Banco Popular Portugal, SA

Annual Report and Accounts

2015

Popular

This is a mere translation of the original Portuguese documents prepared by Banco Popular Portugal, S.A., which was made with the single purpose of simplifying their consultation to English speaking stakeholders. In case of any doubt or contradiction between these and the original documents, their Portuguese version prevails.

Table of Contents

Index of Tables and Images

General Information

Banco Popular Portugal, S.A., was founded on 2 July 1991. The head office is located at 51 Ramalho Ortigão in Lisbon. It is registered at the Lisbon Commercial Registry under the taxpayer No. 502.607.084. The Bank adopted its current corporate name in September 2005 to the detriment of its former name 'BNC-Banco Nacional de Crédito, S.A.'. Banco Popular Portugal is a member of the Deposit Guarantee Fund and it has a share capital of 476 million euros.

The financial and statistical data provided herein were prepared according to analytical criteria based on the utmost objectivity, detail, reporting transparency and consistency over time, from the financial information periodically sent to the Bank of Portugal. The financial statements are presented in accordance with the legislation in force in 2015, particularly those issued by the Bank of Portugal regarding the presentation of accounting information.

The management report, the annual accounts, and accompanying documents are available at Banco Popular Portugal's Internet website: www.bancopopular.pt.

Board and Management

Board of the General Meeting

Augusto Fernando Correia Aguiar-Branco - Chairman

João Carlos de Albuquerque de Moura Navega - Secretary

Board of Directors

Carlos Manuel Sobral Cid da Costa Álvares - Chairman

Pedro Miguel da Gama Cunha - Member

Tomás Pereira Pena - Member

Susana de Medrano Boix - Member

Supervisory Board

Rui Manuel Ferreira de Oliveira - Chairman

António Manuel Mendes Barreira - Member

António Luis Castanheira Silva Lopes – Member

Rui Manuel Medina da Silva Duarte - Alternate

Statutory Auditor

PricewaterhouseCoopers & Associados, SROC, Lda.

Represented by António Alberto Henriques Assis

or José Manuel Henriques Bernardo

Alternate Statutory Auditor

Jorge Manuel Santos Costa, Statutory Auditor

Banco Popular Portugal Financial Highlights

(million euros, unless otherwise stated)

	2015	Change (% and p.p.)	2014	2013	2012	2011
Turnover						
Total assets under management	9 988	6.4%	9 391	10 078	9 565	10 258
Total on-balance sheet assets	9 013	7.2%	8 406	9 222	8 867	9 634
Own funds (a)	714	1.6%	703	666	648	496
Customer funds	6 010	17.8%	5 100	5 073	4 605	4 778
on-balance sheet funds	5 035	22.3%	4 115	4 217	3 907	4 154
other intermediated customer funds	975	-1.0%	985	856	698	624
Loans and advances to customers	6 086	5.4%	5 775	5 510	6 021	6 530
Contingent risks	436	-19.1%	538	579	605	655
Solvency						
Solvency ratio	12.4%	0.3	12.1%	11.1%	10.6%	9.4%
Tier 1	11.6%	0.1	11.5%	11.1%	10.6%	9.4%
Core Tier 1	11.6%	0.1	11.5%	11.4%	10.9%	9.6%
Risk Management						
Total risks	6 521	3.3%	6 313	6 089	6 625	7 185
Non-performing loans	378	14.7%	329	273	232	169
Non-performing loans for more than 90 days	366	16.5%	314	253	209	145
Non-performing loan ratio (%)	6.21%	0.51	5.70%	4.95%	3.85%	2.59%
Non-performing loan coverage ratio	114.4%	3.3	111.1%	113.7%	102.0%	129.0%
Earnings						
Net interest income	119.8	-3.9%	124.7	121.2	148.9	131.1
Net Fees and Commissions	49.9	-10.5%	55.7	52.1	54.3	48.7
Banking income	208.6	21.1%	172.3	171.7	193.5	166.9
Operating income	95.7	60.7%	59.6	58.9	80.0	47.1
Income before tax	21.5	294.3%	5.4	- 51.5	6.4	24.4
Net income	13.3	484.5%	2.3	- 31.7	2.7	13.4
Profitability and efficiency						
Average net assets	8 331	-11.3%	9 389	9 061	9 441	10 411
Average own assets	713	0.9%	706	672	538	515
ROA (%)	0.16%	0.14	0.02%	-0.35%	0.03%	0.13%
ROE (%)	1.87%	1.55	0.32%	-4.72%	0.50%	2.61%
Operating efficiency (Cost to income) (%)	54.1%	-11.3	65.4%	65.7%	58.7%	71.8%
(without depreciation) (%)	52.7%	-10.5	63.2%	62.8%	54.9%	66.9%
Per share data						
Final number of shares (millions)	476	0.0%	476	476	476	451
Average number of shares (millions)	476	0.0%	476	476	451	376
Share book value (€)	1.501	1.6%	1.477	1.399	1.361	1.101
Earnings per share (€)	0.028	484.5%	0.005	-0.067	0.006	0.030
Other data						
Number of employees	1 162	-10.5%	1 299	1 300	1 309	1 329
Number of branches	169	-2.3%	173	174	179	213
Employees per branch	6.9	-8.4%	7.5	7.5	7.3	6.2
Number of ATMs	315	0.0%	315	308	305	348

(a) After appropriation of results for each year

Management Report

As at 31 December 2015, Banco Popular Portugal reported shareholder's equity of 714,307 thousand euros, managed over 9.9 billion euros of total assets, including customer funds in the amount of 6.0 billion euros. At the end of 2015, Banco Popular's net assets amounted to 9.0 billion euros and net profit amounted to 13.3 million euros. The bank's activity was supported by a network of 169 branches and a team of 1,162 staff.

Banco Popular Portugal offers a full range of products and services, together with the following companies that are also included in the Banco Popular Español Group:

- Popular Gestão de Activos, S.A., wholly owned by BPE, is a Fund Management Company that manages, among others, the securities and real estate investment funds commercialised by the Bank;

- Popular Factoring, S.A., 99.8% held by BPE, is a credit institution that provides Factoring services;

- Eurovida - Companhia de Seguros de Vida, S.A., is an insurance company that provides life and capitalisation insurance, and is 84.1% held by BPE and 15.9% held by the Bank;

- Popular Seguros - Companhia de Seguros, S.A., is wholly owned by Eurovida, and trades in non-life insurance products.

Macroeconomic scenario

In spite of the slowdown in the economy during the second half of 2015, Gross Domestic Product grew in volume by 1.5% in 2015 up from a 0.9% increase in the previous year. This increase is explained by the positive performance of domestic demand (which grew for the second year in a row), reflecting the increase in public consumption (after 5 years of consecutive decreases), as well as in private consumption and, to a lesser extent, in investment, which grew by 3.6% down from 5.5% in 2014. On the other hand, net external demand contributed less negatively, reflecting the increase by 5.1% (3.9% in 2014) in exports of goods and services and the increase by 7.3% (7.2% in 2014) in imports of goods and services.

GDP growth was not far from what the Bank of Portugal had forecast in its Economic Bulletin of December, i.e., an annual average growth of 1.6% in 2015.

In 2016, the Portuguese economy is expected to keep up its recovery trend as well as to continue the correction of macroeconomic imbalances. The average annual GDP growth rate is expected to be 1.7% in line with the previous year and supported both by domestic demand and external demand.

GDP increased by 1.5% in the Eurozone, in accordance with Eurostat projections, which reflects an overall positive evolution in most countries. German economy had a slight deceleration with an increase by 1.5% vis-à-vis 1.6% in the previous year. Other large economies in the Eurozone (France, Italy, and Spain) had a real GDP growth higher than in 2014, particularly Spain, whose GDP grew by 3.2% (+1.8 p.p. when compared with 2014). All the 28 EU countries also increased their real GDP by 1.8%. Economic conditions in the Eurozone are expected to improve in 2016, which might introduce an additional positive pressure to external demand for Portuguese goods and services. Projections for GDP growth in the Eurozone point to around 1.7% in 2016 and 1.9% in 2017.

In Portugal, over the year, the unemployment rate stood at 12.4%, i.e., -1.5 p.p. when compared with 2014, associated with an annual average increase by 1.1% in terms of employment. According to OECD's 'Economic Outlook November 2015', the unemployment rate is expected to decrease in Portugal to 11.3% in 2016 and 10.6% in 2017.

Inflation increased in 2015 except for the first two months of the year. The evolution of inflation results from the 0.5% annual rate of change in the Harmonised Index of Consumer

Prices (HICP) (0.2% in 2014). Although continued low figures are expected for 2016, inflation is expected to rise moderately given the projected 1.1% rise in the HICP, which is in line with the gradual economic recovery of the Eurozone as a whole.

Both the Consumer Confidence Index and the Economic Sentiment Indicator grew in 2015 due to the improvement in the expectations of consumers and economic agents in general regarding the evolution of the economic situation of the country.

The expansive monetary policy and the adoption of unconventional measures by the ECB have marked 2015 and the reference interest rate framework. The historically low level of the reference interest rates shall remain in 2016 according to the most recent projections made by different national and international bodies, which shall be an added challenge to the development of the banking business in the short and medium term horizon.

Commercial strategy

In 2015, Banco Popular strengthened its strategic positioning in the corporate segment with an increase in its market share. This evolution did not imply overlooking the private customers, and the Bank focused on the affluent segment and on making available a set of solutions that allow for a greater interaction with the customers.

Regarding the private customer segment, there was an increase of around 22.7 thousand new customers. These were still mostly raised via corporate customers or through a member get member strategy, which is testament to the high degree of satisfaction that customers feel towards the offer and the service provided by Banco Popular. Throughout the second half of 2015, Banco Popular placed a strong bet on its Home Loan campaign and on the continuous offer of new solutions.

In the scope of partnerships, the health insurance provided by Médis - Popular Saúde by Médis - and the Personal Loan provided by Cofidis were continued. We would also like to highlight the establishment of a partnership with TAP through the 'TAP Victoria' club, which will allow Personal Banking and Private Banking customers to earn frequent flyer mileage depending on the acquisition of products and services provided by Banco Popular.

In the corporate segment, there was an increase by around 6.4 thousand new customers, particularly SMEs. Simultaneously, and in spite of the unfavourable economic scenario, the growing trend of the number of companies receiving loans and in terms of loyalty of new customers was maintained.

Banco Popular strengthened its reputation with business owners, maintaining high levels of satisfaction with the services provided and with customer care. The improved and increased offer, as well as the maintenance of a high level of operational efficiency strengthened the positioning of the Bank as a reference for Companies.

The support provided by the Bank with specific solutions for the different sectors of activity and the availability of almost every protocol loan allowed the Bank to consolidate its influence in the market. We would also like to highlight the maintenance of the high performance of leasing and also a significant growth in terms of the certification of companies as PME Líder (211 certifications in 2015 up from 36 in 2014).

Growth in the credit business exceeded 336.5 million euros, which has confirmed the high capacity of the sales teams and the adequacy of the Bank's offer to meet the expectations and investment needs of corporate customers.

Maintaining a multichannel strategy, and aiming at strengthening the message that the Bank is always available for its customers by the means that are more convenient to them, whenever they want and wherever they are, a new app and a new site were launched, both with new images and added functionalities Additionally, a new service was made available to our customers, which consists in receiving warnings via text message, with gains in terms safety and information when carrying out daily transactions.

In terms of Brand and Communication, Banco Popular adopted a new institutional image in 2015 in line with the Group in Spain, strengthening the brand Popular and dropping 'Banco' from its name. In June, the Bank launched an advertising campaign that followed the presentation of its new image. The main aim of the campaign was to strengthen the support of Banco Popular to the corporate sector, featuring the image of a 'lift that conveys the concept of helping companies to go up'. Banco Popular thus presented itself as a bank that is focused on the corporate segment with a wide offer of products, flexibility and swiftness in its response to its customers' needs.

This communication strategy has accompanied and consolidated the strategic positioning of the Bank, conjugating several multimedia communication actions in an always-on 360 degree campaign. Besides the above-mentioned institutional advertising campaign for which the TV was the preferred communication medium since it is the most appropriate vehicle for the creation of a baseline of awareness, radio and the Internet also played an important role in the exposure of the brand Banco Popular in the first half of 2015 through an institutional campaign and several product campaigns - Home Loans, Thematic Time Deposits, Real Estate and Corporate Offers.

Coupled with the strategy employed to raise awareness to Popular's products and services, a content marketing strategy was developed. This has allowed the Bank to provide editorial relevance to topics that could leverage business opportunities, namely, the sectors associated with tourism, agriculture, manufacturing industry, Iberian offer, and international business, were essential for the results obtained.

Additionally, and to further promote its image, the Bank has maintained its association with important national events, its presence in trade fairs, congresses and sponsoring shows, contributing to consolidate its investment on the corporate sector, showing the Bank's availability and know-how with employers and associations. Following the attribution of Prémios PME Excelência (SMEs Excellence Awards) promoted by IAPMEI, the Bank also launched a series of breakfasts with several of its corporate customers that were distinguished in this scope.

Income and profitability

The income statement is summarised in Table 1. The Annual Accounts show the income statements for 2015 and the previous year pursuant to regulations issued by the Bank of Portugal.

Table 1 . Individual Income Statement

(€ thousand)

		2015	2014	Change Amount	%
1	Interest and similar income	207 794	256 131	- 48 337	-18.9
2	Interest and similar charges	87 962	131 408	- 43 446	-33.1
3	**Net interest income** (1-2)	**119 832**	**124 723**	**- 4 891**	**-3.9**
4	Return on equity instruments	1 658	60	1 598	2 663
5	Net fees and commissions	49 851	55 677	- 5 826	-10.5
6	Income from financial transactions (net)	127	7 401	- 7 274	-98.3
7	Net gains from the sale of other assets	- 3 213	- 8 329	5 116	61.4
8	Other operating income	40 357	- 7 243	47 600	657.2
9	**Banking income** (3+4+5+6+7+8)	**208 612**	**172 289**	**36 323**	**21.1**
10	Personnel expenses	57 772	58 175	- 403	-0.7
11	Administrative overheads	52 113	50 696	1 417	2.8
12	Depreciation	2 995	3 848	- 853	-22.2
13	**Operating income** (9-10-11-12)	**95 732**	**59 570**	**36 162**	**60.7**
14	Provisions net of recoveries and write-offs	4 684	1 521	3 163	208.0
15	Adjustments to loans and advances to customers (net)	57 331	59 433	- 2 102	-3.5
16	Net impairment of other assets	12 250	- 6 828	19 078	279.4
17	**Profit before tax** (13-14-15-16)	**21 467**	**5 444**	**16 023**	**294.3**
18	Income tax	8 124	3 161	4 963	157.0
19	**Net income for the period** (17-18)	**13 343**	**2 283**	**11 060**	**484.5**

Net interest income

In 2015, net interest income amounted to 119.8 million euros, 4,891 thousand euros less, i.e. -3.9%, when compared with the same period in 2014. This result was derived mostly from a drop by -18.9% (-48.3 million euros) in interest and similar income, largely offset by a decrease by -33.1% (-43.4 million euros) in interest and similar charges. The Bank adopted a policy of reducing the cost of its liabilities, which resulted in savings of 38.5 million euros in interest paid to customers (around -33.4 million euros due to the price effect and -5.1 million euros due to the volume effect).

The downward adjustment of interest and similar income was mostly due to the drop by -39.2 million euros in interest from the loans granted. This decrease was due to the strong effect of the unfavourable interest rate (-47.4 million euros), explained by the drop on the interest rate charge, given that the volume effect was positive (+8.3 million euros) due to the growth of the average size of loans granted in 2015. We would also like to highlight that the negative effect on net interest income contributed by the financial asset portfolio (-4.8 million euros) as well as the lower levels of profitability of other investments (-4.4 million euros) were fully offset by the positive effect observed in other institutional assets obtained by the Bank (9.7 million euros - Table 2).

The combination of these two components of net interest income has confirmed the necessary and efficient management of interest rates even in a context of persistent historically low levels in the short term.

Table 2 . Annual changes in net interest income - Causal analysis 2015 / 2014

(€ thousand)

Changes in:	Due to changes in Turnover	Due to changes in interest rates	Due to changes in period	Total change
Loans and advances to customers	8 273	- 47 435	0	- 39 162
Deposits with banks	- 2 587	- 1 659	0	- 4 246
Financial assets	- 5 772	1 010	0	- 4 762
Other assets	- 73	- 92	0	- 165
Total Investments	**- 160**	**- 48 177**	**0**	**- 48 337**
Deposits from customers	- 5 057	- 33 412	0	- 38 469
Deposits from banks	- 2 631	- 7 090	0	- 9 721
Own assets	0	0	0	0
Other liabilities	19	4 725	0	4 744
Total assets	**- 7 669**	**- 35 777**	**0**	**- 43 446**
Net interest income	**7 509**	**- 12 400**	**0**	**- 4 891**

Regarding average balances and rates, and according to Table 3, average assets in 2015 were supported by customer funds (53%) and deposits from banks (35%). Loans and advances to customers is still their main component, representing around 70% of total average assets.

Table 3 . Evolution of equity and average annual rates. Margins

(€ thousand and %)

	2015				2014			
	Average Balance	Dist. (%)	Income or expense	Average Rate (%)	Average Balance	Dist. (%)	Income or expense	Average Rate (%)
Loans and advances to customers (a)	5 878 878	70.6%	159 636	2.72	5 635 515	60.0%	198 799	3.53
Deposits with banks	310 959	3.7%	357	0.11	1 273 105	13.6%	4 603	0.36
Financial assets	1 898 916	22.8%	47 681	2.51	2 129 476	22.7%	52 444	2.46
Other assets	242 109	2.9%	119	0.05	351 133	3.7%	285	0.08
Total Assets (b)	**8 330 862**	**100%**	**207 794**	**2.49**	**9 389 228**	**100%**	**256 131**	**2.73**
Deposits from customers (c)	4 390 132	52.7%	53 915	1.23	4 658 592	49.6%	92 384	1.98
Deposits from banks	2 912 895	35.0%	4 426	0.15	3 743 365	39.9%	14 147	0.38
Equity accounts	712 560	8.6%	0	0.00	705 995	7.5%	0	0.00
Other liabilities	315 275	3.8%	29 620	9.40	281 276	3.0%	24 876	8.84
Total Liabilities and Equity (d)	**8 330 862**	**100%**	**87 962**	**1.06**	**9 389 228**	**100%**	**131 408**	**1.40**
Customer spread (a - c)				**1.49**				**1.55**
Net Interest Income (b - d)				**1.43**				**1.33**

Taking into consideration the evolution of the average interest rates of loans and deposits, we would like to stress that average assets stood at 8,331 million euros due to the lower importance of both the financial asset portfolio and the availabilities and investments. Assets had an overall profitability of 2.49%, which, when compared with the average cost of total resources allocated to the financing of assets (1.06%), has enabled an annual net interest income of 1.43%, i.e., over 10 basis points higher than in the previous year.

The policy of reducing the cost of liabilities has led to a 75 basis points reduction in the annual average rate of customer funds and stood at 1.23% at the end of the year, which compares with 1.98% in 2014 (Table 3a). On the other hand, the average annual intrest rate of loans dropped by 81 basis points, from 3.53% to 2.72%. Due to this combined effect, customer spread inevitably decreased by 6 basis points to 1.49%.

Table 3a . Evolution of annual average rates. Margins

	Average annual rate	**Average annual rate**	**Change**
	2015	2014	**2015/2014**
	(%)	(%)	(p.p.)
Loans and advances to customers (a)	2,72	3,53	-0,81
Deposits with banks	0,11	0,36	-0,25
Financial assets	2,51	2,46	0,05
Other assets	0,05	0,08	-0,03
Total Assets (b)	**2,49**	**2,73**	**-0,25**
Deposits from customers (c)	1,23	1,98	-0,75
Deposits from banks	0,15	0,38	-0,23
Equity accounts	0,00	0,00	0,00
Other liabilities	9,40	8,84	0,55
Total Liabilities and Equity (d)	**1,06**	**1,40**	**-0,35**
Customer spread (a - c)	**1,49**	**1,55**	**-0,06**
Net Interest Income (b - d)	**1,43**	**1,33**	**0,10**

From the analysis of Images 1 and 2, and following the trend witnessed in the previous years, we can see the maintenance of the downward turn both in the average rate of loans and in customer funds with the consequent effect in terms of the total of investments and assets. In 2015 and given the current scenario of the evolution of interest rates, although customer spread has decreased, the management of average prices and volumes of total assets and liabilities has allowed for a significant increase in net interest margin (which results from the difference between the average investment rate and the average fund rate), increasing by 10 basis points to 1.43%.

Image 1 - Customer spread

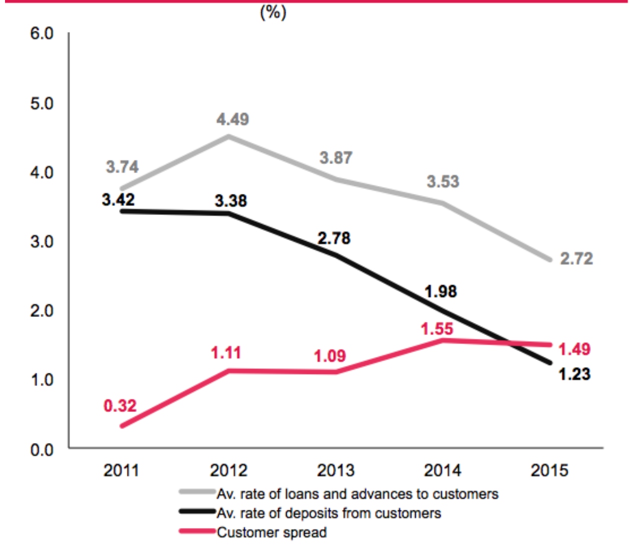
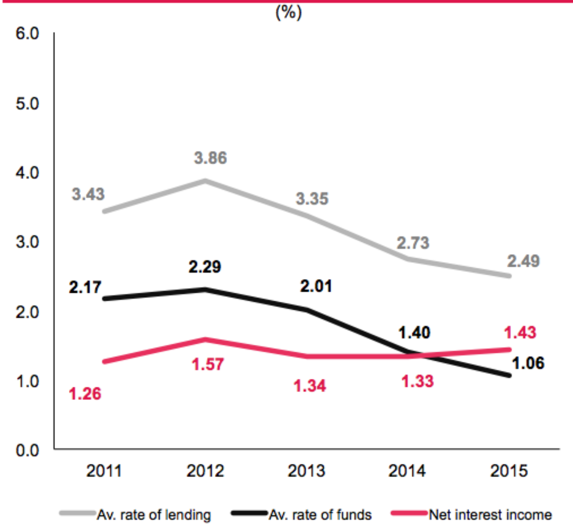


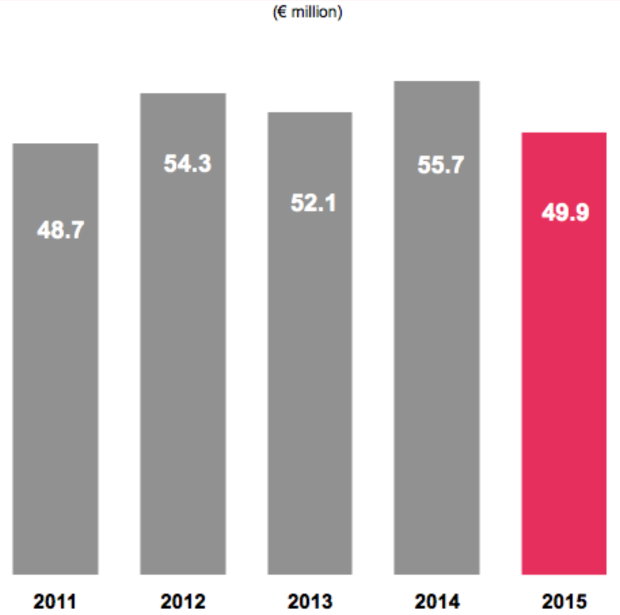
Image 2 - Net interest income



Banking income

In 2015, net fees and commissions charged to customers for the sale of products and services totalled 49.9 million euros, which corresponds to a decrease by around 10.5% when compared with the previous year (Image 3).

Image 3 - Net fees and commissions



Complementing that information, Table 4 shows the main items that have contributed to the change in net fees and commissions for the period. We would like to highlight the positive contribution of fees and commissions related with lending (+8.6%) and other fees and commissions (+26%). while commissions from insurance sales (-70.8%) and collection and payment handling (-15.4%) contributed negatively.

Table 4 . Net Fees and Commissions

(€ thousand)

	2015	2014	Change Amount	%
Commissions from lending	15 120	13 925	1 195	8.6
Commissions from guarantees	4 960	6 861	- 1 901	-27.7
Commissions from collection and payment handling (net)	12 691	14 993	- 2 302	-15.4
Commissions from asset management (net)	2 281	2 397	- 116	-4.8
Commissions from insurance brokerage	1 522	5 220	- 3 698	-70.8
Commissions from account management	5 613	5 810	- 197	-3.4
Commissions from processing services	1 566	1 632	- 66	-4.0
Other fees and commissions (net)	6 098	4 839	1 259	26.0
Total	**49 851**	**55 677**	**- 5 826**	**-10.5**

Regarding the remaining items of the banking product, we would like to highlight the decrease by 7.3 million euros in terms of financial transactions, an increase by around 5.1 million euros in the sale of other assets, and the increase in other operating profits by around 47.6 million euros. This amount was due to the income obtained from the sale of the business unit in charge of managing real estate and credit exposures of customers associated with the real estate sector from Banco Popular Portugal to Primestar, S.A. (former Recbus – Recovery to Business, S.A.), 20% owned by Banco Popular Español. With this operation, the Group has achieved two aims: on the one hand, maximizing the management of the real estate business in Portugal by capitalizing on the knowledge and experience of a partner with expertise in optimizing real estate asset management; on the other, separating the management of this business sector, allowing Banco Popular Portugal, S.A., to focus on traditional commercial banking targeted at savings and financial services provided to private customers, families and companies, particularly SMEs.

The combined effect of these two items has annulled the negative effect on net interest income and contributed positively to a banking product of around 208.6 million euros, i.e. 36.3 million euros more, or 21.1%, vis-à-vis 2014.

Operating income

The year 2015 was another step forward into the consolidation of the measures that had been implemented in the previous years as regards the Bank's expense policy. In 2015, operating expenses totalled 112.9 million euros, which represents an increase by 161 thousand euros, or +0.1%, when compared with the previous year.

From Table 5 we can see that personnel expenses amounted to 57.8 million euros, which corresponds to a decrease by 0.7%. This decrease is mostly due to the outflow of resources. It is important to note the negative effect of a greater contribution to the Pension Fund in the amount of 861 thousand euros.

Administrative overheads totalled around 52.1 million euros, which corresponds to a 2.8% increase, or 1.4 million euros, when compared with the previous year. The positive effect of the reduction in the following items should be stressed: Cost control was achieved by a decrease in advisory services (-2 million euros, or -35.8%), temporary work (-478 thousand euros, or -10.7%) and maintenance of premises and equipment (-383 thousand euros, or -10.2%). These positive effects were mostly absorbed by the increase in other general expenses by around 3.0 million euros (+108.2%).

In terms of allocations for depreciation of fixed assets we have witnessed a positive performance (-853 thousand euros, or -22.2%) to 3.0 million euros. This item was instrumental to stabilize expenses.

Table 5 . Operating Expenses

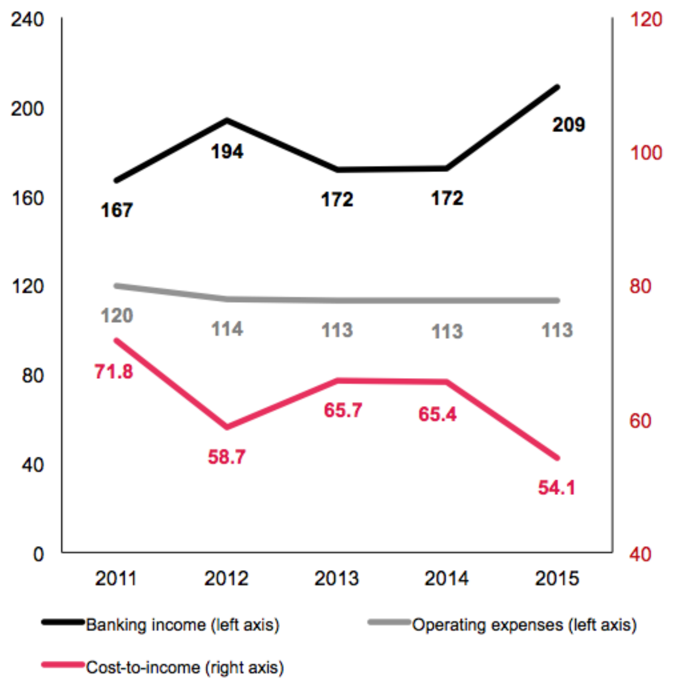
(€ thousand)

	2015	2014	Change Amount	%
Personnel expenses (a)	**57 772**	**58 175**	**- 403**	**-0.7**
Wages and salaries	41 642	42 384	- 742	-1.8
Social security charges	11 063	11 222	- 159	-1.4
Pension fund	4 466	3 605	861	23.9
Other expenses	601	964	- 363	-37.7
Administrative overheads (b)	**52 113**	**50 696**	**1 417**	**2.8**
External supplies	2 602	2 631	- 29	-1.1
Rents and leasing	4 314	4 342	- 28	-0.6
Communications	3 932	4 008	- 76	-1.9
Travel, hotel and representation	1 272	1 189	83	7.0
Advertising and publications	4 236	4 025	211	5.2
Maintenance of premises and equipment	3 378	3 761	- 383	-10.2
Transports	1 176	1 067	109	10.2
Fees and regular payment agreements	3 561	5 543	- 1 982	-35.8
Legal expenses	1 749	1 932	- 183	-9.5
IT Services	9 400	8 969	431	4.8
Security, surveillance and cleaning	450	478	- 28	-5.9
Temporary work	3 969	4 447	- 478	-10.7
External consultants and auditors	1 552	903	649	71.9
SIBS	1 355	1 170	185	15.8
Services rendered by Banco Popular Group	3 319	3 422	- 103	-3.0
Other services	5 848	2 809	3 039	108.2
Other operating expenses (c=a+b)	**109 885**	**108 871**	**1 014**	**0.9**
Amortization for the period (d)	**2 995**	**3 848**	**- 853**	**-22.2**
Total (c+d)	**112 880**	**112 719**	**161**	**0.1**

The cost-to-income ratio, which corresponds to the part of banking income consumed by operating expenses, has improved (dropping from 65.4% to 54.1%). This percentage resulted from the stabilization of both the banking income and operating expenses. This evidence is reflected on Image 4.

Image 4 - Cost-to-income ratio

(€ million and %)



The weight of personnel expenses in banking income stood at 27%, which is lower than the 33.8% seen in 2014. Operating income thus amounted to approximately 95.7 million euros, which is 60.7% higher than in the previous year.

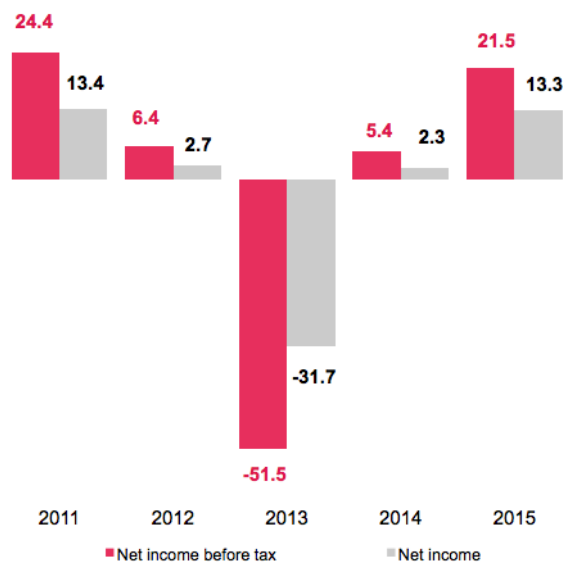
Net income and profitability

Banco Popular Portugal ended 2015 with net income of 13.3 million euros, after the net profit of 2.3 million euros in 2014. This result was achieved by the combined effect of increased banking income, highly influenced by other operating income. Loan provisions increased by 1.1 million euros year-on-year, while impairment of other assets net of reversals and write-offs increased by around 19 million euros.

Image 5 shows the evolution of income before tax and net income in the past five years.

Image 5 - Evolution of net income

(€ million)



By analysing the income statement and the balance sheet together we can assess the profitability of the Bank's financial activity, comparing profits and costs and their respective margins with the investments and assets that originated them. Table 6 shows income statements for 2015 and 2013 broken down by their percentage of average total assets.

In 2015, operating profitability stood at 1.15%, 51 basis points higher than in the previous year.

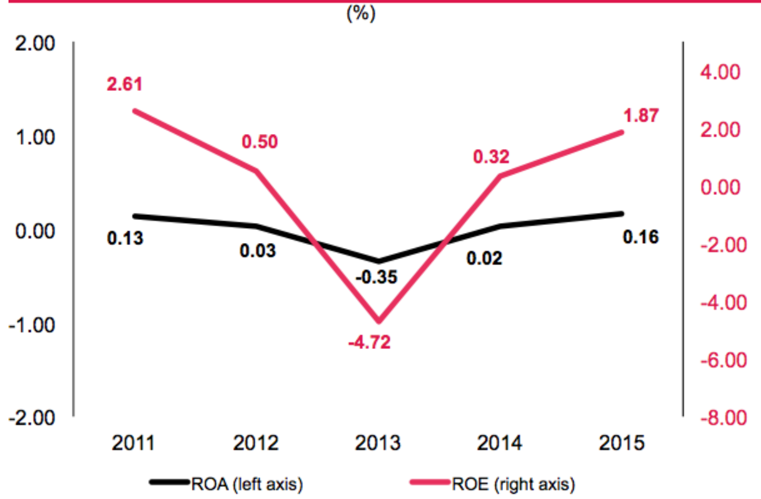
Table 6 . Total Return on Investment

(€ thousand and % of average net assets)

	2015 amount	%	2014 amount	%	Change in amount	% / p.p.
Investment income	207 794	2.49	256 131	2.73	- 48 337	-0.23
Cost of assets	87 962	1.06	131 408	1.40	- 43 446	-0.34
Net interest income	**119 832**	**1.44**	**124 723**	**1.33**	**- 4 891**	**0.11**
Net fees and commissions	49 851	0.60	55 677	0.59	- 5 826	0.01
Other operating profit/loss	38 929	0.47	- 8 111	-0.09	47 040	0.55
Banking income	**208 612**	**2.50**	**172 289**	**1.83**	**36 323**	**0.67**
Personnel expenses	57 772	0.69	58 175	0.62	- 403	0.07
Administrative overheads	52 113	0.63	50 696	0.54	1 417	0.09
Depreciation	2 995	0.04	3 848	0.04	- 853	-0.01
Operating profitability	**95 732**	**1.15**	**59 570**	**0.63**	**36 162**	**0.51**
Net loan provisions	62 015	0.74	60 954	0.65	1 061	0.10
Impairment and other net provisions	12 250	0.15	- 6 828	-0.07	19 078	0.22
Return before tax	**21 467**	**0.26**	**5 444**	**0.06**	**16 023**	**0.20**
Income tax	8 124	0.10	3 161	0.03	4 963	0.06
Return after tax	**13 343**	**0.16**	**2 283**	**0.02**	**11 060**	**0.14**
Memorandum item:						
Average net assets (€ million)	8 331		9 389		- 1 058	-11.3
Average own funds (€ million)	713		706		7	0.9
Return on equity - ROE (%) (net income after tax/average shareholders' equity)	1.87		0.32		1.55	479.1
Gross return on equity (%) (income before tax/average shareholders' equity)	3.01		0.77		2.24	290.7
Cost-to-income (%)	54.11		65.42		-11.31	-17.3

In 2015, return on equity (ROE), defined as the ratio of annual net income to average shareholders' equity, stood at 1.87%, which compares with 0.32% in the previous year. Image 6 shows the evolution of profitability indicators over the past 5 years.

Image 6 - Return on Assets and on Equity



Investments and assets

Total assets

The balance sheets as at 31 December 2015 and 2014 are summarised in Table 7. In the section Annual Accounts, those same balance sheets are presented in accordance with the model defined by the Bank of Portugal.

As at 31 December 2015, Banco Popular's net assets amounted to 9,013 million euros, 607 million euros more than in the same period last year, which corresponds to an increase by around 7.2%.

