and which can be used to determine the market value of a certain asset and its mortgage value. In order to use the present value method, it is necessary for there to be a representative rental market of peers, a lease contract and the appraised property must be producing or be capable of producing income as property connected with an economic activity, and there must also be sufficient accounting data regarding the exploitation or adequate information about average structural ratios of the pertinent branch of activity:

In order to calculate the present value, it is necessary to:

a. Estimate the real estate and operating cash flows (post-tax operating profit plus allocations to depreciation minus yearly investments in the real estate minus changes in working capital).

For rented properties, the collections from comparable properties, the contract clauses, current and foreseeable occupancy, current or foreseeable arrears in collections, and foreseeable market performance, are taken into account.

b. Estimate the reversion value, in other words the value of the land at the end of the useful life of the appraised property.

c. Choose the DCF rate depending on the project risk (volume and degree of liquidity, contract type, etc.) which cannot be lower than the annual average yield on Government Debt.

4. Residual method (Level 3): The value according to the residual method is calculated using the investment analysis procedure with expected values ("dynamic" calculation procedure) or the investment analysis procedure with current values ("static" calculation procedure).

In order to be able to use the residual method, the following requirements need to be complied with:

- There must be adequate information to determine the most likely development
- There must be sufficient information regarding construction expenses, necessary expenses,
- There must be a market to calculate the most likely sale prices
- There must be sufficient information about returns on similar developments

The calculation method consists of:

a. The cash flows are estimated (collections from final sales or deliveries of credit and payments which it is estimated have to be made for construction expenses).

b. The discount rate representing the annual average return on the project without taking into account third-party financing, plus the risk premium shall be chosen.

5. Automated models (Level 2): The value is determined by the use of databases with sufficient quality and depth and methodologically sound valuation methods. The level of confidence must be raised in situations in which asset prices may be experiencing significant falls. The automated model is applicable only to revisions of value, provided the database of the entity has relevant and reliable information on the properties to be valued. The requesting entity has to ensure the quality of the model and the database used by the appointed appraisal company.

In the Group, the technical valuation methods used largely depend on the type of property to be appraised and the available information, more specifically:

a. Finished product:

Housing: Can be valued using automated procedures or individually using the cost method (this method is used to determine the value in single buildings or buildings which do not have a market), comparison (the most common), or present value of rentals if it is or is going to be rented out. As a general principle, the automated method may be used only for properties with a unit value of less than €1 million.

Other finished buildings: They may be valued using the cost, comparison or present value of operating or lease rentals, if it is rented or it is intended to be used for rental (for hotels, petrol stations and other properties under operation, only the present value of rentals method is used). For homogeneous properties (non-singular warehouses and premises), the method can be applied through automated procedures with the same limitations as in housing.

b. Work in progress May be valued using the cost method as the sum of the land value plus executed works. The Hypothetical Value of Finished Building shall not be used:

c. Land for real estate development: Can be valued using the dynamic residual method (which is the most common) or static method (only for development land with a term for start of works of less than 12 months) in accordance with the land classification.

d. Rural land under operation: Valued using the rental update method.

Below follows a breakdown of the fair value of the portfolio of real estate assets by type of valuation methods, for each asset type at 31 December 2014 and 2013:

€ thousands	**Type of Measurement of Fair Value**							
	2014				**2013**			
Asset Type	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Housing	-	3,787,104	-	3,787,104	-	3,539,131	-	3,539,131
Offices, premises, warehouse and others	-	2,296,121	-	2,296,121	-	1,427,406	-	1,427,406
Land	-	-	3,584,208	3,584,208	-	-	2,713,391	2,713,391
Work in progress	-	-	369,084	369,084	-	-	343,069	343,069
TOTAL	-	6,083,225	3,953,292	10,036,517	-	4,966,537	3,056,460	8,022,997

47. CONTINGENT RISKS

Set out below is a breakdown of contingent risks, which are amounts that the Group will be required to pay on behalf of third parties in the event of default by the obligors, as a result of commitments undertaken by the Group in the ordinary course of business, at 31 December 2014 and 2013:

€ thousands	**2014**	**2013**
Financial guarantees	1,433,197	2,022,238
Assets assigned to third-party obligations	605,763	1,003,991
Documentary credits	492,230	544,642
Risks in respect of derivatives contracted with third parties	542,633	484,578
Other guarantees and sureties provided	6,896,961	7,158,459
Other contingent risks	2,583,364	3,535,108
Total	12,554,148	14,749,016
Memorandum items: Doubtful contingent risks	258,473	461,359

However, a significant part of these amounts will reach their maturity without any payment obligation by Banco Popular Español, S.A. or its consolidated companies having materialised, so that the aggregate balance of these commitments cannot be considered as a real future need for financing or liquidity to be granted to third parties by the Group.

Income obtained from guarantee instruments is registered in the “Interest and similar income" heading and under "Fee and commission income” (for the amount referring to present value of future commissions and fees) of the profit and loss accounts and are calculated applying the rate established by contract on the nominal amount of the guarantee.

* The 2014 balance relates to the guarantee deposits required by the European Investment Bank for lending operations in the amount of €601,455 thousand. The 2013 balance related to the guarantee deposits required by the European Investment Bank to the amount of €746,100 thousand and by the ICO, to the amount of €253,333 thousand.

48. CONTINGENT COMMITMENTS

This caption refers to irrevocable commitments, basically consisting of amounts drawable by third parties that could give rise to the recognition of financial assets. The following table shows the balances at the end of the last two years.

€ thousands	**2014**	**2013**
Drawable by third parties	6,430,379	8,816,509
Credit institutions	362,339	21,333
General government	257,367	119,326
Private sector	5,810,673	8,675,850
Forward financial asset purchase commitments	370,000	632,000
Asset acquisition contracts	1,047,144	116,756
Securities subscribed but not paid	-	-
Securities placement and subscription commitments	447,088	490,598
Documents delivered to clearing houses	545,002	577,401
Other	15,626	-
Total	8,855,239	10,633,264

Set out below is a breakdown of amounts drawable by third parties subject to the limits stipulated in loan agreements, distinguishing between amounts immediately drawable and amounts contingent on the occurrence of future events:

€ thousands	**2014**	**2013**
Immediately drawable	5,858,308	8,190,987
Drawable contingent on future events	572,071	625,522
Total	6,430,379	8,816,509

With regard to amounts drawable by third parties (see previous table), credit limits by counterparty in 2013 and 2012 are as follows (gross amounts without valuation adjustments):

€ thousands	Limit		Drawn		Drawable	
	2014	2013	2014	2013	2014	2013
Credit institutions	5,414,471	5,554,314	5,052,132	5,532,981	362,339	21,333
General government	6,332,979	1,695,127	6,075,612	1,575,801	257,367	119,326
Private sector	108,114,447	116,117,479	102,303,774	107,441,629	5,810,673	8,675,850
Total	119,861,897	123,366,920	113,431,518	114,550,411	6,430,379	8,816,509

49. INTEREST AND SIMILAR INCOME

This heading relates to interest, commissions and fees income, which is calculated by applying the effective interest rate to assets bearing implicit or explicit yields, whether or not they are carried at fair value, and corrections of income as a result of accounting hedges. Interest is carried at the gross amount, without deducting any tax withholdings at source.

This heading includes the financial income of all the Group entities and joint ventures engaged in lending, insurance and non-financial activities.

The following table contains an analysis of interest and similar income, including a breakdown by geographic zone.

€ thousands	2014	2013
Central banks	1,225	6,119
Credit institutions	20,249	25,109
Loans and receivables	3,641,962	4,144,523
Debt securities	491,962	679,716
Attributable to pension-linked insurance contracts and similar items	5,510	6,179
Other	6,326	1,351
Total	4,167,234	4,862,997
of which: Spain	3,808,314	4,464,848
European Union	288,013	335,362
Other OECD countries	70,903	62,772
Other countries	4	15

Set out below is a breakdown of interest and commissions and fees income:

€ thousands	2014	2013
Non-controlling	3,992,798	4,613,188
Commissions and fees	174,436	249,809
Total	4,167,234	4,862,997

50. INTEREST AND SIMILAR EXPENSES

Interest expense and similar charges consist of interest and commissions and fees costs incurred, which are calculated by applying the effective interest rate to all financial liabilities bearing implicit or explicit yields, including benefits in kind, whether or not they are carried at fair value, and corrections of costs as a result of accounting hedges, and interest expense allocable to pension funds. This heading includes the financial expense of all the Group entities engaged in banking, insurance and non-financial activities.

Set out below is a breakdown of these charges including a breakdown by geographic zone for 2014 and 2013:

€ thousands	**2014**	**2013**
Central banks	14,137	81,902
Credit institutions	274,635	282,323
Customer funds	994,545	1,463,456
Debt certificates	494,076	545,020
Subordinated liabilities	47,488	66,069
Attributable to pension fund and similar items	6,105	10,001
Other	4,857	2,761
Total	1,835,843	2,451,532
of which: Spain	1,728,161	2,289,889
European Union	93,386	147,200
Other OECD countries	13,920	13,883
Other countries	376	560

Of the total amounts shown above, €16,623 thousand and €13,391 thousand relate to commissions and fees in 2014 and 2013, respectively.

51. RETURN ON EQUITY INSTRUMENTS

This profit and loss account heading reflects dividends and remuneration on equity instruments collected from or declared by companies outside the Group's consolidation scope. The dividends are recognised when the Group's right to receive payment is declared, irrespective of whether or not payment is delayed and provided they accrued after the shareholding was acquired.

€ thousands	**2014**	**2013**
Investments in associates	-	-
Investments in joint ventures	-	-
Investments in Group entities	-	-
Other equity instruments	14,389	17,790
Total	14,389	17,790

52. SHARE OF PROFIT OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

This line in the profit and loss account includes the profits or losses generated during the financial year by entities accounted for using the equity method.

As indicated in Note 2a), on 1 January 2014, IFRS 11 - Joint Arrangements came into force. Among other changes, it makes it compulsory to account for joint ventures using the equity method. For purposes of comparison, the 2013 figures have been restated in accordance with this standard, as indicated in note 2d).

€ thousands	**2014**	**2013**
Associates	17,893	33,955
Joint ventures	15,499	(1,691)
Total	33,392	32,264

53. COMMISSIONS AND FEES

a) Fee and commission income

Non-financial service commissions and fee income received by the Group in 2014 and 2013 are analysed below by type:

€ thousands	**2014**	**2013**
Contingent risks and commitments:	133,764	147,076
Guarantees and other contingent risks	92,293	102,202
Commitment fees and other contingent commitments	41,471	44,874
Services inherent in asset transactions:	61,223	74,283
Discounting of trade bills	17,873	19,712
Factoring operations	5,687	5,968
Other asset transactions	37,663	48,603
Handling services:	544,413	672,737
Collection and payment mediation:	161,938	286,076
Collection of trade bills	8,404	11,636
Cheques	10,521	12,254
Direct debits	15,001	16,774
Means of payment	83,880	199,514
Fund transfers	44,132	45,898
Foreign currency purchase and sale	3,994	3,808
Securities purchase and sale	14,354	13,536
Administration of customers' securities portfolios:	100,734	94,868
Securities portfolio	23,200	28,101
Asset management	3,848	3,714
Investment funds	64,185	45,758
Pension funds	9,501	17,295
Other financial assets	-	-
Administration of sight and savings accounts	105,251	112,703
Other	158,142	161,746
Total	739,400	894,096

b) Fee and commission expenses

Non-financial commissions and fee expense incurred by the Group in the last two financial years are analysed below to the same level of detail:

€ thousands	**2014**	**2013**
Contingent risks and commitments:	486	663
Guarantees and other contingent risks	486	663
Commitment fees and other contingent commitments	-	-
Services inherent in asset transactions:	164	403
Discounting of trade bills	-	-
Factoring operations	-	-
Other asset transactions	164	403
Handling services:	84,043	133,771
Collection and payment mediation:	31,011	*105,822*
Collection of trade bills	1,335	3,918
Cheques	-	-
Direct debits	-	-
Means of payment	28,677	99,600
Fund transfers	999	2,304
Foreign currency purchase and sale	-	-
Securities purchase and sale	6,586	5,700
Administration of customers' securities portfolios:	-	-
Securities portfolio	-	-
Asset management	-	-
Investment funds	-	-
Pension funds	-	-
Other financial assets	-	-
Administration of sight and savings accounts	-	-
Other	46,446	22,249
Total	84,693	134,837

c) Net commissions and fees

Finally, for ease of comprehension and analysis of the Group's services activity, the net amounts of commissions and fees are shown below by type:

€ thousands	2014	2013
Contingent risks and commitments:	133,278	146,413
Guarantees and other contingent risks	91,807	101,539
Commitment fees and other contingent commitments	41,471	44,874
Services inherent in asset transactions:	61,059	73,880
Discounting of trade bills	17,873	19,712
Factoring operations	5,687	5,968
Other asset transactions	37,499	48,200
Handling services:	460,370	538,966
Collection and payment mediation:	130,927	180,254
Collection of trade bills	7,069	7,718
Cheques	10,521	12,254
Direct debits	15,001	16,774
Means of payment	55,203	99,914
Fund transfers	43,133	43,594
Foreign currency purchase and sale	3,994	3,808
Securities purchase and sale	7,768	7,836
Administration of customers' securities portfolios:	100,734	94,868
Securities portfolio	23,200	28,101
Asset management	3,848	3,714
Investment funds	64,185	45,758
Pension funds	9,501	17,295
Other financial assets	-	-
Administration of sight and savings accounts	105,251	112,703
Other	111,696	139,497
Total	654,707	759,259

54. GAINS/LOSSES ON FINANCIAL TRANSACTIONS (NET)

This profit and loss account heading basically reflects the amount of valuation adjustments to financial instruments generated during the year (with the exception of adjustments allocated to interest accrued under the effective interest rate method), asset impairment adjustments and gains or losses on the disposal of assets (except for gains or losses on transactions involving investments of the Group itself, its subsidiaries, joint ventures and associates, and treasury shares) and instruments classified as non-current assets or disposal groups held for sale.