Table 7 . Individual Balance Sheet

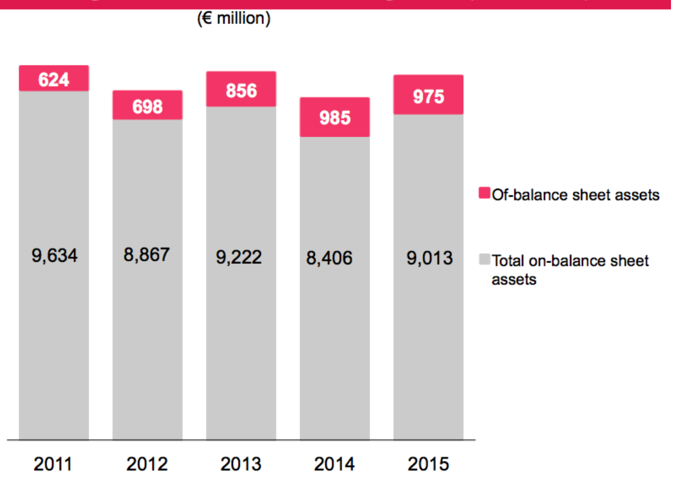
(€ thousand)

	2015	2014	Change Amount	%
Assets				
Cash and balances with central banks	55 505	134 283	- 78 778	-58.7
Deposits with banks	76 428	80 219	- 3 791	-4.7
Financial assets held for trading	49 893	78 280	- 28 387	-36.3
Other financial assets at fair value through profit or loss	0	0	0	0.0
Available-for-sale financial assets	1 914 430	1 879 094	35 336	1.9
Loans and advances to banks	606 616	197 962	408 654	206.4
Loans and advances to customers	6 085 775	5 775 248	310 527	5.4
(-) Specific loan provisions	- 378 094	- 316 465	- 61 629	-19.5
Hedging derivatives	1 055	0	1 055	100.0
Non-current assets held for sale	0	20 747	- 20 747	-100.0
Other tangible assets	68 497	70 631	- 2 134	-3.0
Intangible assets	146	71	75	105.6
Investment in subsidiaries and associates	20 243	0	20 243	100.0
Current income tax assets	0	3 566	- 3 566	-100.0
Deferred income tax assets	67 670	75 226	- 7 556	-10.0
Other assets	444 343	406 986	37 357	9.2
Total Assets	**9 012 507**	**8 405 848**	**606 659**	**7.2**
Liabilities				
Deposits from central banks	0	900 003	- 900 003	-100.0
Financial liabilities held for trading	41 452	43 845	- 2 393	-5.5
Deposits from banks	2 924 272	2 065 409	858 863	41.6
Deposits from customers	5 034 537	4 114 903	919 634	22.3
Debt securities issued	38 092	317 251	- 279 159	-88.0
Hedging derivatives	121 337	142 258	- 20 921	-14.7
Provisions	57 209	52 575	4 634	8.8
Current income tax liabilities	6 391	1 817	4 574	251.7
Deferred income tax liabilities	21 131	25 793	- 4 662	-18.1
Other liabilities	53 779	38 789	14 990	38.6
Total Liabilities	**8 298 200**	**7 702 643**	**595 557**	**7.7**
Equity				
Equity	476 000	476 000	0	0.0
Share premium	10 109	10 109	0	0.0
Revaluation reserves	2 394	- 2 285	4 679	204.8
Other reserves and retained earnings	212 461	217 098	- 4 637	-2.1
Income for the period	13 343	2 283	11 060	484.5
Total Equity	**714 307**	**703 205**	**11 102**	**1.6**
Total Liabilities + Equity	**9 012 507**	**8 405 848**	**606 659**	**7.2**

The Bank also manages other customer funds applied in investment, savings and retirement instruments, which amounted to 975 million euros at year end, representing a 1% decrease when compared with 2014.

Therefore, total assets managed by the Bank amounted to 9,988 million euros at the end of 2015, which represents a 6% increase when compared with the previous year.

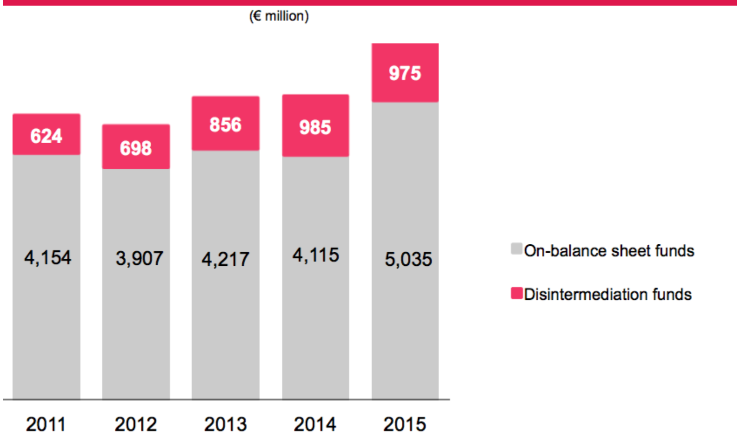
Image 7 - Total assets under management (Year-end amounts)



Customer funds

As at 31 December 2015, the total amount of on- and off-balance sheet customer funds amounted to 6,010 million euros, 17% more when compared with the previous year. Image 8 shows the performance of total customer funds over the past 5 years.

Image 8 - Customer funds



On-balance sheet funds, comprised mostly of customer deposits, totalled approximately 5,035 million euros, which corresponds to an increase by 22% when compared with 2014.

Demand accounts significantly increased by 233 million euros, or 25.6%, from 906.9 million euros to 1,139.5 million euros. Similarly, time deposits grew by approximately 697.4 million euros, representing a 22% increase.

Table 8 . Customer funds

(€ thousand)

	2015	2014	Change Amount	%
CUSTOMER FUNDS :				
Deposits	**5 013 697**	**4 081 525**	**932 172**	**22.8**
Demand accounts	1 139 514	906 921	232 593	25.6
Time deposits	3 867 797	3 170 379	697 418	22.0
Savings accounts	6 386	4 225	2 161	51.1
Cheques, payment orders and other funds	**4 337**	**5 822**	**- 1 485**	**-25.5**
Interest payable	**16 503**	**27 556**	**- 11 053**	**-40.1**
ON-BALANCE SHEET FUNDS (a)	**5 034 537**	**4 114 903**	**919 634**	**22.3**
Disintermediation funds				
Investment funds	251 751	235 156	16 596	7.1
Investment and capitalisation insurance	482 405	559 022	- 76 617	-13.7
Retirement insurance plans	104 093	86 575	17 518	20.2
Portfolio management	137 122	104 510	32 612	31.2
OFF-BALANCE SHEET FUNDS (b)	**975 371**	**985 263**	**- 9 891**	**-1.0**
TOTAL CUSTOMER FUNDS (a + b)	**6 009 908**	**5 100 166**	**909 743**	**17.8**

Off-balance sheet funds – which include investment fund applications, retirement plans, funds rose through investment insurance products, and assets managed through private banking – decreased by 1%, dropping from 985.3 million euros in 2014 to 975.4 million euros at the end of 2015. The negative performance of this item was mostly due to the fact that the drop in investment and capitalisation insurance sales absorbed the growth in terms of investment funds, retirement plans, and portfolio management as can be seen on the previous table.

As at 31 December 2015, Banco Popular Portugal was the depositary of 14 investment funds managed by Popular Gestão de Activos, whose total portfolio amounted then to over 251 million euros. Table 9 shows the assets contained in each of the investment funds managed over the past two years and image 9 shows the performance of the amount managed in terms of investment funds over the past 5 years.

Table 9 . Investment Fund Portfolio (asset value)

(€ thousand)

Funds	2015	2014	Change Amount	%
Popular Acções	8 811	10 417	- 1 606	-15.4
Popular Euro Obrigações	6 725	20 880	- 14 156	-67.8
Popular Global 25	49 282	37 007	12 275	33.2
Popular Global 50	46 984	30 566	16 418	53.7
Popular Global 75	24 147	15 615	8 532	54.6
Popular Tesouraria	21 613	14 851	6 762	45.5
Popular Objectivo Rendimento 2015	0	2 220	- 2 220	-100.0
Popular Private Multiactivos	0	2 144	- 2 144	-100.0
Pop. Obrig. Ind. Ouro (London)	0	3 960	- 3 960	-100.0
Popular Objectivo Rendimento 2021	1 023	1 291	- 268	-20.8
Popular Predifundo	7 631	11 522	- 3 891	-33.8
ImoPopular	20 159	21 135	- 976	-4.6
Imourbe	14 541	10 925	3 616	33.1
Popular Arrendamento FIIFAH	50 836	52 621	- 1 785	-3.4
Total	**251 751**	**235 156**	**16 596**	**7.1**

Banco Popular Portugal also sells Eurovida's retirement plans and investment insurance, holding an equity stake in that company. Image 10 shows the evolution of the amounts invested in those products over the past 5 years.

Image 9 - Investment Fund Portfolio and Private Portfolios under Management

(€ million)

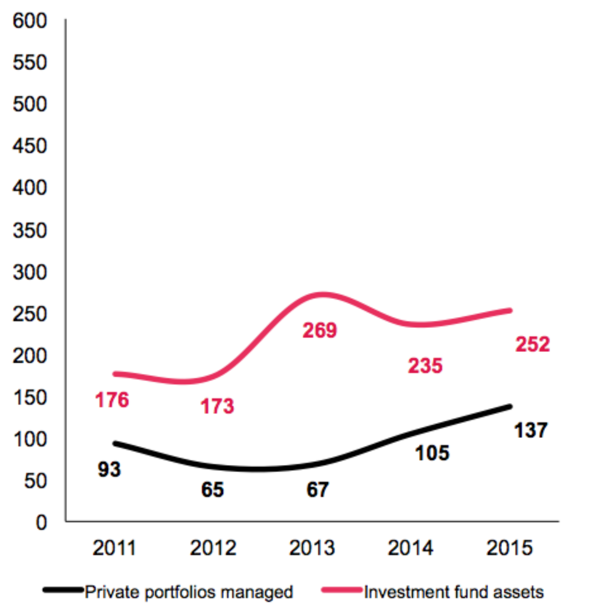
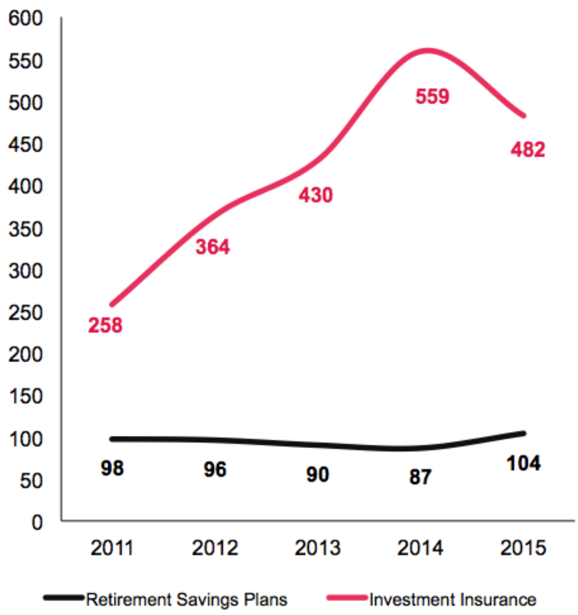


Image 10 - Financial Insurance Assets

(€ million)



Lending operations

Loans and advances to customers amounted to more than 6,085 million euros at the end of 2015, representing 67.5% of total assets, or 63.3% if provisions for past-due loans are deducted. Loans and advances to corporate customers and the public sector totalled around 3,375 million euros (excluding other securitized loans and overdue loans), which corresponds to 63.1% of total lending operations.

The following table shows the distribution of loans and advances to customers in the past two years.

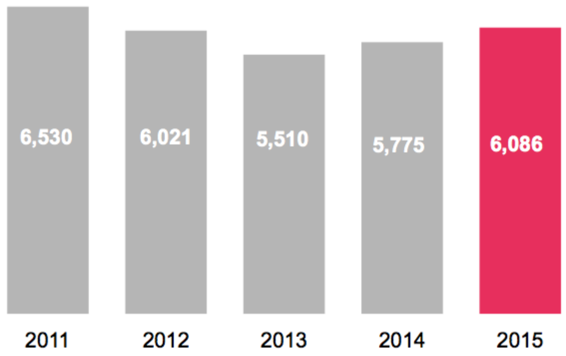
Table 10 . Loans and advances to customers

(€ thousand)

	2015	2014	Change Amount	Change %
Loans and advances to customers (a)				
Public sector	3 375 278	3 181 880	193 398	6,1
Private individuals	1 973 790	1 902 445	71 345	3,8
Residential mortgage loans	1 587 839	1 511 573	76 266	5,0
Personal and consumer loans	32 227	40 305	- 8 078	-20,0
Other personal lending	353 724	350 567	3 157	0,9
Total	**5 349 068**	**5 084 325**	**264 743**	**5,2**
Other loans (represented by securities) (b)	**355 677**	**352 773**	**2 904**	**0,8**
Interest and commissions receivable (c)	**3 270**	**8 700**	**- 5 430**	**-62,4**
Past-due loans and interest (d)				
Due within 90 days	11 957	15 526	- 3 569	-23,0
Over 90 days	365 803	313 924	51 879	16,5
Total	**377 760**	**329 450**	**48 310**	**14,7**
Total Gross Lending (a + b + c + d)	**6 085 775**	**5 775 248**	**310 527**	**5,4**
Specific Loan Provisions	378 094	316 465	61 629	19,5
Total Net Lending	**5 707 681**	**5 458 783**	**248 898**	**4,6**

The increase in the amount of loans and advances to customers was due to an increase by around 265 million euros, or 5.2% , in terms of loans granted, most of them to public bodies (73%) and the remaining 27% to private customers. Loans granted to companies and public bodies increased by over 193.3 million euros, or 6.1%, representing 55.5% of total gross lending. Loans to private customers represented 32.4% of total gross lending, reflecting an upsurge of 3.8%, i.e., a 71 million euro increase. This increase of loans to customers was mostly supported by the 5.0% or around 76.3 million euro increase in residential mortgage loans.Image 11 shows the evolution of total lending operations in the past five years.

Image 11 – Loans and Advances to Customers
(€ million)



The amount of past-due loans and interest at the end of 2015 totalled over 377 million euros, which represents an increase by 14.7% when compared with the previous year. This type of loans represented 6.2% of total lending. Taking into consideration only loans that have been non-performing for more than 90 days this indicator stands at 6.01%.

Total non-performing loans amounted to 504.5 million euros at the end of 2015, which represents 8.3% of total lending operations.

Table 11 . Past-due Loans and Non-performing Loans

(€ thousand)

	2015	2014	Change Amount	Change % / p.p.
Past-due loans and interest	377 760	329 450	48 310	14.7
Past-due loans by more than 90 days **(a)**	365 803	313 924	51 879	16.5
Doubtful loans reclassified as past-due loans **(b)**	138 734	133 405	5 329	4.0
Non-performing loans **(a+b)**	504 537	447 329	57 208	12.8
Past-due loans / total loans (%)	6.21	5.70		0.51
Past-due loans over 90 days / total lending (%)	6.01	5.44		0.57
Non-performing loans / total lending (%)	8.29	7.75		0.54
Net non-performing loans / total net lending (%)	2.28	2.54		-0.26
Provisions for Credit Risk (specific and generic)	432 061	366 049	66 012	18.0
Hedging Ratio (%)	114.40	111.10		3.30
memorandum item:				
Total lending	**6 085 775**	**5 775 248**	**310 527**	**5.4**

At the end of 2015, provisions for credit risks amounted to 432 million euros, ensuring a coverage ratio of 114.4%.

Proposal for the appropriation of net income

Pursuant to the Articles of Association, the Board of Directors proposes that net income for 2015, in the amount of 13,342,924.47 euros, shall be appropriated as follows:

- Statutory Reserve	Euros 1,334,300.00
- Other Reserves	Euros 12,008,624.47

Outlook for 2016

This year is expected to support the maintenance of investment growth in Portugal. Institution-wise being linked to a solid group provides Banco Popular with the necessary robustness and solvency to be able to strengthen its current weaknesses while simultaneously embracing the challenge of converting the opportunities offered by the market into business activities.

We need to keep on investing in the sustainable growth of our customer base, attracting all the stakeholders in the corporate universe, namely customers, suppliers, staff, shareholders and partners, and increasing the number of products bought by our customers in order to raise their profitability.

These past few years, Banco Popular has been strengthening its costumer-centred strategy, particularly as regards SME. The whole structure has been readjusted and geared towards this ambition, namely by separating management from the commercial area regarding the management of less profitable assets, thus freeing the network to focus on attracting customers and managing the commercial activity.

However, aspiring to become a leading Bank for companies does not alter the fact that Banco Popular still wants to provide its offers to families, being prepared to meet the needs of private costumers. As a matter of fact, private customers play an essential role in the financing of the corporate activity since they are a stable funding source.

Therefore, the Bank shall have four major strategic aims:

- Expanding its customer base;
- Improving customer loyalty and profitability;
- Increasing business;
- Strengthening its positioning as a Bank for companies.

In 2016, the Bank will continue to invest in providing mobile services and tools, which will allow Popular Customers to be in direct contact with their bank in a simple, fast, and easy way.

As regards communication for 2016, we intend to uphold the strategy implemented in the past few years, reaffirming the Bank's standing as one of the best banks for Companies. Communication will be based on an integrated 360º campaign, aiming at increasing exposure, coverage and frequency, following an always on approach.

Risk management

Risk management has been increasingly more important for Banco Popular Portugal, in line with the Group's corporate policy, implying the direct involvement of top management in the definition of risk policies aimed at guaranteeing the Bank's stability, its short, medium and long term viability, and the optimization of the risk versus profitability ratio.

The Bank has a set of guidelines and policies for each risk category that mostly depend on identifying risks, assessing them quantitative and qualitatively, and then defining priorities in order to design action plans and subsequently monitor the risk from the analysis stage to the moment it is accepted by the institution.

These guidelines are intended to be aligned with the following risk management principles defined for the Bank:

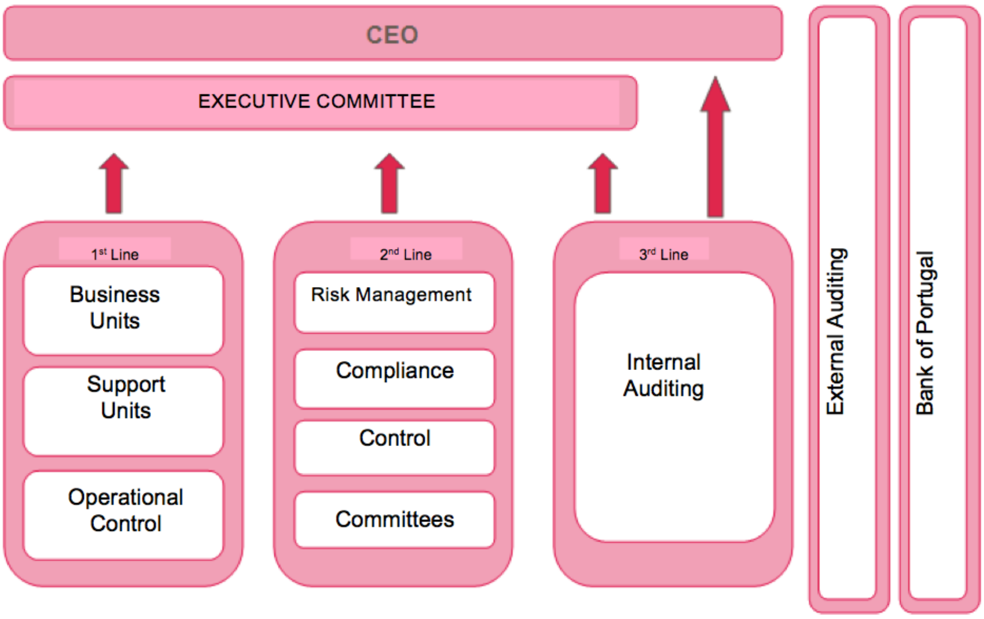
- Organizational strategy influenced by its risk exposure degree;
- Involvement of the whole organization in the risk management effort;
- Transparent internal and external communication as far as risks are concerned.

The aim of developing risk management processes is allowing the Bank to successfully fulfil its mission by carefully controlling the risks that characterize its activity. Simultaneously the

Bank has tried to adapt its organizational structure aiming at adequately separating functions to mitigate risks.

Structure and communication lines

The risk management structure has adopted the 'three lines of defence' as illustrated and explained by the following image:



Therefore, the three lines of defence are basically represented by the following internal structures:

(i) The first line is strongly tied with the business units, which are in charge of identifying and managing the risks involved in carrying out their day-to-day activity, including the implementation of internal controls and drafting reports;

(ii) The second line of defence aims at independently control that the pre-defined risk appetite and risk policies are complied with and that risks are efficiently managed by measuring, following up and presenting risk reports on the whole Bank, independently from the first line of defence. These tasks are mostly carried out by Risk Management, Compliance, Internal Control and advisory Committees to the Board of Directors;

(iii) And functioning as the third line of defence, Internal Auditing, whose aim is to perform general audits and risk-based audits to assure the Board of Directors that the internal governance system, including the part associated with risk, is effective and that policies and processes are correctly implemented and consistently applied.

The Board of Directors is in charge of defining and implementing a risk management system, although many of the activities that are connected with this process are delegated on other organizational functions.

Reporting and communication lines

Communication lines are established between business units, including auditing, and corresponding monthly reports are sent to Risk Management detailing the state of control mechanisms employed to manage risk and changes in terms of objectives and risks. Risk Management reports to the Board of Directors on the monitoring process regarding the different types of risks.

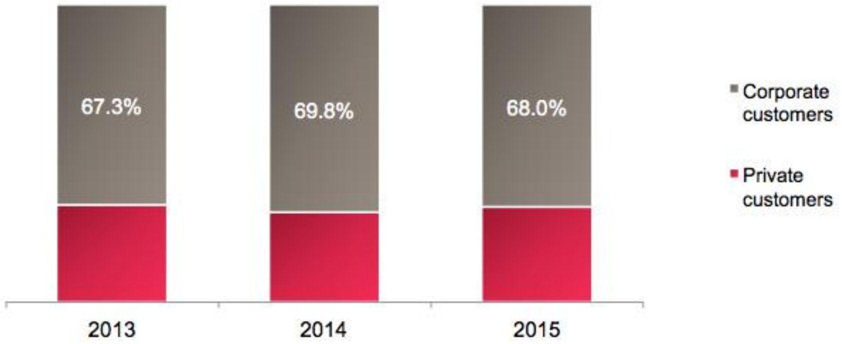
Credit and Concentration risk

This type of risk arises from the possible loss triggered by the breach of contractual obligations of the Bank's counterparties. In the case of refundable financing it arises as a consequence of the non-recovery of principal, interest and commissions, regarding amount, period and other conditions stipulated in the contracts. Concerning off-balance sheet risks, these are triggered when the Bank's counterparties fail to fulfil their obligations with third parties, which implies that the Bank has to assume as its own in view of the contract.

The credit risk the Bank is exposed to results mainly from its commercial banking activity, which is its core business. Total lending operations amounted to around 6,086 million euros at the end of December 2015, with a year-on-year increase of around 5.38%.

Loans to customers is the main asset of the Bank, representing around 63% of its net assets. As at 31 December 2015, around 68.0% of the portfolio had to do with advances and loans to corporate customers (mostly SME).

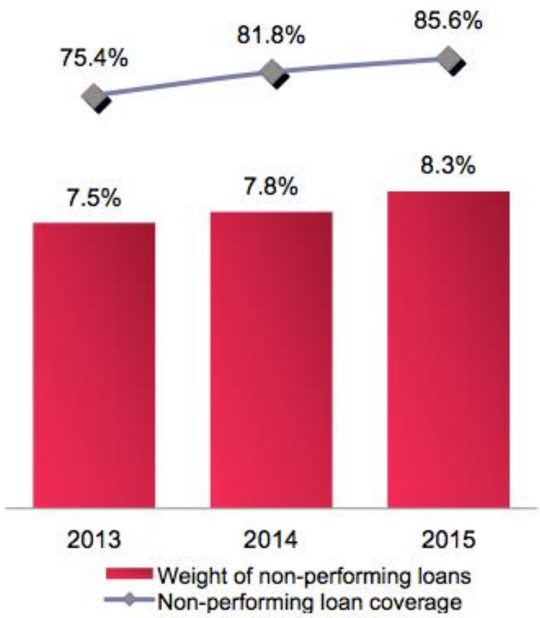
Portfolio broken down by type of counterparty



The evolution of the default ratio, as seen below, is mostly attributable to the current macroeconomic scenario. In spite of the focus given by management to credit recovering, this evolution was still slightly negative, reaching 8.3% at the end of 2015.

On the other hand, due to the ageing of the non-performing loans in the portfolio, there has been an increase of the respective average level of provisioning and, consequently of its hedging ratio.

Evolution of non-performing loans



Main areas of activity in 2015

As far as credit risk is concerned, in 2015, risk management was focused mainly on the aspects detailed in the following paragraphs.

- Implementation of internal models to assess risk

In line with the Group's policy, the Bank has adapted the models to the specific characteristics of the country, which is intended to result in the authorization by the Bank of Portugal to use advanced internal methods to calculate own funds requirements to face credit risk.

The definition of default was maintained pursuant to Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR). This definition of default of an obligor, which also serves to calculate risk-weighted assets, besides quantitative criteria now also includes qualitative criteria, as well as concerns with contamination or the materiality of the exposures.

The implementation and management of models has remained a fundamental tool to help in the credit decision process. The decision-making power of our branches is part of this process, based on the risk levels attributed by the models employed. As a complement, it is important to say that the credit decision process in the scope of the central bodies already considers a differentiation of powers depending on the risk level attributed by the rating models.

On the other hand, besides helping in the credit decision process, scoring and rating models are still being used to monitor credit risk and prepare information for the management on the portfolio's risk profile. In view of the monthly update of the respective credit ratings, it is possible to identify high risk customers or those that present higher non-performance risk at a given moment in time, enabling closer and quicker monitoring of possible warning signals.

Due to the adaptation of the SME model to the Portuguese reality, the Bank has created the unit of Internal Validation of models.

- Credit Impairment Model

The Bank implemented an internal credit impairment model that enables it to meet the need to present impairment reports, as well as monthly assess the quality of the loans granted and monitor those transactions.

This model is monitored by Risk Management and, after being revised by the external auditor, is reported to the Bank of Portugal half-yearly in the scope of the Impairment Report, where the full methodology of this model is detailed.

Ever since its inception, the Bank has regularly revised the model, mostly to reflect not only changes in the macroeconomic scenario, but also the evolution of its loan portfolio.

Since the existing model has an excellent indicator of credit quality, the concept of Probability of Default (PD), it is used in the day-to-day management of the Bank. Strictly speaking, we can say that PD incorporates two fundamental aspects: the quality of the loans granted and monitoring the customer throughout the life cycle of the transactions.

All the relevant aspects of the model, as well as the full description of the corresponding methodology are described in detail in note 47 of this report.

Concentration Risk

Risk Management monitors and manages concentration risk and ensures that adequate policies and procedures are maintained and implemented to monitor and manage credit concentration risk. It is also in charge of monitoring delegated powers in terms of concentration risk and periodically presents reports on concentration risk to the Board of Directors.

The Bank defined a structure of limits aimed at maintaining an exposure level in line with its risk profile and an adequate diversification of its loan portfolio.

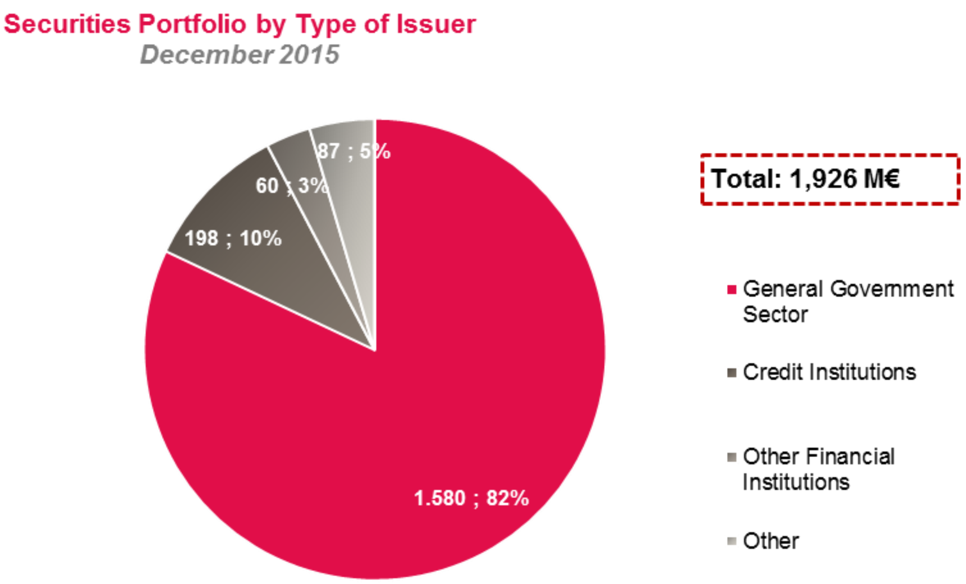
The currently established limits for credit concentration risk are detailed in note 47 of this report.

'Herfindahl' Index

In order to estimate the capital requirements necessary to face concentration risk, the Bank resorted to the methodology published by the Bank of Portugal in its Instruction No. 5/2011, which is based on the 'Herfindahl' Index calculation.

Securities portfolio

The Bank's securities portfolio (including available-for-sale financial assets and other financial assets at fair value through profit or loss) amounted to around 1.9 billion euros at the end of 2015, which represents around 21.4% of the Bank's total net assets. The chart below sums up the typology of assets that comprise the fund portfolio: Fund Portfolio



Market Risk

Market Risk is the probability of negative impact on the Bank's earnings or capital due to adverse changes in the market prices of the instruments in the trading book, caused by the volatility of equity prices, interest rates, and foreign exchange rates.

Considering that the measurement and management of the impact of interest rate fluctuations on the Bank's Balance Sheet is done separately via the Structural Interest Rate Risk of the Balance Sheet, and given the Bank's activity and the structure of its Balance Sheet, market risk is limited to the fluctuation in the prices of the securities that comprise its portfolio.

As at 31 December 2015, the Bank's portfolio amounted to around 1,926 million euros, of which around 1,914 million were classified as available-for-sale financial assets.

Foreign Exchange Rate Risk

Foreign exchange rate risk is the probability of negative impact on the Bank's earnings or equity due to adverse changes in foreign exchange rates caused by the volatility of the price of instruments that correspond to foreign exchange positions or by any change in the competitive position of the institution due to significant fluctuations in foreign exchange rates.

The activity in foreign currency consists in making transactions with the parent company deriving from customer operations. In this context, the global currency position is almost null and therefore any impact on the Bank's earnings as a result of fluctuations in exchange rates (mostly the American dollar) is immaterial.

The Bank also uses the VaR methodology as a management instrument for its foreign currency position using the standard method to calculate own funds requirements.

Operational Risk

Banco Popular Portugal interprets Operational Risk as defined in the Basel II Accord, i.e., as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The management process is based on an analysis by functional area listing the risks inherent in the specific functions and tasks of each body in the structure.

Involving the whole organization, the management model is ensured by the following structures:

Executive Committee (CE) – Top management structure that is the main responsible for management guidelines and policies, establishing and monitoring risk appetite and risk tolerance limits.

Risk Management Department (DGR) - Integrates the unit exclusively dedicated to managing operational risk. It is in charge of boosting and coordinating the remaining structures towards the application of methodologies and employment of corporate tools to support the model.

Heads of Operational Risk (RRO) – Corresponding to the basis of the organization, these are elements appointed by the hierarchies of each organic unit who have the role of facilitators and promoters of the operational risk management model.

Internal auditing, internal control and security also play a key role in the process of operational risk management.

The methodology adopted in line with the parent company is characterized by the following components or stages of the risk management cycle:

1. Identification
   a. Descriptive of Functions and Risk and Control Maps

Under the guidance of Risk Management every functional area of the Bank collects these documents based on models and surveys especially designed for this effect.

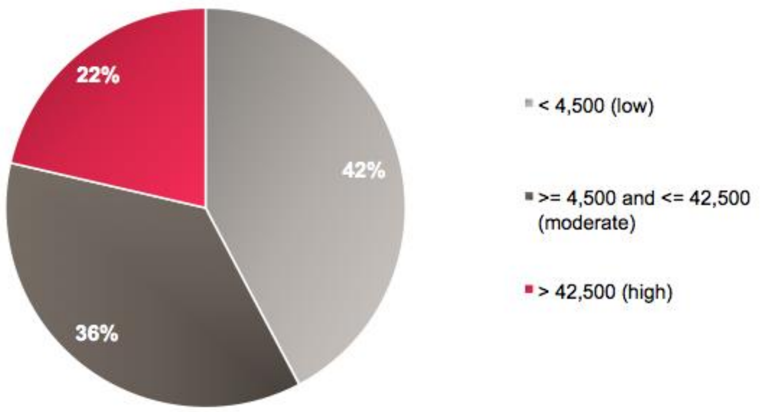
   b. Collection of operational risk events

Mostly done automatically, every loss occurred due to reasons that fit into the definition of operational risk is recorded and catalogued in a specific database, complying with the standards defined in view of the quality and integrity of the information.

2. Assessment

With the aim of assessing the institution's exposure to operational risk, the people in charge of operational risk periodically carry out a self-assessment exercise in order to attribute potential values of frequency and impact of the risks identified within each functional area.
From the conjugation of these values with those of the efficiency assessment and the application of control procedures results a residual risk value that enables the management to identify the areas and processes that are more fragile and in need for intervention.
From this assessment and depending on the estimated average impacts for each risk factor, it is understood that the Bank has a moderate risk profile.

Risks by expected impact



3. Monitoring
   a. Key operational risk indicators (KRIs).

Whenever relevant, warning mechanisms are developed as regards indicators that might identify risk situations.

   b. Reporting

Regular Operational Risk reporting circuits are implemented for the benefit of the several participants in its management, namely top management and those in charge of Operational Risk in their functional areas with the aim of exposing the main causes and origins of the losses occurred.

Every month, the more relevant situations are presented to the Internal Control and Operational Risk Committee which fosters its analysis and the adoption of the most adequate mitigating measures.

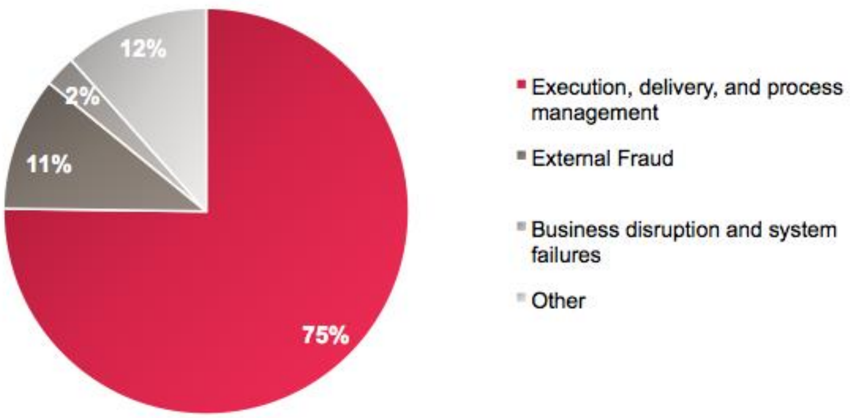
Since 31 December 2014, Banco Popular Portugal has calculated its own funds requirements for operational risk hedging according to the standard approach (TSA).

Quantitative situation

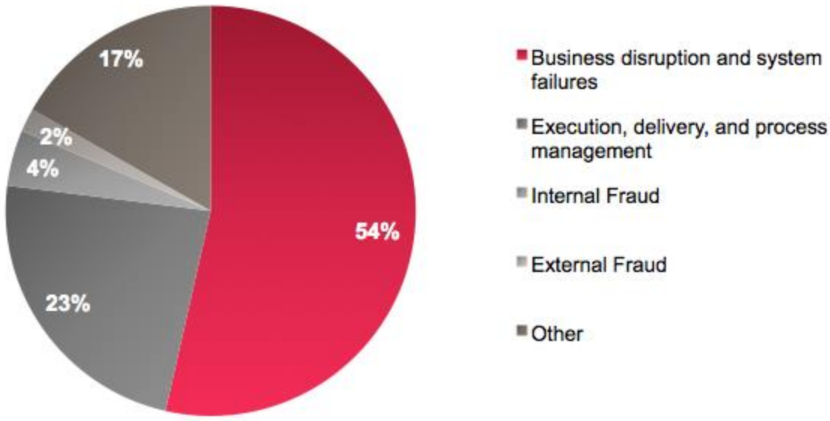
At the end of 2015, the losses identified that fit into the Operational Risk framework stood substantially below their capacity for the absorption of such losses, considering the amount of own funds to hedge Operational Risk defined according to the standard approach at the end of the year.