The item "Own securities repurchased" under the heading "Financial instruments not at fair value through profit and loss", reflects the share of profits obtained in 2014 of €42,270 thousand corresponding to own bonds and securitisations repurchased. At 31 December 2013, they were €12,224 thousand for the same item.

The accompanying table provides an itemised breakdown of this income statement heading for the last two years:

€ thousands	**2014**	**2013**
Financial instruments held for trading (Note 20)	32,219	23,668
Other financial instruments at fair value through profit or loss (Note 21)	(24,668)	(24,581)
Financial instruments not at fair value through profit and loss (Notes 22, 23 and 35)	786,429	435,593
Available-for-sale financial assets (*)	719,969	370,344
Own securities repurchased	42,270	12,224
Other (**)	24,190	53,025
Other (***)	26,629	26,421
Total	820,609	461,101

(*) The share of profits from Financial assets for sale relates to sales of securities from the Available-for-sale portfolio. This basically relates to Spanish public debt which had a high appreciation during the year due to the improvement in sovereign risk and the lowest absolute level of interest rates.
(**) In 2014, this includes €24,190 thousand as a share of profits corresponding to the Loan Portfolio and in 2013, the sale of the held-to-maturity portfolio amounted to €51,210 thousand.
(***) Relates to the management of hedges, mainly hedges of highly probable cash flows from financing for the held-to-maturity portfolio, and the recognition in results of any hedge ineffectiveness.

55. EXCHANGE DIFFERENCES (NET)

This heading reflects the gains or losses on the purchase and sale of foreign currency and differences resulting from the translation of monetary items denominated in foreign currencies to euros.

€ thousands	**2014**	**2013**
Gains	53,558	60,998
Losses	6,326	8,578
Total	47,232	52,420

56. OTHER OPERATING INCOME

This heading relates to income from the Group's operating activities not included in other headings.

It may be broken down into:

i) Income from insurance and reinsurance contracts issued: insurance premiums collected and reinsurance income accrued by subsidiaries and jointly-controlled insurance and reinsurance companies accounted for using the equity method.
ii) Sales and income from provision of non-financial services: sales of goods and income from services in the ordinary course of business of the Group's non-financial companies, such as income from investment property and operating leases, excluding gains on disposal. It includes revenue from the sale of inventories.
iii) Other operating income: operating income not included in the above items, such as financial commissions and fees compensating related direct costs, expenses initially recognised in the profit and loss account by nature which are subsequently added to the value of assets, and indemnities from insurance companies.

The compensating commissions and fees reflect the compensation of direct costs in asset transactions that the Group would not have incurred had the transactions not been effected.

Set out below is a breakdown of this heading for 2014 and 2013:

€ thousands	**2014**	**2013**
Income from insurance and reinsurance contracts issued	134,152	93,884
Sales and revenues from provision of non-financial services	18,543	19,523
Other operating income	189,785	79,115
Operating income from investment property	34,339	24,893
Income from other operating lease transactions	5,907	2,051
Financial commissions and fees compensating financial costs	27,443	30,020
Capitalised expenses	5,364	6,387
Other	116,732	15,764
Total	342,480	192,522

The most significant change in 2014 in the issued insurance and reinsurance contracts business line is mainly due to the significant increase in the company Eurovida Portugal,S.A. from insurance premiums due to heavily marketing Eurovida Poupança Futuro products (with 5,500 new policies being taken out) and Eurovida Poupança Segura (with 12,500 new policies taken out).

With regard to the other operating products line within the other items section, it is important to note the gain of €96.704 million generated by the sale of future collection rights from the sale of insurance and pensions, as indicated in Note 8.

In 2013 the most significant transactions in insurance and reinsurance contracts issued relate to two main factors:

- Increased contribution from the company Pastor Vida, S.A., which in October 2012 ceased to be an associate to become a subsidiary of the Banco Popular Group, causing an increase of €11 million in its contribution to this income line in 2013.

- The reinsurance agreement reached on 27 September 2013 between Eurovida Portugal, S.A. and Scor Global Life Reinsurance, Ltd, whereby 95% of the mortality and disability portfolio under life insurance policies was assigned, generating income amounting to €28 million. The impact on other operating income totalled approximately €60 million and operating expenses increased by €32 million in the breakdown of the transaction in terms of income and provisions.

57. OTHER OPERATING EXPENSES

This heading contains charges relating to operating activities not included under other headings.

A breakdown of this consolidated profit and loss account item for 2014 and 2013 is as follows:

€ thousands	**2014**	**2013**
Insurance and reinsurance contract expenses	135,859	58,417
Cost of sales and change in inventories	16,326	21,243
Remainder of other operating expenses:	215,982	295,910
Operating expenses in respect of investment property	26,685	21,435
Contributions to guarantee funds	116,002	224,727
Directors' fees	-	360
Other	73,295	49,388
Total	368,167	375,570

It may be broken down into:

i) Insurance and reinsurance contract expenses: claims paid and other expenses directly related to insurance contracts, reinsurance premiums paid to third parties and net provisions for insurance contracts, incurred by subsidiaries that are insurance or reinsurance companies.

ii) Cost of sales and change in inventories: consists of costs attributable to the sale of goods or provision of services in the ordinary course of business of the Group's non-financial companies and the cost recognised in the profit and loss account in respect of the carrying amount of inventories sold during the year.

iii) Remainder of other operating expenses: other operating expenses not included in the above items, such as contributions to deposit guarantee funds and operating expenses in respect of investment property, excluding losses on disposal.

Under the insurance and reinsurance contracts expenses heading, it should be pointed out that there were lower expenses for benefits paid of €5,668 thousand and an increase of €82,395 thousand against the previous year in net additions to liabilities, mainly due to Eurovida Portugal, S.A. through the increase in mathematical reserves for marketing the Eurovida Poupança Segura and Eurovida Poupança Futuro products, see Note 56.

The operating expenses for real estate investments of €26,685 thousand in 2014, and €21,435 thousand in 2013, derive from properties classified as real estate investments used for leasing.

"Contributions to guarantee funds" relates to both the Deposit Guarantee Fund and the Investment Guarantee Fund, as explained in Note 13. In 2014, the amount recorded corresponds to the ordinary contribution of €116,002 thousand. In 2013, an ordinary contribution of €119,360 thousand was recorded in addition to the extraordinary contribution of €105,367 thousand. See Note 13.

58. PERSONNEL EXPENSES

This profit and loss account line comprises all remuneration accrued during the year by permanent or temporary staff, irrespective of their functions or activities, including the current service cost of pension plans and net of amounts refunded by the social security system or other social provident entities. A breakdown is as follows:

€ thousands	**2014**	**2013**
Salaries and bonuses to serving personnel	701,415	694,632
Social security contributions	184,200	175,707
Provisions for internal pension funds	3,608	3,004
Contributions to external pension funds	26,965	26,894
Severance payments	6,322	7,491
Training expenses	2,756	1,634
Share-based payments	690	-
Other personnel expenses	20,279	19,748
Total	946,235	929,110

The following benefits in kind were allocated to certain employees of the Spanish banks:

€ thousands	**2014**	**2013**
Advances	2,973	3,571
Life insurance	2,136	2,093
Health insurance	142	154
Housing	2,402	1,001
Company shop	1,599	1,575
Total	9,252	8,394

Advances consist of those granted under Article 40 of the Collective Bargaining Agreement for the Banking Sector and are subject to a maximum limit of nine interest-free monthly payments to meet the needs addressed in that agreement. It also includes those intended for the Bank's Share Purchase.

Under this same heading "Remuneration in Kind for initiative and productivity" is recognised, which generates the award of rewards or gifts to employees.

The Life Insurance item relates to all the employees of the Group's banks in Spain.

The housing item relates to properties owned or leased by Group entities and used by its employees.

The following tables provide information on the evolution of the Group's headcount by category, grouped as stipulated in the collective bargaining agreement for the Spanish banking sector, the information on the other Group entities having been brought into line with this, at the end of each year and as annual averages.

	Year-end		Annual average	
	2014	2013	2014	2013
Directors and senior management	87	89	88	85
Technical personnel	12,842	13,075	12,959	13,113
Clerical staff	2,392	2,449	2,439	2,627
Total	15,321	15,613	15,486	15,825

Set out below is the distribution of the Group's workforce for the last two years by gender:

	2014		2013	
	Women	Men	Women	Men
Directors and senior management	21	66	19	70
Technical personnel	4,833	8,009	4,799	8,276
Clerical staff	931	1,461	980	1,469
Total	5,785	9,536	5,798	9,815

Set out below is a breakdown of the Group's workforce by age group and length of service at 31 December 2014 and 2013.

Data as % in 2014	Age						
Years of service	Under From 21	From 21 to 30	From 31 to 40	From 41 to 50	From 51 to 60	Over From 60	Marginal distribution length of service
Under 6	0.00	5.03	2.67	0.85	0.09	0.00	8.64
6 to 10	0.00	2.18	22.03	0.95	0.07	0.00	25.23
From 11 to 20	0.00	0.00	18.02	11.41	0.44	0.05	29.92
From 21 to 30	0.00	0.00	0.02	10.89	4.64	0.08	15.63
From 31 to 40	0.00	0.00	0.00	0.25	11.43	1.86	13.54
From 41 to 50	0.00	0.00	0.00	0.00	5.19	1.85	7.04
Distribution by age group	0.00	7.21	42.74	24.35	21.86	3.84	100.00

Data as % in 2013	Age						
Years of service	Under From 21	From 21 to 30	From 31 to 40	From 41 to 50	From 51 to 60	Over From 60	Marginal distribution length of service
Under 6	0.00	4.10	4.52	0.76	0.07	0.00	9.45
6 to 10	0.00	2.96	23.04	0.88	0.07	0.00	26.95
From 11 to 20	0.00	0.01	16.26	9.93	0.39	0.01	26.60
From 21 to 30	0.00	0.00	0.01	10.89	3.80	0.10	14.80
From 31 to 40	0.00	0.00	0.00	0.37	14.17	1.54	16.08
From 41 to 50	0.00	0.00	0.00	0.00	4.58	1.54	6.12
Distribution by age group	0.00	7.07	43.83	22.83	23.08	3.19	100.00

Group employees with more than 33% disability at 31 December 2014 stood at 153 and at 31 December 2013 there were 121.

59. OTHER GENERAL ADMINISTRATIVE EXPENSES

This heading contains the Group's other administrative expenses, including levies and taxes on its activities, as analysed below:

€ thousands	**2014**	**2013**
On property, plant and equipment:	224,847	203,844
Rent	124,965	128,111
Maintenance of fixed assets	77,331	50,810
Utilities	16,069	17,011
Stationery and office supplies	6,482	7,912
IT	74,411	69,829
Communications	31,175	32,598
Advertising and publicity	34,083	31,711
Legal expenses	20,636	14,349
Technical reports	45,963	26,776
Security and fund transport services	19,792	22,754
Insurance premiums and self-insurance	7,248	7,743
Governance and control bodies	128	84
Travel and entertainment expenses	10,462	8,902
Association dues	3,140	2,850
Outsourced administrative services	145,672	81,712
Levies and taxes:	120,699	119,587
On property	12,541	10,162
Other	108,158	109,425
Contributions to foundations	13,539	5,385
Other expenses	28,255	15,325
Total	780,050	643,449

The supplier payment provisions brought in by Law 15/2010 of 5 July, which amended Law 3/2004 of 29 December, to combat late payment in commercial transactions, included maximum periods for payments between companies and a time frame to bring them into effect. From 1 January 2013 the maximum term is 60 days.

On the basis of centralised information on payments to suppliers, the following table shows the status of payments to suppliers in the last two years, broken down as required by applicable regulations.

	Payments made and pending payment			
€ thousands	**Current year**		**Previous year**	
	Amount	**%**	**Amount**	**%**
Within legal maximum period	533,230	86.42%	417,960	86.26%
Remainder	86,944	13.58%	66,557	13.74%
FY total payments	640,174	100%	484,517	100%
Average payment period (days)*	38.71	-	43.92	-
Deferrals exceeding legal maximum period at year end	2,556	0.40%	9,152	1.89%

* Weighted average excess payment period.

60. DEPRECIATION AND AMORTISATION

This heading comprises the amounts charged to the profit and loss account each year for depreciation and amortisation calculated for each asset category based on their estimated useful lives. Set out below is a breakdown of depreciation and amortisation for the past two years for each category of assets:

€ thousands	**2014**	**2013**
Tangible assets:	61,216	82,305
Tangible assets for own use:	53,582	74,118
IT equipment and installations	15,021	29,965
Furniture, vehicles and other installations	32,368	36,932
Buildings	6,191	7,219
Remainder	2	2
Investment property	7,634	8,187
Other assets leased out under operating leases	-	-
Intangible assets	83,314	68,317
Total	144,530	150,622

61. PROVISIONS (NET)

This heading comprises additions to provisions during the year, net of recoveries of amounts provisioned in prior years, except for additions or contributions to pension funds that are included in personnel expenses for the year.

€ thousands	**2014**	**2013**
Provisions for pension funds and similar obligations:	13,691	1,914
Pension funds	85	2,668
Early retirements	13,127	(1,580)
Payments to pensioners	479	826
Extraordinary contributions to defined contribution plans	-	-
Provisions for taxes	(476)	(3,695)
Provisions for contingent risks and commitments:	(51,346)	88,246
For contingent risks	(51,346)	88,246
For contingent commitments	-	-
Other provisions	(6,575)	305
Total	(44,706)	86,770

62. IMPAIRMENT LOSSES ON FINANCIAL ASSETS (NET)

This heading comprises of the amounts of impairment losses on financial assets, net of recoveries of amounts provisioned in prior years, in accordance with the principles described in Note 15.h) to these consolidated financial statements. A breakdown of these impairment losses by asset type is as follows:

€ thousands	**2014**	**2013**
Available-for-sale financial assets (Note 22)	18,000	33,557
Loans and receivables (Note 23)	1,690,832	1,133,905
Held-to-maturity portfolio (Note 24)	-	-
Total	1,708,832	1,167,462

63. IMPAIRMENT LOSSES ON OTHER ASSETS (NET)

This heading relates basically to losses from the impairment of non-financial assets and equity instruments classed as investments, net of recoveries of amounts provisioned in prior years, which have not been classified as non-current assets held for sale.

Set out below is a breakdown of this income statement heading for 2014 and 2013:

€ thousands	**2014**	**2013**
Intangible assets:	-	30,000
Goodwill	-	30,000
Other intangible assets	-	-
Other assets:	(30,318)	138,503
Tangible assets	6,353	100,118
Investments	4,099	3,500
Other assets	(40,770)	34,885
Total	(30,318)	168,503

64. GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT HELD FOR SALE

This heading reflects gains and losses on the sale of tangible and intangible assets and investments that do not fulfil the requirements to be classified as non-current assets held for sale, as can be seen in Note 31. A breakdown by nature of assets is set out below:

€ thousands	**Gains**		**Losses**		**Net**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Tangible assets	116,123	95,090	92,412	65,906	23,711	29,184
Other (*)	49,245	843,181	-	-	49,245	843,181
Investments (**)	429,913	79,565	4,830	4,838	425,083	74,727
Intangible assets	-	-	-	-	-	-
Total	595,281	1,017,836	97,242	70,744	498,039	947,092

(*) In 2014, Other includes gains on sales of the depositary business unit in its entirety.
In 2013 the same item, Other, included capital gains on the sale of the Real Estate Management Business (€710,256 thousand) and on the sale of the Recovery Business (€132,925 thousand).
(**) In 2014 gains on investments consist of the capital gain on the sale of 51% of Banco Popular-e (€419,270 thousand, of which €208,963 thousand relate to revaluation of retained investments) and the rest, amounting to €10,643 thousand relates to divestment of small investments in Group companies such as Finisterre, Cartera Premium and Platja Amplaries. This is in addition to returns from the earn-out contract (from the Sonata transaction carried out in previous years).
In 2013, investments mainly include capital gains on the sale of the ATM business (€56,143 thousand) and on the sale of the Life Insurance and Pensions business of Pastor Vida, which generated a net capital gain of €21,493 thousand, as explained in Note 8 Business Combinations.

65. NEGATIVE DIFFERENCE ON BUSINESS COMBINATIONS

In 2014 and 2013, the Group did not complete any business combinations in which the cost of the business combination was lower than the fair value of the assets, liabilities and contingent liabilities acquired.

66. GAINS/(LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS

This heading reflects gains and losses on the disposal of non-current assets or disposal groups, including associated liabilities, classified as for sale but not as discontinued operations, and impairment losses on such assets, net of recoveries.

It also includes gains and losses on the sale of strategic equity instruments classified as available for sale, even where the instruments were not carried as non-current assets held for sale in a previous balance sheet.

Set out below is a breakdown of this heading as at 31 December 2014 and 2013 (Note 27):

€ thousands	**2014**	**2013**
Gains on non-current tangible assets held for sale	301,232	153,311
Losses on non-current tangible assets held for sale	(353,219)	(138,383)
Impairment loss on non-current assets	(444,471)	(1,013,418)
Total	(496,458)	(998,490)

67. PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

This heading shows the profit or loss generated during the year attributable to minority shareholders and related adjustments.

The breakdown of this consolidated profit and loss account item for the past two years is as follows:

€ thousands	**2014**	**2013**
Credit institutions		
Deposit-taking institutions:		
Popular Banca Privada, S.A.	-	2,595
Financing institutions:		
Popular Factoring, S.A. (Portugal)	6	6
Holding and services companies:		
Popular Gestión Privada, S.G.I.I.C., S.A.	-	173
Grupo La Toja Hoteles, S.A.	80	72
Special-purpose entities:		
Fundo Popular Predifundo	(602)	-
Urbanizadora Española, S.A.	2	4
Total	(514)	2,850

68. INFORMATION ON RELATED PARTIES

The amounts recognised in the financial statements arising from transactions with related parties other than Group, subsidiaries, and joint ventures or associates are negligible, and there are no significant transactions on which additional information needs to be provided.

All transactions with significant shareholders, directors and executives form part of the Group's ordinary business and are carried out at arm's length. Specifically, risks on directors and senior managers, including persons related to them, break down as follows: €142,617 thousand in loans and credit lines; €766 thousand in finance leases and €17,477 thousand in guarantees. Interest rates on the loans and credit lines vary between 0.380% and 6.750%; finance leases range between 1.310% and 6.000%; and guarantee commissions are maintained at 0.000% quarterly.

Additionally, transactions with Group companies, subsidiaries, joint ventures and associates are carried out at arm's length and eliminated on consolidation when appropriate.

The Group has no doubtful debts with related parties.

Set out below is a breakdown by basic balance sheet and income statement heading of balances relating to transactions with significant shareholders, directors and executives of the Group companies under "Other related parties", and balances relating to transactions between Group companies, subsidiaries, joint ventures and associates.

The amounts reflected in paragraph two of this note relate to significant shareholders, directors and executives of Banco Popular and therefore differ from those shown in table as "Other related parties", which include amounts relating to other Group companies.

Transactions between related parties are detailed below:

€ thousands	**Related Parties**		**Subsidiaries**		**Joint ventures**		**Associates**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Assets								
Loans and advances to customers	322,440	314,776	13,948,712	13,635,787	939,849	646,643	508,822	567,373
Liabilities								
Customer deposits	571,100	649,523	27,109,794	26,387,465	196,490	57,573	385,419	872,820
Debt certificates	53,337	-	3,691,089	6,747,889	1,000,000	-	-	-
Contingent risks	17,760	17,460	1,680,750	1,749,657	175,934	433,979	24,336	29,231
Contingent commitments	-	-	796,817	1,525,146	545,992	9,824	5,606	14,176
Earnings	**Dec 2014**	**Dec 2013**	**Dec 2014**	**Dec 2013**	**Dec 2014**	**Dec 2013**	**Dec 2014**	**Dec 2013**
Interest received	9,771	5,944	725,604	926,877	18,446	9,820	14,469	23,247
Interest paid	8,559	6,515	674,320	865,711	18,452	9,834	5,779	8,658
Commissions and fees received	915	213	108,773	86,291	15,167	16,480	86,134	36,021
Fee and commission expenses	-	4	140,704	127,257	14,731	16,338	-	-

69. SECURITISATIONS

The following table shows the accounting situation of securitised assets:

€ thousands	2014	2013
Loans and receivables removed from the balance sheet	1,292,259	1,443,107
Mortgage assets securitised through mortgage investments	1,241,715	1,394,607
Mortgage assets securitised through mortgage transfer certificates	30,212	28,990
Other assets securitised	20,332	19,510
Other transfers to credit institutions	-	-
Other transfers	-	-
Memorandum items: Removed from the balance sheet before 1 January 2004	*82,821*	*98,608*
Retained in full in the balance sheet (Note 23)	2,360,568	3,465,963
Mortgage assets securitised through mortgage investments	-	-
Mortgage assets securitised through mortgage transfer certificates	1,305,751	1,545,604
Other assets securitised	991,074	1,869,274
Other transfers to credit institutions	63,743	51,085
Other transfers	-	-
Partly removed	-	-
Partly retained	-	-
Total	3,652,827	4,909,070

In 2014, the Group did not carry out any new securitisation.

In February 2013, the Group securitised receivables deriving from loans granted to SMEs in the amount of €2,650 million through the securitisation fund IM Grupo Banco Popular Empresas V, FTA.

The Group acquired all the notes issued by the fund, as listed below:

€ thousands	Amount issued	Rating (*)
Series A	1,987,500	A3
Series B	662,500	Ba3
Total	2,650,000	

(*) Moody's

In the case of securitisations that had been removed from the balance sheet as at 31 December 2014 as a result of the risks and benefits having been transferred to third parties, there is no continuing involvement. In addition, the Group is not exposed to losses from financial assets derecognised in the accounts.

The Group did not recognise any gain or loss on the transfer date of the assets, since these transactions originated in the Banco Pastor Group prior to 16 February 2012, the date on which this entity was acquired, and no income or expense was recognised in 2014 or 2013 in respect of continuing involvement.

Set out below are the amounts issued by the various securitisation funds included in the above table, together with the date of incorporation and outstanding balances of the securitisation notes issued as at 31 December 2014 and 2013.

€ thousands	Issue date	Amount issued	Outstanding nominal balance as at:	
			2014	2013
TDA 13 (1) and (2)	Dec 2000	150,300	12,922	15,791
TDA Pastor 1 (1) and (2)	Feb 2003	494,600	69,899	82,817
IM Pastor 2 (1)	Jun 2004	1,000,000	201,855	231,728
IM Banco Popular FTPYME1, FTA	Dec 2004	2,000,000	102,755	135,400
IM Pastor 3 (1)	Jun 2005	1,000,000	279,543	308,644
EDT FTPYME Pastor 3 (3)	Dec 2005	520,000	19,134	24,729
IM Pastor 4 (1)	Jun 2006	920,000	359,374	394,457
IM Grupo Banco Popular Empresas 1, FTA	Sept 2006	1,832,400	198,864	248,544
GC FTPYME Pastor 4 (3)	Nov 2006	630,000	62,701	66,601
IM Grupo Banco Popular FTPYME I, FTA	Dec 2006	2,030,000	267,831	342,906
TDA Pastor CONSUMO 1 (1)	Apr 2007	300,000	23,138	31,159
GC Pastor HIPOTECARIO 5 (1)	Jun 2007	710,500	345,527	378,511
IM Grupo Banco Popular FTPYME II, FTA	Jul 2007	2,039,000	179,492	233,526
IM Banco Popular MBS 2, FTA	Mar 2010	685,000	493,126	530,872
IM Grupo Banco Popular Empresas V, FTA	Feb 2013	2,650,000	1,181,495	2,053,628
Total			3,797,656	5,079,313

(1) Securitisations kept off-balance-sheet arising from the integration of Banco Pastor.

(2) Securitisations prior to 1 January 2004 arising from the integration of Banco Pastor.

(3) Securitisations retained in the balance sheet arising from the integration of Banco Pastor.

The majority of the note issues have been rated by the principal rating agencies: Fitch Ratings, Moody´s and Standard & Poor´s having granted the highest credit ratings for all the notes issued except for those that are subordinated, a very small percentage of the total issued. This may be observed in the following table

€ thousands		Notes with the highest rating		Subordinated notes	
	Notes issued	Amount	%	Amount	%
IM Banco Popular MBS 2, FTA	685,000	596,000	87.01%	89,000	12.99%
IM Banco Popular FTPYME I, FTA	2,000,000	1,929,000	96.45%	71,000	3.55%
IM Grupo Banco Popular Empresas I, FTA	1,832,400	1,800,000	98.23%	32,400	1.77%
IM Grupo Banco Popular FTPYME I, FTA	2,030,000	2,000,000	98.52%	30,000	1.48%
IM Grupo Banco Popular FTPYME II, FTA	2,039,000	2,000,000	98.09%	39,000	1.91%
IM Grupo Banco Popular Empresas V, FTA	2,650,000	1,987,500	75.00%	662,500	25.00%
TDA 13 Mixto	150,300	150,300	100.00%	-	0.00%
TDA Pastor 1	494,600	490,900	99.25%	3,700	0.75%
TDA Pastor CONSUMO 1	300,000	300,000	100.00%	-	0.00%
IM Pastor 2	1,000,000	993,500	99.35%	6,500	0.65%
IM Pastor 3	1,000,000	1,000,000	100.00%	-	0.00%
IM Pastor 4	920,000	913,100	99.25%	6,900	0.75%
EDT FTPYME Pastor 3	520,000	504,600	97.04%	15,400	2.96%
GC FTPYME Pastor 4	630,000	617,400	98.00%	12,600	2.00%
GC Pastor HIPOTECARIO 5	710,500	700,000	98.52%	10,500	1.48%
Total	16,961,800	15,982,300	94.23%	979,500	5.77%

Of the nominal amount outstanding at year-end 2014 and 2013, the Group holds notes representing these issues in its portfolio. On the one hand, the notes represent the expected loss on the securitised loan portfolio, which precludes the derecognition of the securitised loans, and on the other hand the Group also retains instruments that can be pledged with Banco de España or the European Central Bank as collateral for a second liquidity line. In both cases, the amounts held by Group banks are eliminated in the consolidation process, the amounts as at 31 December 2014 and 2013 being as follows:

€ thousands	**2014**	**2013**
IM Banco Popular FTPYME1, FTA	84,001	91,380
IM Grupo Banco Popular Empresas 1, FTA	115,534	153,135
IM Grupo Banco Popular FTPYME I, FTA	87,889	137,585
IM Grupo Banco Popular FTPYME II, FTA	134,843	134,088
IM Banco Popular MBS 2, FTA	493,126	530,872
IM Grupo Banco Popular Empresas V, FTA	1,181,495	2,053,628
GC FTPYME PASTOR 4	235	206
EDT FTPYME PASTOR 3	1,000	1,000
Total	2,098,123	3,101,894

70. EVENTS AFTER THE REPORTING PERIOD

On 8 January 2015, the third capital increase charged against 2013 reserves was approved and its conditions were reported to the market. On 27 January 2015, the period for negotiating allocation rights for the third capital increase ended. This led to the a capital increase of €3,751,066.50 (through the issue of 7,502,133 new shares each with a nominal value of €0.50) with 84.28% of the shareholders holding free allocation rights having chosen to receive new shares. The remaining 15.72% free allocation rights holders exercised the irrevocable commitment to acquiring rights assumed by the Bank, whereby it acquired 330,265,254 rights for a total gross amount of €5,944,774.57. The Bank renounced the free allocation rights acquired in this way.