The losses verified are distributed as follows according to the types defined by Basel II:

Frequency:



Distribution of impact (net losses):



Structural interest rate risk

This risk is defined as the risk originated by the fluctuations in interest rates and is estimated through the analysis made to maturities and repricing of on-balance sheet transactions involving assets and liabilities.

Banco Popular Portugal measures its structural interest rate risk by using the repricing gap method.

This method consists in measuring exposures by different maturity and repricing dates in asset and liability cash flows. Briefly, this model groups those assets and liabilities into fixed time intervals (maturity date or date of the next interest rate revision when indexed) based on which the potential impact on net interest income is calculated.

In this framework, this model considers a scenario in which there is an immediate impact on interest rates, so that, on the date the interest rates are revised (both asset and liability transactions) the new rates incorporate that effect.

The Bank regularly assesses the interest rate risk pursuant to Instruction No. 19/2005 issued by the Bank of Portugal, in which the impact of a shift of 200 basis points in the yield curve, both in terms of net earnings and net interest income, are measured.

Liquidity risk

By controlling liquidity risk, the Bank intends to ensure that it will have the necessary funds to meet its payment obligations at all times, thus minimizing the risk of losses that would arise if those obligations were not met. The Bank is exposed to daily disbursements of cash arising from current accounts, loans and guarantees, margin account needs and other needs related with the regular functioning of a banking institution.

The Bank's primary source of funding are deposits from customers, complemented by access to the capital markets via bond issues and to the interbank market, where we focus on operations with Banco Popular Group. Simultaneously the Bank has tried to ensure other sources of funding, carefully selected for each maturity depending on pricing, stability, speed of access, depth, and compliance with the pre-established risk management policies. The liquidity management process, as performed by the Bank, includes:

- The daily funding needs that are managed by monitoring future cash flows in order to guarantee that the requirements are met. This includes write-backs as loans mature or are granted to customers;
- Maintaining a high-liquidity asset portfolio so that these can be easily converted into cash as a protection against any unexpected interruption in cash flows;
- Monitoring liquidity ratios taking into account external and internal requirements;
- Managing the concentration and profile of debt maturities resorting to the liquidity gap model.

Monitoring and reporting assume the form of cash flow measurement and projection reports for the following day, week and month, since these are important time brackets in terms of liquidity management. The starting point for these projections is an analysis of the contractual maturity of financial liabilities and the expected date for asset cash flows. The cash flow also monitors the degree of non-utilized loan commitments, the use of overdraft facilities and the impact of contingent liabilities such as letters of credit and guarantees.

Regarding the analysis of liquidity risk, besides the obligations established by the Bank of Portugal under the terms of Instruction No. 13/2009, the Bank also resorts to the concept of liquidity gap, i.e., from the balance sheet of the Bank as at 31 December 2015, based on the maturities of assets and liabilities it is possible to ascertain the ratio between the referred to maturities (positive or negative) according to residual maturity deadlines called liquidity gaps.

The Bank also calculates LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), with the aim to monitor the evolution of liquidity and report it to the supervising authorities.

Reputational risk

Reputational risk is defined as the probability of negative impact on earnings or capital due to an adverse perception of the public image of the financial institution, grounded or otherwise, held by its different stakeholders, i.e., clients, suppliers, financial analysts, employees, investors or the public opinion in general.

Potential adverse impact on the Bank's reputation may arise from failures in terms of management and control of the aforementioned risks. In this scope, the Bank considers that the internal governance system, the policies and procedures in force, are adequate and enable the prevention and mitigation of reputational risk in its various forms.

The main and more easily identifiable source of this type of risk is legal risk. In this scope, at Banco Popular Portugal, the areas of Compliance and Control worry about abiding by the legal regulations in force, assessing and trying to prevent possible relevant default risks from an economic or reputational standpoint.

Property Risk

Property risk is defined as the probability of negative impact on results or equity arising from a general drop in the property portfolio and the inherent volatility of the real estate market.

The Bank is exposed to property risk that arises from its property portfolio whose net amount as at 31 December 2015 amounted to around 162.7 million euros, representing around 1.8% of the Bank's net assets. These were assets whose ownership was transferred to the Bank following legal actions or in lieu of payment to settle loan debts (mostly loans for construction/property development and residential mortgage loans).

At the time of transfer in lieu of payment, acquisition or legal award to settle the debt, for the materially relevant transactions external appraisals are always required. After that, new appraisals are carried out according to the time frames established by the Bank of Portugal or in between periods if there is any indication of any property value loss.

Quality and Innovation

'Service Quality' - A Culture of Commitment to Customers

Serving our internal/external customers well and doing well what has to be done implies implementing a culture of high expectations and quality in the institution. The culture of quality corresponds to a commitment towards the continuous improvement of Popular, both in terms of its organic units and all its members of staff.

Banco Popular considers that providing a differentiated offer and the quality of the service delivered are the main factors that offer added-value to the customer and has therefore endeavoured to develop a set of initiatives aiming at implementing these practices.

Customer Day Project

The Bank has created a programme targeted at the staff working in its commercial network aimed at raising awareness to the way central services work and allowing these members of staff to suggest improvements that might enhance their interaction with internal customers. Additionally, this programme has the purpose of bringing people together and raising their awareness to the importance of mutual support and the contribution of the different departments towards the development of the Bank's commercial activity and to improve the quality of the service provided to customers.

Quality Metrics

For Banco Popular it is important that its customers' perceptions exceed their initial expectations. Thus, the Bank offers its customers products and services tailored to their real needs and replies to all requests swiftly and efficiently with greater involvement between staff and customers in every interaction.

Based on this assumption, the Bank continues to monitor in detail the quality results based on metrics such as:

- Customer surveys to assess how they view Banco Popular Portugal;
- Internal surveys on the quality of central services;
- Internal surveys on the commercial offer;

- Mystery customer programmes targeted at assessing key moments in the experiences of the customer with the Bank;
- Training actions and interaction sessions with the commercial network with the aim to deliver continuously improved customer service;
- Attributing internal awards to staff from both the commercial network and central services for services delivered with the highest levels of customer satisfaction.

The aim is to continuously identify aspects that require readjustment and implement their respective improvement actions, always with the aim of increasing customer satisfaction with the quality of the service delivered.

Customer Care

Banco Popular Portugal has a customer care structure that involves different levels so that the Bank can act swiftly in case a customer needs it.

Thus, the first level functions in the different commercial areas of the Bank; the second level is accessed via our customer care line - 808 20 16 16; and a third level is the Customer Ombudsman.

Managing complaints is also a key aspect in the service quality strategy of Banco Popular Portugal and is understood by every employee as an opportunity to recover the trust relationship with the customers and facilitate improvement actions.

Recognition of the Quality of the Service delivered by Banco Popular

Banco Popular Portugal was chosen as a 'Consumers' Choice' brand in the segment of small and medium-sized banks. This is an assessment and classification system for brands based on customer satisfaction and acceptability.

Social and Corporate Responsibility

In 2015, Banco Popular continued to invest in the Social Responsibility sector, trying to involve its staff and customers in actions that support several social solidarity institutions.

Portuguese Diversity Charter

As a member of GRACE (Group of Reflection and Support to Corporate Citizenship), the Bank was invited to join a work group with the following objectives: 1. Writing the contents of the Portuguese Diversity Charter; 2. Reviewing the content of the GRACE Guide entitled 'Organizations, diversity, and inclusion'; 3. Promoting the exchange of good diversity management practices in the workplace; 4. Experimenting with diversity management methodologies and creating a monitoring plan for companies.

This process - which as far as we know is the one that has gathered more supporters within the EU, counting on 30 companies, partners and public bodies that reflect together - was comprised of several meetings in which the discussions in the scope of the group were always lively, participated and extremely interesting. This is obviously a passionate topic, which was clearly evident in all the sessions that were always crowded.

These sessions resulted in the drafting of the Portuguese Diversity Charter, which shall be delivered to the competent bodies that have the power to endorse it, the ACM (High Commissariat for Migrations), the CIG (Committee for Citizenship and Gender Equality), the CITE (Commission for Equality in Labour and Employment), and the INR (National Rehabilitation Institute), all of which took an active part in the development of the contents of the charter (particularly at its final stages).

Meanwhile, the charter is being shared with companies and public bodies and is expected to be publicly presented on the 16th November (Tolerance Day). On that day, the charter shall also be signed by the first companies to adopt it; work on the production of a guide shall begin; and the launch of the diversity seal shall be announced. In March 2016 (Diversity Week), the Diversity Guide and the Seal of Diversity shall be launched at the European Meeting for Diversity.

Volunteering - Operação Nariz Vermelho

Banco Popular sponsored another volunteering action together with 'Operação Nariz Vermelho' (Red Nose Operation), a private social welfare institution, whose mission it to take joy to hospitalized children, their families and health care practitioners through the art and image of Doctor Clown. In the scope of this action, a team of staff volunteers assembled and wrapped red noses in the Bank's Head Office on the 19th February. The volunteers managed to wrap 2,500 red noses in just 90 minutes. The wrapped noses shall now be sold at several locations, and the income from their sale shall be delivered to 'Operação Nariz Vermelho Solidário'.

Donation Campaign - Ajuda de Berço

In the 2014/2015 Christmas Season, the Bank dedicated a campaign to the underprivileged in the scope of its social and corporate responsibility activities. This campaigned focused on children who start their lives without the minimum conditions for a normal development. The institution that was chosen to accept the generosity of the Bank's staff was Ajuda de Berço (literally, Cradle Help), whose aim is to cuddle those children, i.e. to provide a repairing time to those children that, for some reason, were not loved in their original families. This institution was first created to welcome children from 0 to 3 and currently maintains two houses, which receive 40 children in the Lisbon area: one in Monsanto and the other in Alcântara. The team of staff volunteers thus had the opportunity to help this noble cause by contributing with foodstuff and other items that comprised the 'List of Needs': olive oil, biscuits, fruit compotes, powdered milk 1 and 2, instant mashed potatoes, baby wipes, nappies sizes 5 and 6, 10 x 10 dressing pads, and individual saline drops. The campaign ended on the 6th January and over a ton of items were collected and will now be used to help babies have a better start in life.

Banco de Equipamentos - Donation of Electric and Electronic Waste

The corporate and social responsibility campaign that the bank promoted last July at its Head Office and at Rua do Comércio together with Banco de Equipamentos (Equipment Bank) yielded around half a ton of electric and electronic waste to that institution (computers, mice, mobile phones, radios, domestic appliances). Those items shall now be recycled by Entrajuda (the institution that owns Banco de Equipamentos) and distributed to private social welfare institutions. The success of this campaign was only possible thanks to the commitment of the Bank's members of staff who continue to be receptive to this type of actions.

GIRO - Volunteering Day

As a member of GRACE (Group of Reflection and Support to Corporate Citizenship), the Bank participated at GIRO (GRACE Intervene, Recover, Organize) for the second time. GIRO is the widest corporate volunteer initiative in the country, with over 5,000 volunteers. The 10th edition of GIRO was composed of several actions related with the maintenance of natural and genetic heritage in protected areas, as well as welfare actions for the disadvantaged. These actions took place all over the country on the 2nd October, except for the 'GIRO Acessível' action that took place on the 9th October in Lisbon. This initiative counted on the participation of 20 volunteers from the Bank.

Pool of Volunteers

A campaign to raise new members to the Bank's Pool of Volunteers took place in August. Through the Pool of Volunteers, members of staff receive exclusive information on social responsibility actions promoted by the Bank or other institutions to which the Bank is associated, such as GRACE, in whose actions over half the volunteer staff has participated. The volunteers that integrate the Pool of Volunteers receive exclusive invitations to participate in social responsibilities actions and also have access to information on other initiatives, many of them promoted by the staff themselves. The Bank's Pool of Volunteers currently counts on around 150 members.

Donation Campaign - Fundação Mão Amiga

In association with the Fundação Mão Amiga (Friendly Hand Foundation), based in Sever do Vouga, Popular promoted among its staff and customers in the Aveiro district, a campaign to collect used school supplies to be delivered to primary school pupils from underprivileged families. This campaign consisted in a project aimed at reusing school supplies by rationalizing and recycling resources, while at the same time promoting respect for the environment and avoiding waste prevention.

DP Solidário

The Bank created a Time Deposit, though which it donates to charities 1 € for each 1,000 € deposited.

Energetic Efficiency: Cost Reduction and Environmental Sustainability

Banco Popular has adopted and maintained environmental sustainability policies by implementing energetic efficiency practices that include using energy as rationally as possible without prejudice to comfort levels and the quality of our staff's working conditions. This mostly implied minimizing the waste of energy by altering the behaviour of the users of the buildings and resorting to more modern and efficient equipment, with less energy consumption and less pollutant emissions.

In the last quarter of 2014, a project of energetic efficiency was started at the Bank's branches that involved monitoring and controlling electric equipment via telemetry. In 2015, this project resulted in a significant reduction in consumption, which together with the buildings generated savings of 3,430,000 kwh, i.e., 30% less than in the previous year.

The decrease in electric power consumption implied launching less 1,859 tons of CO_2 into the atmosphere.

To the above-mentioned initiatives, we also have to add the fact that Popular has stressed the relevance of separating 'garbage' by 'producers' by providing appropriate containers. The collection and destruction of non-organic solid waste is carried out exclusively by environmentally certified companies.

Final note

The Board of Directors would like to express its recognition to the monetary and supervising authorities, to the shareholder Banco Popular Español, and to the Supervisory Board, for their valuable cooperation in monitoring the activity of Banco Popular Portugal.

The Board would also like to thank the Bank's customers for the trust bestowed, and would like to express its appreciation to the Bank's employees for their professional commitment in the exercise of their functions, and their contribution to the development of the Bank.

Lisbon, 17 February 2016

The Board of Directors

Annex 1 - Shareholding position of the members of the governing and supervisory bodies

(Article 447 of the Commercial Companies Code - ‘Código das Sociedades Comerciais’)

Nothing to report.

Annex 2 - Qualifying holdings

(Article 448 of the Commercial Companies Code and Article 20 of the Securities Code ‘Código dos Valores Mobiliários’)

Shareholders	No. of Shares	Shareholding position	Voting Rights
Banco Popular Español, SA	476 000 000	100%	100%

Annual Accounts

Balance Sheet

Individual Balance Sheet as at 31 December 2015 and 2014

(€ thousand)

	Note/ Table Annex	31/12/15 Amount before provisions impairment & depreciation 1	Provisions, impairment & depreciation 2	Net amount 3 = 1 - 2	31/12/14
Assets					
Cash and balances with central banks	17	55 505		55 505	134 283
Deposits with banks	18	76 428		76 428	80 219
Financial assets held for trading	19	49 893		49 893	78 280
Other financial assets at fair value through profit or loss		-		-	-
Available-for-sale financial assets	21	1 914 430		1 914 430	1 879 094
Loans and advances to banks	22	606 616		606 616	197 962
Loans and advances to customers	23	6 085 775	378 094	5 707 681	5 458 783
Hedging derivatives	34	1 055		1 055	-
Non-current assets held for sale	25	-		-	20 747
Other tangible assets	26	157 967	89 470	68 497	70 631
Intangible assets	27	21 015	20 869	146	71
Investments in subsidiaries, associates and joint ventures	20	22 579	2 336	20 243	-
Current income tax assets	15	-		-	3 566
Deferred income tax assets	28	67 670		67 670	75 226
Other assets	29	476 631	32 288	444 343	406 986
Total Assets		**9 535 564**	**523 057**	**9 012 507**	**8 405 848**
Liabilities					
Deposits from central banks	30	-		-	900 003
Financial liabilities held for trading	19	41 452		41 452	43 845
Deposits from banks	31	2 924 272		2 924 272	2 065 409
Deposits from customers	32	5 034 537		5 034 537	4 114 903
Debt securities issued	33	38 092		38 092	317 251
Hedging derivatives	34	121 337		121 337	142 258
Provisions	35	57 209		57 209	52 575
Current income tax liabilities		6 391		6 391	1 817
Deferred income tax liabilities	28	21 131		21 131	25 793
Other liabilities	36	53 779		53 779	38 789
Total Liabilities		**8 298 200**	**0**	**8 298 200**	**7 702 643**
Shareholders' Equity					
Share capital	39	476 000		476 000	476 000
Share premium	39	10 109		10 109	10 109
Revaluation reserves	40	2 394		2 394	- 2 285
Other reserves and retained earnings	41	212 461		212 461	217 098
Income for the period		13 343		13 343	2 283
Total Equity		**714 307**	**0**	**714 307**	**703 205**
Total Liabilities + Equity		**9 012 507**	**0**	**9 012 507**	**8 405 848**

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Income Statement

Individual Income Statement as at 31 December 2015 and 2014

(€ thousand)

	Note/ Table Annex	31/12/15	31/12/14
Interest and similar income	6	207 794	256 131
Interest and similar charges	6	87 962	131 408
Net interest income		**119 832**	**124 723**
Revenue from equity instruments	7	1 658	60
Fees and Commissions received	8	57 007	64 007
Fees and Commissions paid	8	7 156	8 330
Net gains from assets and liabilities at fair value through profit or loss	9	- 7 507	- 3 482
Net gains from available-for-sale financial assets	9	5 941	9 549
Net gains from foreign exchange differences	10	1 693	1 334
Income from the sale of other assets	11	- 3 213	- 8 329
Other operating income	12	40 357	- 7 243
Banking income		**208 612**	**172 289**
Personnel expenses	13	57 772	58 175
Administrative overheads	14	52 113	50 696
Depreciation and amortization	26/27	2 995	3 848
Provisions net of recoveries and write-offs	35	4 684	1 521
Adjustments to loans and advances to customers (net of reversals and write-offs)	23	57 331	59 433
Impairment of other assets net of reversals and recoveries	29	12 250	- 6 828
Net income before tax		**21 467**	**5 444**
Income tax		8 124	3 161
Current tax	15	6 610	1 944
Deferred tax	15	1 514	1 217
Net income after tax		**13 343**	**2 283**
Of which: Net income from discontinued operations		0	0
Net income for the period		**13 343**	**2 283**
Earnings per share (euro)		**0.03**	**0.00**

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Statement of Comprehensive Income

Statement of Comprehensive Income

(€ thousand)

	31/12/15	31/12/14
Net income	**13 343**	**2 283**
Other comprehensive income:		
Items not reclassified as income		
Retirement pensions		
Recognition of actuarial gains and losses	- 6 944	- 18 419
	- 6 944	**- 18 419**
Items reclassified as income		
Available-for-sale financial assets		
Revaluation of available-for-sale financial assets	6 083	70 919
Tax burden	- 1 380	- 17 466
	4 703	**53 453**
Income not recognised in the income statement	**- 2 241**	**35 034**
Individual comprehensive income	**11 102**	**37 317**

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Individual Statement of Changes in Equity

Individual Statement of Changes in Equity

(€ thousand)

	Share Capital	Share premium	Fair value reserves	Other reserves and retained earnings	Net income	Total Equity
Balance as at 01 January 2014	**476 000**	**10 109**	**- 54 143**	**265 642**	**- 31 720**	**665 888**
Transferred to reserves				- 31 720	31 720	0
Actuarial gains and losses						0
Other			- 1 595	1 595		0
Comprehensive income for the period			53 453	- 18 419	2 283	37 317
Balance as at 31 December 2013	**476 000**	**10 109**	**- 2 285**	**217 098**	**2 283**	**703 205**
Transferred to reserves				2 283	- 2 283	0
Actuarial gains and losses						0
Other			- 24	24		0
Comprehensive income for the period			4 703	- 6 944	13 343	11 102
Balance as at 31 December 2014	**476 000**	**10 109**	**2 394**	**212 461**	**13 343**	**714 307**

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Cash flow Statement

BANCO POPULAR PORTUGAL, SA

Cash Flow Statements for the years ended 31 December 2015 and 2014

(€ thousand)

	Notes	31/12/2015	31/12/2014
Cash flow from operating activities			
Interest, fees and other income received		225 474	269 703
Interest, fees and other expenses paid		- 72 989	- 119 583
Recovery of outstanding loans and interest		263	2 981
Cash paid to suppliers and employees		- 94 488	- 106 337
Contributions to the pension fund	37	- 11 360	- 22 050
Sub-total		**46 900**	**24 714**
Changes in operating assets and liabilities			
Deposits with central banks		74 143	- 80 781
Financial liabilities held for trading and at fair value through profit and loss		1 603	31 394
Loans and advances to banks		- 130 248	3 229
Deposits from banks		- 40 213	- 248 913
Loans and advances to customers		- 393 788	- 346 275
Deposits from customers		930 687	- 91 231
Risk management derivatives		- 60 154	15 424
Other operating assets and liabilities		49 295	- 70 920
Net cash flow from operating activities before income taxes		**478 225**	**- 763 359**
Income tax		- 2 036	- 127
Net cash flow from operating activities		**476 189**	**- 763 486**
Cash flow from investment activities			
Dividends received		1 658	60
Purchase of available for sale financial assets		- 116 643	- 738 253
Sale of available for sale financial assets		166 664	696 096
Held-to-maturity investments		-	-
Non-current tangible assets held for sale		24 310	204 126
Purchase and sale of assets		- 1 366	3 610
Net cash flow from investing activities		**74 623**	**165 639**
Cash flow from financing activities			
Issue of own equity instruments	33	525 000	298 622
Redemption/repurchase of own equity instruments		- 808 536	- 864 601
Net cash flow from financing activities		**- 283 536**	**- 565 979**
Net changes in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	46	325 416	1 487 896
Effect of exchange rate fluctuations on cash and cash equivalents		2 785	1 346
Net changes in cash and cash equivalents		**267 276**	**-1 163 826**
Cash and cash equivalents at the end of the period	46	**595 477**	**325 416**

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Notes to the Financial Statements

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS AS AT 31 December 2015 AND 2014

(€ thousand)

1. INTRODUCTION

1.1 Activity

The Bank – then named BNC-Banco Nacional de Crédito Imobiliário – was founded on 2 July 1991, following the authorization given by Decree order No. 155/91, of 26 April, issued by the Ministry for Finances. On 12 September 2005, the name of the Bank was changed to Banco Popular Portugal, S.A.

The Bank is authorized to operate pursuant to the rules and regulations currently applicable to banks in Portugal and its corporate purpose is raising funds from third parties in the form of deposits or other, which it applies, together with its own funds, in granting loans or in other assets, also providing additional banking services in the country and abroad.

The accounts of the Bank are consolidated at the parent company, Banco Popular Español, S.A., ('BPE') whose Head Office is located in Madrid, Spain, at 34 Calle Velázquez.

BPE accounts are available at its respective Head Office as well on its webpage (www.bancopopular.es).

The Bank is not a listed company.

1.2 Bank structure

As a result of the restructuring process initiated in previous years, during 2011, the Bank ceased to hold any equity stake in any subsidiary and ceased to reclassify 'Class D Notes' issued by Navigator Mortgage Finance Nº 1 Plc ('Navigator') into the available-for-sale asset portfolio.

Based on the assumption that the investment in Navigator and its potential impact on the financial statements were considered immaterial, and pursuant to IAS 1 revised, the Bank decided not to prepare consolidated financial statements from 2011 onwards, since that information is not materially relevant for effects of the presentation of the Bank's financial information nor does it influence the decision of the readers of those statements.

Thus, as at 31 December 2015, the Bank detained only one equity stake in the associated company Eurovida – Companhia de Seguros de Vida, S.A. (see Note 25).

2. Summary of the Main Accounting Principles

The main accounting principles and valuation criteria adopted in the preparation of these financial statements are stated below. These principles were consistently applied to every year presented, except when otherwise stated.

2.1 Bases of preparation

Individual financial statements

Individual financial statements for Banco Popular Portugal were prepared in accordance with the Adjusted Accounting Standards ('Normas de Contabilidade Ajustadas' - NCA) as defined by Notice No. 1/2005, of 21 February, and defined in Instructions Nos.9/2005 and 23/2004 issued by the Bank of Portugal.

The Adjusted Accounting Standards fundamentally correspond to the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) pursuant to Regulation (EC) No. 1606/2002, of the European Parliament and of the Council, of 19 July, except for the following matters:

- Valuation of loans to customers and other receivables – On the date of their first recognition they are booked by their nominal value, while the component of interest, commissions and external expenses is attributable to their respective underlying transactions recognised according to the *pro rata temporis* rule, when dealing with operations that produce revenue flows over a period of more than one month;
- Provisions for loans to customers and other receivables – Provisions for this class of financial assets are subject to a minimum framework for the constitution of specific provisions (general and country risk) pursuant to Notice No. 3/95 of the Bank of Portugal;
- Tangible assets – On the date of initial recognition they are booked at acquisition cost, and subsequently the historical cost is maintained, except in case of legally authorized revaluations.

IFRS Disclosures - New standards as at 31 December 2015

i) Impact of the adoption of standards and interpretations that became effective on 01 January 2015

Standards

a) **Improvements to Standards: 2011-2013 Cycle**. This improvement cycle affects the following standards: IFRS 1, IFRS 3, IFRS 13, and IAS 40. The adoption of these amendments did not have any impact on the Bank's Financial Statements.

Interpretations

a) **IFRIC 21** (new), 'Levies'. IFRIC 21 is an interpretation of IAS 37 and of the recognition of liabilities, identifying the obligation event for the recognition of a liability as the activity that triggers the payment of the levy (except for income tax) in accordance with the relevant legislation. The adoption of this amendment did not have any impact on the Bank's Financial Statements.

ii) Published standards and amendments to existing standards compulsorily in force for annual periods beginning on or after 01 February 2015, which the Bank decided not to adopt in advance:

Standards

a) **Improvements to Standards: 2010-2012 Cycle.** (effective, in general, for annual periods beginning on or after 01 February 2015). This improvement cycle affects the following standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38, and IAS 24. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.

b) **IAS 19** (amended), 'Defined benefit plans – Employee contributions' (effective for annual periods beginning on or after 01 February 2015). The amendment to IAS 19 applies to employee contributions or those made by third parties into defined benefit plans and intends to simplify their accounting when the contributions are not associated with the number of years of employee service. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.

c) **IAS 1** (amended), 'Disclosure initiative' (effective for annual periods beginning on or after 1 January 2016). The amendments made to IAS 1 provide information on materiality ad aggregation, presentation of subtotals, the structure of financial statements, disclosure of accounting policies, and presentation of an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.

d) **IAS 16 and IAS 38** (amended), 'Clarification of acceptable methods of depreciation and amortisation' (effective for annual periods beginning on or after 1 January 2016). This amendment clarifies that a revenue-based method is not considered to be an appropriate manifestation of the consumption of the economic benefits embodied in the asset. This amendment has a prospective application. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.

e) **IAS 27** (amended), 'Equity method in separate financial statements' (effective for annual periods beginning on or after 1 January 2016). This amendment permits the use of the equity method of accounting in measuring investments in subsidiaries, joint ventures and associates in the separate financial statements. This amendment has a prospective application. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.

f) **Amendments to IFRS 10, 12, and IAS 28**, 'Investment entities: applying the consolidation exception' (effective for annual periods beginning on or after 1 January 2016). This standard is still going through the European Union endorsement process. This amendment clarifies that the consolidation exception of an 'Investment Entity' applies to an intermediary parent company that constitutes a subsidiary of an investment entity. Additionally, the option of applying the equity method of accounting, pursuant to IAS 28, may apply to an entity that is not an investment entity but holds interests in a subsidiary or joint venture that is an 'investment entity'. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.

g) **IFRS 11** (amended), 'Accounting for acquisition of interests in joint operations' (effective for annual periods beginning on or after 1 January 2016). This amendment introduced guidelines to account for the acquisition of interests in a joint operation that qualifies as a business, to which the principles of IFRS 3 - 'Business concentrations' are applied. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.

h) **Improvements to Standards: 2012-2014 Cycle** (effective, in general, for annual periods beginning on or after 01 January 2016). This improvement cycle affects the following standards: IFRS 5, IFRS 7, IAS 19, and IAS 34. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.

i) **IFRS 9** (new), 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018). This standard is still going through the European Union endorsement process. IFRS 9 has replaced IAS 39 requirements regarding: (i) the recognition and measurement of financial assets and liabilities; (ii) the recognition credit assets impairment (using the expected loss model); and (iii) the requirements for the recognition and classification of hedge accounting. The adoption of this standard is not expected to have any materially relevant impact on the Bank's Financial Statements.

j) **IFRS 15** (new), 'Revenue from contracts with customers (effective for annual periods beginning on or after 01 January 2018). This standard is still going through the European Union endorsement process. This new standard only applies to contracts for the delivery of products or services, and requires the entity to recognise revenue when the contractual obligation to transfer promised goods or services is satisfied and in the amount that reflects the amount to which the entity is entitled pursuant to the 'five-step model'. The adoption of this standard is not expected to have any materially relevant impact on the Bank's Financial Statements.

2.2 Segmental reporting

As of 1 January 2009, the Bank adopted IFRS 8 – Operating Segments for effects of disclosing financial information analysed by operating segments (see note 5).

An operational segment in a business is a group of assets and operations used to provide products or services, subject to risks and benefits that are different from those seen in other segments.

The Bank determines and presents operational segments based on in-house produced management information.

2.3 Equity stakes in associated companies

Associated companies are those in which the Bank has, directly or indirectly, a significant influence over its management and financial policy but does not hold control over the company. It is assumed that the Bank has a significant influence when it holds the power to control over 20% of the voting rights of the associate. Even when voting rights are lower than 20%, the Bank may have significant influence through the participation in management bodies or the composition of the Executive Boards of Directors.

In the Bank's individual financial statements, associated companies are booked at historical cost. The dividends from associated companies are booked in the Bank's individual income on the date they are attributed or received.

In case of objective evidence of impairment, the loss by impairment is recognised in the income statement.

2.4 Foreign currency transactions

a) Functional currency and presentation currency

The financial statements are presented in euros, which is both the functional and presentation currency of the Bank.

b) Transactions and Balances

Foreign currency transactions are translated into the functional currency using indicative exchange rates prevailing on the dates of transactions. Gains and losses resulting from the conversion of foreign currency transactions, deriving from their extinction and conversion into monetary assets and liabilities in foreign currencies at the exchange rate at the end of each period, are recognised in the income statement, except when they are part of cash flow hedges or net investment in foreign currency, which are deferred in equity.

Conversion differences in non-monetary items, such as equity instruments measured at fair value with changes recognised in net income, are booked as gains and losses at fair value. For non-monetary items, such as equity instruments, classified as available for sale, conversion differences are booked in equity, in the fair value reserve.

2.5 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on trade date and subsequently remeasured at fair value. Fair values are based on quoted market prices, including recent market transactions and evaluation models, namely: discounted cash flow statements and option pricing models. Derivatives are considered assets when their fair value is positive and liabilities when their fair value is negative.

Certain derivatives embedded in other financial instruments – such as debt instruments whose profitability is indexed to share or share index price – are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value and subsequent changes are recognised in the income statement.

The Bank holds: (i) trading derivatives, measured at fair value – gains and losses arising from changes in their fair value are immediately included in the income statement, and (ii) fair value derivatives accounted for in conformity with note 3.1 a).

2.6 Recognition of interest and similar income and interest and similar charges

Interest income and charges are recognised in the income statement for all instruments measured at amortized cost in accordance with the *pro rata temporis* accrual method.

Once a financial asset or group of financial assets has been written down as a result of an impairment loss, interest income should be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.7 Fees and commissions

Fees and commissions are generally recognised using the accrual method when the service has been provided. Revenue from credit line fees, which are expected to originate a loan, is differed (together with any cost directly related) and recognised as an adjustment at the effective interest rate. Fees and commissions on trades, or participation in third party trades – such as purchasing stock or purchasing or selling a business – are recognised as earned when the service has been provided. Portfolio and other management advisory fees are recognised based on the applicable service contracts – usually recognised proportionally to the time elapsed. Asset management fees related to investment funds are recognised rateably over the period the service is provided.

2.8 Financial assets

Financial assets are recognised in the Balance Sheet on trade date – the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus direct transaction costs, except for financial assets carried at fair value through profit or loss for which transaction cost are directly recognised in the income statement. Financial assets are derecognised when (i) the rights to receive cash flows from these assets have expired, (ii) the Bank has substantially transferred all risks and rewards of ownership, or (iii) notwithstanding the fact that the Bank may have retained part, but not substantially all, of the risks and benefits associated with holding them, control over the assets was transferred.

Financial assets and liabilities are offset and the net amount booked in the income statement when, and only when, the Bank has a currently enforceable legal right to offset the recognised amounts and intends to settle them on a net basis.

The Bank classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. Management determines the classification of the financial instruments at initial recognition.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading, and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by Management. Derivative financial assets are also categorised as held for trading unless they qualify for hedge accounting.

The fair value option is only used for financial assets and liabilities in one of the following circumstances:

- There is a significant reduction in the measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost, such as loans and advances to customers or banks and debt securities;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to management on that basis; and
- Financial instruments, such as holdings of debt securities, with one or more embedded derivatives that significantly modify cash flows, are carried at fair value through profit and loss.

These assets are assessed daily or at each reporting date based on fair value. In the case of bonds and other fixed-income securities the balance sheet contains the amount of unpaid accrued interest.

Gains and losses arising from changes in fair value are included directly in the income statement, which also includes interest revenue and dividends on traded assets and liabilities at fair value. Revenue from interest on financial assets at fair value through profit or loss is carried in net interest income.

Gains and losses arising from changes in the fair value of the derivatives that are managed together with designated financial assets and liabilities are included in item 'Income from assets and liabilities at fair value through profit and loss.

b) Loans and receivables

Loans and receivables includes loans to customers and banks, leasing operations, factoring operations, participation in syndicated loans and securitised loans (commercial paper and corporate bonds) that are not traded in an active market and for which there is no selling intention.

Loans and securitised loans traded in an active market are classified as available-for-sale financial assets.

Loans and receivables are initially recognised at fair value. In general, fair value at inception corresponds to transaction value and includes fees, commissions or other credit-related costs and revenues.

Subsequently, loans and receivables are valued at amortised cost based on the effective interest rate method and subject to impairment tests.

Interest, fees, commissions and other credit-related costs and revenues are recognised on an accrual basis over the period of the transactions regardless of the moment when they are charged or actually paid. Fees on loan commitments are recognised on a deferred and linear basis during the lifetime of the commitment.

The Bank classifies as non-performing loans instalments of principal or interest after, at most, thirty days of their due date. In case of litigation, all principal instalments are considered non-performing (current and past due).

Factoring

Credit to customers includes advances within factoring operations with recourse and the amount of the invoices granted without recourse, whose intention is not a short run sale, and is recorded on the date the accounts receivable are assigned by the seller of the product or service who issues the invoice.

Accounts receivables assigned by the issuer of the invoices or other commercial credits for recourse or non-recourse factoring are registered on assets under the item Loans and advances to customers. As a counterpart it changes the item Other liabilities.

When invoices are taken with recourse but cash advances on those respective contracts have not been made yet, they are registered in off-balance sheet accounts on the amount of the invoices that have been received. The off-balance sheet account is rectified as the cash advances are made.

Commitments arising from credit lines to factoring customers that have not been utilized yet are registered in off-balance sheet accounts.

Guarantees granted and irrevocable commitments

Liabilities for guarantees granted and irrevocable commitments are registered in off-balance sheet accounts by the value at risk and interest flows, commissions or other revenues recorded in the income statement during the lifetime of the operations. These operations are subject to impairment tests.

c) Held-to-maturity investments

This item includes non-derivative financial assets with fixed or determinable payments and defined maturities that the Bank has the intention and ability to hold to maturity.

These assets are initially recognised at fair value, minus possible commissions included in the effective rate, plus all direct incremental costs. They are subsequently valued at amortised cost, using the effective interest rate method and subject to impairment tests. If during a subsequent period the amount of the loss of impairment decreases, and that decrease may be objectively tied to an event that happened after the impairment was recognised, this is reversed through the income statement.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that: (i) the Bank intends to keep for an undetermined period of time, (ii) are recognised as available for sale at inception, or (ii) are not categorized into any of the other categories described above.