APPENDIX I
Consolidated statements of sectoral information for the year ended 31 December 2014

(€ thousands)

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
ASSETS					
Cash and balances with central banks	1,265,168	4	16	(72,374)	1,192,814
Financial instruments held for trading	1,649,183	40,339	-	122	1,689,644
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-
Debt securities	-	40,339	-	-	40,339
Other equity instruments	163,923	-	-	-	163,923
Trading derivatives	1,485,260	-	-	122	1,485,382
Memorandum items: Loaned or pledged	-	-	-	-	-
Other financial assets at fair value through profit or loss	-	551,912	-	(41,113)	510,799
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-
Debt securities	-	392,657	-	(41,113)	351,544
Other equity instruments	-	159,255	-	-	159,255
Memorandum items: Loaned or pledged	-	-	-	-	-
Available-for-sale financial assets	29,300,652	337,479	676	126,545	29,765,352
Debt securities	28,923,690	313,508	-	126,704	29,363,902
Other equity instruments	376,962	23,971	676	(159)	401,450
Memorandum items: Loaned or pledged	20,171,376	-	-	-	20,171,376
Loans and receivables	109,998,634	197,765	17,275	(2,386,058)	107,827,616
Loans and advances to credit institutions	5,138,213	197,765	6,307	(292,333)	5,049,952
Loans and advances to customers	102,665,680	-	10,968	(2,093,725)	100,582,923
Debt securities	2,194,741	-	-	-	2,194,741
Memorandum items: Loaned or pledged	9,975,241	-	-	-	9,975,241
Held-to-maturity portfolio	-	138,316	-	(138,316)	-
Memorandum items: Loaned or pledged	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	261,023	-	-	-	261,023
Hedging derivatives	428,564	-	-	12,592	441,156
Non-current assets held for sale	8,210,151	-	-	(8,773)	8,201,378
Investments	1,139,643	7,500	106	723,536	1,870,785
Associates	874,540	-	-	-	874,540
Joint ventures	-	-	-	996,245	996,245
Group companies	265,103	7,500	106	(272,709)	-
Insurance contracts linked to pensions	209,730	7	-	(47,083)	162,654
Reinsurance assets	-	16,921	-	-	16,921
Tangible assets	1,693,840	49	48,461	(31,126)	1,711,224
Property, plant and equipment	775,425	49	673	(18,978)	757,169
For own use	765,086	49	673	(18,978)	746,830
Leased out under operating lease	10,339	-	-	-	10,339
Assigned to social projects	-	-	-	-	-
Investment property	918,415	-	47,788	(12,148)	954,055
Memorandum items: Acquired under finance leases	-	-	-	-	-
Intangible assets	3,374,327	286	2,110	(884,048)	2,492,675
Goodwill	2,656,297	-	-	(597,827)	2,058,470
Other intangible assets	718,030	286	2,110	(286,221)	434,205
Tax assets	3,593,695	9,175	20,754	(5,526)	3,618,098
Current	178,915	1,816	4,718	(3,839)	181,610
Deferred	3,414,780	7,359	16,036	(1,687)	3,436,488
Other assets	1,552,916	2,395	241,908	(102,880)	1,694,339
Inventories	693,980	-	167,557	19,547	881,084
Other	858,936	2,395	74,351	(122,427)	813,255
Total assets	162,677,526	1,302,148	331,306	(2,854,502)	161,456,478

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
LIABILITIES					
Financial instruments held for trading	1,397,247	-	-	142	1,397,389
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Customer deposits	-	-	-	-	-
Debt certificates	-	-	-	-	-
Trading derivatives	1,397,247	-	-	142	1,397,389
Short positions	-	-	-	-	-
Other financial liabilities	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	649,354	-	-	649,354
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Customer deposits	-	-	-	-	-
Debt certificates	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-
Other financial liabilities	-	649,354	-	-	649,354
Financial liabilities at amortised cost	144,427,267	21,187	300,254	(2,520,930)	142,227,778
Deposits from central banks	9,993,427	-	-	-	9,993,427
Deposits from credit institutions	17,641,956	190	287,915	(216,330)	17,713,731
Customer deposits	98,130,348	-	2	(2,094,154)	96,036,196
Debt certificates	16,005,115	-	-	(43,097)	15,962,018
Subordinated liabilities	1,424,650	4,000	-	(4,005)	1,424,645
Other financial liabilities	1,231,771	16,997	12,337	(163,344)	1,097,761
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-	-	-	-
Hedging derivatives	2,119,005	-	-	42,069	2,161,074
Liabilities associated with non-current assets held for sale	-	-	-	-	-
Liabilities under insurance contracts	-	414,755	-	69,029	483,784
Provisions	471,368	-	1,102	(2,472)	469,998
Provisions for pensions and similar liabilities	295,150	-	-	(1,497)	293,653
Provisions for taxes	31,884	-	-	(104)	31,780
Provisions for contingent risks and commitments	122,143	-	-	(871)	121,272
Other provisions	22,191	-	1,102	-	23,293
Tax liabilities	725,984	1,792	911	(10,228)	718,459
Current	125,043	536	911	(29,443)	97,047
Deferred	600,941	1,256	-	19,215	621,412
Other liabilities	866,842	8,381	3,412	(199,860)	678,775
Total liabilities	150,007,713	1,095,469	305,679	(2,622,250)	148,786,611

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
EQUITY					
Shareholders' Equity	12,783,396	204,585	25,627	(230,212)	12,783,396
Common Stock	1,050,384	24,100	20,222	(44,322)	1,050,384
Issued +	1,050,384	24,100	20,222	(44,322)	1,050,384
Minus: uncalled capital (-)	-	-	-	-	-
Share premium	7,132,590	-	45,583	(45,583)	7,132,590
Reserves	3,630,267	165,486	(34,755)	(130,731)	3,630,267
Accumulated reserves (losses)	3,610,903	165,486	(34,755)	(97,822)	3,643,812
Reserves (losses) of equity method companies	19,364	-	-	(32,909)	(13,545)
Other equity instruments	643,198	-	-	-	643,198
From compound financial instruments	-	-	-	-	-
Other equity instruments	643,198	-	-	-	643,198
Minus: Treasury shares	(3,458)	-	-	-	(3,458)
Profit (loss) attributable to the parent company	330,415	14,999	(5,423)	(9,576)	330,415
Minus: Dividends and remuneration	-	-	-	-	-
Valuation adjustments	(133,077)	2,094	-	(2,094)	(133,077)
Available-for-sale financial assets	(148,320)	2,094	-	16,585	(129,641)
Cash flow hedges	(25,959)	-	-	2,379	(23,580)
Hedges of net investment in foreign operations	-	-	-	-	-
Exchange differences	54,710	-	-	-	54,710
Non-current assets held for sale	-	-	-	-	-
Entities accounted for using the equity method	20,095	-	-	(20,762)	(667)
Other valuation adjustments	(33,603)	-	-	(296)	(33,899)
Non-controlling interests	19,494	-	-	54	19,548
Valuation adjustments	-	-	-	-	-
Remainder	19,494	-	-	54	19,548
Total Equity	12,669,813	206,679	25,627	(232,252)	12,669,867
Total Equity and Liabilities	162,677,526	1,302,148	331,306	(2,854,502)	161,456,478
Memorandum items					
Contingent risks	12,616,975	-	-	(62,827)	12,554,148
Contingent commitments	11,609,231	-	-	(2,753,992)	8,855,239

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2014

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
Interest and similar income	4,215,940	40,391	5,276	(94,373)	4,167,234
Interest and similar expenses	1,856,391	1,525	6,759	(28,832)	1,835,843
Remuneration of capital repayable on demand	-	-	-	-	-
NET INTEREST INCOME	2,359,549	38,866	(1,483)	(65,541)	2,331,391
Return on equity instruments	11,355	3,037	-	(3)	14,389
Share of profits (losses) of entities accounted for using the equity method	18,716	-	-	14,676	33,392
Fee and commission income	768,565	12,641	167	(41,973)	739,400
Fee and commission expenses	104,181	8,071	-	(27,559)	84,693
Net gains (losses) on financial assets and liabilities	837,877	(17,060)	7	(215)	820,609
Financial instruments held for trading	32,427	-	-	(208)	32,219
Other financial instruments at fair value through profit and loss	(80)	(24,578)	-	(10)	(24,668)
Financial instruments not at fair value through profit and loss	778,903	7,518	7	1	786,429
Other	26,627	-	-	2	26,629
Exchange differences (net)	45,641	2,677	(2)	(1,084)	47,232
Other operating income	244,218	135,147	23,933	(60,818)	342,480
Income from insurance and reinsurance contracts issued	-	134,542	-	(390)	134,152
Sales and income from provision of non-financial services	-	604	17,982	(43)	18,543
Other operating income	244,218	1	5,951	(60,385)	189,785
Other operating expenses	214,763	136,574	22,665	(5,835)	368,167
Insurance and reinsurance contract expenses	-	136,384	-	(525)	135,859
Change in inventories	-	-	17,414	(1,088)	16,326
Remainder of other operating expenses	214,763	190	5,251	(4,222)	215,982
GROSS INCOME	3,966,977	30,663	(43)	(121,564)	3,876,033
Administration expenses	1,790,094	7,736	6,301	(77,846)	1,726,285
Personnel expenses	976,366	3,781	1,599	(35,511)	946,235
Other general administrative expenses	813,728	3,955	4,702	(42,335)	780,050
Depreciation and amortisation	163,447	327	788	(20,032)	144,530
Provisioning expense (net)	(44,278)	-	-	(428)	(44,706)
Impairment losses on financial assets (net)	1,724,067	1,347	598	(17,180)	1,708,832
Loans and receivables	1,707,414	-	598	(17,180)	1,690,832
Other financial instruments not carried at fair value through profit or loss	16,653	1,347	-	-	18,000
Financial assets valued at cost	-	-	-	-	-
Available-for-sale financial assets	16,653	1,347	-	-	18,000
Held-to-maturity portfolio	-	-	-	-	-
NET OPERATING INCOME	333,647	21,253	(7,730)	(6,078)	341,092
Impairment losses on other assets (net)	(45,130)	-	(117)	14,929	(30,318)
Goodwill and other intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	(45,130)	-	(117)	14,929	(30,318)
Property, plant and equipment	1,662	-	-	(60)	1,602
Investment property	702	-	-	4,049	4,751
Investments	4,099	-	-	-	4,099
Remainder	(51,593)	-	(117)	10,940	(40,770)
Gains (losses) on disposal of assets not classified as non-current held for sale	498,116	-	(94)	17	498,039
Negative difference on business combinations	-	-	-	-	-
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	(497,932)	-	(25)	1,499	(496,458)
PROFIT/(LOSS) BEFORE TAX	378,961	21,253	(7,732)	(19,491)	372,991
Income tax	49,060	6,254	(2,309)	(9,915)	43,090
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	329,901	14,999	(5,423)	(9,576)	329,901
Profit (loss) from discontinued operations (net)	-	-	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	329,901	14,999	(5,423)	(9,576)	329,901
Profit attributable to the parent company	330,415	14,999	(5,423)	(9,576)	330,415
Profit attributable to non-controlling interests	(514)	-	-	-	(514)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31

DECEMBER 2014

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
A.) CONSOLIDATED PROFIT/(LOSS)	329,901	14,999	(5,423)	(9,576)	329,901
B.) OTHER COMPREHENSIVE NET INCOME	213,848	2,094	-	(2,094)	213,848
B.1) Items that will not be reclassified to profit or loss	(20,903)	-	-	(296)	(21,199)
1. Actuarial profit /(loss) in defined benefit pension plans	(28,415)	-	-	(422)	(28,837)
2. Non-current assets held for sale	-	-	-	-	-
3. Entities accounted for using the equity method	-	-	-	-	-
4. Income tax relating to items that will not be reclassified to profit or loss	7,512	-	-	126	7,638
B.2) Items that may be reclassified to profit or loss	234,751	2,094	-	(1,798)	235,047
1. Available-for-sale financial assets	302,058	2,608	-	20,373	325,039
1.1. Valuation gains/(losses)	997,848	8,779	-	20,381	1,027,008
1.2. Amounts transferred to profit and loss account	695,790	6,171	-	8	701,969
1.3. Other reclassifications	-	-	-	-	-
2. Cash flow hedges	(47,920)	-	-	3,398	(44,522)
2.1. Valuation gains/(losses)	(47,920)	-	-	3,398	(44,522)
2.2. Amounts transferred to profit and loss account	-	-	-	-	-
2.3. Amounts transferred at initial carrying amount of hedged items	-	-	-	-	-
2.4. Other reclassifications	-	-	-	-	-
3. Hedges of net investment in foreign operations	-	-	-	-	-
3.1. Valuation gains/(losses)	-	-	-	-	-
3.2. Amounts transferred to profit and loss account	-	-	-	-	-
3.3. Other reclassifications	-	-	-	-	-
4. Exchange differences	59,055	-	-	-	59,055
4.1. Valuation gains/(losses)	59,055	-	-	-	59,055
4.2. Amounts transferred to profit and loss account	-	-	-	-	-
4.3. Other reclassifications	-	-	-	-	-
5. Non-current assets held for sale	-	-	-	-	-
5.1. Valuation gains/(losses)	-	-	-	-	-
5.2. Amounts transferred to profit and loss account	-	-	-	-	-
5.3. Other reclassifications	-	-	-	-	-
7. Entities accounted for using the equity method	17,503	-	-	(18,170)	(667)
7.1. Valuation gains/(losses)	17,503	-	-	(18,170)	(667)
7.2. Amounts transferred to profit and loss account	-	-	-	-	-
7.3. Other reclassifications	-	-	-	-	-
8. Other comprehensive income	-	-	-	-	-
9. Income tax relating to Items that may be reclassified to results	(95,945)	(514)	-	(7,399)	(103,858)
C.) TOTAL RECOGNISED INCOME AND EXPENSIVE (A+B)	543,749	17,093	(5,423)	(11,670)	543,749
C.1.) Profit attributable to the parent company	547,407	17,093	(5,423)	(11,670)	547,407
C.2.) Profit attributable to non-controlling interests	(3,658)	-	-	-	(3,658)

Consolidated statements of sectoral information for the year ended 31 December 2013

(€ thousands)

CONSOLIDATED BALANCE SHEET AS AT 31/12/2013

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
ASSETS					
Cash and balances with central banks	2,835,024	2	15	(8,203)	2,826,838
Financial instruments held for trading	1,362,571	148,323	-	(320)	1,510,574
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-
Debt securities	106,644	147,348	-	(377)	253,615
Other equity instruments	200,392	974	-	-	201,366
Trading derivatives	1,055,535	1	-	57	1,055,593
Memorandum items: Loaned or pledged	-	-	-	-	-
Other financial assets at fair value through profit or loss	-	437,969	-	(74,289)	363,680
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-
Debt securities	-	322,495	-	(74,289)	248,206
Other equity instruments	-	115,474	-	-	115,474
Memorandum items: Loaned or pledged	-	-	-	-	-
Available-for-sale financial assets	15,885,324	204,678	1,627	83,509	16,175,138
Debt securities	15,533,843	178,084	949	83,578	15,796,454
Other equity instruments	351,481	26,594	678	(69)	378,684
Memorandum items: Loaned or pledged	11,261,156	-	-	-	11,261,156
Loans and receivables	109,048,369	150,269	19,253	(1,182,304)	108,035,587
Loans and advances to credit institutions	5,413,294	150,134	4,514	(36,406)	5,531,536
Loans and advances to customers	102,255,020	135	14,739	(1,145,898)	101,123,996
Debt securities	1,380,055	-	-	-	1,380,055
Memorandum items: Loaned or pledged	22,798,889	-	-	-	22,798,889
Held-to-maturity portfolio	-	148,253	-	(148,253)	-
Memorandum items: Loaned or pledged	-	-	-	-	-
Adjustments to financial assets in respect of macro-hedges	159,571	-	-	-	159,571
Hedging derivatives	568,780	-	-	10,249	579,029
Non-current assets held for sale	6,300,549	-	-	(3,948)	6,296,601
Investments	1,091,097	7,500	106	164,433	1,263,136
Associates	841,555	-	-	-	841,555
Joint ventures	-	-	-	421,581	421,581
Group companies	249,542	7,500	106	(257,148)	-
Insurance contracts linked to pensions	182,136	-	-	(39,188)	142,948
Reinsurance assets	-	14,462	-	-	14,462
Tangible assets	1,827,651	72	51,362	(43,182)	1,835,903
Property, plant and equipment	841,496	72	803	(17,608)	824,763
For own use	815,336	72	803	(17,608)	798,603
Leased out under operating lease	26,160	-	-	-	26,160
Assigned to social projects	-	-	-	-	-
Investment property	986,155	-	50,559	(25,574)	1,011,140
Memorandum items: Acquired under finance leases	-	-	-	-	-
Intangible assets	2,979,417	527	14	(522,408)	2,457,550
Goodwill	2,566,583	-	-	(523,103)	2,043,480
Other intangible assets	412,834	527	14	695	414,070
Tax assets	3,561,110	13,122	13,694	(71,099)	3,516,827
Current	448,454	-	5,716	(74,778)	379,392
Deferred	3,112,656	13,122	7,978	3,679	3,137,435
Other assets	1,278,107	5,606	258,101	(10,180)	1,531,634
Inventories	531,489	-	186,995	(3,228)	715,256
Other	746,618	5,606	71,106	(6,952)	816,378
Total assets	147,079,706	1,130,783	344,172	(1,845,183)	146,709,478

CONSOLIDATED BALANCE SHEET AS AT 31/12/2013

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
LIABILITIES					
Financial instruments held for trading	954,284	-	-	142	954,426
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Customer deposits	-	-	-	-	-
Debt certificates	-	-	-	-	-
Trading derivatives	954,284	-	-	142	954,426
Short positions	-	-	-	-	-
Other financial liabilities	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	601,029	-	338	601,367
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Customer deposits	-	-	-	-	-
Debt certificates	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-
Other financial liabilities	-	601,029	-	338	601,367
Financial liabilities at amortised cost	131,584,006	18,628	299,690	(1,589,167)	130,313,157
Deposits from central banks	3,417,099	-	-	-	3,417,099
Deposits from credit institutions	18,426,850	653	274,618	(425,998)	18,276,123
Customer deposits	90,224,849	-	2	(963,029)	89,261,822
Debt certificates	16,386,426	-	-	(104,051)	16,282,375
Subordinated liabilities	2,324,599	4,000	-	(4,580)	2,324,019
Other financial liabilities	804,183	13,975	25,070	(91,509)	751,719
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-	-	-	-
Hedging derivatives	1,435,472	-	-	38,277	1,473,749
Liabilities associated with non-current assets held for sale	-	-	-	-	-
Liabilities under insurance contracts	-	258,729	-	112,582	371,311
Provisions	529,853	-	3,603	(492)	532,964
Provisions for pensions and similar liabilities	298,242	-	-	(30)	298,212
Provisions for taxes	52,877	-	2,498	-	55,375
Provisions for contingent risks and commitments	160,492	-	-	(462)	160,030
Other provisions	18,242	-	1,105	-	19,347
Tax liabilities	457,484	16,610	1,098	10,909	486,101
Current	162,045	16,445	1,098	(489)	179,099
Deferred	295,439	165	-	11,398	307,002
Other liabilities	643,313	45,877	2,742	(191,308)	500,624
Total liabilities	135,604,412	940,873	307,133	(1,618,719)	135,233,699

CONSOLIDATED BALANCE SHEET AS AT 31/12/2013

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
EQUITY					
Shareholders' Equity	11,774,471	189,743	37,039	(226,782)	11,774,471
Common Stock	948,276	24,100	22,371	(46,471)	948,276
Issued +	948,276	24,100	22,371	(46,471)	948,276
less: uncalled capital (-)	-	-	-	-	-
Share premium	6,405,111	-	45,583	(45,583)	6,405,111
Reserves	3,523,049	94,436	(23,806)	(70,630)	3,523,049
Accumulated reserves (losses)	3,492,142	94,436	(23,806)	12,925	3,575,697
Reserves (losses) of companies accounted for using the equity method	30,907	-	-	(83,555)	(52,648)
Other equity instruments	646,531	-	-	-	646,531
From compound financial instruments	-	-	-	-	-
Other equity instruments	646,531	-	-	-	646,531
Less: Treasury shares	(39)	-	-	-	(39)
Profit for year attributable to the parent company	251,543	71,207	(7,109)	(64,098)	251,543
Less: Dividends and remuneration	-	-	-	-	-
Valuation adjustments	(350,069)	167	-	(167)	(350,069)
Available-for-sale financial assets	(365,394)	167	-	1,769	(363,458)
Cash flow hedges	7,502	-	-	-	7,502
Hedges of net investment in foreign operations	-	-	-	-	-
Exchange differences	17,931	-	-	-	17,931
Non-current assets held for sale	-	-	-	-	-
Entities accounted for using the equity method	2,592	-	-	(1,936)	656
Other valuation adjustments	(12,700)	-	-	-	(12,700)
Non-controlling interests	51,323	-	-	54	51,377
Valuation adjustments	3,144	-	-	-	3,144
Remainder	48,179	-	-	54	48,233
Total Equity	11,475,725	189,910	37,039	(226,895)	11,475,779
Total Equity and Liabilities	147,080,137	1,130,783	344,172	(1,845,614)	146,709,478
Memorandum items					
Contingent risks	14,640,769	-	-	108,247	14,749,016
Contingent commitments	10,868,081	-	-	(234,817)	10,633,264

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2013

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
Interest and similar income	4,828,295	39,184	6,048	(10,530)	4,862,997
Interest and similar expenses	2,454,083	1,432	6,533	(10,516)	2,451,532
Remuneration of capital repayable on demand	-	-	-	-	-
NET INTEREST INCOME	2,374,212	37,752	(485)	(14)	2,411,465
Return on equity instruments	14,700	3,090	-	-	17,790
Share of profits (losses) of entities accounted for using the equity method	74,662	-	-	(42,398)	32,264
Fee and commission income	888,280	12,295	178	(6,657)	894,096
Fee and commission expenses	136,503	4,197	-	(5,863)	134,837
Net gains (losses) on financial assets and liabilities	479,875	(18,774)	-	-	461,101
Financial instruments held for trading	23,668	-	-	-	23,668
Other financial instruments at fair value through profit and loss	(167)	(24,414)	-	-	(24,581)
Financial instruments not at fair value through profit and loss	429,953	5,640	-	-	435,593
Other	26,421	-	-	-	26,421
Exchange differences (net)	53,206	(786)	-	-	52,420
Other operating income	76,083	95,554	24,927	(4,042)	192,522
Income from insurance and reinsurance contracts issued	-	94,812	-	(928)	93,884
Sales and income from provision of non-financial services	-	734	19,949	(1,160)	19,523
Other operating income	76,083	8	4,978	(1,954)	79,115
Other operating expenses	292,623	61,790	26,450	(5,293)	375,570
Insurance and reinsurance contract expenses	-	61,294	-	(2,877)	58,417
Change in inventories	-	-	21,760	(517)	21,243
Remainder of other operating expenses	292,623	496	4,690	(1,899)	295,910
GROSS INCOME	3,531,892	63,144	(1,830)	(41,955)	3,551,251
Administration expenses	1,560,231	9,293	3,391	(356)	1,572,559
Personnel expenses	923,046	4,538	1,035	491	929,110
Other general administrative expenses	637,185	4,755	2,356	(847)	643,449
Depreciation and amortisation	149,114	397	515	596	150,622
Provisions (net)	85,890	-	880	-	86,770
Impairment losses on financial assets (net)	1,164,939	852	3,183	(1,512)	1,167,462
Loans and receivables	1,132,390	-	3,027	(1,512)	1,133,905
Other financial instruments not at fair value through profit and loss	32,549	852	156	-	33,557
Financial assets valued at cost	-	-	-	-	-
Available-for-sale financial assets	32,549	852	156	-	33,557
Held-to-maturity portfolio	-	-	-	-	-
NET OPERATING INCOME	571,718	52,602	(9,799)	(40,683)	573,838
Impairment losses on other assets (net)	145,061	-	570	22,872	168,503
Goodwill and other intangible assets	30,000	-	-	-	30,000
Goodwill	30,000	-	-	-	30,000
Other intangible assets	-	-	-	-	-
Other assets	115,061	-	570	22,872	138,503
Property, plant and equipment	5,570	-	(8)	-	5,562
Investment property	94,556	-	-	-	94,556
Investments	3,500	-	-	-	3,500
Remainder	11,435	-	578	22,872	34,885
Gains (losses) on disposal of assets not classified as non-current held for sale	925,750	42,435	(751)	(20,342)	947,092
Negative difference on business combinations	-	-	-	-	-
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	(998,565)	225	675	(825)	(998,490)
PROFIT/(LOSS) BEFORE TAX	353,842	95,262	(10,445)	(84,722)	353,937
Income tax	99,449	24,055	(3,336)	(20,624)	99,544
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	254,393	71,207	(7,109)	(64,098)	254,393
Profit (loss) from discontinued operations (net)	-	-	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	254,393	71,207	(7,109)	(64,098)	254,393
Profit attributable to the parent company	251,543	71,207	(7,109)	(64,098)	251,543
Profit attributable to non-controlling interests	2,850	-	-	-	2,850

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31/12/2013

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
A.) CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	254,393	71,207	(7,109)	(64,098)	254,393
B.) OTHER COMPREHENSIVE INCOME	541,545	167	-	(167)	541,545
B.1) Items that will not be reclassified to profit or loss	(13,932)	-	-	(431)	(14,363)
1. Actuarial profit /(loss) in defined benefit pension plans	(18,774)	-	-	(616)	(19,390)
2. Non-current assets held for sale	-	-	-	-	-
3. Entities accounted for using the equity method	-	-	-	-	-
4. Income tax relating to items that will not be reclassified to profit or loss	4,842	-	-	185	5,027
B.2) Items that may be reclassified to profit or loss	555,477	167	-	264	555,908
1. Available-for-sale financial assets	787,945	223	-	2,286	790,454
1.1. Valuation gains/(losses)	1,120,100	5,011	-	2,130	1,127,241
1.2. Amounts transferred to profit and loss account	332,155	4,788	-	(156)	336,787
1.3. Other reclassifications	-	-	-	-	-
2. Cash flow hedges	10,717	-	-	-	10,717
2.1. Valuation gains/(losses)	10,717	-	-	-	10,717
2.2. Amounts transferred to profit and loss account	-	-	-	-	-
2.3. Amounts transferred at initial carrying amount of hedged items	-	-	-	-	-
2.4. Other reclassifications	-	-	-	-	-
3. Hedges of net investment in foreign operations	-	-	-	-	-
3.1. Valuation gains/(losses)	-	-	-	-	-
3.2. Amounts transferred to profit and loss account	-	-	-	-	-
3.3. Other reclassifications	-	-	-	-	-
4. Exchange differences	(18,841)	-	-	-	(18,841)
4.1. Valuation gains/(losses)	(18,841)	-	-	-	(18,841)
4.2. Amounts transferred to profit and loss account	-	-	-	-	-
4.3. Other reclassifications	-	-	-	-	-
5. Non-current assets held for sale	-	-	-	-	-
5.1. Valuation gains/(losses)	-	-	-	-	-
5.2. Amounts transferred to profit and loss account	-	-	-	-	-
5.3. Other reclassifications	-	-	-	-	-
7. Entities accounted for using the equity method	2,131	-	-	(1,475)	656
7.1. Valuation gains/(losses)	2,131	-	-	(1,475)	656
7.2. Amounts transferred to profit and loss account	-	-	-	-	-
7.3. Other reclassifications	-	-	-	-	-
8. Other comprehensive income	-	-	-	-	-
9. Income tax relating to Items that may be reclassified to profit or loss	(226,475)	(56)	-	(547)	(227,078)
C.) TOTAL COMPREHENSIVE INCOME (A+B)	795,938	71,374	(7,109)	(64,265)	795,938
C.1.) Attributable to the parent company	787,041	71,374	(7,109)	(64,265)	787,041
C.2.) Attributable to non-controlling interests	8,897	-	-	-	8,897