This item includes:

- Fixed-income securities that have not been classified in the trading book or the credit portfolio, or held-to-maturity investments;
- Available-for-sale variable-yield securities; and
- Available-for-sale financial asset funds and supplementary funds.

Available-for-sale assets are recognised at fair value, except for equity instruments that are not listed on any active market and whose fair value may not be reliably measured or estimated, in which case they are recognised at cost value.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are directly recognised in equity in item Fair value revaluation reserves, except for impairment losses and foreign exchange gains and losses of monetary assets, until the asset is sold, when the gain or loss previously recognised in equity is carried in the income statement.

Interest from bonds and other fixed-income securities and the differences between acquisition cost and the nominal value (premium or discount) are registered in the income statement using the effective rate method.

Revenue from variable-income securities (dividends in the case of shares) are booked in the income statement on the date they are attributed or received. According to this criterion, interim dividends are recorded as profit in the exercise their distribution is decided.

In case of objective impairment evidence – resulting from a significant and prolonged decline in the fair value of the security or from financial problems on the part of the issuer – the cumulative loss on the fair-value revaluation reserve is removed from equity and recognised in the income statement.

Impairment losses on fixed-income securities may be reversed on the income statement if there is a positive change in the security's fair value as a result of an event that occurred after the initial impairment recognition. Impairment losses on variable-income securities may not be reversed. In the case of impaired securities, subsequent negative fair-value changes are always recognised in the income statement.

Exchange rate fluctuations of non-monetary assets (equity instruments) classified in the available-for-sale portfolio are registered in fair-value reserves. Exchange rate fluctuations in the other securities are booked in the income statement.

2.9 Impairment of financial assets

a) Assets carried at amortised cost

The Bank assess on each balance sheet date whether there is objective evidence that a financial asset, or group of financial assets, is impaired. A financial asset, or group of financial assets, is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset, or group of financial assets, that can be reliably estimated. Objective evidence that an asset, or group of assets, is impaired includes observable data that the Bank is aware of, regarding the following loss events:

(i) significant financial stress of the borrower;

(ii) a breach of contract, such as a default in principal and/or interest payments;

(iii) concessions granted to the borrower, for reasons relating to the borrower's financial difficulty, that the lender would not have otherwise considered;

(iv) probability that the borrower will go into bankruptcy or other financial reorganisation;

(v) disappearance of an active market for that financial asset because of financial difficulties;

(vi) information indicating that there will be a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although that decrease cannot yet be identified with the Bank's assets, including:

– adverse changes in the group of financial assets' condition and/or payment capacity;

– national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Bank assesses initially whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes that asset in a group of financial assets with similar credit risk and collectively assesses them for impairment.

If there is objective evidence of an impairment loss on loans and receivables, or held-to-maturity investments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future impairment losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the provisions account. The Bank may also determine impairment losses through the instrument's fair value at observable market prices.

When analysing impairment in a portfolio, the Bank estimates the probability of an operation or a customer to default during the estimated period between impairment occurs and the loss is identified.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics (i.e., based on the Bank's classification process that takes into account asset type, geographical location, collateral type, past due status and other relevant factors). These characteristics are relevant to estimate future cash flows for groups of financial assets by being indicative of the counterpart's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

If, in a subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognised (e.g., improvement in a debtor's credit rating), the previously recognised impairment loss is reversed through the provisions account. The amount of the reversal is recognised directly in the income statement.

Loans to customers whose terms have been renegotiated are no longer considered past due and are treated as new loan contracts. Restructuring processes include: extended payment conditions, approved management plans, payment change and deferral. Restructuring practices and policies are based on criteria that, from the point of view of the Bank's management, indicate that payment has a high probability of occurring.

b) Assets carried at fair value

The Bank assess at each balance sheet date whether there is objective evidence that a financial asset, or group of financial assets, is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, minus any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement.

Impairment losses on equity instruments that have been recognised in the income statement are not reversible. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and growth can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

2.10 Intangible assets

- Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with software development and maintenance are recognised as expenses when incurred. Costs directly associated with developing unique and identifiable software, controlled by the Bank and where it is probable that they will generate future economic benefits, are recognised as intangible assets.

Costs associated with software development recognised as assets are amortized during its useful life using the straight-line method.

2.11 Tangible assets

The Bank's property is comprised essentially of offices and branches. All tangible assets are stated at historical cost minus depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other tangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Estimated useful life (years)
Freehold buildings	50
Adaptation works in leasehold property	10, or during the lease period if lower than 10 years
Furniture, fixtures and fittings	5 to 8
Computers and similar equipment	3 to 4
Other tangible assets	4
Other tangible assets	4 to 10

Tangible assets subject to depreciation are submitted to impairment tests whenever events or changes in certain circumstances indicate their carrying amount may no longer be recovered. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher between the value in use and the asset's fair value, minus sale costs.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These gains and losses are included in the income statement.

2.12 Tangible assets held for sale

Assets acquired in exchange for loans (real estate property, equipment and other assets) are recorded in the item Tangible assets held for sale by the value stated in the agreement that regulates the asset's delivery, which corresponds to the lower of the outstanding amount of the debt or the asset's evaluation at the time of its delivery.

The Bank's policy for this type of assets is to sell them as soon as possible.

These assets are periodically assessed and impairment losses are recognised whenever the result of that appraisal is lower than the asset's book value (see note 29).

Potential realized gains on these assets are not recorded in the Balance Sheet.

2.13 Leases

a) As lessee

Leases entered by the Bank are essentially related to transport equipment, where there are contracts classified as financial leases and others as operating leases.

Payments made on operating leases are recognised in the income statement.

When an operating lease is terminated before the end of the lease period, any payment required by the lessor, by way of compensation, is recognised as an expense in the period the operation is terminated.

Financial leases are capitalised at the inception of the lease in the respective item of tangible or intangible assets, as a counterpart to the item Other liabilities, at the lower of (i) the fair value of the leased asset and (ii) the present value of the minimum lease payments. Incremental costs paid for leases are added to the recognised asset. Tangible assets are depreciated pursuant to Note 2.11. Rents are comprised of (i) financial cost charged to expenses and (ii) financial depreciation of premium which is deducted from the item Other liabilities. Financial charges are recognised as expenses over the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability for each period. However, when there is no reasonable certainty that the Bank will obtain possession of the asset at the end of the lease, the asset must be totally depreciated during the smaller of the lease period or its useful life.

b) As lessor

Assets held under a financial lease are recognised as an expense in the period to which they relate by the current amount of the payments to be made. The difference between the gross amount receivable and the current balance receivable is recognised as receivable financial income.

Interest included in the rents charged to customers is registered as income, while principal depreciation, also included in the rents, is deducted from the overall amount initially lent. Recognition of the financial result reflects a constant periodical return rate over the remaining net investment of the lessor.

2.14 Provisions

Provisions for other risks and charges

Provisions for restructuring costs and legal actions are recognized whenever: the Bank has a legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle that obligation; and the amount can be reliably estimated.

Provisions for specific and general credit risks

In the financial statements, the credit and guarantee portfolio is subject to provisioning pursuant to the terms of Notice No. 3/95 issued by the Bank of Portugal, namely for:

- past due and non-performing loans;
- general credit risks; and
- country risk.

These provisions include:

(i) a specific provision for past due credit and interest presented in assets as a deduction to the item Loans and advances to customers, calculated using rates that vary between 0.5% and 100% on past due loan and interest balances, according to risk classification and whether secured or unsecured with collaterals (see note 23);

(ii) a specific provision for doubtful loans, recognised in assets as a deduction from the item Loans and advances to customers, which corresponds to the application of the rates foreseen for non-performance classes, to instalments reclassified as past due in a single credit operation, as well as its application to the outstanding loan instalments of any single customer, where it was ascertained that the past due instalments of principal and interest exceeded 25% of principal outstanding plus past due interest, of half the provisioning rates applicable to credit past due (see note 23);

(iii) a general provision for credit risks, presented as a liability in item Provisions for risks and charges, corresponding to a minimum of 1% of total outstanding credit, including guarantees and other instruments, except for consumer loans, where the provisioning rate was at least 1.5% of such loans, and for mortgage loans whenever the real estate asset (collateral) was for the borrower's own use, in which case the minimum rate of 0.5% is applied (see note 35); and

(iv) a provision for country risk, constituted to face the risk attached to financial assets and off-balance sheet elements on residents from high risk countries according to Instruction No. 94/96 issued by the Bank of Portugal (see notes 23 and 35).

2.15 Employee benefits

a) Pension liabilities and other post-retirement benefits

In compliance with the Collective Bargaining Agreement (ACT) for the banking sector, the Bank has established a Pension Fund designed to cover retirement benefits on account of age, including disability, and survivor's benefits, set up for the entire work force, calculated based on projected salaries of staff in active employment. The pension fund is supported by the contributions made, based on the amounts determined by periodic actuarial calculations. A defined benefit plan is a pension plan that generally defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Every year the Bank determines the amount of liabilities for past services using actuarial calculations based on the Project Unit Credit method for liabilities for past services in the case of old age and the Unique Successive Premium to calculate disability and survivor's benefits. The actuarial assumptions (financial and demographic) are based on expectation at the balance sheet date for the growth in salaries and pensions and are based on mortality tables adapted to the Bank's population. The discount rate is determined based on market rates for high quality corporate bonds, with periods to maturity similar to those for settlement of pension liabilities. The assumptions are mutually compatible. The amount of liabilities includes, besides retirement pensions, post-employment medical care (SAMS) and post-retirement death benefits.

Until 31 December 2012, the Bank recognized the net accumulated amount (after 1 January 2004) of actuarial gains and losses resulting from changes in the financial and actuarial assumptions and differences between the financial and actuarial assumptions used and the actual amounts in the item Other Assets or Other Liabilities – Actuarial Gains/Losses.

Accumulated actuarial gains or losses that did not exceed 10% of the highest of the current value of liabilities for past services or the value of the pension funds were included in the 'corridor'. Actuarial gains/losses in excess of the corridor were recognised against results over the average remaining period of service of the employees covered by the plan.

As at 1 January 2013 the Bank changed its accounting policy of recognising financial and actuarial gains and losses for pension plans and other defined benefit post-employment benefits pursuant to *IAS 19 Revised*. Financial and actuarial gains and losses are now recognised in the period they occur directly in equity in the Statement of Comprehensive Income.

Increases in past service liabilities resulting from early retirement are fully recognised as expenses in the income statement for the year in which they occur.

Increases in past service liabilities resulting from changes in the conditions of Pension Plans are fully recognised as expenses in the case of acquired benefits or depreciated during the period that remains until those benefits are acquired. The balance of the increases in liabilities not yet recognised as expenses are registered in the item 'Other Assets'.

Past service liabilities (post-employment benefits) are covered by a pension fund. The amount of the pension funds corresponds to the fair value of its assets at the balance sheet date.

The financing regime by the pension fund is established in Notice No. 4/2005 issued by the Bank of Portugal, which determines the compulsory fully financing pension liabilities and a minimum level of 95% financing of past service liabilities for staff in active employment.

In the Bank's financial statements, the amount of past service liabilities for retirement pensions, minus the amount of the pension fund, is stated in item Other Liabilities.

The Bank's income statement includes the following expenses related to retirement and survivor pensions:

- Current service cost;
- Interest expense on the total outstanding liabilities;
- Expected revenue of the pension fund;
- Expenses with increases in early retirement liabilities;
- 'Multiprotecção' life insurance premium (see note 37);
- Management fee paid to the fund management company.

On the transition date, the Bank adopted the possibility permitted by IFRS 1 of not recalculating deferred actuarial gains and losses from the beginning of the plans (normally known as the reset option). Thus, deferred actuarial gains and losses recognised in the Bank's accounts as at 31 December 2003 were fully reversed in retained earnings on the transition date – 1 January 2004.

b) Seniority bonuses

In compliance with the Collective Bargaining Agreement (ACT) for the banking sector in Portugal, the Bank has committed to attribute to active staff that complete fifteen, twenty-five and thirty years of good and effective service, a seniority bonus equal, respectively, to one, two or three months of their effective monthly salary on the year of the attribution.

Every year the Bank determines the amount of liabilities for seniority bonuses using actuarial calculations based on the Project Unit Credit method for liabilities for past services. The actuarial assumptions (financial and demographic) are based on expectation at the balance sheet date for the growth in salaries and pensions and are based on mortality tables adapted to the Bank's population. The discount rate is determined based on market rates for high quality corporate bonds, with periods to maturity similar to those for settlement of pension liabilities. The assumptions are mutually compatible.

Liabilities for seniority bonuses are recognised in the item Other Liabilities.

The Bank's income statement includes the following expenses regarding seniority bonus liabilities:

- cost of current service (cost of one year);
- interest expenses;
- actuarial gains/losses, changes in assumptions or changes in the conditions of the benefits.

2.16 Deferred taxes

Deferred taxes are recognised using the balance sheet debt method, based on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using the effective tax rate on profits at the balance sheet date which is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax is recognised when it is probable that in the future there is enough tax on profits so that it can be used.

Taxes on profits based on the application of legal rates for each jurisdiction are recognised as expenses in the period when the profit is originated. The tax effects of reportable tax losses are recognised as an asset when it is likely that the future profitable profit is enough for the reportable tax loss to be utilized.

Deferred tax related to fair value revaluation of an available-for-sale asset, which is charged or credited directly in equity, is also credited or charged in equity and subsequently recognised in the income statement together with deferred gains or losses.

2.17 Financial liabilities

The Bank classifies its financial liabilities into the following categories: held-for-trade financial liabilities, other financial liabilities at fair value through profit and loss, deposits from central bank, deposits from other banks, customer deposits, securitised liabilities and other subordinated liabilities. Management determines the classification of the financial instruments at initial recognition.

a) Financial liabilities held for trading and at fair value through profit and loss

This item essentially includes deposits whose yield is indexed to stock portfolios or indexes and the negative fair value of derivative contracts. The evaluation of these liabilities is made based on fair value. The balance sheet value of deposits includes the amount in accrued interest not paid.

b) Central banks, other banks, and customer funds

After the initial recognition, deposits and other financial assets from customers, central banks and other banks are revalued at amortized cost based on the effective interest rate method.

c) Securitised liabilities, and other subordinated liabilities

These liabilities are initially recognised at fair value, which is the amount for which they were issued net of transaction costs incurred. These liabilities are subsequently measured at amortized cost and any difference between the net amount received on transaction and their redemption value is recognised in the income statement over the liability period using the effective interest rate method.

If the Bank acquires its own debt, this amount is removed from the balance sheet and the difference between the balance sheet amount of the liability and the amount spent to acquire it is recognised in the income statement.

2.18 Non-current assets held for sale

Non-current assets, or disposal groups, are classified as held for sale whenever their book value is recoverable through sale. This condition can only be met when the sale is highly probable and the asset is available for immediate sale in its current condition. The sale must be performed within one year from the date on which they are included in this item. An extension of the period during which the asset must be sold does not exclude that asset, or a disposal group, from being classified as held for sale if the delay is caused by an event or circumstances that the Bank cannot control and if the selling purpose is maintained. Immediately before the initial classification of the asset, or disposal group, as held for sale, the book value of non-current assets (or of every asset and liability in the group) is carried pursuant to the applicable IFRS. Subsequently these assets, or disposal group, will be remeasured at the lower between the initial carrying amount and the fair value minus selling costs.

2.19Insurance and reinsurance brokerage

Banco Popular Portugal is authorized by the Authority for the Supervision of Insurances and Pension Funds to act as an insurance broker in the category of Associated Insurance Broker pursuant to paragraph 8(i) of Decree-law No. 144/2006 of 31 July, performing its brokerage activity in the area of life and non-life insurances.

In the scope of its insurance brokerage services, Banco Popular sells insurance contracts. As a remuneration for the services rendered as an insurance broker, Banco Popular receives fees and commissions for insurance contracts and investment contracts, which are defined in agreements/protocols established between the Bank and the Insurance Companies.

The fees and commissions received for insurance brokerage services are recognized on an accrual basis, which means that those paid at a different moment from the period their refer to are booked as a receivable in item Other Assets.

In 2015 and 2014 fees and commissions received from insurance brokerage were explained as follows.

	2015	2014
Life	944	4 637
Non-life	578	642
	1 522	5 279

3. Financial risk management

3.1 Strategy used for financial instruments

In view of its activity, the Bank raises funds essentially through customer deposits and monetary market operations.

Besides the activities of credit granting, the Bank also applies its funds in financial investments, particularly in the group of investments that currently comprise the Bank's portfolio.

The Bank's portfolio – including available-for-sale financial assets and trading portfolio – amounted to around 1.9 billion euros at the end of 2015, representing around 21% of the Bank's total net assets. The typology of these assets was broken down as follows: public Portuguese debt (2.3%), public Spanish debt (79.7%), banks (13.5%) and others (4.4%).

To hedge its investment against interest rate risk, the Bank carried out interest rate swap operations and monetary market operations, thus trying to control the variability of interest rate risk and the flows generated by these assets.

a) Fair value hedge accounting

Gains and losses resulting from the revaluation of hedge derivatives are recognised in the income statement. Gains and losses deriving from differences in terms of the fair value of hedged financial assets and liabilities, corresponding to the hedged risk, are also recognised in the income statement as a counterpart for the carrying value of the hedged assets and liabilities, in the case of operations at amortized cost, or by counterpart of the reserve for fair value revaluation in the case of available-for-sale assets.

Efficacy tests for hedges are accordingly documented on a regular basis, ensuring the existence of proof during the lifetime of the hedged operations. If the hedge no longer meets the criteria demanded by hedge accounting, it shall be prospectively discontinued.

b) Cash flow hedge accounting

In a cash flow hedge, the effective part of the changes in fair value for the hedged derivative is recognised in reserves, and transferred to the income statement in the periods when the respective hedged item affects results. If it is foreseeable that the hedged operation will not take place, the amounts still stated in equity are immediately recognised in the income statement and the hedged instrument is transferred to the trading book.

The Bank is exposed to a certain cash flow risk as regards open positions in foreign currency. However, in view of the little materiality of the normally existing overall position, no hedge operations are carried out in this case.

3.2 Financial assets and liabilities at fair value

The Board of Directors considered that as at 31 December 2015, the fair value of assets and liabilities at amortised cost did not differ significantly from its book value.

In order to determine the fair value of a financial asset or liability, its market price is applied whenever there is an active market for it. In case there is no active market, which happens with some financial assets and liabilities, generally accepted valuation techniques based on market assumptions are employed.

The net income of financial assets and liabilities at fair value that have not been classified as hedging includes an amount of 7 396 thousand euros (2014: 8 600 thousand euros).

Consequently, the fair value change recognized in the income statement for the period is analysed as follows:

	31/12/15		31/12/14	
	Fair value	Change	Fair value	Change
Financial assets at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	37 534	4 211	38 745	30 591
Futures and other forward contracts	334	-	734	-
Options	33	757	18	574
Available-for-sale financial assets				
Debt instruments issued by residents	45 117	578	36 002	59
Equity instruments issued by residents	652	- 1	653	-
Other equity instruments issued by residents	46 500	-	20 504	-
Debt instruments issued by non-residents	1 822 086	5 364	1 821 866	9 490
Equity instruments issued by non-residents	75	-	69	-
Financial liabilities at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	41 094	- 3 461	43 011	- 32 028
Futures and other forward contracts	283	-	817	-
Options	74	- 52	18	- 86
		7 396		**8 600**

The table below classifies fair value assessment of the Bank's financial assets and liabilities based on a fair value hierarchy that reflects the significance of the inputs that were used in the assessment, according to the following levels:

- Level 1: (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: different inputs for market prices included in Level 1 that are observable for assets and liabilities either directly (i.e., as prices) or indirectly (i.e. derived from the prices);
- Level 3: inputs for assets and liabilities that are not based on observable market data (non-observable inputs).

	31/12/2015				31/12/2014			
Assets and Liabilities at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets held for trading								
Variable-income securities	2 038	-	9 954	11 992	2 686	-	36 098	38 784
Derivatives	-	37 901	-	37 901	-	39 496	-	39 496
Other financial assets at fair value through profit or loss								
Fixed income securities	-	-	-	-	-	-	-	-
Financial assets held for sale								
Debt securities	1 866 044	1 158	-	1 867 202	1 852 969	4 899	-	1 857 868
Equity securities	-	-	47 228	47 228	-	-	21 226	21 226
Hedging derivatives	-	1 055		1 055	-	-		-
Total Assets at fair value	**1 868 082**	**40 114**	**57 182**	**1 965 378**	**1 855 655**	**44 395**	**57 324**	**1 957 374**
Financial liabilities held for trading (Derivatives)	-	41 452	-	41 452	-	43 845	-	43 845
Hedging derivatives	-	121 337	-	121 337	-	142 258	-	142 258
Total Liabilities at fair value	**0**	**162 789**	**0**	**162 789**	**0**	**186 103**	**0**	**186 103**

3.3 Credit risk

The Bank is exposed to credit risk, which is the possible loss that arises when the Bank's counterparties fail to fulfil their obligations. In the case of lending, it implies the loss of principal, interest and commissions, regarding amount, period and other conditions set forth in the contracts. Concerning off-balance sheet risks, it derives from the non-compliance of the counterparts regarding their obligations with third parties, which implies that the Bank has to assume as its own certain obligations depending on the contracts.

The Bank structures the levels of credit risk it is exposed to by establishing pre-defined acceptable risk amounts regarding the borrower or group of borrowers and geographical or business activity segments.

Exposure to credit risk is managed through a regular analysis of the capacity of borrowers and potential borrowers of meeting payment obligations for principal and interest, and by changing these loan limits when appropriate. Exposure to credit risk is also managed in part by obtaining collaterals and personal or corporate guarantees.

- Collaterals

The Bank employs a series of policies and practices in order to mitigate credit risk. The most traditional one is securing collaterals at the moment funds are advanced. The Bank implements guidelines regarding the acceptability of specific classes of collaterals or mitigation of credit risk. The main types of collaterals for loans and receivables are:

- Property mortgages;
- Pledges of operations made within the Bank;
- Pledges on assets such as premises, inventory and accounts receivable;
- Pledges on financial instruments, such as securities and shares.

Long term loans to corporate and private customers usually require a collateral; lower amounts and recurring personal loans generally require no collateral. Additionally, with the intention of minimising loss, at the time an impairment indicator for loans and receivables is identified the Bank tries to obtain additional collaterals from the relevant counterparts.

Collaterals held for financial assets, except for loans and advances, are determined by the nature of the instrument. Debt instruments, treasury bonds and other securities usually are not collateralised.

- Lending commitments

The main objective of these instruments is to ensure that funds are made available to customers as they require them. Loan extension commitments represent non-utilized parts of credit extension authorizations in the form of loans, guarantees or letters of credit. Regarding the credit risk associated with loan extension commitments, the Bank is potentially exposed to a loss in the amount of the total of non-utilized commitments. However, the probable loss amount is much lower than the sum of the non-utilized commitments since loan extension commitments are revocable and depend on a specific customer's credit worthiness. The Bank monitors the maturity of lending commitments since long term commitments usually present a greater credit risk than short term commitments.

- Maximum exposure to credit risk

As at 31 December 2015 and 2014, maximum exposure to credit risk was as follows:

	31/12/15	31/12/14
On-balance sheet		
Deposits with banks	76 428	80 219
Financial assets held for trading	37 900	39 496
Other financial assets at fair value through profit or loss		
Available-for-sale financial assets	1 867 203	1 857 868
Loans and advances to banks	606 616	197 962
Loans and advances to customers	6 085 775	5 775 248
Other assets	272 676	287 053
	8 946 598	**8 237 846**
Off-balance sheet		
Financial guarantees	288 817	385 722
Other guarantees	102 654	105 972
Lending commitments	904 138	820 518
Documentary credits	44 034	46 531
	1 339 643	**1 358 743**
Total	**10 286 241**	**9 596 589**

The table above shows the worst case scenario in terms of the level of exposure to credit risk the Bank faced as at 31 December 2015 and 2014, without considering any collateral held or other credit enhancements. For on-balance sheet assets, the above stated exposure is based on their carrying amount on the balance sheet.

As can be seen from the table above, 68.0 % of total maximum exposure results from loans and advances to customers (2014: 68.7%).

The Bank's management trusts its capacity to control and maintain a minimal exposure to credit risk, which results mainly from its customer portfolio, based on the following assumptions:

- 58.4% of the amount of loans and advances to customers has eligible collaterals;
- 93.8% of customer credit portfolio is not past due.

- Concentration by activity segment of financial assets with credit risk

The tables below show the exposure of the Bank according to the assets' carrying amount (excluding accrued interest) broken down by activity segment.

31/12/15	Financial Institutions	Public Sector	Property constr. & develop.	Other industries	Services	Private customers	
						Home loans	Other loans
Deposits with banks	76 428						
Financial assets held for trading	12 963		23 605	73	13 252		
Available-for-sale financial assets	246 651	1 580 344			87 435		
Loans and advances to banks	606 543						
Loans and advances to customers		5 470	846 071	1 131 245	2 322 899	1 603 497	173 323
Investment in subsidiaries and associates					20 243		
Other assets	160 960	18 653					
	1 103 545	1 604 467	869 676	1 131 318	2 443 829	1 603 497	173 323

31/12/14	Financial Institutions	Public Sector	Property constr. & develop.	Other industries	Services	Private customers Home loans	Other loans
Deposits with banks	80 219						
Financial assets held for trading	40 065		22 777	372	15 053		13
Available-for-sale financial assets	434 931	1 417 151			27 012		
Loans and advances to banks	197 809						
Loans and advances to customers		38 691	806 728	943 418	2 235 304	1 527 335	215 073
Non-current assets held for sale					20 747		
Other assets	190 040	97 350					
	943 064	1 553 192	829 505	943 790	2 298 116	1 527 335	215 086

3.4 Geographic breakdown of assets, liabilities and off-balance sheet items

The Bank operates fully on the national market. Therefore, it is not relevant to perform an analysis by geographical sector, since there is no identifiable item within a specific economic environment that is subject to differentiated risks or benefits.

3.5 Market risk

Market Risk is the probability of negative impact on the Bank's earnings or capital due to adverse changes in the market prices of the instruments in the trading book, caused by the volatility of equity prices, interest rates, and foreign exchange rates.

As at 31 December 2015, the Bank's portfolio amounted to around 1.9 billion euros, of which around 12 million were classified as financial assets held for trading and other financial assets at fair value through profit or loss.

- Risk-sensitivity analysis

In the scope of the stress test performed, Banco Popular carries out a sensitivity analysis to a 30% fluctuation in stock indexes. In case of devaluation within such order of magnitude, we can conclude that there is no need for additional capital.

We would also like to add that on that date, market risk represented only around 0.0004% of total risk weighted assets (RWA) calculated pursuant to CRD IV/CRR.

3.6 Exchange rate risk

The national currency equivalent, in thousands of euros, of assets and liabilities at sight expressed in foreign currency is as follows:

31/12/15	USD	GBP	CHF	JPY	CAD	AUD	NOK	Other
Assets								
Cash and cash equivalents	394	49	120	2	24	8	3	5
Deposits with banks	5 889	974	339	109	131	305	549	464
Available-for-sale financial assets	59	-	-	-	-	-	-	-
Loans and advances to banks	92 091	64 330	-	-	7 940	4 702	2 396	-
Loans and advances to customers	1 272	856	-	-	-	-	-	-
Other assets	3 330	103	2	44	9	257	2	-
	103 035	66 312	461	155	8 104	5 272	2 950	469
Liabilities								
Deposits from banks	40 463	41 164	185		45	9	3	22
Deposits from customers	48 822	25 058	25		6 074	5 001	2 807	106
Other liabilities	1 269	177	7	50	181	354	42	1
	90 554	66 399	217	50	6 300	5 364	2 852	129
Net balance sheet position	12 481	- 87	244	105	1 804	- 92	98	340
Foreign exchange forward transactions	- 12 096	-	- 258	- 170	- 1 984	-	- 137	- 401
Net position	385	- 87	- 14	- 65	- 180	- 92	- 39	- 61
31/12/14								
Total assets	140 790	49 847	485	116	2 751	5 427	1 280	144
Total liabilities	181 791	50 027	339	124	2 897	5 593	2 770	194
Net balance sheet position	- 41 001	- 180	146	- 8	- 146	- 166	- 1 490	- 50
Foreign exchange forward transactions	41 197		-	-	-	-	1 428	-
Net position	196	- 180	146	- 8	- 146	- 166	- 62	- 50

- Risk-sensitivity analysis

The activity of Banco Popular Portugal regarding foreign currency consists in making transactions based on customer operations. In this framework, the overall foreign exchange position of the Bank is virtually non-existent.

Thus, as can be seen, whatever the impact of foreign currency prices on foreign exchange terms, it is financially immaterial for the Bank's income, which is why no risk-sensitivity analysis are carried out.

3.7 Interest rate risk

This risk assesses the impact on net interest income and equity as a result in fluctuation in market interest rates.

The interest rate risk of the balance sheet is measured using a repricing gap model applied to assets and liabilities that are susceptible to interest rate fluctuations pursuant to Instruction No. 19/2005 issued by the Bank of Portugal. Briefly, this model groups assets and liabilities that are sensitive to fluctuations at fixed time brackets (maturity dates or the first interest rate revision in case of indexation), from which one calculates the potential impact on the intermediation margin.

Maturity and repricing gap for the Bank's activity as at 31 December 2015

	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Not sensitive	Total
Cash and Currency Market	566 728	41 515	130 306	0	0	738 549
Loans and advances to customers	1 307 591	2 159 358	1 812 930	415 531	12 269	5 707 680
Securities market	18 000	1 132 064	418 000	107 995	254 016	1 930 075
Other assets	0	0	0	0	601 954	601 954
Total Assets	**1 892 319**	**3 332 937**	**2 361 235**	**523 526**	**868 240**	**8 978 259**
Currency market	910 829	269 051	1 744 392	0	0	2 924 272
Deposit market	951 421	743 778	1 650 804	1 656 861	31 673	5 034 537
Securities market	0	8 131	25 464	3 955	542	38 092
Other liabilities	0	0	0	0	301 298	301 298
Total Liabilities	**1 862 250**	**1 020 960**	**3 420 660**	**1 660 816**	**333 513**	**8 298 200**
Gap	**30 069**	**2 311 978**	**-1 059 425**	**-1 137 290**	**534 727**	
Accumulated gap	**30 069**	**2 342 047**	**1 282 622**	**145 332**	**680 059**	

Maturity and repricing gap for the Bank's activity as at 31 December 2014

	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Not sensitive
Gap	**- 633 061**	**1 081 149**	**- 344 274**	**- 60 914**	**601 370**
Accumulated gap	**- 633 061**	**448 088**	**103 814**	**42 900**	**644 270**

- Risk-sensitivity analysis

Pursuant to the referred to model, the Bank calculates the potential impact on net interest income and net income.

In the table below, this model considers a potential 1% immediate impact on interest rates, i.e., on the date interest rates are revised. Therefore, the new interest rates will start to show this effect both on assets and liabilities.

	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Not sensitive	Total
Availabilities and Currency Market	566 728	41 515	130 306	0	0	738 549
Loans and advances to customers	1 307 591	2 159 358	1 812 930	415 531	12 269	5 707 680
Securities market	18 000	1 132 064	418 000	142 243	254 016	1 964 323
Other assets	0	0	0	0	601 954	601 954
Total Assets	**1 892 319**	**3 332 937**	**2 361 235**	**557 774**	**868 240**	**9 012 507**
Currency market	910 829	269 051	1 744 392	0	0	2 924 272
Deposit market	951 421	743 778	1 650 804	1 656 861	31 673	5 034 537
Securities market	0	8 131	25 464	3 955	542	38 092
Other liabilities	0	0	0	0	301 298	301 298
Total Liabilities	**1 862 250**	**1 020 960**	**3 420 660**	**1 660 816**	**333 513**	**8 298 200**
Gap	30 069	2 311 978	-1 059 425	-1 103 042	534 727	
Accumulated gap	30 069	2 342 047	1 282 622	179 580	714 307	
Impact of a 1% increase	13	1 392	16 232			
Accumulated impact	13	1 404	17 636			

Accumulated effect	17 636
Net interest income	119 832
Accumulated gap	14.72%

3.8 Liquidity risk

The Bank permanently follows the evolution of its liquidity, monitoring cash inflows and outflows at all times. Liquidity projections are prepared in order to allow for careful planning of short and medium-term funding strategies.

The Bank's primary source of funding are deposits from customers, complemented by access to the capital markets via bond issues and to the interbank market, where we focus on operations with Banco Popular Group. Simultaneously the Bank has tried to ensure other sources of funding, carefully selected for each maturity depending on pricing, stability, speed of access, depth, and compliance with the pre-established risk management policies.

The liquidity management process, as performed by the Bank, includes:

- The daily funding needs that are managed by monitoring future cash flows in order to guarantee that the requirements are met. This includes write-backs as loans mature or are granted to customers;
- Maintaining a high-liquidity asset portfolio so that these can be easily converted into cash as a protection against any unexpected interruption in cash flows;
- Monitoring liquidity ratios taking into account external and internal requirements;
- Managing the concentration and profile of debt maturities resorting to the liquidity gap model.

Besides the obligations established by the Bank of Portugal under the terms of Instruction No. 13/2009, the Bank also resorts to the concept of liquidity gap, i.e., from the balance sheet of the Bank as at 31 December 2015, based on the maturities of assets and liabilities it is possible to ascertain the ratio between the referred to maturities (positive or negative) according to residual maturity deadlines called liquidity gaps. The Bank also calculates LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), with the aim to monitor the evolution of liquidity and report it to the supervising authorities.

The table below presents the Bank’s balance sheet (without accrued interest) at the end of December 2015 with the main classes grouped by maturity date:

Liquidity gap of the balance sheet as at 31 December 2015

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Cash and balances with central banks	55 505				
Deposits with banks	76 428				
Financial assets held for trading			11 992		
Available-for-sale financial assets		0	387 969	1 249 702	276 759
Loans and advances to banks	434 722	40 415	130 269		1 137
Loans and advances to customers	328 231	548 005	692 505	1 300 943	2 835 060
Other assets	359	98	33 331	209 450	334
Total Assets	**895 245**	**588 518**	**1 256 066**	**2 760 095**	**3 113 290**
Deposits from central banks					
Financial assets held for trading					
Deposits from banks	916 742	262 294	1 693 842	50 000	
Deposits from customers	1 996 860	742 103	1 632 538	645 725	808
Debt securities issued		8 131	25 464	3 955	
Current income tax liabilities			6 391		
Other liabilities	8 185	3 945	14 948	21	8 380
Total Liabilities	**2 921 787**	**1 016 473**	**3 373 183**	**699 701**	**9 188**
Gap	**-2 026 542**	**- 427 955**	**-2 117 117**	**2 060 394**	**3 104 102**
Accumulated gap	**-2 026 542**	**-2 454 497**	**-4 571 614**	**-2 511 220**	**592 882**
Liquidity gap as at 31 December 2014					
Gap	**-2 277 477**	**- 519 618**	**- 641 241**	**2 095 586**	**1 976 538**
Accumulated gap	**-2 277 477**	**-2 797 095**	**-3 438 336**	**-1 342 750**	**633 788**

- Off-balance sheet exposures (Liquidity risk)

As at 31 December 2015, maturities for the contracted amounts of off-balance sheet financial instruments that may commit the Bank to lending and other facilities to customers were as follows:

31/12/15	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated
Contingent liabilities:						
Documentary credits	-	-	-	-	-	44 034
Guarantees and Sureties	2 226	1 541	7 486	52 985	5 731	321 502
Commitments:						
Irrevocable loans	-	-	-	-	-	-
Revocable loans	54 592	102 980	327 991	26 041	114 315	278 219
Total	**56 818**	**104 521**	**335 477**	**79 026**	**120 046**	**643 755**

31/12/14	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated
Contingent liabilities:						
Documentary credits	-	-	-	-	-	46 531
Guarantees and Sureties	1 421	4 696	148 897	50 875	277 268	8 538
Commitments:						
Irrevocable loans	-	-	-	-	-	-
Revocable loans	30 230	118 958	311 791	17 107	342 432	-
Total	**31 651**	**123 654**	**460 688**	**67 982**	**619 700**	**55 069**

3.9 Operational risk

Banco Popular Portugal interprets Operational Risk as defined in the Basel II Accord, i.e., as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The management process is based on an analysis by functional area listing the risks inherent in the specific functions and tasks of each body in the structure.

Involving the whole organization, the management model is ensured by the following structures:

Executive Committee (CE) – top management structure that is the main responsible for management guidelines and policies, establishing and monitoring risk appetite and risk tolerance limits.

Risk Management (DGR) - integrates the unit exclusively dedicated to managing operational risk. It is in charge of boosting and coordinating the remaining structures towards the application of methodologies and employment of corporate tools to support the model.

Heads of Operational Risk (RRO) – corresponds to the basis of the organization, these are elements appointed by the hierarchies of each organic unit who have the role of facilitators and promoters of the operational risk management model.

In the process of operational risk management, they also play a key role in the auditing structures, internal control and security of the Bank.

3.10 Fiduciary activities

The Bank provides custody services, guarantees, corporate management services, investment management and third party advisory services. These activities demand the allocation of assets and purchasing and sale transactions regarding a wide range of financial instruments. These assets, which are kept in fiduciary capacity, are not included in these financial statements. As at 31 December 2015, the Bank held investment accounts in the amount of 5 166 508 thousand euros (2014: 6 695 936 thousand euros) and managed estimated financial assets in the amount of 179 114 thousand euros (2014: 152 112 thousand euros).

3.11 Capital management and disclosures

The main objective of capital management at the Bank is meeting the minimum requirements defined by supervisory entities in terms of capital adequacy and ensuring that the strategic objectives of the Bank in terms of capital adequacy are met.

The definition of the strategy to adopt in terms of capital management is in the scope of the Bank's Board of Directors.

In prudential terms, the Bank is subject to the supervision of the Bank of Portugal and of the European Central Bank due to its shareholder, which issue the rules and regulations regarding this matter that guide the several institutions under their supervision. These rules and regulations determine a minimum ratio of total own funds in relation to the requirements demanded due to committed risks, that the institutions must abide by.

As at 31 December 2015, Core Tier 1 ratio calculated pursuant to CRD IV/CRR for 2015 stood at 11.6%, which was highly above the minimum regulatory amount of 10.5%.

	31/12/15
Own funds	
Common Equity Tier 1 (CET1)	693,589
Basic own funds (Tier 1)	693,589
Eligible own funds (Total)	736,995
Risk-weighted assets (RWA)	**5,966,646**
Solvency ratios	
CET1	11.6%
Tier 1	11.6%
Total	12.4%

4. Estimates and assumptions in the application of accounting policies

The Bank makes estimates and assumptions with impact on the reported amount of assets and liabilities in the following year. These estimates and assumptions are continuously assessed and conceived based on historical data and other factors, such as expectations regarding future events.

a) Impairment losses on loans

Every month, the Bank assesses its securities portfolio to evaluate potential impairment losses. In determining whether an impairment loss should be recorded in the income statement, the Bank analyses observable data that may be indicative of a measurable decrease in estimated cash flows both of the trading book and of specific individual cases within a trading book. This analysis may indicate, for example, an adverse event in the capacity of a customer to pay a loan or the worsening of macroeconomic conditions and related indicators. Management uses estimates based on historical data available for assets with similar credit risk and possible impairment losses. The methodology and assumptions used to calculate these estimates are revised regularly aiming at reducing any differences between estimated and actual losses.

b) Fair value of derivatives and unlisted financial assets

The fair value of derivatives and unlisted financial assets was determined based on evaluation methods and financial theories whose results depend on the assumptions that have been used.

c) Impairment of equity investments in the portfolio of Available-for-sale financial assets

The Bank determines that there is impairment of equity investments of available-for-sale assets when there has been a significant or prolonged decline in the fair value below its cost. The required quantification for the expressions ‘significant’ and ‘prolonged’ imply professional judgement. When making this judgement, the Bank assesses among other factors the normal volatility of share prices. As a complement, impairment should be recognised when there are events that show the deterioration of the viability of the investment, the performance of the industry and the sector, technological changes and operational and financial cash flows.

d) Retirement and survivor's pensions

Liabilities for retirement and survivor's pensions are estimated based on actuarial tables and assumptions on the growth of pensions and salaries. These assumptions are based on the Bank's expectations for the period when the liabilities are to be settled.

e) Deferred taxes

The recognition of a deferred tax asset assumes the existence of profit and a future tax base. Deferred tax assets and liabilities have been determined based on tax legislation currently in effect or on legislation already published for future application. Changes in the interpretation of tax legislation may influence the amount of deferred tax that has been recognised.

5. Segmental reporting

The Bank operates essentially in the financial sector and its activity is targeted at corporate, institutional and private customers.

The products and services offered by the Bank include deposits, loans to companies and private individuals, brokerage and custody services, investment banking services, and selling investment funds and life and non-life insurance. Additionally, the Bank makes short, medium, or long term investments in financial and foreign exchange markets in order to take advantage of price variations or as a means to make the most of available financial assets.

Banco Popular operates in the following segments:

(1) *Retail Banking*, which includes the sub-segments: Private Individuals, Self-employed people, Small and Medium-sized Enterprises, and Private Welfare Institutions;
(2) *Commercial Banking*, which includes Large Corporations, Financial Institutions, and the Public Administration Sector;
(3) *Other Segments*, which groups all the operations that are not included in the other segments, namely operations and management of the Bank's Own Portfolio and Investments in Banks.

Geographically, Banco Popular operates exclusively in Portugal.

Segmental reporting is as follows:

31/12/15	Retail Banking	Commercial Banking	Other Segments	Total
Interest and similar income	103 928	55 822	48 044	207 794
Interest and similar charges	47 942	4 913	35 107	87 962
Return on equity instruments	-	-	1 658	1 658
Fees and commissions received	31 192	7 546	18 269	57 007
Fees and commissions paid	906	162	6 088	7 156
Income from Financial Operations (net)	-	1	126	127
Gains from the sale of other assets	-	-	- 3 213	- 3 213
Other Operating Income (net)	-	-	40 357	40 357
Net assets	3 606 576	2 714 701	2 691 230	9 012 507
Liabilities	3 716 781	4 297 629	283 790	8 298 200

31/12/14	Retail Banking	Commercial Banking	Other Segments	Total
Interest and similar income	122 815	76 092	57 224	256 131
Interest and similar charges	71 853	14 609	44 946	131 408
Return on equity instruments	-	-	60	60
Fees and commissions received	35 330	9 345	19 332	64 007
Fees and commissions paid	1 909	310	6 111	8 330
Income from Financial Operations (net)	214	3	7 184	7 401
Gains from the sale of other assets	-	-	- 8 329	- 8 329
Other Operating Income (net)	-	-	- 7 243	- 7 243
Net assets	3 488 204	2 148 172	2 769 472	8 405 848
Liabilities	3 372 861	2 858 965	1 470 817	7 702 643

6. Net interest income

This item is broken down as follows:

	31/12/15	31/12/14
Interest and similar income from :		
Cash and cash equivalents	57	113
Deposits with banks	300	4 491
Loans and advances to customers	159 636	198 799
Other financial assets at fair value	0	117
Other available-for-sale financial assets	47 681	52 326
Other	120	285
	207 794	256 131
Interest and similar charges from:		
Deposits from Central Banks	340	2 220
Deposits from banks	4 086	11 927
Deposits from customers	49 539	74 410
Debt securities issued	4 377	17 974
Interest from hedging derivatives	29 548	24 876
Other	72	1
	87 962	131 408
Net interest income	**119 832**	**124 723**

7. Return on equity instruments

Balance for this item is as follows:

	31/12/15	31/12/14
Available-for-sale financial assets	65	60
Non-current assets held for sale	1 593	0
	1 658	60

8. Revenue and expense with fees and commissions

These items are broken down as follows:

	31/12/15	31/12/14
Revenue from Fees and Commissions from:		
Loans	15 120	13 925
Guarantees and sureties	4 960	6 861
Means of collection and payment	16 344	18 761
Asset management	4 355	4 543
Insurance brokerage	1 522	5 220
Account maintenance	5 613	5 810
Processing fees	1 566	1 632
Structured operations	1 878	2 572
Other	5 649	4 683
	57 007	**64 007**
Expenses with Fees and Commissions from:		
Means of collection and payment	3 653	3 768
Asset management	2 074	2 146
Insurance brokerage	518	341
Other	911	2 075
	7 156	**8 330**

9. Net income from financial operations

This item is broken down as follows:

	31/12/15		31/12/14	
	Gains	Losses	Gains	Losses
Financial assets and liabilities held for trading				
Variable-income securities	202	535	181	2 456
Derivative financial instruments	40 657	39 202	31 165	32 114
	40 859	**39 737**	**31 346**	**34 570**
Assets and liabilities at fair value through profit or loss				
Fixed income securities	-	-	-	80
	0	**0**	**0**	**80**
Hedging derivatives at fair value	75 829	84 459	75 717	75 895
Available-for-sale financial assets and liabilities				
Fixed income securities	5 943	-	9 702	153
Variable-income securities	-	1	-	-
	5 943	**1**	**9 702**	**153**
Income from financial assets and liabilities held for trading through profit or loss	**122 631**	**124 197**	**116 765**	**110 698**

During the first half of 2015, the Bank received 43.5 thousand euros in dividends from financial assets held for trading (2014: 46.4 thousand euros). In 2015 and 2014 the Bank did not earn any income from financial assets at fair value through profit or loss. Besides the ineffectiveness of the hedging relationships active at the end of 2015, this item also includes the amount of 5.8 million euros from unwinding derivatives via the sale of the hedged items.

The effect seen in the item Hedging derivatives at fair value results from fluctuations in the fair value of hedge instruments (interest rate swaps) and variations in the fair value of hedged assets, resulting from the hedged risk (interest rate). Since the hedging instrument is accounted for in the Available-for-sale financial assets portfolio, that variation in fair value is carried from Fair value revaluation reserve to the income statement.

10. Net gains from foreign exchange differences

These items are broken down as follows:

	31/12/15	31/12/14
Exchange gains		
Spot	127	3 510
Forward	1 596	1 203
	1 723	4 713
Exchange losses		
Spot	30	3 317
Forward	0	62
	30	3 379
Income from exchange differences (net)	**1 693**	**1 334**

11. Net gains from the sale of other assets

This item is broken down as follows:

	31/12/15	31/12/14
Gains from the sale of held-for-sale tangible assets	2 032	1 256
Gains from other tangible assets	261	962
	2 293	2 218
Losses from credit assignments	-	563
Losses from the sale of held-for-sale tangible assets	5 506	7 866
Losses from the sale of other tangible assets	-	2 118
	5 506	10 547
	- 3 213	**- 8 329**

12. Other operating income

This item is broken down as follows:

	31/12/15	31/12/14
Contributions to the DGF	- 164	- 1 022
Contributions to the Resolution Fund	- 886	- 961
Contributions to the Single Resolution fund	- 2 140	-
Other operating expenses	- 6 036	- 2 694
Council tax	- 524	- 896
Other taxes	- 676	- 842
Contribution on the banking sector	- 5 254	- 4 258
Income from staff transfer	1 285	1 230
Income from property	863	619
Capital gains on the sale of business unit	48 666	-
Other operating income and revenues	5 223	1 581
	40 357	**- 7 243**

The amount in the capital gains item is due to the income obtained from the sale of the business unit in charge of managing real estate and credit exposures of customers associated with the real estate sector from Banco Popular Portugal to Recbus – Recovery to Business, S.A. ('Recbus, S.A.'), 20% owned by Banco Popular Español. This transaction implied the transference of the legal status of employer in the employment contracts of this unit's employees, who are now employed by Primestar, S.A.. Also in this regard, several agreements have been signed, among which a service rendering contract between the Bank and Primestar, S.A., for the management of the concerned assets for a period of 10 years.

With this operation, the Group has achieved two aims: on the one hand, maximizing the management of the real estate business in Portugal by capitalizing on the knowledge and experience of a partner with expertise in optimizing real estate asset management; on the other, separating the management of this business sector, allowing Banco Popular Portugal, S.A., to focus on traditional commercial banking targeted at savings and financial services provided to private customers, families and companies, particularly SMEs.

The costs highlighted after the sale of this business unit resulting from the services provided to the Bank are broken down as follows:

i) in Losses from non-financial assets-other assets, the costs associated with fees paid for the management/sale of real estate assets, which totals 4 603 thousand euros (note 29);

ii) in Other third party services, the costs associated with the management of legal actions, and expenses and others are recognized in the amount of 2 986 thousand euros (note 14); and

iii) in Provisions for debtors and in Other assets, the costs associated with services in the scope of non-performing or default loans are recognized in the amount of 2 308 thousand euros (note 29).

This transaction encompassed a significant risk and benefit transfer between the parties. On the one hand, Banco Popular Portugal, S.A. granted long-term loans to Primestar, S.A., in the amount of 21.8 million euros at market prices and with the same criteria employed at the time of the lending transaction. On the other hand, we would also like to stress that the described transaction will generate savings, which although not quantifiable at this date, shall only be seen in the medium and long term.

13. Personnel expenses

This item is broken down as follows:

	31/12/15	31/12/14
Wages and salaries	41 642	42 384
Obligatory social security charges from:		
- Wages and salaries	11 063	11 222
- Pension Fund	4 466	3 605
- Other obligatory social security charges	193	227
Other expenses	408	737
	57 772	**58 175**

14. Administrative overheads

This item is broken down as follows:

	31/12/15	31/12/14
With supplies		
Water, energy and fuel	1 675	1 701
Items of regular consumption	214	292
Software licences	365	368
Other third party supplies	348	270
With services		
Rents and leasing	4 314	4 342
Communications	3 932	4 008
Travel, hotel and representation	1 272	1 189
Advertising and publications	4 236	4 025
Maintenance of premises and equipment	3 378	3 761
Transports	1 176	1 067
Fees and regular payment agreements	3 561	5 543
Legal expenses	1 749	1 932
IT Services	9 400	8 969
Security, surveillance and cleaning	450	478
Temporary work	3 969	4 447
External consultants and auditors	1 552	903
SIBS	1 355	1 170
Services rendered by the parent company	3 319	3 422
Other third party services	5 848	2 809
	52 113	**50 696**

15. Income tax

Income tax for 2015 was calculated based on a nominal rate of 21% over the tax base (23% in 2014). Both in 2015 and 2014, besides the nominal rate, a municipal surcharge of 1.5% was also levied on taxable income, as well as a variable state surcharge that depended on the below indicated tiers:

- Less than 1.5 M€	0%
- Between 1.5 M€ and 7.5 M€	3%
- Between 7.5 M€ and 35 M€	5%
- Over 35 M€	7%

As at 31 December 2015 and 2014, tax expenses on net profit, as well as the tax burden, measured by the relation between income taxes and the profit for the year before those taxes may be summed up as follows:

	31/12/15	31/12/14
Current tax on profits		
For the year	6 719	860
Adjustments in respect of prior years	- 109	1 084
	6 610	1 944
Deferred taxes		
Origination and reversal of temporary differences	1 514	1 217
Total tax in the income statement	8 124	3 161
Income before tax	21 467	5 444
Tax burden	37.8%	58.1%

The reconciliation between the nominal tax rate and the tax burden for 2015 and 2014, as well as the reconciliation between tax expense/income and the product of accounting profit multiplied by the nominal tax rate, after deferred tax, is analysed as follows:

	31/12/15		31/12/14	
	Tax rate	Amount	Tax rate	Amount
Income before tax		21 467		5 444
Tax at nominal rate	21.0%	4 508	23.0%	1 252
Municipal surcharge after deferred tax	14.0%	3 004	0.0%	0
Autonomous taxation	2.6%	556	15.8%	860
Tax benefits	-0.4%	- 85	-3.1%	- 170
Effect of provisions not acceptable as costs	25.1%	5 390	32.2%	1 753
Capital gains and losses	-0.1%	- 27	-65.8%	- 3 580
Other net value adjustments	-1.8%	- 394	-27.9%	- 1 518
Contribution on the banking sector	5.1%	1 103	18.0%	979
Tax loss	-34.2%	- 7 347	0.0%	0
Tax from previous years	-0.5%	- 109	19.9%	1 084
Impact of deferred tax	7.1%	1 525	45.9%	2 500
	37.8%	**8 124**	**58.1%**	**3 161**

For additional information on deferred tax assets and liabilities see note 28.

16. Financial assets and liabilities classified in accordance with IAS 39 categories

Classification of financial assets and liabilities in accordance with IAS 39 categories has the following structure:

31/12/15	Booked at fair value		Accounts	Available-for-sale	Hedging	Non-fin.	
	Traded	Fair value op.	receivable	financial assets	derivatives	assets	Total
Assets							
Cash and balances with central banks			55 505				55 505
Deposits with other banks			76 428				76 428
Financial assets held for trading	49 893						49 893
Other fin. assets at fair value thr. prof./loss							0
Available-for-sale financial assets				1 914 430			1 914 430
Loans and advances to banks			606 616				606 616
Loans and advances to customers			6 085 775				6 085 775
Hedging derivatives					1 055		1 055
Other assets			243 309			201,034	444 343
	49 893	**0**	**7 067 633**	**1 914 430**	**1 055**	**201 034**	**9 234 045**

31/12/15	Booked at fair value	Other financial	Hedging	Non-fin.	
	Traded	liabilities	derivatives	liabilities	Total
Liabilities					
Deposits from central banks					0
Deposits from banks		2 924 272			2 924 272
Financial liabilities held for trading	41 452				41 452
Deposits from customers		5 034 537			5 034 537
Debt securities issued		38 092			38 092
Hedging derivatives			121 337		121 337
Other liabilities		35 479		18 300	53 779
	41 452	**8 032 380**	**121 337**	**18 300**	**8 213 469**

31/12/14	Booked at fair value		Accounts receivable	Available-for-sale financial assets	Hedging derivatives	Non-fin. assets
	Traded	Fair value op.				
Assets						
Cash and balances with central banks			134 283			134 283
Deposits with other banks			80 219			80 219
Financial assets held for trading	78 280					78 280
Other fin. assets at fair value thr. prof./loss						0
Available-for-sale financial assets				1 879 094		1 879 094
Loans and advances to banks			197 962			197 962
Loans and advances to customers			5 458 783			5 458 783
Non-current assets held for sale				20 747		20 747
Other assets			261 192		145,794	406 986
	78 280	**0**	**6 132 439**	**1 899 841**	**145 794**	**8 256 354**

31/12/14	Booked at fair value	Other financial liabilities	Hedging derivatives	Non-fin. liabilities	Total
	Traded				
Liabilities					
Deposits from central banks		900 003			900 003
Deposits from banks		2 065 409			2 065 409
Financial liabilities held for trading	43 845				43 845
Deposits from customers		4 114 903			4 114 903
Debt securities issued		317 251			317 251
Hedging derivatives			142 258		142 258
Other liabilities		26 284		12 505	38 789
	43 845	**7 423 850**	**142 258**	**12 505**	**7 622 458**

17. Cash and balances with Central Banks

The balance of this item is broken down as follows:

	31/12/15	31/12/14
Cash and cash equivalents	43 911	48 546
Demand accounts with the Bank of Portugal	11 594	85 737
	55 505	**134 283**

Deposits with Central Banks include mandatory deposits with the Bank of Portugal intended to meet legal minimum cash requirements.

18. Deposits with banks

Balance for this item is as follows:

	31/12/15	31/12/14
Deposits with banks in Portugal		
Demand accounts	460	587
Cheques payable	13 150	13 650
Other deposits	2 120	686
	15 730	14 923
Deposits with banks abroad		
Demand accounts	59 169	63 774
Cheques payable	1 529	1 522
	60 698	65 296
	76 428	**80 219**

Cheques payable from Portuguese and foreign banks were sent for settlement on the first working day after the reference dates.

19. Financial assets and liabilities held for trading

The Bank uses the following derivatives:

Currency forward represents a contract between two parties for the exchange of currencies at a determined exchange rate established at the moment of the accomplishment of the contract (forward) for a determined future date. These operations have the purpose of hedging and managing currency risk, through the elimination of the uncertainty of the future value of certain exchange rate, which is immediately fixed by the forward operation.

Interest rate swap, which in conceptual terms can be perceived as an agreement between two parties who compromise to exchange (swap) interest rate differential between them for a specified amount and period of time, periodic payments of fixed rate for floating rate payments. It involves a single currency and consists in the exchange of fixed cash flows for variable ones or vice versa. This kind of instrument is aimed at hedging and managing the interest rate risk, regarding the income of a financial asset or the cost of a loan that a given entity intends to take in a determined future moment.

The fair value of derivative instruments held for trading is set out in the following table:

31/12/2015

	Contract value	Fair value	
	(Notional amount)	Assets	Liabilities
Trading derivatives			
a) Foreign currency derivatives			
Currency forwards	59 476	334	284
Options	5 298	0	41
b) Interest rate derivatives			
Interest rate swaps	402 147	37 534	41 094
Options	47 498	33	33
Total derivatives held for trading (assets/liabilities)		37 901	41 452

31/12/2014

	Contract value	Fair value	
	(Notional amount)	Assets	Liabilities
Trading derivatives			
a) Foreign currency derivatives			
Currency forwards	41 191	734	816
b) Interest rate derivatives			
Interest rate swaps	375 525	38 744	43 011
Options	59 164	18	18
Total derivatives held for trading (assets/liabilities)		39 496	43 845

As at 31 December 2015, the fair value of other financial assets and liabilities held for trading was as follows:

	31/12/15	31/12/14
Other financial assets		
Variable-income securities		
Equity stakes	11 992	38 784
	11 992	38 784
Total	**11 992**	**38 784**
Total financial assets held for trading	**49 893**	**78 280**
Total financial liabilities held for trading	**41 452**	**43 845**

20. Investments in subsidiaries and associates

As at 31 December 2015, the Bank only held an equity stake in the associate company Eurovida – Companhia de Seguros de Vida, S.A., booked for 20 243 thousand euros, net of impairment, which was reclassified from non-current assets held for sale.

	Consolidated financial results for Eurovida as at 31-12-2015			Impact of the application of the equity method	
Effective stake (%)	Net Assets	Owner's Equity	Net Profit	On consolidation reserves	On net income
15.9348%	992 573	103 095	11 368	-5 626	1 811

This reclassification results from the fact that IFRS 5 establishes the requirement that for an asset to be classified as non-current its sale should be completed within a year from the date of the reclassification, except as allowed in paragraph 9 of that standard, a situation that was not in effect at the end of December 2015.

21. Available-for-sale financial assets

The balance of this item is broken down as follows:

	31/12/15	31/12/14
Securities issued by residents		
Government bonds - at fair value	45 117	14 015
Other debt securities - at fair value	-	21 987
Equity securities - at fair value	652	653
Equity stakes	46 500	20 504
	92 269	57 159
Securities issued by non-residents		
Government bonds - at fair value	758 407	613 402
Other debt securities - at fair value	1 063 678	1 208 464
Other securities	76	69
	1 822 161	1 821 935
Total	**1 914 430**	**1 879 094**

As at 31 December 2015, the Bank had no unlisted equity instruments classified as available-for-sale financial assets, which, since their fair value cannot be reliably measured, were recognised as costs (2014: 0 thousand euros).

The Bank has in its available-for-sale financial assets portfolio an investment of 1 158 thousand euros regarding subordinate bonds (Class D Notes) purchased in June 2002 associated with the securitisation of home loans, in the amount of 250 million euros named Navigator Mortgage Finance No. 1.

In the scope of that securitisation operation, assets were acquired by a loan securitisation fund named Navigator Mortgage Finance No. 1, which simultaneously issued securitisation units fully subscribed by Navigator Mortgage Finance No. 1 Plc, which also issued bonds with the following characteristics:

	Nominal amount	Rating		Interest rate
	thousand euros	Standard & Poors	Moody's	(until May 2035)
Class A Notes (Senior)	230 000	AAA	Aaa	3-month Euribor + 0.21%
Class B Notes (Senior)	10 000	AA	Aa2	3-month Euribor +0.38%
Class C Notes (Senior)	10 000	A	A2	3-month Euribor +0.55%
Class D Notes (Subordinate)	4 630	n.a.	n.a.	n.a.

Under the terms of the agreement that was signed the Bank did not assume any commitment regarding cash availabilities of the issuer, as well as liquidity lines, credits, guarantees, rights and residual profits, or any other risks, besides the Class D Notes.

Intervening entities:

- Navigator Mortgage Finance No. 1 Fundo, a Portuguese loan securitization fund that purchased the loans;
- Navigator, SGFTC, a loan securitisation fund manager that manages the fund;
- Navigator Mortgage Finance No. 1 Plc, the company that purchased the securitization units and issued the notes.

The most relevant financial data extracted from Navigator's unaudited financial statements as at 31 December 2015 were as follows:

	31/12/15	31/12/14
Net assets	47 401	53 585
Liabilities	54 154	59 730
Equity	-6 753	-6 145
Income for the period	- 608	- 805

22. Loans and advances to banks

The nature of loans and advances to banks is as follows:

	31/12/15	31/12/14
Loans and advances to banks in Portugal		
Time deposits	37	43
Loans	10 000	10 048
Other	5	933
Interest receivable	0	91
	10 042	11 115
Loans and advances to banks abroad		
Time deposits	594 564	184 758
Reverse repurchase agreements	-	-
Other	1 937	2 027
Interest receivable	73	62
	596 574	186 847
	606 616	**197 962**

Set out below is a breakdown of loans and advances to banks by period to maturity:

	31/12/15	31/12/14
Up to 3 months	475 137	196 651
From 3 months to 1 year	130 269	15
Over 5 years	1 137	1 143
Interest receivable	73	153
	606 616	**197 962**

23. Lending operations

Loans are granted via loan agreements, including overdraft facilities in demand accounts, and by the discount of effects. Total amounts of loans and advances to customers in the balance sheet, by nature, are as follows:

	31/12/15	31/12/14
Internal credit operations		
Public sector	**3 345 956**	**3 150 012**
Private customers	**1 945 814**	**1 879 582**
Residential mortgage loans	1 568 480	1 495 044
Personal and consumer loans	32 211	40 270
Other personal lending	345 123	344 268
	5 291 770	**5 029 594**
External credit operations		
Public sector	**29 322**	**31 868**
Private customers	**27 976**	**22 863**
Residential mortgage loans	19 359	16 529
Personal and consumer loans	16	35
Other personal lending	8 601	6 299
	57 298	**54 731**
Other loans (represented by securities)	**355 677**	**352 773**
Interest and commissions receivable	**3 270**	**8 700**
Past-due loans and interest		
Due within 90 days	11 957	15 526
Over 90 days	365 803	313 924
	377 760	**329 450**
Gross Total	**6 085 775**	**5 775 248**
Minus:		
Provision for doubtful loans	79 229	76 268
Provision for past-due loans and interest	296 517	240 196
Provision for country risk	40	1
Provisions for bad debts and other	2 308	-
	378 094	316 465
Net total	**5 707 681**	**5 458 783**

As at 31 December 2015, credit operations included 889 775 thousand euros in mortgage loans assigned to the issuance of mortgage bonds (2014: 894 719 thousand de euros) (note 33).

Set out below is a breakdown of loans and advances to customers by period to maturity:

	31/12/15	31/12/14
Up to 3 months	876 237	1 208 812
From 3 months to 1 year	692 505	962 481
From 1 to 5 years	1 300 943	1 391 237
Over 5 years	2 835 060	1 874 568
Undetermined maturity (past due)	377 760	329 450
Interest and commissions receivable	3 270	8 700
	6 085 775	**5 775 248**

During the first half of 2014, the Bank carried out a credit assignment operation to Banco Popular Español in the total gross amount of 8.06 million euros for the total amount of 7.50 million euros. These operations had an overall negative result of 0.56 million euros

Provisions for customer loan losses

The balance of the provision account for specific credit risks is detailed in the following table:

	31/12/15	31/12/14
Balance as at 1 January	316 465	260 893
Appropriations	198 637	212 442
Used	1 060	8 330
Cancelled	135 948	148 540
Balance as at 31 December	378 094	316 465
Appropriations for provisions	196 329	212 442
Write-offs	- 135 948	- 148 540
Recoveries of bad debts	- 3 050	- 4 469
Provisions net of write-offs and recoveries of bad debts	57 331	59 433

24. Held-to-maturity investments

In June 2013, the Bank sold 210 million of Spanish debt securities which were classified as held-to-maturity investments. Due to this sale, and pursuant to IAS 39, at the end of June, the Bank reclassified the remaining portfolio as available for sale without going through the profit or loss account.

Still pursuant to IAS 39, the Bank may only hold held-to-maturity instruments in 2016.

25. Non-current assets held for sale

As at 31 December 2014, the Bank only held an equity stake in the associate company Eurovida – Companhia de Seguros de Vida, S.A., booked for 20 747 thousand euros.

The most important financial data extracted from the consolidated financial statements of Eurovida, prepared according to the IFRS, as well as the impact of the equity method of accounting, were as follows as at 31 December 2014:

	Consolidated financial results for Eurovida as at 31-12-2014			Impact of the application of the equity method	
Effective stake (%)	Net Assets	Owner's Equity	Net Profit	On consolidation reserves	On net income
15.9348%	1 046 283	104 140	13 314	-6 274	2 122

This participation was reclassified in investments in subsidiaries and associates, see note 20.

26. Other tangible assets

This item is broken down as follows:

	31/12/2015					31/12/14
	Real estate	Equipment	Art and antiques	Assets in progress	Total	Total
Balance as at 01 January						
Acquisition costs	108 232	51 003	149	863	160 247	178,696
Accumulated depreciation	- 37 636	- 49 571		0	- 87 207	-89,720
Accumulated impairment	- 2 410				- 2 410	-6,595
Acquisitions	303	806		369	1 478	1,451
Transfers						
Acquisition costs	- 225			- 1 167	- 1 392	- 5 333
Accumulated depreciation	702				702	2 097
Disposals / Write-offs						
Acquisition costs	0	- 2 366			- 2 366	- 14 567
Accumulated depreciation	0	2 364			2 364	4 133
Impairment depreciation	0				0	4 185
Depreciation for the year	- 1 953	- 966			- 2 919	-3,716
Balance as at 31 December						
Acquisition costs	108 310	49 443	149	65	157 967	160,247
Accumulated depreciation	- 38 887	- 48 173		0	- 87 060	-87,206
Accumulated impairment	- 2 410				- 2 410	-2,410
Net amount	**67 013**	**1 270**	**149**	**65**	**68 497**	**70 631**

27. Intangible assets

This item is broken down as follows:

	31/12/2015			31/12/14
	Software	Miscellaneous	Total	Total
Balance as at 01 January				
Acquisition costs	18 767	2 097	20 864	20 832
Accumulated depreciation	- 18 700	- 2 093	- 20 793	- 20 660
Acquisitions	8	143	151	32
Transfers				
Acquisition costs			0	0
Depreciation for the period	- 60	- 16	- 76	- 133
Balance as at 31 December				
Acquisition costs	18 775	2 240	21 015	20 864
Accumulated depreciation	- 18 760	- 2 109	- 20 869	- 20 793
Net amount	**15**	**131**	**146**	**71**

28. Deferred taxes

Deferred taxes are calculated in respect of all the temporary differences using an effective tax rate of 22.5%, except those regarding tax loss for which a 21% rate was used.

Balances for these items are as follows:

	Balance as at 31/12/14	Equity Expense	Equity Income	Reserves Increase	Reserves Decrease	Balance as at 31/12/15
Deferred Tax Assets						
Available-for-sale securities	26 623			1 569	7 609	20 583
Tangible assets	1 087	39	27			1 075
Taxable provisions	20 716	4 914	8 598			24 400
Fees and commissions	143	30				113
Seniority bonus	980	0	41			1 021
RGC provisions	11 156	295	1 810			12 671
Other assets/liabilities	7 367	16				7 351
Tax loss	7 154	7 874	1 176			456
	75 226	13 168	11 652	1 569	7 609	67 670
Deferred Tax Liabilities						
Available-for-sale securities	25 743			14 125	9 464	21 082
Property revaluation	50		1			49
	25 793	0	1	14 125	9 464	21 131

29. Other assets

This item is detailed as follows:

	31/12/15	31/12/14
Recoverable government subsidies	77	-
Recoverable taxes	18 576	18 558
Pledge accounts	161 681	190 040
Other debtors	63 115	51 890
Other income receivable	328	577
Expenses with deferred charges	4 673	4 863
Asset operations pending settlement - Miscellaneous	29 367	23 520
Assets received in lieu of payment	197 650	145 921
Other tangible assets held for sale	958	283
Pension liabilities	60	109
Other transactions pending settlement	146	342
	476 631	**436 103**
Impairment of assets received in lieu of payment	- 31 324	- 27 804
Impairment of other tangible assets held for sale	- 367	- 89
Provisions for other assets	- 597	- 1 224
	444 343	**406 986**

Balances and movements in the accounts of Provisions for other assets are as follows:

Provisions for other assets	31/12/15	31/12/14
Balance as at 1 January	1 313	5 098
Appropriations	4 929	1 116
Used	5 000	4 792
Cancelled	278	109
Balance as at 31 December	**964**	**1 313**

Movements in the account Assets received in lieu of payment in 2015 were as follows:

	31/12/2015				31/12/14
	Available-for-sale properties	Properties not available for sale	Equipment	Total	Total
Balance as at 01 January					
Gross amount	139 768	5 427	726	145 921	286 458
Accumulated impairment	- 27 691	-	- 113	- 27 804	- 48 342
Net amount	112 077	5 427	613	118 117	238 116
Additions					
Acquisitions	79 119	8 852	122	88 093	75 765
Other	1 246	-	-	1 246	1 058
Disposals					
Gross amount	- 28 708	- 8 186	- 342	- 37 236	- 216 474
Transfers	1 609	- 1 984	-	- 375	- 886
Impairment losses	- 5 883	- 998	- 39	- 6 920	- 2 310
Used	1 167	-	99	1 266	15 970
Reversed	2 122	-	12	2 134	6 878
Balance as at 31 December					
Gross amount	193 034	4 109	506	197 649	145 921
Accumulated impairment	- 30 285	- 998	- 41	- 31 324	- 27 804
Net amount	162 749	3 111	465	166 325	118 117

30. Deposits from central banks

This item is detailed as follows:

	31/12/15	31/12/14
Deposits from central banks		
Deposits	-	900 000
Interest payable	-	3
	-	**900 003**

In terms of residual maturity, these funds are broken down as follows:

	31/12/15	31/12/14
Forward		
Up to 3 months	-	900 000
From 1 to 5 years	-	-
Interest payable	-	3
	-	**900 003**

31. Deposits from banks

The balance of this item, spot and forward, is composed as follows in terms of nature:

	31/12/15	31/12/14
Domestic credit institutions		
Deposits	482 774	332 202
Interest payable	596	2 229
	483 370	334 431
International credit institutions		
Loans	106 250	112 500
Deposits	1 539 470	835 650
Repurchase agreement	794 379	781 523
Other funds	5	1 217
Interest payable	798	88
	2 440 902	1 730 978
	2 924 272	**2 065 409**

The item International banks – Deposits includes essentially deposits made by the shareholder BPE.

In terms of residual maturity, these funds are broken down as follows:

	31/12/15	31/12/14
Spot	16 199	9 842
Forward		
Up to 3 months	1 162 837	1 604 487
From 3 months to 1 year	1 693 842	71 863
From 1 to 5 years	50 000	376 900
Interest payable	1 394	2 317
	2 908 073	2 055 567
	2 924 272	**2 065 409**

32. Customer funds

The balance of this item is composed as follows in terms of nature:

	31/12/15	31/12/14
Resident funds		
Demand accounts	1 102 703	875 444
Time deposits	3 772 675	3 137 391
Savings accounts	6 386	4 225
Cheques payable	4 328	5 711
Other funds	9	72
	4 886 101	4 022 843
Non-resident funds		
Demand accounts	36 811	31 477
Time deposits	95 122	32 988
Cheques payable	0	39
	131 933	**64 504**
Interest payable	16 503	27 556
	5 034 537	**4 114 903**

In terms of residual maturity, these funds are broken down as follows:

	31/12/15	31/12/14
Spot	1 139 515	906 921
Forward		
Up to 3 months	1 599 448	1 105 329
From 3 months to 1 year	1 632 538	1 347 219
From 1 to 5 years	645 725	727 878
Over 5 years	808	-
Interest payable	16 503	27 556
	3 895 022	3 207 982
	5 034 537	**4 114 903**

33. Debt securities issued

The balance of this item is broken down as follows:

	31/12/15	31/12/14
Bonds	2 383	2 383
Mortgage bonds	0	225 000
Euro Medium Term Note	35 167	88 946
Interest payable	542	922
	38 092	317 251

During 2010, Banco Popular Portugal constituted a Mortgage Bond Issuance Programme whose maximum amount is 1 500 million euros.