APPENDIX II
Banco Pastor, S.A. Agents

SURNAMES, FIRST NAME / COMPANY NAME	MUNICIPALITY	AREA OF ACTIVITY
ÁLVAREZ DOMÍNGUEZ, ALICIA	LEIRO	SPAIN
ÁLVAREZ TEIJEIRO, FRANCISCO ANTÓNIO	VEGADEO	SPAIN
AÑON ROIBAL, JAIME	PAIOSACO	SPAIN
ASESORÍA XARPER,S.L.	BANDEIRA	SPAIN
BLANCO CORTIÑAS, RAQUEL	TRASMIRAS	SPAIN
BLANCO SECO, MARIBEL	AGOLADA	SPAIN
CARBIA GONZÁLEZ, JOSÉ MANUEL	TARAGOÑA	SPAIN
CASTRO GÓMEZ, MARÍA BEGOÑA	PALAS DE REI	SPAIN
CELEIRO LÓPEZ, ANTÓNIO	TRIACASTELA	SPAIN
COTA VÁZQUEZ, SERGIO	CALVOS DE RANDIN	SPAIN
DIÉGUEZ DIÉGUEZ, SONIA	AGUDIÑA	SPAIN
DIGON RODRÍGUEZ, ANA MARÍA	SAN ROMAN DE CERVANTES	SPAIN
ESCUREDO GARCÍA, JOAQUINA	A VEIGA	SPAIN
FEIJOO PIÑEIRO, DAVID	CABO DE CRUZ	SPAIN
FEIJOO RIO, ELADIO	OS PEARES	SPAIN
FERNÁNDEZ FERNÁNDEZ, JULIO JUSTO	SOBRADELO	SPAIN
FERNÁNDEZ FERNÁNDEZ, MAGÍN	O BOLO	SPAIN
FERNÁNDEZ FERNÁNDEZ, MATILDE	A SEARA	SPAIN
FERNÁNDEZ MAREY, MARÍA FLOR	BARALLA	SPAIN
FRANCISCO FERNÁNDEZ, MARÍA PRÁXEDES	CORTEGADA	SPAIN
FRANCO RAMOS, S.L.	AGUIÑO	SPAIN
FRANCO RAMOS, S.L.	PALMEIRA	SPAIN
FRANCO RAMOS, S.L.	XUÑO	SPAIN
GARCÍA LÓPEZ, NATALIA	MERA	SPAIN
GEADA LOSADA, ANA MARÍA	FERREIRA DO VALADOURO	SPAIN
GONZÁLEZ ANDRADE, MARÍA MARTINA	ENTRIMO	SPAIN
GONZÁLEZ PEDROUZO, AVELINO	DACON	SPAIN
GONZÁLEZ VÁZQUEZ, MANUEL JESUS	PONTEDEVA	SPAIN
LAGARES GÓMEZ, MARÍA BELEN	PONTECARREIRA	SPAIN
LÓPEZ CASTAÑO, MERCEDES	PARAMO	SPAIN
LÓPEZ IRIARTE, José MANUEL	O SEIXO	SPAIN
LÓPEZ LÓPEZ, MARÍA ASUNCIÓN	GUNTIN	SPAIN
LÓPEZ VALEIRAS SAMPEDRO, ANTÓN	BARBANTES-ESTACIÓN	SPAIN
LÓPEZ YÁÑEZ, MARÍA FE	NAVIA DE SUARNA	SPAIN
MONTERO RODRÍGUEZ, DELFINA	QUINTELA DE LEIRADO	SPAIN
MOURIÑO VARELA, BEGOÑA	ANTAS DE ULLA	SPAIN
NIETO MAROÑO, MONTSERRAT	CALO	SPAIN
NOGUEROL RODRÍGUEZ, ANDRÉS	O IRIXO	SPAIN
PARDO VÁZQUEZ, MARÍA ESTELA	PARGA	SPAIN
PERALTA CORDERI, JAIME	A SAINZA	SPAIN
PEREIRO LÓPEZ, MARÍA	O INCIO	SPAIN
PÉREZ CARBALLO, JULIO	VILAR DO BARRIO	SPAIN
PÉREZ CORRAL, MARÍA CARMEN	SAN AMARO	SPAIN
PÉREZ OBREGÓN, SONIA	OIMBRA	SPAIN
PIÑEIRO MARTA, PABLO	CAION	SPAIN
RAMOS GARCÍA, MARÍA JESUS	MACEDA	SPAIN
RAPADO ASESORES, S.L.	FORCAREI	SPAIN
REY VALIÑO, LUIS CÉSAR	CORISTANCO	SPAIN

SURNAMES, FIRST NAME / COMPANY NAME	MUNICIPALITY	AREA OF ACTIVITY
RIVAS FERNÁNDEZ, MARÍA	XUNQUEIRA DE AMBIA	SPAIN
RIVERA GALDO, JOSÉ	MAÑON	SPAIN
RODRÍGUEZ ÁLVAREZ, BORJA	SAN CLODIO	SPAIN
RODRÍGUEZ FERNÁNDEZ, MARÍA DEL CARMEN	CASTROVERDE	SPAIN
RODRÍGUEZ LÓPEZ, EDITA	PARADELA	SPAIN
RODRÍGUEZ SOTELO, CÉSAR	SARREAUS	SPAIN
RODRÍGUEZ TEIXEIRA, SONIA	VILARDEVÓS	SPAIN
ROMERO FORMOSO, FÁTIMA	ESTEIRO	SPAIN
ROMERO GATO, LAURA	XERMADE	SPAIN
SALGADO FEIJOO, MANUEL	BALTAR	SPAIN
SANTOS GERPE MARÍA, MARÍA SONIA	CAMARIÑAS	SPAIN
SOBREDO SIGUEIRO, JOSÉ MANUEL	PONTEVEA	SPAIN
SOMOZA DE LA FUENTE, JULIO	A POBRA DE BROLLÓN	SPAIN
TOURIS FERNÁNDEZ, MANUEL	A BAÑA	SPAIN
VARELA RIVERA, JULIO	PORTOMARÍN	SPAIN
VÁZQUEZ BERTOA, JOSÉ MANUEL	A SILVA	SPAIN
VÁZQUEZ DORADO, SUSANA	A FORXA	SPAIN
VÁZQUEZ FERNÁNDEZ, DIEGO	CASTROCALDELAS	SPAIN
VEIGA ROCANDIO, RUBÉN	A PONTENOVA	SPAIN
XIAMA BANDE, S.L.	BANDE	SPAIN

APPENDIX II
Popular Banca Privada, S.A. Agents

SURNAMES, FIRST NAME / COMPANY NAME	MUNICIPALITY	AREA OF ACTIVITY
ADESIF 2001 SLL	ZARAGOZA	SPAIN
ALAS GUILLÉN, JESÚS IGNACIO	ARAGÓN	SPAIN
ALMENAS TRADER SL	SPAIN	SPAIN
AMOMENEA, S.L.	AUTONOMOUS REGION OF NAVARRA	SPAIN
ARAGÓN DE INVERSIONES SCI	ARAGÓN	SPAIN
ARCONES GARCÍA, ROCÍO	SPAIN	SPAIN
ARION 90 SA	MADRID	SPAIN
ARRAEZ Y ASOCIADOS, S.A.	MADRID	SPAIN
ASEMVAL HUESCA, S.L.	ARAGÓN	SPAIN
ASESORES FINANCIEROS DE CÓRDOBA, S.L.	ANDALUSIA	SPAIN
ASESORÍA GORDONIZ, S.A.L.	BASQUE COUNTRY	SPAIN
ASESORÍA LABORAL FISCAL Y CONT	ARAGÓN	SPAIN
ASSESSOR CONSULTORIA I SERVEIS EMPRESARIALS, S.L.	CATALONIA	SPAIN
ASSESSORS FINANCERS GIRONA SL	CATALONIA	SPAIN
ASTURAGENTES	PRINCIPADO DE ASTURIAS	SPAIN
AULINA SAQUES, JOSÉ	CATALONIA	SPAIN
AYCU S.L. SUBROGACIÓN SABINA SÁNCHEZ	ARAGÓN	SPAIN
BANQUE GENEVOISE DE GESTION,SA	MADRID	SWITZERLAND
BARRACHINA FERRER, MANUEL	ARAGÓN	SPAIN
BATLLE SALAMERO, MARIO	ARAGÓN	SPAIN
BERGARECHE GANDARIAS, JAIME	SPAIN	SPAIN
BIM CONSULTING DEVELOPMENT SL	SPAIN	SPAIN
BPB PATRIMONIAL SL	SPAIN	SPAIN
BUFETE SEVERINO MARTÍNEZ IZQUIERDO, S.L.	MADRID	SPAIN
CALVETE VAL, FRANCISCO JAVIER	SPAIN	SPAIN
CASAS VILA, XAVIER	CATALONIA	SPAIN
CHOCARRO AVALOS, ÁNGEL LUIS	AUTONOMOUS REGION OF NAVARRA	SPAIN
COMPONENTES ELECTRÓNICOS ÁNGEL	BASQUE COUNTRY	SPAIN
CONSULTIA. CORRED. SEGUROS INVER	BASQUE COUNTRY	SPAIN
DEFERRE CONSULTING	VALLADOLID	SPAIN
EGAÑA GARCÍA, FRANCISCO JOSÉ	SPAIN	SPAIN
ESCARPENTER HERNANDEZ, JAVIER	CATALONIA	SPAIN
ESCUIN HERMOSILLA, ICÍAR	SPAIN	SPAIN
EUROASESORES SCI	ARAGÓN	SPAIN
GLOBAL ADVICE CONSULTORES FINA	SPAIN	SPAIN
GLOBALTRAMIT GESTION DOCUMENTA	CATALONIA	SPAIN
HEREDIA ARMADA, ALFONSO	PRINCIPADO DE ASTURIAS	SPAIN
I AM SPORT LEGAL AND COMMUNICA	MADRID	SPAIN
IBERMEDIACION, S.L. CORREDURIA DE SEGUROS	ARAGÓN	SPAIN
INDOCTRO CAPITAL	SPAIN	SPAIN
INVERCOFIS, S.L.	AUTONOMOUS REGION OF NAVARRA	SPAIN
INVERSIONES LINCE 2011 SL	MADRID	SPAIN
INVERSIONES SIROCO SL	MADRID	SPAIN

SURNAMES, FIRST NAME / COMPANY NAME	MUNICIPALITY	AREA OF ACTIVITY
JUVE, GAVARA, BECH Y ROVIRA ASSOCIATS, S.A.	CATALONIA	SPAIN
KIOSTRO SL	CATALONIA	SPAIN
KOTET SERVICIOS PATRIMONIALES	SPAIN	SPAIN
LOREZABAL SL	AUTONOMOUS REGION OF NAVARRA	SPAIN
LUSALCA ASESORES SL	MADRID	SPAIN
MORENO MARTINEZ, JOSE MARIA	AUTONOMOUS REGION OF NAVARRA	SPAIN
NORFINANCE, S.L.	BASQUE COUNTRY	SPAIN
PONCE BUJ, CARLOS	VALENCIA	SPAIN
RIBAS FARNOS-FRANCH ASESORES J	BALEARIC ISLANDS	SPAIN
RIBAS-MARCHENA & FARNOS-FRANCH	BALEARIC ISLANDS	SPAIN
RODRÍGUEZ RUIZ-BELLOSO, FRANCISCO JAVIER	ARAGÓN	SPAIN
RODRÍGUEZ SANCHO, MARCOS	VALENCIA	SPAIN
SABARI LLOBET, JOSEP MARÍA	CATALONIA	SPAIN
SAN MIGUEL PRIETO ASESORES SRL	VALLADOLID	SPAIN
SÁNCHEZ CASAS ECONOMISTAS Y AB	AUTONOMOUS REGION OF NAVARRA	SPAIN
SEGARRA BARQUES, VICENTE	VALENCIA	SPAIN
SERVISA, S.A.	VALENCIA	SPAIN
SOCAIRE INVESTIMENTOS SL	SPAIN	SPAIN
SOCIEDAD DE GESTIONES DE PATRI.	SPAIN	SPAIN
TIHISTA BADOSTAIN, ROSARIO	AUTONOMOUS REGION OF NAVARRA	SPAIN
TORRENTBO BERTRAL, ENRIQUE	CATALONIA	SPAIN
TORRES SÁNCHEZ, JOSÉ ANTÓNIO	ARAGÓN	SPAIN
VAL IBAÑEZ, MARIANO	ARAGÓN	SPAIN
VIGIL FERNÁNDEZ, FRANCISCO JOSÉ	ARAGÓN	SPAIN
ZALBA BEISTI, RAQUEL	AUTONOMOUS REGION OF NAVARRA	SPAIN
ZUBIZUA SL	BASQUE COUNTRY	SPAIN

APPENDIX II
Banco Popular Español, S.A. Agents

SURNAMES, FIRST NAME / COMPANY NAME	MUNICIPALITY	AREA OF ACTIVITY
FERNÁNDEZ BLANCO, PATRICIA	CABOALLES DE ABAJO	SPAIN
ARIAS ESCUREDO, JULIO	PUENTE DOMINGO FLOREZ	SPAIN
GONZALEZ GOMEZ, RENATO	TORMALEO	SPAIN

APPENDIX III
Information on authorisations re capital increase as at 31 December 2014

The General Shareholders' Meeting of Banco Popular Español, S.A., held in Madrid on 10 June 2013, approved the following resolutions regarding increases in the share capital:

To delegate to the Board of Directors, under the provisions of Article 297.1.a) of the Capital Companies Act, the power to increase the capital by an amount of five hundred million euros (€500,000,000), to be completed within a maximum period of one year.