In the scope of this programme, the Bank carried out seven mortgage bond issuances. On 31 December 2015 the 5th Series (290 million euros), the 6th Series (225 million) euros, and the 7th Series (300 million euros) are booked in the balance sheet. This last issuance was fully repurchased by the Bank.

These bonds are covered by a group of home loans and other assets that have been segregated as autonomous equity in the Bank's accounts, therefore grating special credit privileges to the holders of these securities over any other creditors. The conditions of the aforementioned issuances are in accordance with Decree-law No. 59/2006, and Notices Nos.5/2006, 6/2006, 7/2006 and 8/2006 and Instruction No. 13/2006 issued by the Bank of Portugal.

On 31 December 2015, the characteristics of these issuances were the following:

Name	Nominal value	Carrying amount	Issuance date	Reimbursement date	Interest rate frequency	Interest rate	DBRS Rating
BAPOP Mortgage bonds 30/12/2017	290 000	0	30/12/2014	30/12/2017	Monthly	1M Euribor+1.20%	BBBL
BAPOP Mortgage bonds 30/06/2018	225 000	0	30/06/2015	30/06/2018	Monthly	1M Euribor+1.20%	BBBL
BAPOP Mortgage bonds 28/09/2018	300 000	0	28/09/2015	28/09/2018	Monthly	1M Euribor+1.20%	BBBL

On 31 December 2015, autonomous equity assigned to these issuances amounted to 890 993 thousand euros (2014: 896 224 thousand de euros) (see note 23).

During 2011, Banco Popular Portugal constituted a Mortgage Bond Issuance Programme whose maximum amount is 2.5 500 million euros. In the scope of this programme, the Bank has already carried out 36 issuances and as at 31 December 2015, its balance was broken down as follows:

Issuance date	Serial number	Amount	Number	Nominal unit value	Reimbursement date
26/10/12	10th	20 000	200	100 000	26/10/16
26/02/13	18th	6 676	6 676	1 000	26/02/16
30/07/13	26th	4 536	4 536	1 000	30/07/16
10/01/14	36th	3 955	3 955	1 000	10/01/17
		35 167			

34. Hedging derivatives

The item derivatives is composed as follows:

	31/12/15			31/12/14		
	Notional Amount	Carrying amount		Notional Amount	Carrying amount	
		Assets	Liabilities		Assets	Liabilities
Interest rate contracts						
Swaps	1 370 000	1055	121 337	1 337 000	-	142 258

As referred to previously, the Bank covers part of its interest rate risk, resulting from any possible decrease in the fair value of fixed interest rate assets, using interest rate swaps. On 31 December 2015, the net fair value of hedging and trading interest rate swaps (see above) was negative (see note 19) in the amount of -123 843 thousand euros (2014: -146 524 thousand euros).

Fluctuations in the fair value associated with hedged assets and their respective hedging derivatives are registered in the income statement under item Net income from financial operations (see note 9).

35. Other provisions

Balances and movements for the Provisions account were as follows:

Other Provisions (Liabilities) - Movements	**31/12/15**	**31/12/14**
Balance as at 1 January	52 575	51 054
Appropriations	11 195	6 714
Used	50	-
Cancelled	6 511	5 193
Balance as at 31 December	**57 209**	**52 575**

Other Provisions (Liabilities) - Balances	**31/12/15**	**31/12/14**
Provisions for country risk	218	258
Provisions for general credit risks	56 314	49 584
Other provisions	677	2 733
	57 209	**52 575**

36. Other liabilities

This item is detailed as follows:

	31/12/15	**31/12/14**
Suppliers of goods	3 307	3 913
Tax withheld at source	3 582	3 482
Personnel expenses	13 075	12 446
Other expenses	15 515	6 443
Other revenues with deferred income	2 297	2 456
Funding operations pending payment	12 898	9 698
Other accruals and deferred income	3 105	351
	53 779	38 789

37. Retirement pensions

The Pension Plan of Banco Popular Portugal is a scheme of benefits that comprehends all the benefits foreseen in the Collective Bargaining Agreement that regulates the banking sector in Portugal

The fund assumes the liabilities with past services of former employees in the proportion of their time of service. As a counterpart, from the amount of liabilities we deduct the amount of liabilities with past services of current employees as regards the time of service rendered in other institutions in the banking sector. These liabilities for services rendered are calculated pursuant to IAS 19 Revised.

The Pension Plan of the executive members of the Board of Directors intends to ensure payment for old age pensions, disability pensions and survivor's pensions for the executive members of the Bank's Board of Directors.

With the publication of Decree-law No. 1-A/2011, of 3 January, the employees comprehended by the Collective Bargaining Agreement and in active life on 4 January 2011 started to be comprehended within the General Social Security Scheme ('Regime Geral da Segurança Social' - RGSS) as regards the benefits of old age pensions. Therefore, from that date on the benefits plan defined for employees comprehended in the Collective Bargaining Agreement as regards retirement pensions started to be funded by the Pension Fund and Social Security. However, the Pension Fund still has the responsibility, after 4 January 2011, to cover liabilities on death, disability and survivor's pensions, as well as the old age complement in order to match the retirement of the participants in the Pension Fund to the amounts of the current pension plan.

According to guidelines derived from the Note issued on 26 January 2011 by the National Council of Financial Supervisors, the Bank has kept with reference to 31 December 2010 the recognition and measurement method for past services of active employees regarding the events transferred to the RGSS used in previous years.

In accordance with Decree-law No. 127/2011 of 31 December, Banco Popular Portugal transferred to Social Security the liabilities for pensions in payment on 31 December 2011, as well as the part of the assets contained in the pension fund that already covered such liabilities. The liabilities transferred amounted to 6.3 million euros and have already been fully paid (55% in December 2011 and 45% in March 2012).

This transference was booked in the income statement in the amount of 795 thousand euros due to the allocation of the proportional part of accumulated actuarial gains/losses and the actuarial gains/losses originated by the difference in actuarial assumptions used for the calculation of the transferred liabilities. In accordance with Decree-law No. 127/2011 of 31 December, this amount shall be deductible for effects of determining taxable profit, in equal parts, from the fiscal year started on 1 January 2012, regarding the average of the number of years of life expectancy of the pensioners whose responsibilities have been transferred. The respective deferred taxes have been on the amount recognised in the year's net income.

Until 31 December 2012, the Bank recognized the net accumulated amount (after 1 January 2004) of actuarial gains and losses resulting from changes in the financial and actuarial assumptions and differences between the financial and actuarial assumptions used and the actual amounts in the item 'Other Assets or Other Liabilities – Actuarial gains/losses'. Accumulated actuarial gains or losses that did not exceed 10% of the highest of the current value of liabilities for past services or the value of the pension funds were included in the 'corridor'. Actuarial gains/losses in excess of the corridor were recognised against results over the average remaining period of service of the employees covered by the plan.

As at 1 January 2013 Banco Popular changed its accounting policy of recognising financial and actuarial gains and losses for pension plans and other defined benefit post-employment benefits pursuant to *IAS 19 Revised*. Financial and actuarial gains and losses are now recognised in the period they occur directly in equity in the Statement of Comprehensive Income.

On 31 December 2015, the number of participants in the fund was 1 111 (2014: 1 129). On this date, there were 48 retired people and 20 pensioners, and the remaining employees were active.

Current amount of Liabilities

The liabilities assumed for retirement and survivor's pensions are as follows:

Past Services	31/12/15	31/12/14
Defined benefit obligation at the beginning of the year	**154 196**	**128 411**
Service expenses	2 781	2 096
Interest expense	3 756	4 721
Pensions paid	- 1 307	- 992
Actuarial deviations	3 813	19 960
Defined benefit obligation as at 31 December	**163 239**	**154 196**

Current amount of liabilities	31/12/15	31/12/14
Past Services		
- Old age	136 973	136 425
- Payable pensions	26 266	17 771
	163 239	**154 196**
Future services		
- Old age	38 991	42 527
	38 991	**42 527**

Every year the Bank determines the amount of liabilities for past services using actuarial calculations based on theProjected Unit Credit method for liabilities for past services in the case of old age and the Unique Successive Premium to calculate disability and survivor's benefits. The discount rate is determined based on market rates for high quality corporate bonds, with periods to maturity similar to those for settlement of pension liabilities.

Obligations for survival and disability, foreseen in the Collective Bargaining Agreement and insurable are covered by the subscription of a multi-protection life insurance policy for the population at stake, except for those whose urgency of disability or survival is considered unfit to insure.

This is an annual renewable temporary contract in which the Insurance company guarantees the Pension Fund of Banco Popular Portugal, S.A., in case of death or disability assessed at 66% or more according to the National Table for Disability, for any of the people comprehended within the insured group, the payment of the hired premiums.

This insurance contract was signed with Eurovida – Companhia de Seguros de Vida S.A., an insurance company that is an associate of Banco Popular Portugal, SA.

Equity Amount of the Fund

The movements occurred in the total amount of the pension fund were as follows:

Equity amount of the Fund	31/12/15	31/12/14
Amount at the beginning of the year	**154 305**	**128 495**
Contributions paid		
Employer	11 300	22 000
Employees	766	757
Return on Fund assets	627	6 265
Pensions paid	- 1 307	- 992
Other net differences	- 2 392	- 2 220
Amount of the Fund as at 31 December	**163 299**	**154 305**
Current obligations for past services	163 239	154 196
Coverage level	100.0%	100.1%

Evolution of Liabilities and Total Amount of the Fund

The evolution of liabilities and the total amount of the pension fund in the past five years was as follows:

	31/12/15	31/12/14	31/12/13	31/12/12	31/12/11	31/12/10
Current amount of liabilities	163 239	154 196	128 411	108 961	94 708	102 746
Equity amount of the Fund	163 299	154 305	128 495	121 796	113 703	118 246
Net Assets/(Liabilities)	**60**	**109**	**84**	**12 835**	**18 995**	**15 500**
Coverage level	100.0%	100.1%	100.1%	111.8%	120.1%	115.1%

Banco Popular Portugal assesses the recoverability of any eventual excess in the fair value of the assets included in the pension fund when compared with the liabilities for pensions at each reporting date based on the expectation of the reduction in the future necessary contributions.

Structure of the Assets that comprise the Fund

On 31 December, The Pension Fund’s portfolio broken down by asset type was as follows:

Types of assets	31/12/2015	31/12/2014
Fixed income securities	61.44%	46.73%
Variable income securities	28.21%	35.35%
Real estate	3.46%	3.94%
Liquidity	6.89%	13.98%
	100.00%	100.00%

Exposure to credit risk

Regarding the credit risk of the assets with debt characteristics that comprise the fund, the exposure by rating had the following structure:

Ratings	31/12/2015	31/12/2014
AAA	5.67%	12.32%
AA	6.41%	11.75%
A	11.75%	27.07%
BBB	52.45%	31.75%
Other (NR)	23.72%	17.11%
	100.00%	100.00%

On 31 December 2015, the Fund had 1 000 000 BPE Financiaciones bonds issued by Banco Popular Español in the amount of 1 040 thousand euros and Banco Popular Español SA bonds in the amount of 951 thousand euros.

Costs for the year

The amounts recognised as costs for the year are analysed as follows:

Cost for the year	31/12/15	31/12/14
Service Cost	2 782	2 096
Interest expense	3 756	4 721
Expected return on Fund assets	- 3 758	- 4 724
Other	1 626	1 462
Total	**4 406**	**3 555**

Actuarial gains and losses

The amount of actuarial gains and losses for the years 2015 and 2014 are broken down as follows:

Actuarial gains and losses	31/12/15	31/12/14
Actuarial gains/losses as at 1 January	- 28 686	- 10 267
Actuarial losses for the year - obligations	- 3 812	- 19 960
Actuarial gains for the year - Fund	- 3 131	1 541
Actuarial gains/losses as at 31 December	- 35 629	- 28 686

Actuarial assumptions

The main actuarial and financial assumptions used were as follows:

	31/12/15		31/12/14	
	Assump.	Real	Assump.	Real
Discount rate	2.33%	2.40%	2.40%	2.40%
Expected return rate on Fund assets	2.33%	0.46%	2.40%	4.85%
Salaries and other benefits increase rate	0.8%	0.0%	0.8%	0.0%
Pensions increase rate	0.5%	0.0%	0.5%	0.0%
Mortality table	TV 88/90		TV 88/90	
Disability table	ERC Frankona		ERC Frankona	
Turnover	n.a.	n.a.	n.a.	n.a.

Gains and losses arising from experience adjustments and changes in actuarial assumption are recognised in other comprehensive income in Retained Earnings in the period they occur.

Sensitivity analysis to the Main Assumptions that contribute to the liabilities amount

Taking into consideration the most significant impacts on the amount of liabilities, we have performed a sensitivity analysis through a positive and negative fluctuation in the main assumptions that contribute to the amount of the liabilities, whose impact is analysed as follows:

	Impact on current liabilities		
	Assumption change	Assumption increase	Assumption decrease
Discount rate	0.25%	Decrease by 6.0%	Increase by 6.5%
Salaries and other benefits increase rate	0.25%	Increase by 5.2%	Decrease by 4.8%
Pensions increase rate	0.25%	Increase by 2.7%	Decrease by 2.6%

	Increase by 1 year	Decrease by 1 year
Average life expectancy	Increase by 3.5%	Decrease by 3.6%

The sensitivity analyses above are based on the change in a given assumption, keeping all other assumptions equal. In practice, that is very unlikely to occur given the correlations that exist between the several assumptions. When calculating the sensitivity of the amount of liabilities for significant actuarial assumptions we applied the same methods used to calculate the positions in the Balance Sheet.

The methodology used to perform the sensitivity analysis remained unchanged from the previous year.

Qualification of the impacts on the Fund's portfolio of fluctuations in interest rates and in the stock and property markets

With the reference date of 31 December 2015, we quantified the impact on the Pension Fund's portfolio, by performing a stress test that might reflect the most significant risks that the Pension Fund is exposed to, taking into consideration fluctuations in interest rates and in the stock and property markets, and compared the resulting amount of the Fund with the minimum level of solvency amount.

For that effect, we considered two types of instantaneous shocks: a moderate shock and a severe shock. The several shocks are thus characterised: the interest rate risk is measured by a parallel shift in the term structure of interest rates, credit risk is assessed based on the standardised approach of Basel III, and market risk is measured by the change in the value of shares and property investment funds.

In the case of the interest rate risk, a risk consists in a moderate increase of five-year spot rates by 20% or a severe increase by 30%. Regarding market risk, we considered a moderate decrease by 20% in the share portfolio and by 15% in the case of properties; we also considered a severe drop by 35% in the share portfolio and 25% in properties.

The impact of a moderate shock to the pension fund's portfolio for the several risks is as follows:

Moderate shock		
Risk factor	Impact	%
Interest Rate Risk		
+20%;	- 187	-0.11
Credit Risk (Basel III)	- 4 217	-2.58
Market risk		
Shares		
-20%	- 17 056	-10.44
Real estate		
-15%	- 849	-0.52

Considering all the risks, the impact on the asset portfolio would be -13.66%, which represents -22 310 thousand euros (taking into account the amount of the fund as at 31 December 2015). In this sense, the level of funding for liabilities, considering the minimum solvency level of the Portuguese Insurance Institute would be 187.58%.

For a severe shock, the scenario would be:

Severe shock		
Risk factor	Impact	%
Interest Rate Risk		
+30%;	- 282	-0.17
Credit Risk (Basel III)	- 8 422	-5.16
Market risk		
Shares		
-35%	- 29 848	-18.28
Real estate		
-25%	- 1 415	-0.87

Considering all the risks, the impact on the asset portfolio would be -24.48%, which represents -39 967 thousand euros. In this sense, the level of funding for liabilities, considering the minimum solvency level of the Portuguese Insurance Institute would be 164.08%.

Regarding the previous year, we have seen for both scenarios an increase in interest rate and market risks.

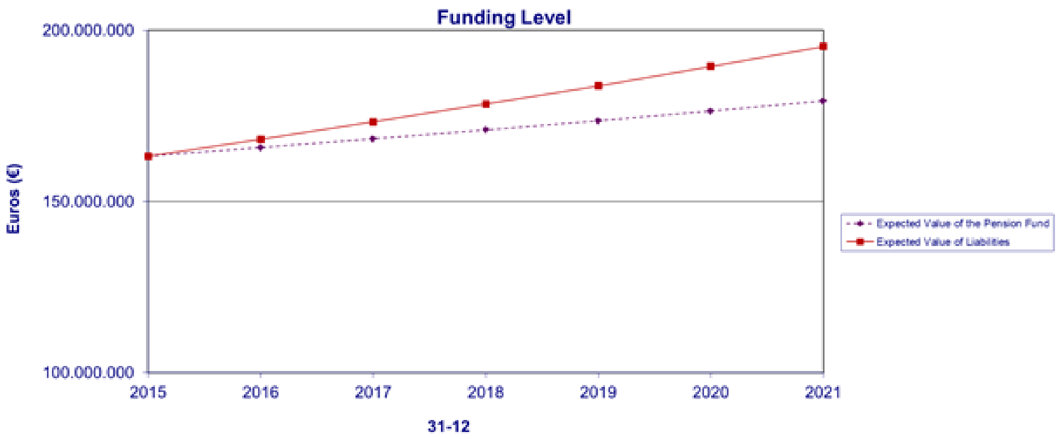
Financial asset/liability adequacy

With the aim of assessing the adequacy between financial assets and liabilities, we carried out an ALM study on financial flows. For that effect, we projected liabilities in the funding scenario, assuming the current actuarial evaluation assumptions.

We assumed that the current population is a closed group. Based on the liabilities as at 31 December 2015, on normal expected costs to face increased liabilities and on the expected amount of pensions to be paid each year, we estimated the future expected liabilities of each population group that currently exists for a 20-year time frame. We also assumed that the outflows to pensions occur on average in mid-year.

We also projected the fund's assets for each of the years in the referred time frame. For that we estimated the expected cash flow amounts, namely contributions, yield, insurance premium, amounts of pensions paid, and fund commissions for each year. We assumed a future profitability of 2.33%, which corresponds to the assumption used in the assessment.

The results obtained were the following:



By analysing the results we can conclude, with the indicated assumptions, that there may be the need for employees to make future extraordinary contributions in order to ensure the financing of the pension fund's liabilities.

Expected future cash flows

The future undiscounted cash flows of pension benefits are as follows:

	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Benefit (monthly)	131	178	199	3 669	4 177

38. Contingent commitments and liabilities

The following table shows the contractual amount of off-balance financial instruments, which imply lending to customers.

	31/12/15	31/12/14
Contingent liabilities		
Guarantees and Sureties	391 471	491 694
Documentary credits	44 034	46 531
Commitments		
Irrevocable loans	609 985	824 271
Revocable loans	904 138	820 518
	1 949 628	2 183 014

On 31 December 2015, the item Irrevocable comitmments included the amount of 5 314 thousand euros (2014: 5 314 thousand euros) regarding forward liabilities for the Deposit Guarantee Fund regarding the part of annual contributions which, pursuant to the deliberations of the Fund, were not paid in cash.

	31/12/15	31/12/14
Assets pledged as collateral	1 269 000	1 040 700

The amount of the item Assets pledged as collateral includes 214 000 thousand euros from the Bank's own portfolio aimed, almost entirely, at collateralising an irrevocable credit line with the Bank of Portugal pursuant to the large-amount payment system ('Sistema de Pagamentos de Grandes Transacções – SPGT') and the Intervention Operations Market ('Mercado de Operações de Intervenção' - MOI) (2014: 1 040 700 thousand euros).

Additionally, as at 31 December 2015 and 2014, the balances regarding off-balance sheet accounts were as follows:

	31/12/15	31/12/14
Deposit and custody of securities	5 166 509	6 695 936
Amounts received for collection	84 630	93 584
	5 251 139	6 789 520

39. Share capital and share premium

As at 31 December 2015, the Bank's share capital was represented by 476 000 thousand shares with the nominal value of 1 euro each, which was subscribed and fully paid by Banco Popular Español, SA.

The amount recognised in item Share premiums originated in the premiums paid by shareholders in the share capital increases made in 2000, 2003 and 2005.

40. Fair value reserves

The movements in this account are detailed on the following table:

	31/12/15	31/12/14
Revaluation reserves and Fair Value		
Available-for-sale investments		
Net balance as at 1 January	- 2 981	- 56 434
Revaluation at fair value	6 083	70 919
Deferred taxes	- 1 380	- 17 466
Balance as at 31 December	1 722	- 2 981
Revaluation reserves (Legal provisions)	672	696
Balance as at 31 December	2 394	- 2 285

Revaluation reserves regarding available-for-sale assets result from the adequacy to the fair value of the securities in the Bank's portfolio. These balances shall be reversed through the income statement at the time the securities that originated them are disposed of or in case there is any impairment.

The revaluation reserve regarding the adequacy to fair value of tangible assets for own use is related to the property on Rua Ramalho Ortigão (note 26).

The revaluation reserve for tangible assets calculated in accordance with Decree-law No. 31/98 shall only be moved when it is considered realized, total or partially, and pursuant to the following priorities:

(i) To correct any excess found on the date of the revaluation between the net book value of the elements being revalued and their current real value;

(ii) To absorb accumulated loss until the revaluation date, inclusively;

(iii) To incorporate in the share capital for the remaining part.

41. Other reserves and retained earnings

The balances of the accounts for other reserves and retained earnings are analysed as follows:

	31/12/15	31/12/14
Statutory reserve	35 450	35 221
Other reserves	292 699	290 622
Retained earnings	- 115 688	- 108 745
	212 461	217 098

The movements in the items reserves and retained earnings were as follows:

	31/12/15	31/12/14
Statutory reserve		
Balance as at 1 January	35 221	35 221
Trasnf. Retained earnings	229	0
Balance as at 31 December	35 450	35 221
Other reserves		
Balance as at 1 January	290 622	289 026
Trasnf. Retained earnings	2 054	0
Trasnf. Revaluation reserves	23	1 596
Balance as at 31 December	292 699	290 622
Retained earnings		
Balance as at 1 January	- 108 745	- 58 605
Net income for the previous year	2 283	- 31 720
Actuarial gains/losses of the Pension Fund	- 6 943	- 18 420
Transf.Legal Reserve	- 229	0
Transf.Other Reserves	- 2 054	0
Balance as at 31 December	- 115 688	- 108 745
	212 461	217 098

- Statutory Reserve

The statutory reserve can only be used to absorb accumulated losses or to increase share capital. Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law No. 298/92, 31 December) requires that 10% of the profit for the year be transferred to the statutory reserve until it is equal to the share capital.

42. Personnel expenses

The number of employees of the Bank according to their professional category was as follows:

	31/12/15	31/12/14
Directors	81	98
Management	378	444
Technical personnel	493	519
Clerical staff	210	238
	1 162	1 299

43. Remunerations of the governing bodies and the personnel with responsibility over risk taking and control

The annual amounts earned by the members of the Board of Directors and the Supervisory Board are detailed, individually and in group, on the following table:

Board of Directors	Fixed Remuneration	Individual Performance Complement	Seniority Bonus	Total Remuneration	Term of office
Rui Manuel Morganho Semedo	278	870	0	1 148	Until 3/7/2015
Carlos Manuel Sobral Cid da Costa Ávares - Chairman	290	53	0	343	From 4/7/2015
Pedro Miguel da Gama Cunha	54	0	10	64	From 31/8/2015
	622	**923**	**10**	**1 555**	

Supervisory Board	Fixed Remuneration	Term of office
Rui Manuel Ferreira de Oliveira - Chairman	9.6	
António José Marques Centúrio Monzelo - Member	1.5	Until 31/3/2015
Telmo Francisco Salvador Vieira - Member	1.5	Until 31/3/2015
António Luis Castanheira da Silva Lopes	4.5	From 1/4/2015
António Manuel Mendes Barreira	4.5	From 1/4/2015
	21.6	

The remunerations earned and the number of employees who have responsibilities in terms of risk taking regarding the Bank or its customers as well as those who assume control functions pursuant to Notice 5/2008 issued by the Bank of Portugal are detailed below:

	No. of Benef.	Fixed Remun.	Variable Cash Remun.	Total Remun.
Executive Committee	6	793	149	942
Risk Management	1	40	5	45
Compliance	1	51	3	54
Asset Management	1	89	7	96
Auditing	1	81	7	88
	10	1 054	171	1 225

44. Remuneration of the Statutory Auditor

The amounts paid to the Audit Firm PricewaterhouseCoopers in 2015 and 2014 were:

	31/12/15	31/12/14
Statutory audit	88	122
Other guarantee and reliability services	161	130
Other	19	0
	268	252

45. Relationship with related companies

As at 31 December 2015 and 2014, the amounts payable and receivable regarding related companies was as follows:

	Credit		Debit		Income		Expense	
	31/12/15	31/12/14	31/12/15	31/12/14	31/12/15	31/12/14	31/12/15	31/12/14
Eurovida, SA	2 002	4 004	58 605	117 668	4 201	5 971	2 317	6 096
Popular Gestão de Activos, SA	111	119	1 524	2 572	1 775	1 931	23	8
Popular Factoring, SA	98 303	87 321	-	35	1 816	2 195	315	267
Imopopular Fundo Especial I.I.	2 716	4 039	66	2	86	238	-	-
Popular Arrendamento	4	4	13 612	5 061	52	91	24	273
Popular Seguros, SA	-	-	775	680	701	748	-	-
Popular Predifundo	3 228	1 065	1	-	57	75	-	-
SPE-Special Pourpuse Entities	1 221	1 621	-	-	1 062	810	-	-
Consulteam, Lda	-	-	47 722	5 078	740	674	-	-
	107 585	98 173	122 305	131 096	10 490	12 733	2 679	6 644
Banco Popular Español, SA	802 137	423 029	2 497 710	2 028 211	94 611	86 299	150 099	150 293

As at 31 December 2015, the guarantees pledged by the Bank to related companies amounted to 76 196 thousand euros (2014: 60 057 thousand euros).

As at 31 December 2015, the Bank received deposits from BPE to guarantee the risk associated with loans granted by the Bank in the amount of 98 690 thousand euros (2014: 88 824 thousand euros).

Transactions with related companies are based on common market conditions.

As at 31 December 2015, the members of the Bank's Board of Directors did not hold any deposits with Banco Popular and had loans in the total amount of 245 million euros.

46. Cash and cash equivalents

For effects of the cash flow statement, Cash and cash equivalents include the following balances with maturity inferior to 90 days:

	31/12/15	31/12/14
Cash (note 17)	43 914	48 546
Cash and balances with banks (note 18)	76 428	80 219
Deposits with banks with maturities of less than 3 months	475 135	196 651
	595 477	325 416

47. Measurement of portfolio impairment and respective disclosures (Circular Letter No. 02/2014/DSP issued by the Bank of Portugal)

Qualitative disclosures:

a) Credit risk management policy.

The Bank is exposed to credit risk, which is the possible loss that arises when the Bank’s counterparts fail to fulfil their obligations. In the case of refundable financing it arises as a consequence of the non-recovery of principal, interest and commissions, regarding amount, period and other conditions stipulated in the contracts. Concerning off-balance sheet risks, it derives from the non-compliance of the counterparts regarding their obligations with third parties, which implies that the Bank has to assume as its own certain obligations depending on the contracts.

The Bank structures the levels of credit risk it is exposed to by establishing pre-defined acceptable risk limits regarding the borrower or group of borrowers and geographical or business activity segments.

Exposure to credit risk is managed through a regular analysis of the capacity of borrowers and potential borrowers of meeting payment obligations for principal and interest, and by changing these credit limits when appropriate. Exposure to credit risk is also managed in part by obtaining collaterals and personal or corporate guarantees.

- **Collaterals**

The Bank employs a series of policies and practices in order to mitigate credit risk. The most traditional one is securing collaterals at the moment funds are advanced. The Bank implements guidelines regarding the acceptability of specific classes of collaterals or mitigation of credit risk. The main types of collaterals for loans and receivables are the following:

- Property mortgages;
- Pledges of operations made within the Bank;
- Pledges on assets such as premises, inventory and accounts receivable;
- Pledges on financial instruments, such as securities and shares.

Long term loans to corporate and private customers usually require a collateral; lower amounts and recurring personal loans generally require no collateral. Additionally, with the intention of minimising loss, at the time an impairment indicator for loans and receivables is identified the Bank tries to obtain additional collaterals from the relevant counterparts.

Collaterals held for financial assets, except for loans and advances, are determined by the nature of the instrument. Debt instruments, treasury bonds and other securities usually are not collateralised.

- **Lending commitments**

The main objective of these instruments is to ensure that funds are made available to customers as they require them. Loan extension commitments represent non-utilized parts of credit extension authorizations in the form of loans, guarantees or letters of credit. Regarding the credit risk associated with loan extension commitments, the Bank is potentially exposed to a loss in the amount of the total of non-utilized commitments. However, the probable loss amount is much lower than the sum of the non-utilized commitments since loan extension commitments are revocable and depend on a specific customer's credit worthiness. The Bank monitors the maturity of lending commitments since long term commitments usually present a greater credit risk than short term commitments.

- **Concentration Risk**

Concentration risk is managed and monitored by Risk Management that also ensures that adequate policies and procedures are maintained and implemented to monitor and manage credit concentration risk. It is also in charge of monitoring delegated powers in terms of concentration risk and periodically presents reports on concentration risk to the Board of Directors.

The Bank has defined a structure of limits aimed at maintaining an exposure level in line with its risk profile and an adequate diversification of its loan portfolio.

The limits currently approved for credit concentration risk are the following:

i) Risk limit for a Group/Customer

Pursuant to the delegations attributed by Banco Popular Group, the maximum limit for total exposure with a Group/Customer is 10% of GBP's Tier I. The maximum limit for a Group/Customer, except bank and technical guarantees and transactions guaranteed with deposits is 5% of GBP's Tier I.

ii) Risk limit by transaction amount

The maximum amount for a lending transaction is defined.

In case of funding working capital or without a specific destination every risk with that characteristic shall be aggregated.

Regarding project finance and syndicated financing, BAPOP's participation shall not be higher than 25% of the total amount, in case the transaction is higher than the limit defined for this type of lending.

iii) Limit of participation in the Credit Risk Central (CRC)

The maximum limit for participation in the CRC with a Group/Customer shall be the following:

Group/Customer with risks of over € 500 million - Lower than 10% of CRC.

Group/Customer with risks of over € 250 million - Lower than 15% of CRC.

Group/Customer with risks of over € 100 million - Lower than 25% of CRC.

Group/Customer with risks of over € 20 million - Lower than 50% of CRC.

iv) Limit of risk concentration by activity sector

The maximum limits of concentration of total risk by activity sector are the following:

- Construction and property development: 25%;
- Manufacturing and mining industries: 15%;
- Information and communication, education and other services: 5%;
- Remaining sectors: 10% (Agriculture, forestry and fisheries; Energy and water supply; Wholesale and retail trade, repair of motor vehicles; Hotels and restaurants; Transport and storage; Banking and insurance; Administrative, professional sanitary and artistic activities).

v) Limit of risk concentration in large companies

There is a maximum limit of 30% of total risk for the Large Companies segment.

vi) Limit of risk concentration by product

There are also defined limits according to the type of product:

- Transactions with mortgages on land;
- Property development;
- Loans to purchase securities.

vii) Assessment of mortgage collaterals

A set of limits is also defined according to the loan to value (LTV) of lending transactions with mortgage collaterals.

b) Loan write-off policy.

The loan write-off policy may only be applied when the loan dos not have any real collateral, when it is 100% provisioned and, simultaneously, when Management estimates that there will be no recovery arising from the fact that every due diligence has been taken to collect and recover said loans.

c) Impairment reversion policy.

The analysis and subsequent determination of individual impairment of a customer that has shown impairment in previous periods may only result in a reversion in case it is related with the occurrence of an event after the initial recognition (e.g. improvement of the customer's rating or strengthening collaterals).

Additionally, there may be implicit reversions of impairment, resulting from new estimates of collective parameters or changes in the type of customer analysis (individual or collective).

The reversal amount may not be higher than the accumulated impairment amounts previously recorded.

d) Conversion of the debt into debtor's equity.

The Bank does not usually employ this type of solution and solely holds an exposure on an economic group that was subject to this type of loan restructuring. In this case, the loan is replaced by a position comprised of shares from a Restructuring Fund.

These positions are subject to impairment tests every six months from the moment those shares are included in the Restructuring Fund. For junior debt positions maintained in companies held by these Funds a 100% impairment is estimated regarding their respective exposure.

e) Description of restructuring measures applied and their respective associated risks, as well as control and monitoring mechanisms.

The Bank has defined a vast set of restructuring measures, which are negotiated by a large set of Agencies specialising in credit recovery. The most common measures are extending the maturity date of the loan or the inclusion of a grace period.

In terms of characteristics, these restructuring measures are divided into large groups: without overdue credit (with or without strengthening collaterals); and with overdue credit (with or without strengthening collaterals).

The Bank's decision-making body in terms of loan granting shall identify the restructuring operations that result from customers' financial difficulties. These are subsequently classified by the Bank's computer system. Costumers with lending operations that are undergoing a restructuring process are also subject to an internal definition of a loan restrictive classification. Agencies are thus forced to act on this policy, which may imply maintaining, reducing or extinguishing risks.

Regarding monitoring in terms of the loan impairment model, these transactions shall bear the restructuring brand for a two-year healing period pursuant to Instruction No. 32/2013 issued by the Bank of Portugal.

f) Description of the process of assessing and managing collaterals.

For situations in which it is admissible that credit recovery shall occur via foreclosure the amounts that shall be considered (market value of the most recent appraisal known with the application of a temporal haircut) are also defined by internal regulations.

Reappraisals of these collaterals are usually done within the time frames defined by Notices Nos.3/95 and 5/2006 issued by the Bank of Portugal. However, in the case of properties related with transactions done with customers with significant exposures (over 1 million euros), reappraisals are carried out more often.

Despite the pre-defined time frames, appraisals are carried out whenever they are considered relevant to monitor the value of the collateral.

The value of the properties considered as collaterals is adjusted to the current macroeconomic scenario through the application of haircuts, based on Management analysis and market practices.

Time frame of the assessment	Haircut	
	>= 50% Work completed	< 50% Work completed
Less than 6 months	0%	0%
6 months	5%	5%
From 6 months to 1 year	10%	10%
From 1 to 2 years	15%	20%
From 2 to 3 years	25%	35%
Over 3 years	50%	60%

Regarding financial collaterals and securities, we have defined the periodical monitoring of the lending operations collateralised with this type of assets, and these are regularly reported to Management. Assets used as collateral are indicated, as well as the overall hedging ratio. These amounts are considered in the scope of an individual impairment analysis.

g) Nature of main judgements, estimates and hypotheses used to determine impairment.

Losses due to impairment correspond to estimates based on judgements made by top management in view of the facts and circumstances on a given date. Consequently, future events and developments are expected, in some cases, to converge into a different result vis-à-vis the estimate amount.

In order to ensure the adequacy of the impairment model to the macroeconomic scenario, the Bank carries out monthly impairment reviews of its individually analysed customers, as well as reviewing every six months the parameters applied to the collective part of its credit portfolio.

In terms of the individual analysis, impairment depends on the disbursement capacity of the debtor and/or respective guarantors, or the collaterals the Bank has to guarantee the lending transactions, applying the reference criteria described in Circular Letter 02/2014/DSP issued by the Bank of Portugal.

As far as the collective part of the portfolio is concerned and especially the calculation of LGD estimates, these are calculated based on the history of effective recoveries, as well as on conservative assumptions, defined and approved by Management for future estimates.

h) Description of the methods employed to calculate impairment, including the way portfolios are segmented in order to reflect the different characteristics of the lending operations.

In compliance with the conceptual model on which impairment calculations are based, every month an analysis is carried out to the overall credit portfolio divided into seven main groups: (i) default loans, (ii) loans in arrears (30- 90 days), (iii) restructured loans, (iv) non-performing loans (with impairment signs), (v) healing loans, (vi) healed loans, and (vii) performing loans.

Definition of default

A loan is considered defaulted whenever it shows at least one of the following signs:

- Loans in arrears for more than 90 days;

- Customers in insolvency/bankruptcy situations or undergoing a special revitalisation process (PER); or
- Bank guarantees called in by the beneficiary.

A customer's full exposure is considered defaulted whenever the sum of their transactions in arrears for more than 90 days exceeds 20% of total exposure.

Homogeneous segments result from the creation of transaction groups that have similar credit risks, taking into consideration the Bank's management model. In order to do so, we have defined as relevant segmentation factors some lending transactions characteristics, such as type of customer, materiality of the exposure, type of product and type of associated collateral.