To authorise the Board of Directors, in accordance with the provisions of Articles 297.1.b) and 506 of the Capital Companies Act, to increase the capital, within a maximum term of three years, in one or various instalments and up to half of the share capital. This resolution voids the unused part of the authorisation granted by the General Shareholders' Meeting on 10 June 2013.

Three share capital increases through the issue of shares without a premium and charged against voluntary reserves to be used to remunerate the shareholders, with an alternative offer to receive bonus shares or acquire rights at a guaranteed price.

APPENDIX IV
Annual Bank Report

Article 87 of Law 10/2014 of 26 June

This information has been prepared in compliance with the provisions of Article 87 of Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions published on 27 June 2014 in the Official State Gazette, which transposes Article 89 of Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013, relating to access to credit institutions' activity and prudential supervision of credit institutions and investment undertakings, amending Directive 2002/87/EC (CRD IV) and repealing Directives 2006/48/EC and 2006/49/EC.

In accordance with this legislation, on 1 July 2014, credit institutions will be obliged to publish for the first time, specifying by country where they are established, the following information on a consolidated basis relating to the last approved accounting period.

a) Company name, nature and geographical location of the activity.
b) Business volume.
c) Number of full-time employees.

In view of the above, the following is a breakdown of the aforementioned information:

a) Company name, nature and geographical location of the activity

Banco Popular Español, S.A. was incorporated on 14 July 1926, and its registered address is Velázquez 34, Madrid. It is a private law company, whose corporate object, as established by Article 4 of its Articles of Association, is banking. Its activities are subject to the rules and regulations applicable to banks operating in Spain.

It is registered with the Madrid Trade & Companies Registry, Volume 174, Folio 44, sheet 5,458, entry 1.

In addition, for the operations which it performs directly, the Bank is head of a group of subsidiaries, that engage in various business activities and which compose, together with it, the Banco Popular Group.

The consolidated Group mainly carries on its operations in Spain. However, presently it carries out its activities in other countries, the most significant being:

- Portugal
- USA

b) Business volume and number of full-time employees.

This heading shows the information relating to business volume and the number of employees per country at the close of 2014 on a consolidated basis:

	Data at 31 December 2014	
	BUSINESS VOLUME (€ thousands)	NUMBER OF EMPLOYEES
Spain	3,581,239	13,501
Portugal	230,689	1,402
USA	64,105	418
TOTAL	3,876,033	15,321

For the purposes of this report, gross income is considered business volume, as this income is defined and presented in the consolidated income statement which forms part of the Group's consolidated financial statements.

The business volume data by country shown in the table above was obtained from the statutory accounting records relating to 2014 of the Group's companies with the corresponding geographical location.

The employee data was obtained from the workforce of each company/country at the close of 2014.

APPENDIX V

Effect of legislative change on the consolidated balance sheet as at 31 December 2013 and 2012 and consolidated profit and loss accounts for the years then ended

2013

CONSOLIDATED BALANCE SHEETS (€ thousands)	**Effect of legislative change**	**Original balance sheet at 31/12/2013**	**Restated balance sheet at 31/12/2013**
ASSETS			
1. Cash and balances with central banks	(8,203)	2,835,041	2,826,838
2. Financial assets held for trading	57	1,510,517	1,510,574
3. Other financial assets at fair value through profit or loss	-	363,680	363,680
4. Available-for-sale financial assets	(54,792)	16,229,930	16,175,138
5. Loans and receivables	(819,934)	108,855,521	108,035,587
6. Held-to-maturity investments	-	-	-
7. Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	159,571	159,571
8. Hedging derivatives	268	578,761	579,029
9. Non-current assets held for sale	(3,948)	6,300,549	6,296,601
10. Investments	421,581	841,555	1,263,136
a) Associates	-	841,555	841,555
b) Joint ventures	421,581	-	421,581
11. Insurance contracts linked to pensions	-	142,948	142,948
12. Reinsurance assets	-	14,462	14,462
13. Tangible assets:	(43,182)	1,879,085	1,835,903
a) Property, plant and equipment	(17,608)	842,371	824,763
b) Property investments	(25,574)	1,036,714	1,011,140
14. Intangible assets:	(523,103)	2,980,653	2,457,550
a) Goodwill	(523,103)	2,566,583	2,043,480
b) Other intangible assets	-	414,070	414,070
15. Tax assets:	(80,295)	3,597,122	3,516,827
a) Current	(74,778)	454,170	379,392
b) Deferred	(5,517)	3,142,952	3,137,435
16. Other assets	(30,664)	1,562,298	1,531,634
TOTAL ASSETS	**(1,142,215)**	**147,851,693**	**146,709,478**

CONSOLIDATED BALANCE SHEETS (€ thousands)	**Effect of legislative change**	**Original balance sheet at 31/12/2013**	**Restated balance sheet at 31/12/2013**
TOTAL LIABILITIES	**(991,192)**	**136,224,891**	**135,233,699**

1. Financial instruments held for trading	142	954,284	954,426
2. Other financial liabilities at fair value through profit or loss.	-	601,367	601,367
3. Financial liabilities at amortised cost	(1,007,732)	131,320,889	130,313,157
4. Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-	-
5. Hedging derivatives	-	1,473,749	1,473,749
6. Liabilities associated with non-current assets held for sale	-	-	-
7. Liabilities under insurance contracts	(1,670)	372,981	371,311
8. Provisions	(492)	533,456	532,964
9. Tax liabilities:	(60,753)	546,854	486,101
a) Current	(65,214)	244,313	179,099
b) Deferred	4,461	302,541	307,002
10. Welfare fund	-	-	-
11. Other liabilities	79,313	421,311	500,624
12. Capital repayable on demand	-	-	-

	Effect of legislative change	**Original balance sheet at 31/12/2013**	**Restated balance sheet at 31/12/2013**
TOTAL EQUITY	**(151,023)**	**11,626,802**	**11,475,779**
SHAREHOLDERS' EQUITY	**(151,023)**	**11,925,494**	**11,774,471**
1. Common stock	-	948,276	948,276
a) Issued	-	948,276	948,276
b) Minus: Uncalled capital	-	-	-
2. Share premium	-	6,405,111	6,405,111
3. Reserves	(77,267)	3,600,316	3,523,049
4. Other equity instruments	-	646,531	646,531
5. Minus: Treasury shares	-	(39)	(39)
6. Profit (loss) attributable to the parent company	(73,756)	325,299	251,543
7. Minus: Dividends and remuneration	-	-	-
VALUATION ADJUSTMENTS	**-**	**(350,069)**	**(350,069)**
1. Available-for-sale financial assets	(656)	(362,802)	(363,458)
2. Cash flow hedges	-	7,502	7,502
3. Hedges of net investment in foreign operations	-	-	-
4. Exchange differences	-	17,931	17,931
5. Non-current assets held for sale	-	-	-
6. Entities accounted for using the equity method	1,087	-	1,087
7. Other valuation adjustments	(431)	(12,700)	(13,131)
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY	**(151,023)**	**11,575,425**	**11,424,402**
NON-CONTROLLING INTERESTS	-	**51,377**	**51,377**
1. Valuation adjustments	-	3,144	3,144
2. Remainder	-	48,233	48,233
TOTAL LIABILITIES AND EQUITY	**(1,142,215)**	**147,851,693**	**146,709,478**
MEMORANDUM ITEMS		-	**-**
Contingent risks	125,775	14,623,241	14,749,016
Contingent commitments	(174,046)	10,807,310	10,633,264

CONSOLIDATED PROFIT AND LOSS ACCOUNTS (€ thousands)	**Effect of the legislative change**	**Original profit and loss at 31/12/2013**	**Restated profit and loss at 31/12/2013**
Interest and similar income	(54,047)	4,917,044	4,862,997
Interest and similar expenses	(18,429)	2,469,961	2,451,532
Remuneration of capital repayable on demand	-		
NET INTEREST INCOME	**(35,618)**	**2,447,083**	**2,411,465**
Return on equity instruments	(3)	17,793	17,790
Share of profit from equity method companies	(1,691)	33,955	32,264
Fee and commission income	(21,259)	915,355	894,096
Fee and commission expenses	(10,597)	145,434	134,837
Net gains (losses) on financial assets and liabilities	(1,005)	462,106	461,101
Exchange differences (net)	(956)	53,376	52,420
Other operating income	(3,823)	196,345	192,522
Other operating expenses	101,641	273,929	375,570
GROSS INCOME	**(155,399)**	**3,706,650**	**3,551,251**
Administration costs:	(28,119)	1,600,678	1,572,559
a) Personnel expenses	(17,551)	946,661	*929,110*
b) Other general administrative expenses	(10,568)	654,017	*643,449*
Depreciation and amortisation	(1,491)	152,113	150,622
Provisioning expense (net)	(271)	87,041	86,770
Impairment losses on financial assets (net)	(20,257)	1,187,719	1,167,462
NET OPERATING INCOME	**(105,261)**	**679,099**	**573,838**
Impairment losses on other assets (net)	(623)	169,126	168,503
Gains/(losses) on disposals of assets not classified as non-current available for sale	(1,853)	948,945	947,092
Negative on business combination difference	-	-	**-**
Gains/(losses) on non-current assets held for sale not classified as discontinued operations	957	(999,447)	(998,490)
PROFIT/(LOSS) BEFORE TAX	**(105,534)**	**459,471**	**353,937**
Income tax	(31,778)	131,322	99,544
Mandatory transfer to welfare projects and funds	-	-	-
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**(73,756)**	**328,149**	**254,393**
Profit (loss) from discontinued operations (net)	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**(73,756)**	**328,149**	**254,393**
a) Profit attributable to the parent company	(73,756)	325,299	251,543
b) Profit attributable to non-controlling interests	-	2,850	2,850
	-		
EARNINGS PER SHARE		**Amount in €**	**Amount in €**
Basic	-	0.191	0.148
Diluted	-	0.175	0.137

2012

CONSOLIDATED BALANCE SHEETS (€ thousands)	**Effect of legislative change**	**Original balance sheet at 31/12/2012**	**Restated balance sheet at 31/12/2012**
ASSETS			
1. Cash and balances with central banks	(7,153)	2,117,182	2,110,029
2. Financial instruments held for trading	(458)	2,096,851	2,096,393
3. Other financial assets at fair value through profit or loss	-	493,623	493,623
4. Available-for-sale financial assets	(77)	10,843,000	10,842,923
5. Loans and receivables	(863,177)	114,444,133	113,580,956
6. Held-to-maturity investments	-	11,014,472	11,014,472
7. Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	222,647	222,647
8. Hedging derivatives	446	678,357	678,803
9. Non-current assets held for sale	(1,676)	4,896,644	4,894,968
10. Investments	351,055	811,356	1,162,411
a) Associates	-	811,356	811,356
b) Joint ventures	351,055	-	351,055
11. Insurance contracts linked to pensions	-	144,530	144,530
12. Reinsurance assets	-	4,878	4,878
13. Tangible assets:	(39,156)	1,892,725	1,853,569
a) Property, plant and equipment	(7,382)	886,531	879,149
b) Property investments	(31,774)	1,006,194	974,420
14. Intangible assets:	(172,875)	2,655,084	2,482,209
a) Goodwill	(172,875)	2,269,397	2,096,522
b) Other intangible assets	-	385,687	385,687
15. Tax assets:	29,113	3,703,759	3,732,872
a) Current	32,564	176,561	209,125
b) Deferred	(3,451)	3,527,198	3,523,747
16. Other assets	(55,556)	1,598,877	1,543,321
TOTAL ASSETS	**(759,514)**	**157,618,118**	**156,858,604**

CONSOLIDATED BALANCE SHEETS (€ thousands)	**Effect of legislative change**	**Original balance sheet at 31/12/2012**	**Restated balance sheet at 31/12/2012**
TOTAL LIABILITIES			
1. Financial instruments held for trading	(203)	1,491,141	1,490,938
2. Other financial liabilities at fair value through profit or loss.	-	560,157	560,157
3. Financial liabilities at amortised cost	(783,571)	141,726,166	140,942,595
4. Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-	-
5. Hedging derivatives	(108)	2,048,864	2,048,756
6. Liabilities associated with non-current assets held for sale	-	-	-
7. Liabilities under insurance contracts	(1,452)	347,502	346,050
8. Provisions	(211)	508,047	507,836
9. Tax liabilities:	(2,374)	461,230	458,856
a) Current	(1,011)	89,303	88,292
b) Deferred	(1,363)	371,927	370,564
10. Welfare fund	-	-	-
11. Other liabilities	105,672	519,590	625,262
12. Capital repayable on demand	-	-	-