The segmentation currently in force distinguishes between specific PD segmentation and specific LGD segmentation:

<table>
<tr><th>PD segmentation</th><th>LGD segmentation</th></tr>
<tr><td colspan="2">State and other public bodies</td></tr>
<tr><td colspan="2">Banco Popular Group</td></tr>
<tr><td colspan="2">Employees</td></tr>
<tr><td colspan="2">Corporate Customers</td></tr>
<tr><td colspan="2">Relevant Customers</td></tr>
<tr><td colspan="2">Credit cards - Private individuals</td></tr>
<tr><td rowspan="3">Home loans</td><td>Home loans with LTV <=80%</td></tr>
<tr><td>Home loans with LTV > 80%</td></tr>
<tr><td>Collateralised private individuals</td></tr>
<tr><td rowspan="2">Consumer credit</td><td>Consumer credit</td></tr>
<tr><td>Non-Collateralised private individuals</td></tr>
<tr><td colspan="2">Property development</td></tr>
<tr><td rowspan="2">Property construction</td><td>Collateralised construction loans</td></tr>
<tr><td>Non-collateralised construction loans</td></tr>
<tr><td rowspan="3">Corporate customers</td><td>Credit cards - Corporate</td></tr>
<tr><td>Collateralised companies</td></tr>
<tr><td>Non-collateralised companies</td></tr>
</table>

Probability of default (PD) represents the estimate based on the last 5 years of the Bank's history of the number of transactions with or without impairment signs that can default during a given period of time (emerging period). So that the Bank's history may reflect the current economic conditions, observations obtained are adjusted according to the following weights:

	Year 1	Year 2	Year 3	Year 4	Year 5
Weight	10%	15%	15%	30%	30%

PD is also differentiated according to the classification of each loan: (i) default loans, (ii) loans in arrears (30- 90 days), (iii) restructured loans, (iv) non-performing loans (with impairment signs), (v) healing loans, (vi) healed loans, and (vii) performing loans.

i) Impairment signs by credit segment

The Bank considers that a loan shows impairment signs when one of the following events occurs.

- Customers with at least 1 loan of a material amount in arrears for more than 30 days;
- Customers in litigation;
- Customers with at least 1 loan of a material amount restructured due to financial difficulties of the customer or perspective/request for restructuring;
- Customers with at least 1 loan undergoing out of court procedures to regularise their situation (PERSI);
- Customers with at least 1 loan of material amount in the banking system in arrears, premium and interest cancelled/annulled or in court, according to information made available by the Central for Credit Liabilities of the Bank of Portugal;
- Customers with loan transactions written-off by BAPOP in the past 12 months;
- Customers with banking guarantees made by the Bank which have been foreclosed within the past 24 months;
- Costumers with pledges or assignments to the Bank in the past 24 months;
- Customers with non-performing operations in other entities of Popular Group;
- Any other signs that cause a higher probability of defaulting detected in the individual analysis.

j) Limits defined for individual analysis.

On each reporting date a set of customers is selected, who due to the materiality of their exposure to the Bank are considered significant. Those customers are subject to an individual analysis procedure in order to conclude whether there is evidence of impairment or to determine the amount of impairment.

Individual analyses are carried out on:

- Default customers or customers showing impairment signs with total liabilities of over 750,000 euros;
- Significant customer portfolio with no impairment signs and total liabilities of over 2,500,000.

Customer lending subject to individual analysis in which no objective evidence of impairment is identified shall be included in homogeneous risk segments in order to be considered for collective impairment.

k) Policy on internal risk levels, specifying the treatment given to a borrower classified as impaired.

Operations that are in arrears for more than 90 days, or in insolvency situations or undergoing a special revitalisation process (PER), or that require more specialised monitoring are regularly migrated to a set of Agencies.

The mission and objectives of that set of agencies are the rigorous analysis, monitoring and management of customers and risks, carried out by Specialised Managers distributed into 3 segments (Private individuals, Corporate, and Large Risks). From a comprehensive vision of the whole recovery process, we try to find and employ the most adequate solutions for a swift credit recovery.

l) General description of the calculation of the current amount of future cash flows when calculating impairment losses assessed individual and collectively.

According to the impairment model used by the Bank, when objective evidence of an event that originated a loss due to impairment is identified, the amount of that loss shall be determined as the difference between the amount on the balance sheet and the present amount of the estimated future cash flows (excluding losses due to events that have not occurred yet), discounted at the original effective interest rate.

Estimated future cash flows included in the calculation regard the contractual amount for the loans, adjusted by any amounts that the Bank expects not to recover and the time frame in which it is foreseeable that those shall be carried out. The time frame for the recovery of cash flows is a very significant variable for the calculation of impairment, since an impairment loss is always recognised, even in the cases in which total recovery of the contractual outstanding cash flows is expected to be received but after the agreed dates. This situation shall not be verified in case the Bank receives compensation in full (for example, as interest or default interest) for the period in which the loan was overdue.

Estimating an amount and the moment future cash flows shall be recovered for a loan involves professional judgement. The best estimate for those, taking into consideration the guidelines defined on Circular Letter No. 02/2014/DSP, is based on reasonable assumptions and on observable data at the date impairment is assessed, on the capacity of a customer to pay or on the possibility of a foreclose on a collateral.

In the case of collective portfolios, a probability of default (PD) and a rate of loss given default (LGD) are applied to each homogeneous segment.

In the case of defaulted loans, PD is 100% and the balance is established at the moment each loan defaults.

LGD is an estimate of loss given default of a customer. For the calculation of this variable, a random sample of the Bank's history is used, based on a trust interval of 95% regarding every customer that has defaulted. Thus, the average loss is calculated for each segment based on every recovery discounted at the effective rate for the month in which that operation defaulted until maturity date/settlement, as well as possible future estimates for the cases in which operations have not been settled when the analysis is carried out.

Recovery of the loans included in the sample are checked on a case-by-case basis, including:

- Historical recoveries via payments made by the debtor (recoveries since the date of default until the date of analysis);
- Historical recoveries via foreclosure, deducted from expenses;
- Estimates of recoveries after the reference dates used for the analysis;
- Recoveries after write-off.

m) Description of the emerging period(s) used for the different segments and justification of their adequacy.

Emerging periods, which result from internal studies and the estimate of time management in the time frame between the event and default, are the following:

Past-due loans - 30 to 90 days	3
Restructured loans	12
Other signs of default	12
Healing	12
Performing and healed	12

n) Detailed description of the cost associated with credit risk, including disclosure of PD, EAD, LGD and healing rates.

For restructured or healing loans, average PD is determined for each month of the demarcation stage (24 or 12 months respectively); after that time curves are drawn and applied.

In the segments where those time curves do not show correlations that can be considered explanatory, the PD applied during the demarcation stage results from the weighted average by the total number of restructured or healing loans in each segment and in each month (without attributing different weights to moment PD was observed).

Additionally, from a conservative perspective, the minimum point of each curve may never be lower than the PD obtained for performing loans for the same period.

In the following tables, the main points of their respective curves applied to restructured or healing loans are shown as follows:

- Performing loans or with probability of default

Segment:	Normal Portfolio		Impairment signs	
	Performing	Healed	> 30 days	Other signs
Credit cards - Private individuals	2.5%	0.0%	49.7%	14.2%
Relevant Customers	1.6%	5.6%	65.7%	32.9%
Corporate Customers	1.0%	0.0%	69.0%	22.2%
Property construction	4.9%	3.4%	57.5%	39.3%
Home loans	1.0%	3.2%	42.8%	15.9%
Consumer credit	5.1%	10.0%	52.2%	20.4%
Employees	0.1%	0.0%	44.8%	5.3%
Corporate customers	3.6%	6.1%	56.9%	32.1%
State and other public bodies	0.0%	0.0%	22.0%	1.5%
Banco Popular Group	0.0%	0.0%	0.0%	0.0%
Property development	10.7%	4.4%	59.9%	44.3%

- Restructured loans

Segment:	Age of the restructuring (in months)											
	n+1	n+2	n+3	n+4	n+5	n+6	n+7	n+8	n+9	n+10	n+11	n+12
Credit cards - Private individuals	9.5%	7.5%	5.7%	4.3%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Relevant Customers	54.2%	49.5%	45.0%	40.7%	36.6%	32.7%	29.0%	25.5%	22.3%	19.2%	16.3%	13.7%
Corporate Customers	43.2%	33.1%	27.3%	23.1%	19.9%	17.2%	15.0%	13.0%	11.3%	9.8%	8.4%	7.2%
Property construction	50.3%	48.1%	45.8%	43.5%	41.3%	39.0%	36.7%	34.5%	32.2%	29.9%	27.6%	25.4%
Home loans	34.3%	31.0%	27.9%	25.0%	22.3%	19.8%	17.4%	15.2%	13.2%	11.4%	9.7%	8.2%
Consumer credit	42.0%	37.2%	32.9%	29.2%	25.8%	22.9%	20.3%	18.1%	16.1%	14.4%	13.0%	11.7%
Employees	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Corporate customers	43.6%	40.7%	37.9%	35.3%	32.7%	30.2%	27.8%	25.5%	23.3%	21.2%	19.2%	17.3%
State and other public bodies	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Banco Popular Group	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property development	36.9%	38.9%	39.8%	39.6%	38.5%	36.7%	34.2%	31.1%	27.7%	23.9%	19.9%	15.9%

Segment:	Age of the restructuring (in months)											
	n+13	n+14	n+15	n+16	n+17	n+18	n+19	n+20	n+21	n+22	n+23	n+24
Credit cards - Private individuals	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Relevant Customers	11.2%	8.9%	6.9%	5.1%	3.4%	2.0%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Corporate Customers	6.0%	4.9%	3.9%	3.0%	2.1%	1.3%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Property construction	23.1%	20.8%	18.6%	16.3%	14.0%	11.8%	9.5%	7.2%	4.9%	4.9%	4.9%	4.9%
Home loans	6.9%	5.8%	4.9%	4.1%	3.6%	3.1%	2.9%	2.9%	3.0%	3.3%	3.8%	4.5%
Consumer credit	10.6%	9.6%	8.8%	7.9%	7.1%	6.3%	5.4%	5.1%	5.1%	5.1%	5.1%	5.1%
Employees	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Corporate customers	15.4%	13.7%	12.1%	10.5%	9.1%	7.7%	6.5%	5.3%	4.2%	3.6%	3.6%	3.6%
State and other public bodies	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Banco Popular Group	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property development	11.9%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%

- Healing loans

Segment:	Age of the healing process (in months)											
	n+1	n+2	n+3	n+4	n+5	n+6	n+7	n+8	n+9	n+10	n+11	n+12
Credit cards - Private individuals	43.9%	40.0%	36.1%	32.3%	28.4%	24.5%	20.6%	16.7%	12.9%	9.0%	5.1%	2.5%
Relevant Customers	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%
Corporate Customers	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Property construction	61.7%	54.3%	46.8%	39.3%	31.8%	24.3%	16.9%	9.4%	4.9%	4.9%	4.9%	4.9%
Home loans	43.2%	39.0%	34.8%	30.5%	26.3%	22.1%	17.8%	13.6%	9.4%	5.2%	1.0%	1.0%
Consumer credit	43.4%	35.0%	30.1%	26.6%	23.9%	21.7%	19.9%	18.3%	16.8%	15.6%	14.4%	13.4%
Employees	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%
Corporate customers	61.8%	51.7%	43.2%	36.1%	30.2%	25.2%	21.1%	17.6%	14.7%	12.3%	10.3%	8.6%
State and other public bodies	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Banco Popular Group	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property development	34.1%	34.1%	34.1%	34.1%	34.1%	34.1%	34.1%	34.1%	34.1%	34.1%	34.1%	34.1%

LGDs applied as at 31 December 2015 were the following:

Segment:	LGD
Credit cards - Corporate	57.8%
Credit cards - Private individuals	45.0%
Corporate Customers	10.1%
Relevant Customers	10.8%
Collateralised construction loans	19.5%
Non-collateralised construction loans	37.2%
Home loans with LTV <=80%	8.3%
Home loans with LTV >80%	10.5%
Consumer credit	47.9%
Employees	6.3%
Collateralised companies	20.5%
Non-collateralised companies	30.8%
State and other public bodies	0.0%
Banco Popular Group	0.0%
Collateralised private individuals	8.6%
Non-Collateralised private individuals	32.1%
Property development	8.8%

We would like to stress once more that the project that will allow the Bank to calculate LGD based on the whole portfolio and not simply on a sample is almost complete as mentioned in paragraph (l).

o) Conclusions of the sensitivity analysis to the amount of impairment and changes to the main assumptions

As at 31 December 2015, an increase by 10% in PD would imply an increase by 4 million euros in the total amount of impairment. A similar increase in LGD would imply an increase by 18.3 million euros.

An increase by 10% in both variables would imply a 22.7 million euro increase in the total amount of impairment.

<u>Quantitative disclosures:</u>

a) Detailed exposures and impairments by segment.

Segment:	Exposure as at 31/12/2015						Impairment as at 31/12/2015		
	Total exposure	Performing loans	Of which: Healed	Of which: Restructured	Default loans	Of which: restructured	Total impairment	Performing loans	Default loans
Corporate	326 012	263 988	0	4 207	62 023	21 462	30 077	466	29 611
Property construction and CRE	548 971	347 213	201	34 071	201 757	87 047	87 918	8 424	79 494
Residential mortgage loans	1 726 927	1 612 328	1 638	100 156	114 599	47 731	18 340	5 765	12 574
Relevant	1 139 249	949 517	14 910	53 614	189 732	75 942	85 069	28 453	56 616
Corporate customers	1 981 021	1 627 616	987	36 349	353 405	88 108	140 584	24 818	115 766
Other	363 595	314 008	88	6 247	49 587	9 358	21 300	2 380	18 920
Total	**6 085 775**	**5 114 670**	**17 824**	**234 643**	**971 104**	**329 647**	**383 288**	**70 306**	**312 981**

Segment:	Exposure as at 31/12/2014 Total exposure	Performing loans	Of which: healed	Of which: restructured	Non-performing loans	Of which: restructured	Impairment as at 31/12/2014 Total impairment	Performing loans	Default loans
Corporate	327 602	291 970	9 006	17 716	35 633	10 769	18 081	7 849	10 231
Property construction and CRE	566 275	377 704	1 400	46 597	188 571	71 656	81 799	12 148	69 651
Residential mortgage loans	1 644 327	1 517 039	4 692	94 583	127 288	42 210	19 031	5 162	13 869
Relevant	1 025 171	843 109	6 136	67 902	182 063	67 272	75 776	21 555	54 221
Companies	1 852 826	1 527 137	6 636	33 933	325 689	62 705	134 220	23 411	110 809
Other	359 046	312 175	121	7 016	46 871	6 976	21 093	2 595	18 498
Total	**5 775 248**	**4 869 133**	**27 992**	**267 748**	**906 115**	**261 587**	**350 000**	**72 720**	**277 280**

Segment:	Exposure as at 31/12/2015						Impairment as at 31/12/2015				
		Performing loans			Default loans			Performing loans		Default loans	
	Exposure Total	Days past due < 30		Days past between	Days past due		Impairment as at	Days past due		Days past due	
	31/12/2015	Performing loans	Impairment signs	30-90	<= 90	> 90	31/12/2014	< 30	between 30 - 90	<= 90	> 90
Corporate	326 012	249 480	14 390	119	29 318	32 705	30 077	455	10	10 975	18 637
Property construction and CR	548 971	280 095	63 397	3 721	39 276	162 481	87 918	7 923	500	13 654	65 839
Residential mortgage loans	1 726 927	1 380 870	200 722	30 736	9 361	105 238	18 340	4 564	1 201	1 156	11 419
Relevant	1 139 249	845 808	103 685	24	40 701	149 031	85 069	28 429	24	12 267	44 349
Corporate customers	1 981 021	1 520 295	92 342	14 979	55 385	298 020	140 584	22 551	2 267	16 877	98 888
Other	363 595	296 373	15 176	2 459	1 483	48 104	21 300	1 917	463	475	18 445
Total	**6 085 775**	**4 572 921**	**489 712**	**52 037**	**175 525**	**795 579**	**383 288**	**65 840**	**4 466**	**55 404**	**257 577**

Segment:	Of total exposure as at 31-12-2014:						Of total impairment as at 31-12-2014:				
		Performing loans			Non-performing loans			Performing loans		Non-performing loans	
	Total exposure	Days past due < 30		Days past due	Days past due		Total impairment	Days past due		Days past due	
	31.12.14	Performing loans	Defualt	between 30-90	<= 90	> 90	31.12.14	< 30	between 30 - 90	<= 90	> 90
Corporate	327 602	237 128	37 062	17 780	13 295	22 337	18 081	2 793	5 056	5 978	4 254
Property construction an	566 275	287 530	81 266	8 908	36 462	152 110	81 799	11 044	1 104	14 404	55 247
Residential mortgage loa	1 644 327	1 273 639	206 220	37 181	7 709	119 579	19 031	3 677	1 485	1 124	12 745
Relevant	1 025 171	694 489	148 619	1	45 894	136 169	75 776	21 554	1	15 867	38 355
Corporate customers	1 852 826	1 408 987	102 969	15 180	64 691	260 998	134 220	21 180	2 232	22 997	87 813
Other	359 046	288 138	20 212	3 825	1 034	45 838	21 093	1 814	781	455	18 042
Total	**5 775 248**	**4 189 911**	**596 348**	**82 874**	**169 084**	**737 031**	**350 000**	**62 062**	**10 658**	**60 824**	**216 456**

b) Detailed credit portfolio by segment and year of production.

31/12/15	Corporate			Property construction and CRE			Residential mortgage loans		
Production year	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment
<= 2004	26	55	9	656	22 657	6 750	4 706	148 385	2 150
2005	14	393	5	185	10 512	2 937	1 940	104 558	1 312
2006	30	5 703	6	305	14 122	1 888	1 774	91 610	1 374
2007	51	0	0	446	36 474	7 650	2 046	111 954	2 232
2008	17	0	0	433	14 312	1 890	2 718	157 523	1 727
2009	20	11 402	4 886	550	24 934	7 785	3 159	195 851	2 328
2010	44	5 344	3 344	722	38 120	11 934	4 092	284 399	2 581
2011	95	10 184	412	767	32 385	9 195	2 014	160 279	1 237
2012	24	10 555	8 811	865	43 830	7 590	876	72 599	942
2013	46	29 121	3 931	867	52 737	8 129	1 063	80 171	582
2014	30	12 749	2 572	828	65 894	7 990	1 531	127 559	450
2015	107	240 506	6 102	4 118	192 992	14 181	2 057	192 039	1 426
Total	**504**	**326 012**	**30 077**	**10 742**	**548 971**	**87 918**	**27 976**	**1 726 927**	**18 340**

31/12/15	Relevant			Corporate customers			Other		
Production year	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment
<= 2004	23	21 337	781	1 455	7 436	1 409	3 567	17 785	666
2005	9	7 083	13	504	7 102	935	1 958	6 598	514
2006	23	48 606	9 185	737	9 049	1 920	2 949	11 857	1 258
2007	28	46 628	2 558	1 147	29 386	4 844	3 394	11 035	2 241
2008	25	87 468	6 226	1 081	16 511	3 942	3 411	15 784	2 054
2009	192	81 854	6 011	1 509	54 747	10 818	5 374	20 218	2 441
2010	100	48 716	6 700	2 193	77 657	16 873	7 490	32 569	3 588
2011	81	55 976	765	2 282	79 016	14 458	6 046	27 760	2 870
2012	101	34 168	802	4 129	131 645	15 308	8 085	13 474	1 138
2013	153	114 688	18 494	4 825	196 813	18 749	8 022	17 311	1 212
2014	205	154 998	6 324	5 240	328 417	19 616	9 450	45 074	1 255
2015	574	437 727	27 209	21 769	1 043 242	31 712	18 854	144 131	2 063
Total	**1 514**	**1 139 249**	**85 069**	**46 871**	**1 981 021**	**140 584**	**78 600**	**363 595**	**21 300**

31/12/14	Corporate			Property construction and CRE			Residential mortgage loans		
Production year	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment
<= 2004	0	0	0	139	28 107	4 550	3 408	162 057	2 111
2005	0	0	0	77	15 622	2 574	2 027	112 719	1 534
2006	3	6 914	8	102	18 601	1 358	1 828	101 518	2 483
2007	0	0	0	198	37 837	4 204	2 128	122 404	2 824
2008	13	14 817	35	1 080	23 560	3 673	2 807	169 614	2 085
2009	5	92 231	1 111	508	35 459	8 720	3 264	210 037	2 561
2010	25	36 901	894	805	55 951	13 879	4 232	302 293	2 596
2011	79	15 302	52	1 007	60 844	10 708	2 082	168 838	1 199
2012	22	22 426	5 212	1 083	74 715	10 260	939	78 064	893
2013	49	112 380	6 557	1 160	91 012	10 105	1 095	84 472	485
2014	28	26 631	4 211	3 063	124 567	11 768	1 598	132 312	259
Total	**224**	**327 602**	**18 081**	**9 222**	**566 275**	**81 799**	**25 408**	**1 644 327**	**19 031**

31/12/14	Relevant			Corporate customers			Other		
Production year	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment
<= 2004	13	30 452	1 787	124	9 071	623	798	104 433	263
2005	11	20 205	839	137	10 339	2 903	452	8 380	288
2006	17	53 330	9 131	232	13 542	2 504	1 166	11 705	920
2007	36	92 387	6 526	531	32 069	4 326	1 187	11 102	2 103
2008	51	98 481	7 005	3 689	40 655	6 867	18 157	25 962	3 763
2009	274	100 099	2 865	1 712	65 798	12 470	6 976	23 885	2 795
2010	67	71 840	9 133	3 419	136 284	20 869	9 774	39 668	3 817
2011	88	91 441	9 820	4 377	180 209	17 237	7 356	34 322	3 133
2012	63	96 386	7 063	5 744	269 056	17 818	9 772	16 805	1 087
2013	96	213 853	13 669	7 203	416 788	18 219	9 357	26 513	1 267
2014	157	156 697	7 937	16 758	679 014	30 384	14 354	56 272	1 656
Total	**873**	**1 025 171**	**75 776**	**43 926**	**1 852 826**	**134 220**	**79 349**	**359 046**	**21 093**

c) Detailed amount of gross credit exposure and individual and collectively assessed impairment by segment, business sector and geography.

c.1) By segment:

31/12/15	Corporate		Property construction and CRE		Residential mortgage loans	
Assessment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	304 969	30 023	119 500	45 150	10 080	1 385
Collective	21 043	54	429 471	42 767	1 716 848	16 955
Total	**326 012**	**30 077**	**548 971**	**87 918**	**1 726 927**	**18 340**

	Relevant		Corporate customers		Other		Total	
Assessment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	1 139 249	85 062	122 136	41 810	28 973	49	1 724 906	203 480
Collective	0	7	1 858 885	98 774	334 622	21 251	4 360 868	179 808
Total	**1 139 249**	**85 069**	**1 981 021**	**140 584**	**363 595**	**21 300**	**6 085 775**	**383 288**

31/12/14	Corporate		Property construction and CRE		Residential mortgage loans	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment						
Individual	309 256	18 008	121 530	38 092	11 178	1 449
Collective	18 346	72	444 746	43 707	1 633 149	17 582
Total	**327 602**	**18 081**	**566 275**	**81 799**	**1 644 327**	**19 031**

	Relevant		Corporate customers		Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment								
Individual	1 022 671	75 772	120 037	39 814	118 972	61	1 703 645	173 196
Collective	2 500	4	1 732 788	94 406	240 074	21 031	4 071 603	176 803
Total	**1 025 171**	**75 776**	**1 852 826**	**134 220**	**359 046**	**21 093**	**5 775 248**	**350 000**

c.2) By business sector:

31/12/15	Property construction		industries		Commerce	
Assessment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	285 168	71 571	277 252	16 145	132 614	24 219
Collective	193 295	24 548	713 223	32 384	695 667	46 381
Total	**478 463**	**96 118**	**990 475**	**48 529**	**828 281**	**70 600**

	Financial/Insurance Companies		Real Estate		Other		Total	
Assessment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	192 596	17 278	201 653	24 172	342 046	38 773	1 431 329	192 158
Collective	140 000	1 319	113 957	6 024	551 250	23 892	2 407 393	134 549
Total	**332 596**	**18 597**	**315 611**	**30 196**	**893 296**	**62 666**	**3 838 721**	**326 707**

31/12/14	Property construction		Industries		Commerce	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment						
Individual	304 721	59 486	152 219	14 790	115 523	21 889
Collective	207 873	24 676	652 707	30 455	678 018	43 529
Total	**512 594**	**84 162**	**804 926**	**45 245**	**793 541**	**65 418**

	Financial/Insurance Companies		Real Estate		Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment								
Individual	445 689	18 914	181 554	23 402	303 620	24 111	1 503 327	162 592
Collective	37 739	1 264	116 580	7 272	502 030	22 819	2 194 946	130 015
Total	**483 428**	**20 179**	**298 134**	**30 674**	**805 650**	**46 930**	**3 698 272**	**292 607**

c.3) By geography:

	31/12/15 Portugal	
Assessment	Exposure	Impairment
Individual	1 724 906	203 480
Collective	4 360 868	179 808
Total	**6 085 775**	**383 288**

31/12/14	Portugal	
	Exposure	Impairment
Assessment		
Individual	1 703 645	173 196
Collective	4 071 603	176 803
Total	**5 775 248**	**350 000**

d) Detailed portfolio of restructured loans by applied restructuring measure.

31/12/15	Performing loans			Default loans			Total		
Measure	Number of transactions	Exposure	Impairment	Number of transactions	Exposure	Impairment	Number of transactions	Exposure	Impairment
Maturity date extension	299	53 123	2 278	336	73 482	15 472	635	126 605	17 750
Grace period	1 173	106 227	4 560	1 067	138 391	40 780	2 240	244 618	45 340
Other measures	1 718	75 293	3 855	1 494	117 774	39 033	3 212	193 067	42 888
Total	**3 190**	**234 643**	**10 694**	**2 897**	**329 647**	**95 285**	**6 087**	**564 290**	**105 979**

31/12/14	Performing loans			Default loans			Total		
Measure	Number of transactions	Exposure	Impairment	Number of transactions	Exposure	Impairment	Number of transactions	Exposure	Impairment
Maturity date extension	438	84 820	3 969	273	73 031	14 188	711	157 852	18 156
Grace period	1 350	129 352	8 134	1 037	125 196	34 107	2 387	254 547	42 241
Other measures	1 335	53 576	3 714	1 028	63 360	18 104	2 363	116 936	21 818
Total	**3 123**	**267 748**	**15 816**	**2 338**	**261 587**	**66 399**	**5 461**	**529 335**	**82 215**

e) In and out movements in the restructured loan portfolio.

	31/12/15
Initial balance of the restructured loan portfolio (gross of impairment)	599 089
Loans restructured in the period	167 934
Accrued interest on the restructured loan portfolio	- 335
Credit disposal (partial or full)	- 117 976
Loans reclassified from 'restructured' into 'performing'	- 82 043
Other	- 2 378
Final balance of the restructured loan portfolio (gross of impairment)	564 290

	31/12/14
Initial balance of the restructured loan portfolio (gross of impairment)	551 689
Loans restructured in the period	175 826
Accrued interest on the restructured loan portfolio	4 071
Credit disposal (partial or full)	- 91 498
Loans reclassified from 'restructured' into 'performing'	- 43 511
Other	2 512
Final balance of the restructured loan portfolio (gross of impairment)	599 089

f) Detailed fair value of collaterals underlying the credit portfolio for the Corporate, Construction, Commercial Real Estate (CRE) and Residential segments.

31/12/15	Corporate				Property construction and CRE				Residential mortgage loans			
	Property		Other collaterals Real		Property		Other collaterals Real		Property		Other collaterals Real	
Fair value	No. of	Amount	No. of	Amount	No. of	Amount	No. of	Amount	No. of	Amount	No. of	Amount
< 0.5 M€	2	572	1	0	1 877	217 545	923	55 316	19 975	2 806 871	510	18 526
>= 0.5 M€ and < 1 M€	0	0	1	541	128	89 778	18	10 313	240	154 743	2	1 110
>= 1 M€ and < 5 M€	3	6 324	1	3 576	96	176 958	8	9 995	38	57 725	7	10 270
>= 5 M€ and < 10 M€	1	8 194	0	0	8	53 766	0	0	2	10 397	0	0
>= 10 M€ and < 20 M€	0	0	1	10 392	0	0	0	0	0	0	0	0
>= 20 M€ and < 50 M€	0	0	0	0	0	0	0	0	0	0	0	0
>= 50M€	0	0	0	0	0	0	0	0	0	0	0	0
Total	**6**	**15 090**	**4**	**14 508**	**2 109**	**538 048**	**949**	**75 624**	**20 255**	**3 029 736**	**519**	**29 906**

31/12/14	Corporate				Property construction and CRE				Residential mortgage loans			
	Properties		Other real collaterals		Properties		Other real collaterals		Properties		Other real collaterals	
Fair value	Number	Amount	Number	Amount	Number	Amount	No. of	Amount	Number	Amount	Number	Amount
< 0.5 M€	2	1 144	2	278	1 655	317 660	1 062	58 317	20 411	3 717 667	561	20 638
>= 0.5 M€ and < 1 M€	0	0	2	1 111	151	136 389	22	13 460	220	195 085	4	5 210
>= 1 M€ and < 5 M€	3	10 611	1	3 576	112	358 944	13	26 237	32	66 296	5	7 970
>= 5 M€ and < 10 M€	2	24 582	1	5 997	9	64 974	1	16 994	0	0	0	0
>= 10 M€ and < 20 M€	0	0	2	22 655	3	52 886	0	0	0	0	0	0
>= 20 M€ and < 50 M€	0	0	1	24 303	0	0	0	0	0	0	0	0
>= 50 M€	0	0	0	0	0	0	0	0	0	0	0	0
Total	7	36 337	9	57 920	1 930	930 853	1 098	115 008	20 663	3 979 048	570	33 817

g) LTV ratio for the Corporate, Construction, CRE and Residential segments.

Segment/Ratio	31/12/15 Number of properties	Performing loans	Default loans	Impairment
Corporate				
Without any collateral	n.a.	244 711	56 281	26 713
< 60%	2	5 703	398	6
>= 60% and < 80%	1	1 464	0	2
>= 80% and < 100%	1	8 052	0	8
>= 100%	2	4 059	5 344	3 349
Property construction and CRE				
Without any collateral	n.a.	140 057	111 297	58 343
< 60%	10 235	83 775	29 597	6 326
>= 60% and < 80%	7 902	29 397	11 400	2 526
>= 80% and < 100%	5 545	30 104	6 368	1 553
>= 100%	1 943	63 879	43 096	19 170
Residential mortgage loans				
Without any collateral	n.a.	6 753	10 775	2 177
< 60%	10 235	475 333	27 085	3 751
>= 60% and < 80%	7 902	593 991	19 544	3 240
>= 80% and < 100%	5 545	425 911	23 092	3 974
>= 100%	1 943	110 340	34 104	5 199

Segment/Ratio	31/12/2014 Number of properties	Performing loans	Default loans	Impairment
Corporate				
Without any collateral	n.a.	247 716	30 452	17 114
< 60%	2	4 689	10	6
>= 60% and < 80%	0	35 246	0	265
>= 80% and < 100%	2	9 298	0	11
>= 100%	3	5 021	5 155	684
Property construction and CRE				
Without any collateral	n.a.	154 385	102 718	53 245
< 60%	1 262	96 715	27 367	10 106
>= 60% and < 80%	149	35 157	12 036	2 194
>= 80% and < 100%	197	27 272	10 892	3 542
>= 100%	322	64 175	34 714	12 712
Residential mortgage loans				
Without any collateral	n.a.	107 671	29 458	4 155
< 60%	9 824	367 916	15 568	2 450
>= 60% and < 80%	5 597	498 664	18 331	2 934
>= 80% and < 100%	4 086	436 077	28 206	4 532
>= 100%	1 157	106 938	35 725	4 961

h) Detailed fair value and net book value of repossessed properties or foreclosed properties, by type of asset or time elapsed.

Assets	31/12/15 Number of properties	Fair value of the asset	Carrying amount
Land			
Urban	114	10 134	8 700
Rural	49	7 098	5 974
Properties under development			
Residential	312	38 196	37 407
Commercial	24	1 150	958
Other	163	6 151	5 541
Built properties			
Residential	459	57 148	54 266
Commercial	129	14 546	12 679
Other	213	28 594	25 814
Other	17	11 737	11 410
	1 480	174 754	162 749

Assets	31/12/14 Number of properties	Fair value of the asset	Carrying amount
Land			
Urban	38	5 937	4 918
Rural	24	6 197	4 912
Properties under development			
Residential	388	30 084	29 264
Commercial	24	1 151	962
Other	154	5 812	5 296
Built properties			
Residential	348	43 122	39 692
Commercial	75	6 519	5 697
Other	109	20 091	18 503
Other	15	2 917	2 832
	1 175	121 830	112 076

Time elapsed since repossession/foreclosure	31/12/15 < 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land					
Urban	5 004	1 901	1 700	95	**8 700**
Rural	1 039	849	3 809	277	**5 974**
Properties under development					
Residential	13 041	7 209	5 838	11 319	**37 407**
Commercial	0	0	0	958	**958**
Other	66	626	3 747	1 102	**5 541**
Built properties					
Residential	23 170	15 803	6 981	8 312	**54 266**
Commercial	7 374	2 850	1 105	1 350	**12 679**
Other	9 163	10 297	4 996	1 358	**25 814**
Other	9 059	36	1 515	800	**11 410**
	67 916	39 571	29 691	25 571	**162 749**

Time elapsed since repossession/foreclosure	31/12/14 < 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land					
Urban	2 219	167	1 656	876	**4 918**
Rural	768	1 950	1 926	268	**4 912**
Properties under development					
Residential	7 244	7 284	1 046	13 690	**29 264**
Commercial	0	0	0	962	**962**
Other	626	38	3 708	924	**5 296**
Built properties					
Residential	16 467	13 809	2 909	6 507	**39 692**
Commercial	2 140	1 192	407	1 958	**5 697**
Other	4 618	11 243	1 324	1 318	**18 503**
Other	144	1 023	1 461	204	**2 832**
	34 226	36 706	14 437	26 707	**112 076**

i) Distribution of the credit portfolio measured by degrees of internal risks.

Banco Popular does not employ internal credit ratings.

j) Disclosure of the risk parameters associated with the impairment model by segment.

Risk parameters associated with the impairment model by segment are explained in paragraph (n) of the qualitative disclosures of this note.

48. Reconciliation of AAS accounts with IAS/IFRS (in compliance with No. 2(d) of Instruction No. 18/2005 issued by the Bank of Portugal)

Had the Bank's individual financial statements been prepared according to the International Financial Reporting Standards (IAS/IFRS), they would show the following changes:

1) Description of changes in accounting policies

After applying the IFRS, the accounting policies would reflect the following changes:

a) Loans and advances to customers

According to the IFRS the accounting policies applicable to loans and advances to customers correspond to what is stated on item 2.1 of the Notes to the Financial Statements, except for credit provisioning as foreseen in Notice No. 3/95 issued by the Bank of Portugal, which is replaced by impairment determined according to the model described on note 47.

b) Other tangible assets

With respect to property for own use at the date of transition to IFRS (1 January 2006) we have elected to use the option provided by IFRS 1 using fair value as deemed cost obtained through an assessment made by independent experts, considering the difference between that amount and the property's carrying value in retained earnings minus deferred tax. That amount becomes the cost amount on that date subject to future depreciation.