	Effect of legislative change	**Original balance sheet at 31/12/2012**	**Restated balance sheet at 31/12/2012**
TOTAL EQUITY	**(77,267)**	**9,955,421**	**9,878,154**
SHAREHOLDERS' EQUITY	**(78,314)**	**10,797,878**	**10,719,564**
1. Common stock	-	840,855	840,855
a) Issued	-	840,855	840,855
b) Minus: Uncalled capital	-	-	-
2. Share premium	-	5,648,966	5,648,966
3. Reserves	(115,223)	6,222,809	6,107,586
4. Other equity instruments	-	680,894	680,894
5. Minus: Treasury shares	-	(134,623)	(134,623)
6. Profit (loss) attributable to the parent company	36,909	(2,461,023)	(2,424,114)
7. Minus: Dividends and remuneration	-	-	-
VALUATION ADJUSTMENTS	1,047	**(886,614)**	**(885,567)**
1. Available-for-sale financial assets	(108)	(917,734)	(917,842)
2. Cash flow hedges	-	-	-
3. Hedges of net investment in foreign operations	-	-	-
4. Exchange differences	-	31,120	31,120
5. Non-current assets held for sale	-	-	-
6. Entities accounted for using the equity method	108	-	108
7. Other valuation adjustments	1,047	-	1,047
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY	**(77,267)**	**9,911,264**	**9,833,997**
NON-CONTROLLING INTERESTS	-	**44,157**	**44,157**
1. Valuation adjustments	-	(1,358)	(1,358)
2. Remainder	-	45,515	45,515
TOTAL LIABILITIES AND EQUITY	**(759,514)**	**157,618,118**	**156,858,604**
MEMORANDUM ITEMS			
Contingent risks	(54,704)	15,199,483	15,144,779
Contingent commitments	(143,692)	10,291,450	10,147,758

Declaration of Responsibility
for the Annual Financial Report

Popular

DECLARATION OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL REPORT

The members of the Board of Directors of Banco Popular Español, S.A. declare that, to the best of their knowledge, the individual consolidated annual accounts for 2014, prepared in the Board meeting held on 25 February 2015 and in accordance with applicable accounting principles, fairly present the financial position and results of Banco Popular Españo,l S.A. and companies included in the consolidation taken as a whole and that the individual and consolidated directors' reports for 2014 include a fair analysis of the performance and results of the business and position of Banco Popular Español, S.A. and companies included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties which they face.

Madrid, 25 February 2015

Mr. Ángel Carlos Ron Güimil Chairman	Mr. Francisco Gómez Martín CEO	Mr. Luis Herrando Prat de la Riba Vice-chairman
Mr. Roberto Higuera Montejo Vice-chairman	Mr. José María Arias Mosquera Vice-chairman	Mr. Alain Fradin
Fundación Barrié (Ms. Ana José Varela)	Ms. Ana María Molins López-Rodó	Mr. Jorge Oroviogoicoechea Ortega
Ms. Helena Revoredo Delvecchio	Sindicatura de Accionistas BPE, S.A. (Mr. Miguel Ángel de Solís Martínez Campos)	Mr. Vicente Tardío Barutel
Unión Europea de Inversiones, S.A. (Mr. José Ramón Rodríguez García)	Mr. Antonio del Valle Ruiz	Mr. Francisco Aparicio Valls Secretary - Director

I, the Vice-Secretary of the Board of Directors, issue this document, as evidence that:

1º The Board of Directors, in the meeting held on 25 February 2015, approved the Annual Accounts and Directors' Report of Banco Popular Español, S.A. and Consolidated Group, which, together with the Declaration of Responsibility for its contents, comprise the Annual Financial Report for 2014.

2º The Directors Mr. Luis Herrando Prat de la Riba and Mr. Alain Fradin did not sign the Annual Accounts or the Directors' Report of Banco Popular Español, S.A. or its consolidated Group for 2014, or the Declaration of Responsibility, as they were absent on justified grounds. They delegated their representation and vote to Mr. Roberto Higuera, Vice-chairman of the Board, with instructions to vote in favour of the Board of Directors' Proposal.

Madrid, 25 February 2015

Francisco Javier Lleó Fernández
Vice-Secretary of the Board of Directors

Preparation of the Annual Accounts and Management Reports

Popular

PREPARATION OF THE ANNUAL ACCOUNTS AND THE MANAGEMENT REPORT

In accordance with the requirements of the current Spanish mercantile law, and, in particular, Article 253.2 of the Spanish Companies Act 2010 and Article 366 of the Mercantile Registry Regulations, the members of the Board of Directors sign these individual Annual Accounts and Directors' report of Banco Popular Español, S.A. and of its consolidated Group for 2014. The present document forms an essential and inseparable part of the same.

Madrid, 25 February 2015

Mr. Ángel Carlos Ron Güimil Chairman	Mr. Francisco Gómez Martín CEO	Mr. Luis Herrando Prat de la Riba Vice-chairman
Mr. Roberto Higuera Montejo Vice-chairman	Mr. José María Arias Mosquera Vice-chairman	Mr. Alain Fradin
Fundación Barrié (Ms. Ana José Varela)	Ms. Ana María Molins López-Rodó	Mr. Jorge Oroviogoicoechea Ortega
Ms. Helena Revoredo Delvecchio	Sindicatura de Accionistas BPE, S.A. (Mr. Miguel Ángel de Solís Martínez Campos)	Mr. Vicente Tardío Barutel
Unión Europea de Inversiones, S.A. (Mr. José Ramón Rodríguez García)	Mr. Antonio del Valle Ruiz	Mr. Francisco Aparicio Valls Secretary - Director

I, the Vice-Secretary of the Board of Directors, issue this document, as evidence that:

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2º The Directors Mr. Luis Herrando Prat de la Riba and Mr. Alain Fradin did not sign the Annual Accounts or the Directors' Report of Banco Popular Español or its consolidated Group for 2014, or the Declaration of Responsibility, as they were absent on justified grounds. They delegated their representation and vote to Mr. Roberto Higuera, Vice-chairman of the Board, with instructions to vote in favour of the Board of Directors' Proposal.

3º The Annual Accounts and Management Report of Banco Popular Español and its consolidated Group, are endorsed by me in each of its leaves, and they correspond with the ones that the Directors have approved as part of the Financial Report approved by the Board of Directors

Madrid, 25 February 2015

Francisco Javier Lleó Fernández
Vice-Secretary of the Board of Directors

Independent Review Report
Annual Corporate Governance Report

REPORT ON THE INDEPENDENT REVIEW OF THE ANNUAL CORPORATE GOVERNANCE REPORT 2014 OF BANCO POPULAR ESPAÑOL, S.A.

To the Board of Directors of Banco Popular Español, S.A.

Scope of the work

We have reviewed the Annual Corporate Governance Report 2014 of Banco Popular Español, S.A., prepared in accordance with the Spanish Order ECC/461/2013, dated 20 March 2013,which establishes, amongst other matters, the minimum contents and structure of annual corporate governance reports, and the Circular 5/2013, dated 12 June 2013, of the Spanish National Securities Market Commission (CNMV), which provides, amongst other matters, standards of annual corporate governance reports for listed companies.

Regarding the contents of paragraph G) of Banco Popular Español, S.A.'s Annual Corporate Governance Report and with respect to those recommendations of the Unified Code which Banco Popular Español, S.A. has not implemented, the Entity's Directors have explained these matters to us as they consider necessary. In these cases, our work has only consisted of checking that the statements contained in the Report do not contradict the evidence obtained by applying the procedures performed in our review. Value judgements on the reasonableness of the Director's explanations do not come within the scope of this review report.

Responsibility of the Directors for the Annual Corporate Governance Report

The preparation and contents of Banco Popular Español, S.A.'s Annual Corporate Governance Report are the responsibility of the Entity's Board of Directors, which is also responsible for establishing, implementing and maintaining the procedures used to obtain information.

Our responsibility

Our responsibility is to issue an independent report based on the procedures applied in our review in accordance with ISAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC) for limited assurance engagements.

The scope of a review is substantially less than that of a reasonable assurance engagement. Less assurance is provided. Therefore, under no event may this report be considered to be an audit report in the terms established in the revised text of the Spanish Auditing Act passed by the Legislative Royal Decree 1/2011, dated 1 July 2011.

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R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Procedures performed

For the purpose of the issuance of this report, we have applied the following procedures, amongst others,:

- Reading and understanding of the information prepared by Banco Popular Español, S.A. and included in its Annual Corporate Governance Report 2014 and evaluation of whether such information covers all the contents required by Order ECC/461/2013, dated 20 March 2013, and Circular 5/2013 of the CNMV, dated 12 June 2013.
- Reading of legal documentation, minutes of General Shareholders' Meetings and Board Meetings, individual and consolidated annual accounts for 2014 and various internal and external communications, to verify that the information contained in the Annual Corporate Governance Report is adequate.
- Interviews with Banco Popular Español, S.A.'s staff, including Management and other bodies responsible for the Entity's different areas of governance reviewed in the Report.
- Analysis of the procedures used to compile and validate the information presented in the Annual Corporate Governance Report.
- Verification, through sample review testing, of the quantitative information included in the Annual Corporate Governance Report and its adequate compilation using data provided by Banco Popular Español, S.A.'s Management, and the figures included in the individual and consolidated annual accounts for 2014 provided by Management.
- Obtaining of the letter of representation related to the work performed, duly signed by the person responsible for preparing and providing the information contained in the Annual Corporate Governance Report.

Independence

We have performed our work in accordance with the independence standards established by the Code of Ethics of the International Federation of Accountants (IFAC).

In accordance with the *International Standard on Quality Control 1* (ISQC 1), our firm has put in place a comprehensive quality control system which includes documented policies and procedures regarding the compliance of ethical requirements, professional rules and regulations and prevailing legislations.

Conclusion

As a result of our review, and considering the scope of work stated above, no issues have come to light that lead us to believe that the accompanying Annual Corporate Governance Report 2014 of Banco Popular Español, S.A. contains significant errors or has not been prepared, in all material respects, in accordance with Order ECC/461/2013, dated 20 March 2013 and Circular 5/2013 of the CNMV, dated 12 June 2013.

PricewaterhouseCoopers Auditores, S.L.

Mª Luz Castilla
27 February 2015

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Auditor's report referring to information concerning the Internal Control Systems on Financial Reporting (SCIIF in the Spanish abbreviation) of the Banco Popular Group

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This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AUDITOR´S REPORT ON THE "INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING (ICSFR)" OF THE BANCO POPULAR GROUP FOR 2014

To the Board of Directors of Banco Popular Español, S.A.:

In accordance with the request from the Board of Directors of Banco Popular Español, S.A. and subsidiaries ("the Group") and our letter of proposal dated November 10, 2014, we have applied certain procedures on "Internal Control System on Financial Reporting" ("ICSFR") attached, including in section F. Internal Control and Risk Management System in relation to the financial information reporting process (ICSFR) of the Annual Corporate Governance Report for Group listed companies for 2014, which includes a summary of the Group's internal control procedures relating to the annual financial report.

The Board of Directors is responsible for taking the measures that are necessary to reasonably assure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to said system and preparing and establishing the content of the accompanying Information relating to the ICSFR.

In this connection it must be borne in mind that, irrespective of the design quality and efficiency of internal financial reporting control system used by the Group, it can only allow a reasonable - not absolute - degree of assurance in relation to the objectives it seeks to achieve due to the limitations inherent to any internal control system.

In the course of our audit work on the consolidated annual accounts in accordance with the Technical Auditing Standards, the sole purpose of our evaluation of the Group's internal control system is to enable us to establish the scope, nature and timing of the audit procedures on the Group's annual accounts. Accordingly, our internal control evaluation performed for the purposes of our audit is not sufficient in scope to enable us to issue a specific opinion on the efficiency of the internal financial reporting control system.

For the purposes of the present Report, we have only applied the specific procedures described below and indicated in the Guidelines concerning the auditor's report referring to the information concerning the Internal Control System on Financial Reporting for listed entities published by the National Securities Market Commission on its web site, which lays down the work to be performed, the scope of the work and the content of this Report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or an internal control system review, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Group's annual financial reporting for 2014 described in the accompanying ICSFR information ("the Information"). Therefore, had we applied additional procedures to those determined by said Guidelines or had we performed an audit or internal control system review in relation to the regulated financial information, other matters could have come to light of which you would have been informed.

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Additionally, as this special work is not an audit of the accounts and is not subject to the revised Audit Act introduced under Royal Decree-Law 1/2011, we do not express an audit opinion in the terms of those regulations.

The procedures applied are as follows:

1. Reading and understanding the information prepared by the Group in relation to the ICSFR – breakdown included in the Directors' Report – and evaluation of whether said information covers all the data required as per the minimum content described in Section F of the description of the ICSFR, in the model of the Annual Corporate Governance Report in Circular nº 5/2013 of the CNMV dated 12 June 2013.

2. Making enquiries with personnel in charge of preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described are implemented and functioning in the Group.

3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. In this respect, said documentation includes reports prepared by the Internal Audit function, Senior Management and other internal and external specialists in their support duties towards the Audit and Control Committee.

4. Comparison of the information described in point 1 above with the Group's knowledge of the ICSFR obtained from the application of the procedures performed within the framework of the audit work on the consolidated annual accounts.

5. Reading of the minutes of meetings of the Board of Directors, Audit Committee and other Committees of the Group for the purpose of evaluating consistency between the matters dealt with therein in relation to the ICSFR and the Information described in point 1 above.

6. Obtention of the letter of representation concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied to the Information concerning the ICSFR, no inconsistencies or incidents have come to light which could affect it.

This report has been prepared exclusively under the requirements of the Company´s Act approved by the Royal Legislative Decree 1/2010 of July 2, amended by Law 31/2014, of December 3, to improve governance, and Circular nº5/2013 of CNMV dated 12 June 2013 for the purposes of description of the ICSFR in the Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
José María Sanz Olmeda

February 27, 2015

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