2) Estimates of material adjustments and reconciliation between the balance sheet, the income statement and the statement of changes in equity

Estimates for material adjustments that would derive from changes in accounting policies alluded to in the previous number, and the reconciliation between the balance sheet, the income statement and the statement of changes in equity in conformity with AAS for the ones resulting from the application of IFRS are presented in the following tables:

Reconciliation of the Balance Sheet as at 31 December 2015 and 2014

(€ thousand)

	31/12/15			31/12/14		
	AAS Net amount	Adjust.	IFRS Net amount	AAS Net amount	Adjust.	IFRS Net amount
Assets						
Cash and balances with central banks	55 505		55 505	134 283		134 283
Deposits with banks	76 428		76 428	80 219		80 219
Financial assets held for trading	49 893		49 893	78 280		78 280
Other financial assets at fair value through profit or loss	-		-	-		-
Available-for-sale financial assets	1 914 430		1 914 430	1 879 094		1 879 094
Loans and advances to banks	606 616		606 616	197 962		197 962
Loans and advances to customers	5 707 681	- 9 685	5 697 996	5 458 783	- 36 657	5 422 126
Hedging derivatives	1 055		1 055	-		-
Non-current assets held for sale	0		0	20 747		20 747
Other tangible assets	68 497	9 791	78 288	70 631	9 791	80 422
Intangible assets	146		146	71		71
Investments in subsidiaries, associates and joint ventures	20 243		20 243			
Current income tax assets	-		-	3 566		3 566
Deferred income tax assets	67 670	- 10 541	57 129	75 226	- 2 966	72 260
Other assets	444 343		444 343	406 986		406 986
Total Assets	**9 012 507**	**- 10 435**	**9 002 072**	**8 405 848**	**- 29 832**	**8 376 016**
Liabilities						
Deposits from central banks	-		-	900 003		900 003
Financial liabilities held for trading	41 452		41 452	43 845		43 845
Deposits from banks	2 924 272		2 924 272	2 065 409		2 065 409
Deposits from customers	5 034 537		5 034 537	4 114 903		4 114 903
Debt securities issued	38 092		38 092	317 251		317 251
Hedging derivatives	121 337		121 337	142 258		142 258
Provisions	57 209	- 56 532	677	52 575	- 49 842	2 733
Current income tax liabilities	6 391		6 391	1 817		1 817
Deferred income tax liabilities	21 131	2 203	23 334	25 793	2 203	27 996
Other liabilities	53 779		53 779	38 789		38 789
Total Liabilities	**8 298 200**	**- 54 329**	**8 243 871**	**7 702 643**	**- 47 639**	**7 655 004**
Shareholders' Equity						
Share Capital	476 000		476 000	476 000		476 000
Share premium	10 109		10 109	10 109		10 109
Revaluation reserves	2 394	6 916	9 310	- 2 285	6 892	4 607
Other reserves and retained earnings	212 461	10 891	223 352	217 098	3 450	220 548
Income for the period	13 343	26 087	39 430	2 283	7 465	9 748
Total Equity	**714 307**	**43 894**	**758 201**	**703 205**	**17 807**	**721 012**
Total Liabilities + Equity	**9 012 507**	**- 10 435**	**9 002 072**	**8 405 848**	**- 29 832**	**8 376 016**

Reconciliation of the Income Statement as at 31 December 2015 and 2014

(€ thousand)

	31/12/15			31/12/14		
	AAS	Adjust.	IFRS	AAS	Adjust.	IFRS
Interest and similar income	207 794		207 794	256 131		256 131
Interest and similar charges	87 962		87 962	131 408		131 408
Net interest income	**119 832**	**0**	**119 832**	**124 723**	**0**	**124 723**
Return on equity instruments	1 658		1 658	60		60
Fees and commissions received	57 007		57 007	64 007		64 007
Fees and commissions paid	7 156		7 156	8 330		8 330
Net gains from financial assets and liabilities at fair value through profit or loss	- 7 507		- 7 507	- 3 482		- 3 482
Net gains from available-for-sale financial assets	5 941		5 941	9 549		9 549
Net gains from foreign exchange differences	1 693		1 693	1 334		1 334
Income from the sale of other assets	- 3 213		- 3 213	- 8 329		- 8 329
Other operating income	40 357		40 357	- 7 243		- 7 243
Banking income	**208 612**	**0**	**208 612**	**172 289**	**0**	**172 289**
Personnel expenses	57 772		57 772	58 175		58 175
Administrative overheads	52 113		52 113	50 696		50 696
Depreciation and amortization	2 995		2 995	3 848		3 848
Provisions net of reversals	4 684	- 6 689	- 2 005	1 521	- 590	931
Adjustments to loans and advances to customers (net of reversals)	57 331	- 26 972	30 359	59 433	- 9 042	50 391
Impairment of other assets net of reversals	12 250		12 250	- 6 828		- 6 828
Income before tax	**21 467**	**33 661**	**55 128**	**5 444**	**9 632**	**15 076**
Income tax	8 124	7 574	15 698	3 161	2 167	5 328
Current tax	6 610		6 610	1 944		1 944
Deferred tax	1 514	7 574	9 088	1 217	2 167	3 384
Net income for the period	**13 343**	**26 087**	**39 430**	**2 283**	**7 465**	**9 748**

Reconciliation of changes in equity as at 31 December 2015 and 2014

(€ thousand)

	Share Capital	Share premium	Fair value reserves	Other reserves and retained earnings	Net income	Total
Balances as at 31/12/2015 - AAS	**476 000**	**10 109**	**2 394**	**212 461**	**13 343**	**714 307**
Credit impairment						
- Adjustments - regulatory provisions				13 186	33 661	46 847
- Deferred tax				- 2 967	- 7 574	- 10 541
Valuation of own property						
- Fair value			9 119	672		9 791
- Deferred tax			- 2 203			- 2 203
Balances as at 31/12/2015 - IFRS	**476 000**	**10 109**	**9 310**	**223 352**	**39 430**	**758 201**

	Share Capital	Share premium	Revaluation reserves	Other reserves and retained earnings	Net income	Total
Balances as at 31/12/2014 - AAS	**476 000**	**10 109**	**- 2 285**	**217 098**	**2 283**	**703 205**
Credit impairment						
- Adjustments - regulatory provisions				3 553	9 632	13 185
- Deferred tax				- 799	- 2 167	- 2 966
Valuation of own property						
- Fair value			9 095	696		9 791
- Deferred tax			- 2 203			- 2 203
Balances as at 31/12/2014 - IFRS	**476 000**	**10 109**	**4 607**	**220 548**	**9 748**	**721 012**

49. Disclosure of information on encumbered assets (Instruction No. 28/2014 issued by the Bank of Portugal)

As at 31 December 2015 the Bank's encumbered and unencumbered assets were as follows:

Template A - Assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	**2,403,937**		**6,608,570**	
030	Equity instruments	0	0	59,220	0
040	Debt securities	1,351,691	1,351,691	869,840	869,840
120	Other assets	1,052,246		5,679,510	

Template B - Collateral received

		Fair value of encumbered collateral received or debt securities issued	Fair value of collateral received or debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	**0**	**0**
150	Equity instruments	0	0
160	Debt securities	0	0
230	Other collateral received	0	0
240	**Debt securities issued other than covered bonds or ABS**	0	0

Template C - Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities and securities lent	Assets, collateral received and debt securities issued other than covered bonds and encumbered ABS
		010	030
010	**Carrying amount of selected financial liabilities**	1,724,907	2,403,937

Template D - Information on importance of encumbrance

a) Most of the Bank's encumbered assets fall into one of three types: repurchase agreements, cash or securities pledged (for financing with the ECB due to legal or regulatory provisions for the normal exercise of several banking activities) and the constitution of a collateral in order to issue covered bonds.

b) In 2015, since Banco Popular Portugal is integrated with Banco Popular Group in terms of access to TLTRO, the Bank replaced its direct access to the Eurosystem in Portugal by mirror transactions in the interbank money market with the parent company, having performed the corresponding adjustments to collaterals, namely the decrease of the collateral with the ECB and the increase in pledged securities with Banco Popular Español.

c) Except for ECB funding and mortgage bonds, most encumbrances result from intragroup transactions, since the Bank's treasury department is managed in an integrated manner and also because intragroup transactions that reflect the coverage made by the Group with third parties were performed.

d) There is an evident overcollateralisation both in terms of ECB collaterals (approximately 765%) and in terms of mortgage bonds (over 109%).

e) Collaterals for mortgage loans are constituted pursuant to Decree-law No. 59/2006; collaterals for monetary policy transactions are constituted pursuant to Instruction No. 1/99 issued by the Bank of Portugal; collaterals to guarantee liabilities that result from operations with derivatives are constituted in accordance with the ISDA Master Agreement and respective protocols.

50. Contingent liabilities

Resolution Fund

a) The Resolution Fund is a public-law legal person with administrative and financial autonomy, which is governed by the Legal Framework of Credit Institutions and Financial Companies ('RGICSF') and its own regulations, and whose main goal is to provide support to financial institutions in situations of financial distress, applying the measures defined by the Bank of

Portugal. In this scope, and pursuant to the RGICSF, the Resolution Fund's sources of funding are:

a. Proceeds from the levy over the banking sector;
b. Initial contributions paid by member credit institutions;
c. Periodical contributions paid by member credit institutions;
d. Loans;
e. Proceeds from its investments;
f. Donations; and
g. Any other revenues, income or amounts resulting from its activity or attributed by law or by contract, including the amounts received from the credit institution that is being wound up or the transitional institution.

The Bank, like most financial institutions operating in Portugal, is one of the members of the Resolution Fund and pays contributions to the Fund that result from the application of a specific rate defined by the Bank of Portugal every year, which is mostly based on the amount of its liabilities. In 2015, the periodical contribution paid by the Bank amounted to 890 thousand euros, based on a 0.015% contribution rate.

b) In the scope of its responsibility as the supervising and resolution authority for the financial sector in Portugal, the Bank of Portugal decided to apply a resolution measure to Banco Espírito Santo, S.A. ('BES') on 3 August 2014. This measure was applied pursuant to article 145-G(5) of RGICSF, which implied transferring its overall activity into a transitional bank called Novo Banco, S.A., ('Novo Banco'), created especially for that effect.

The Resolution Fund contributed with 4,900 million euros into Novo Banco's share capital. From that amount, 377 million euros correspond to the Resolution Fund's own financial assets. Additionally, a loan was granted by a syndicate of banks in the amount of 700 million euros, in which the contribution of each financial institution was weighted depending on several factors, including their respective size. The remaining 3,823 million euros necessary to fund the adopted resolution measure were obtained by taking out a loan with the Portuguese State, which shall be paid plus interest by the Resolution Fund. Any assets that might be generated with the sale of Novo Banco shall be fully integrated into the Resolution Fund.

c) Recently, on 29 December 2015, the Bank of Portugal decided to retransfer into BES the liabilities for the unsubordinated bonds it issued with the face value of approximately 2 billion euros targeted at institutional investors, and made the final adjustment of its range of assets, liabilities, and off-balance sheet items and assets under management transferred to Novo Banco, from which we highlight:

i) the clarification that no liabilities that might be contingent or unknown at the date the resolution measure was applied to BES were transferred to Novo Banco;
ii) the retransfer into BES of its stake at BES Finance, which is necessary to ensure the full compliance with and execution of the resolution measure regarding the lack of transfer into Novo Banco of subordinated debt instruments issued by BES; and
iii) the clarification that the Resolution Fund is responsible for neutralizing, as a compensation to Novo Banco, any negative effects of decisions arising from the resolution process from which liabilities or contingencies associated with any litigation may result.

d) Still in December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, S.A. ('Banif') to Banco Santander Totta for 150 million euros within the framework of the application of a resolution measure. This transaction involved an estimated public support in the amount of 2,255 million euros aimed at covering future contingencies, of which 489 million euros were funded by the Resolution Fund, and 1,766 million euros were directly funded by the Portuguese State as a result of the options agreed between the Portuguese authorities, European authorities, and Banco Santander Totta, to delimit the range of assets and liabilities that would be sold. In the scope of this resolution measure, Banif's assets identified as problematic were transferred into an asset management vehicle created for that purpose - Oitante, S.A., whose sole owner of its share capital is the Resolution Fund, through the issuance of bonds that are representative of that vehicle's debt, in the amount of 746 million euros, with the guarantee of the Resolution Fund and the counter-guarantee of the Portuguese State. At Banif, which shall be wound up in the future, there is still a narrow set of assets, as well as shareholdings of the subordinated creditors and related parts.

e) Arising from the aforementioned decisions, the risk of litigation of the Resolution Fund is also significant.

Until the date of approval of the accompanying financial statements, the Board of Directors had no information that allowed it to estimate with reasonable accuracy whether, following the ongoing process of the sale of Novo Banco, the resolution of the law suits, and other possible liabilities that may still result from the resolution measure applied to Banif, might result in the possible insufficiency of the Resolution Fund's assets and, in that case, in what way it shall be financed.
In these circumstances, on this date, it is not feasible to assess the possible impact of these situations on the current financial statements, since any possible costs the Bank might have to bear depend on the conditions in which the aforementioned issues develop and on the decisions of the Ministry of Finance pursuant to its legal attributions.

51. Subsequent events

Pursuant to article 2 of Notice No. 5/2015 issued by the Bank of Portugal on 7 December, starting on 1 January 2016, the entities that are under the supervision of the Bank of Portugal shall prepare their individual financial statements according to the International Accounting Standards (IAS) as adopted, at each moment by the Regulation of the European Union and respecting the conceptual framework for the preparation and presentation of financial statements on which those standards are based, as was formerly required for consolidated financial statements when applicable.

The impact on the individual financial statements of the Bank on 1 January 2016 arising from the application of the IAS mostly results in a decrease in the provisions for loans to customers and guarantees, arising from the recognition of impairment losses according to IAS 39 replacing the former framework provided by Notice No. 3/95 issued by the Bank of Portugal and now revoked, which originates, excluding the associated tax effect, an increase of the share capital by 46 847 thousand euros.

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Corporate Governance Report

(Pursuant to paragraph 2 (b) of Article 70 of the Portuguese Companies Act)

2015 Fiscal Year

Banco Popular Portugal, S.A. (also named Banco Popular or BAPOP) is fully owned by a sole shareholder, Banco Popular Español, S.A., whose Head Office is located in Madrid, Spain. Banco Popular's shares are not admitted to trading in any regulated market in Portugal.

The Bank's corporate governance bodies are: the Board of the General Meeting, the Board of Directors, the Supervisory Board, and the Statutory Auditor.

I - General Meeting

I. 1 - Members of the Board of the General Meeting

Members of the Board of the General Meeting

Augusto Fernando Correia Aguiar-Branco - Chairman
João Carlos de Albuquerque de Moura Navega - Secretary

I.2 – Terms of office of the members of the Board

The current members of the Board of the General Meeting were first elected on 7 May 2007 and re-elected for the four-year term of 2015-2018 on 31 March 2015, and their term of office coincides with the approval of the 2018 accounts.

I.3 – Remuneration of the Chairman

The Chairman of the Board of the General Meeting earned a monthly salary of 500.00 euros, in a total of 6,000.00 euros; the Secretary earned a monthly salary of 300.00 euros in the annual amount of 3,600.00 euros.

I.4 – Voting rights

Each 500 shares correspond to one vote.

I.5 – Shareholders with special rights

Banco Popular has no shareholders with special rights.

I.6 – Statutory regulations on voting rights

Pursuant to Article 11 of the Articles of Association of Banco Popular, only shareholders that own 500 or more shares have voting rights. There are no other limitations as regards voting rights and no time frame is determined for the exercise of voting rights.

In accordance with Article 14, decisions are made by absolute majority of votes, except in the case of dissolution of the Bank, for which the decision shall be made by a three-fourths majority of the share capital, and in cases when a qualified majority is prescribed by law.

I.7 – Postal voting

There are no statutory restrictions or defined regulations on exercising voting rights by post.

I.8 – Annual General Meeting on the remuneration and performance assessment policies of the members of the Board of Directors

The General Meeting annually approves of the declaration on the remuneration policy for the managing and supervisory bodies presented by the Board of Directors pursuant to Article 2(1) of Law No. 28/2009 of 19 June 2009.
Similarly, the General Meeting annually assesses the performance of the Board of Directors based on the evaluation of the Bank's economic performance in the previous year.

II – Governing bodies

II.1 – Identification and composition of the governing bodies

The governing and supervisory bodies of Banco Popular are the Board of Directors, the Supervisory Board, and the Statutory Auditor, or Audit Firm. These governing bodies were elected for the four-year term of 2015-2018 on 31 March 2015. Except for Pedro Miguel da Gama Cunha, who was elected on 31 August 2015. In 2015, due to the termination of service of the Managing Director, Rui Manuel Morganho Semedo, who died in that period, the General Meeting held on 13 July 2015 appointed as the new Managing Director the then Chairman of the Board of Directors, Carlos Manuel Sobral Cid da Costa Álvares

Composition:

Board of Directors

Carlos Manuel Sobral Cid da Costa Álvares - Chairman

Pedro Miguel da Gama Cunha - Member

Tomás Pereira Pena - Member

Susana de Medrano Boix - Member

Supervisory Board

Rui Manuel Ferreira de Oliveira - Chairman

António Manuel Mendes Barreira - Member

António Luís Castanheira Silva Lopes – Member

Rui Manuel Medina da Silva Duarte - Alternate

Statutory Auditor

PricewaterhouseCoopers & Associados, SROC, Lda.

Represented by António Alberto Henriques Assis

or José Manuel Henriques Bernardo

Alternate Statutory Auditor

Jorge Manuel Santos Costa

II.2 – Board of Directors and the Bank's organizational structure

As the governing body, the Board of Directors has the widest management and representation powers within the Bank.

The Board of Directors is the social body in charge of defining general and strategic policies, having the widest management and representation powers within the Bank.

Pursuant to the Bank's statutes and without prejudice to those defined by law, the Board of Directors has the following attributions:

a) Managing the social business by executing every act connected with the social object of the Bank that does not fall within the scope of any other competent body.

b) Acquiring, disposing of and encumbering movable and immovable assets, whenever convenient for the Bank.

c) Deciding on the Bank's stakes in other companies.

d) Taking out loans and other types of funding and carrying out other credit transactions that are not forbidden by law.

e) Deciding on the issuance of bonds;

f) Hiring employees, deciding on their respective contractual conditions and exercising the respective directive and disciplinary powers;

g) Appointing proxies to practice certain acts.

h) Executing and enforcing legal and statutory requirements, as well as the decisions of the General Meeting;

i) Defining the Bank's organization and working methods, elaborating regulations and determining the instructions they deem necessary.

j) Appointing the Delegate Directors or the members of the Executive Committee;

l) Representing the Bank in and out of Court, actively and passively, with power to contract obligations, starting and responding to legal actions, confess, desist or acquiesce in any legal action, engage in arbitrations, sign consent notes, and, in general, decide on any matters that do not fall within the scope of any other body or subordinate service.

The members of the Board of Directors with executive/managing roles are its Chairman, Carlos Manuel Sobral Cid da Costa Álvares, and its General Business Manager, Pedro Miguel da Gama Cunha.

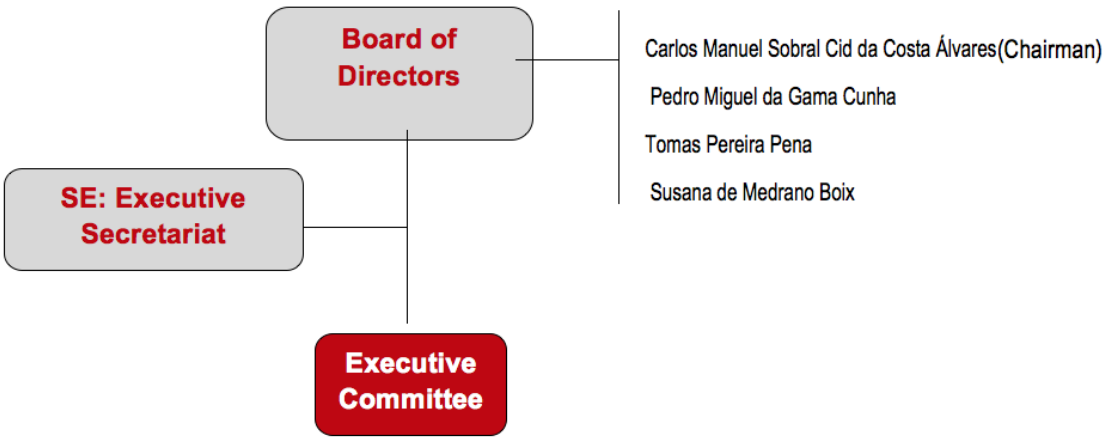
In terms of Corporate Governance of the Banco Popular, the Executive Committee was created on 1 January 2011, under the framework of the continuous improvement process of the management model of the Bank as a unit of Banco Popular Group.

Without prejudice to the role of the Board of Directors as a statutory management body, the Executive Committee, a non-statutory body, will ensure the day-to-day running of the Bank, within the larger guidelines of the Group and the Board of Directors.

The creation of this Committee, which meets once a week, was aimed at streamlining the decision making process and making its implementation and follow-up more effective in order to face successfully the very demanding circumstances in which the Bank operates.

The Executive Committee is composed of Carlos Manuel Sobral Cid da Costa Álvares, Chairman of the Board of Directors, who coordinates it, Pedro Miguel da Gama Cunha, General Business Manager, José António Matos dos Santos Coutinho, Carla Maria da Luz Gouveia, Carlos Miguel de Paula Martins Roballo, and José Luis Castro Cortizo, all of them Central Managers.

The current attribution of functions within the members of the Executive Committee can be seen in the following company structure:



Popular

Carlos Álvares

SE: Executive Secretariat

Executive Committee

José Coutinho

BE: Corporate Banking South 1
BE: Corporate Banking South 2
BE: Corporate Banking South 3

BE: Corporate Banking North 1
BE: Corporate Banking North 2

BP: Private Banking
BP: Private Banking North
BP: Private Banking South

F: Factoring

F: Factoring Business

Carla Gouveia

CS: Commercial South
CS: Products and Services
CS: Credit
CS: South A
CS: South B
CS: South C
CS: South D
CS: South E
CS: South F
CS: South G
CS: South H

CN: Commercial North
CN: Products and Services
CN: Resources and Control
CN: Credit
CN: North A
CN: North B
CN: North C
CN: North D
CN: North E
CN: North F
CN: North G
CN: North H
CN: North I

MKT: Marketing
MKT: Means of Payment Projects
MKT: Corporate Business
MKT: Private Business
MKT: Marketing Intelligence
MKT: Multichannel Marketing
MKT: Brand and Communication

CAN: Business Support Centre
CAN: Business Support Centre

Luís Castro

CTB: Accounting
CTB: Taxation
CTB: Prudential Reporting

IG: Management Information
IG: Commercial Information
IG: Financial Information

TMC: Treasury and Capital Market
TMC: Financial Services
TMC: Markets
TMC: Custodian Bank

GC: Procurement Management

Miguel Roballo

CT: Contracting

GA: Asset Management
GA: Movable Assets
GA: Offer Management
GA: Middle Office

CO: Operational Control
CO: Contract Control
CO: Operational Control
CO: External Supplier Control
CO/CPE: Notification Control
CO/CPE: Control of Payments to Third Parties

PSL: Assets, Safety and Logistics
PSL: Assets and Logistics
PSL: Maintenance and Works
PSL: Safety

TSI: Inf. System Technologies
TSI: Development
TSI/DES: Func. Business Analysis
TSI/DES: Applic. Support D.
TSI: Infrastructure and Data
TSI/ED: Architecture and Util.
TSI/ED/AE: Architecture
TSI/ED/AE: Utilization
TSI/ED: IT Security
TSI/ED: Data Analysis

OP: Operations
OP: Credit Control
OP: Securities
OP: T. Finance and Means of Payment
OP: Functional Development
OP: Operational Centre
OP: Back office BP/BE

PART: Participated companies

NP: Standards and Procedures

Pedro Cunha

DAAR: Risk Decision, Analysis and Monitoring
DAAR: Corporate I
DAAR: Corporate II
DAAR: Corporate III
DAAR: Real Estate, Private Customers and Default
DAAR: Specialized Business
DAAR: Corporate Banking, Private Banking, Factoring

GR: Risk Management
GR: Credit Risk - Models and Technical Studies
GR: Operational Risk

AGI: Property Appr. and Guarantees
AGI: Property Appraisals and Projects
AGI: Projects
AGI: Properties

PSR: Risk Prevention and Monitoring

Carlos Álvares

RH: Human Resources
RH: Human Resource Management
RH: People and Talent - Central Office
RH: People and Talent - Sales Network
RH: Popular Branch Staff
RH: Internal Communication

AJ: Legal Advice
AJ: Advisory Services
AJ: Pre-litigation

QI: Quality and Innovation

COMP: Compliance
COMP: Compliance
COMP: Money Laundering Prevention

PCL: Customer Ombudsman:

ADI: Internal Auditing
ADI: Branch Auditing
ADI: Central Office Auditing

SEG: General Office

II.3 – Activity Monitoring Committees

Besides the creation of the Executive Committee, which supports the Board of Directors in the day-to-day running of the Bank, several specialised committees were established to monitor the activity of Banco Popular, namely:

Internal Control and Operating Risk Committee

The Internal Control and Operating Risk Committee is a consultant body, composed by the Heads of several departments: Auditing, Risk Management, Information Technology, Customer Ombudsman, Legal Advice, Human Resources and Compliance/Internal Control. This Committee is coordinated by the Chairman of the Board of Directors.

This Committee meets at least once a month and its main functions are:
- protecting the Bank's reputation and minimizing its respective risk;
- systematically identifying and analysing the relevant legislation applied to the day-to-day activity of the Bank, detecting existing deficiencies and how to overcome them;
- proposing policies, planning and action strategies in order to scrupulously comply with the regulations and Instructions issued by the Bank of Portugal, CMVM and ISP in order to avoid any type of sanctions;

Business Continuity Management Committee

This consultant Committee is comprised of the Heads of several departments: Human Resources, Information Technology, Operating, Risk Management, and Compliance. This Committee is coordinated by the Chairman of the Board of Directors and meets at least once every quarter but it can meet exceptionally whenever necessary. Its functions are observing a set of generic good practices to be implemented and deepened by the Bank in accordance with the characteristics in terms of risk profile, taking into consideration the nature, dimension, business complexity and organizational model, which are reflected in the 'Prudential Recommendations on Business Continuity Management' approved of by the National Council of Financial Supervisors ('Conselho Nacional de Supervisores Financeiros').

Cost, Income and Investment Committee

The Cost, Income and Investment Committee (CCPI) is an advisory body comprised of the head of the GC-Procurement structure and the Central Manager with those attributions, and is coordinated by the Chairman of the Board of Directors.

This Committee meets once a week and its main function is to decide on every proposal that involves costs and investment put forward by all the competent bodies of the Bank with previous agreement of the respective Central Manager.

Product and Process Committee

The Product and Process Committee is an advisory body comprised of the heads of Marketing, Customer Ombudsman, Standards and Processes, Quality and Innovation, TSE Operations, and Contracting. It is coordinated by two members of the Executive Committee.

This Committee meets at least once a month and its main functions are:
- identifying suggestions for improvement opportunities in terms of products and services, and processes;
- in light of the different technical approaches, analysing the feasibility of the proposals presented;
- taking decisions on the feasibility of their implementation;
- ensuring, at the different stages of the process, that the launch of new products and/or services (or any changes) are adequately developed and that all the relevant areas are committed to the process;
- ensuring that any situation of non-compliance with approval and launching procedures or products and/or services is adequately corrected;
- analysing any decisions or communication on the products and/or services issued by the supervising body.

ALCO Committee

The ALCO Committee is a non-executive body that depends on the Board of Directors, jointly led by the Treasury and Capital Market, and Management Information. This Committee is comprised of the Chairman of the Board of Directors and remaining members of the Executive Committee, as well as the Heads of Institutional Advice, Risk Management, Marketing, Treasury and Capital Market, including the head of TMC-Financial Services, and Management Information, including the head of IG-Financial Information. It is coordinated by the Member of the Executive Committee who is in charge of the Finance Sector.

This Committee meets at least every two months (as a rule), and may meet extraordinarily when circumstances so advise. Its main functions are:
- analysing Interest Rate Risk and Exchange Rate Risk and managing those risks by analysing the structural position and the scenarios of movements regarding the main parameters in the market;
- analysing Liquidity Risk by studying the revenue profile, establishing limits to their concentration, monitoring the second line of liquidity, internal liquidity stress, institutional funding plans, etc.;

- proposing internal limits for each type of risk (interest rate, exchange rate, and liquidity); - permanently ensuring that those limits are complied with and drafting contingency plans for possible deviations;
- studying and analysing the Commercial GAP purpose in terms of volume and maturity dates to be approved by the Board of Directors;
- providing information about and analysing the impact exercises (QIS) that may be called for by regulating and supervisory bodies regarding balance sheet risks (interest rate, liquidity, etc.);
- analysing Liquidity Risk and Balance Sheet's Structural Risk - Interest Rate Risk by analysing predefined RAF metrics for that effect and monitoring additional metrics;
- proposing the Group's Funding Plan and ensuring that it is complied with;
- exercising all the functions that, due to regulatory reasons, fall within the scope of the Committee.

Customer's Observatory Committee

The Customer's Observatory Committee is an advisory body comprised of the Heads of Marketing, Customer's Ombudsman, Quality and Innovation, CS, CAN, TSI, and IMO. It is coordinated by a member of the Executive Committee.

This Committee meets at least once a month and its main functions are:
- identifying complaints, Customer suggestions, opportunities for improvement;
- analysing isolated events involving Customers;
- in the event of any non-compliance, defining objective measures of opportunities to communicate with Customers.

Credit Risk Committee

The Credit Risk Committee is an advisory body comprised of the Heads of Risk Management, DAAR - Risk Decision, Analysis and Monitoring, AIG - Management Information Division, CTB - Accounting, PSR - Risk Prevention and Monitoring, Commercial Management, and Executive Committee. It is coordinated by the Chairman of the Board of Directors.

This Committee meets at least once a month and its main functions are:
- approving the credit risk policy for Corporate Customers;
- approving the credit risk policy for Private Individuals;
- approving the pricing policy and RAROC models;
- amending and approving the ADVANCE IRB models;
- amending and approving the Operational Risk Management Policy;
- amending and approving the Concentration Risk Management Policy;
- amending and approving: the Impairment Model, statistics for Non-performing Loans, statistics for Great Risks;

- analysing the monthly Capital Planning, ICAP and performing stress tests, analysing the Monthly Risk Management Bulletin.

Credit Recovery and Real Estate Committee

The Credit Recovery and Real Estate Committee is an advisory body that is comprised of the Heads of the following bodies: DAAR, PSR, APE, AIG and Participated companies. It is coordinated by two members of the Executive Committee.

This Committee meets at least once every fortnight and its main functions are:
- monitoring all the activity of the business developed by Primestar with Banco Popular's assets.

II.4 –Annual Report of the Supervisory Body

The annual Report and Opinion written by the Supervisory Body provides a brief description of the supervision activity as regards the annual reporting. This Report is posted on the Bank's internet website together with the financial statements.

II.5 – Internal control and risk management systems

Banco Popular's internal control system is a process implemented by the Board of Directors, the other governing bodies and employees, as part of the Bank's strategic planning, which is sustainable in the long run and conceived to grant a reasonable guarantee that the objectives are met in the following categories:
- Operation efficacy and effectiveness;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations

The internal control system implemented by Banco Popular, in accordance with applicable laws and regulations, is described in the internal standards, namely regarding the responsibilities that are assigned to the Board of Directors and the other governing bodies tied with the control structure.

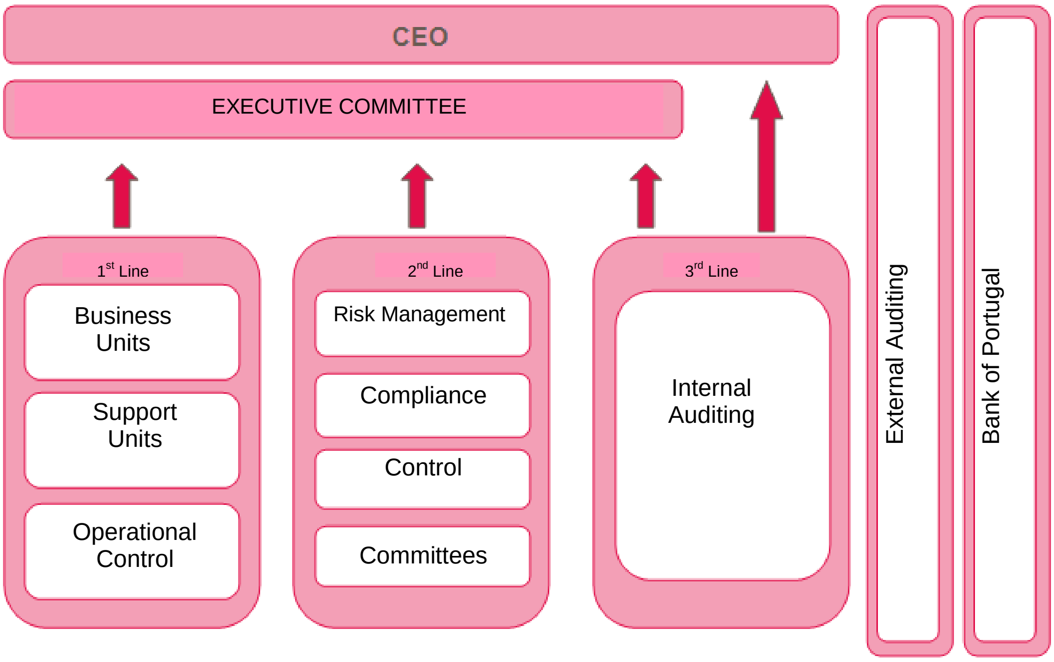
The functions of the Board of Directors are approving the Bank's strategy and undertaking to see it adequately implemented, as well, as defining, approving of and revising the organizational structure of the Bank and ensuring its adequate implementation and maintenance. The Board of Directors shall promote an internal control culture based on high standards of ethics and integrity, by defining and approving of the adequate codes of conduct, ensuring that all the employees understand their part in the system and may contribute effectively to it.

The duties of the Supervisory Board are ensuring that the Bank implements the necessary procedures deemed relevant to comply, in all the materially relevant aspects, with its internal control system and the requirements described in Notice No. 5/2008 issued by the Bank of Portugal, based namely on the principles of the existence of an adequate control environment, a solid risk management system, an efficient IT and Communications system, and an effective monitoring process, which guarantee that all the objectives in the above-mentioned categories are met.

Namely regarding reliability of financial reporting, the internal control system provides a reasonable guarantee that the preparation of the corresponding reports is in accordance with generally accepted accounting principles and complies with the applicable legal precepts and regulations, that the information therein contained reflects the transactions and underlying events in order to present a reliable and truthful equity and financial position, and that they are clear and informational regarding the matters that may influence their usage, understanding and interpretation.

The risk management function tries to identify, evaluate, monitor and control all the materially relevant risks to which the Bank is exposed, both internal and externally, so as not to let them negatively affect the financial situation of the institution. It should also suggest the Board of Directors materially significant risk policies, and appetite and tolerance levels to which the Bank is exposed. This is also an area that contributes to create value by enhancing support tools: (i) for credit decision making, (ii) for the definition of pricing adjusted to the risk of the operations, and (iii) for allocating capital.

The risk management structure has adopted the 'three lines of defence' as illustrated and explained by the following image:



Therefore, the three lines of defence are basically represented by the following internal structures:

(i) The first line is strongly tied with the business units, which are in charge of identifying and managing the risks involved in carrying out their day-to-day activity, including the implementation of internal controls and drafting reports;

(ii) The second line of defence aims at independently control that the pre-defined risk appetite and risk policies are complied with and that risks are efficiently managed by measuring, following up and presenting risk reports on the whole Bank, independently from the first line of defence. These tasks are mostly carried out by Risk Management, Compliance, Internal Control and advisory Committees to the Board of Directors;

(iii) And functioning as the third line of defence, Internal Auditing, whose aim is to perform general audits and risk-based audits to assure the Board of Directors that the internal governance system, including the part associated with risk, is effective and that policies and processes are correctly implemented and consistently applied.

The Board of Directors is in charge of defining and implementing a risk management system, although many of the activities that are connected with this process are delegated on other organizational functions.

Reporting and communication lines

Communication lines are established between business units, including auditing, and corresponding monthly reports are sent to Risk Management detailing the state of control mechanisms employed to manage risk and changes in terms of objectives and risks. Risk Management reports to the Executive Committee on the monitoring process regarding the different types of risks.

Functions and responsibilities

The main functions and responsibilities of the different participants in the risk management process are presented below:

a) Board of Directors – Responsibilities include:

i. Defining and reviewing policies aimed at accomplishing the overall goals and specific objectives of each functional area regarding risk profile and the risk tolerance degree;

ii. Approving of concrete, efficient and adequate policies and procedures to identify, assess, monitor and control the risks the Bank is exposed to ensuring these are implemented and accomplished;

iii. Approving, prior to their introduction, new products and activities, as well as the respective risk management policies;

iv. Regularly verifying that the risk tolerance levels and risk management policies and procedures are complied with, assessing their efficacy and continuous suitability to the Bank's activity in the sense of enabling the detection and correction of any deficiencies;

v. Requesting the preparation of accurate and timely reports on the main risks the Bank is exposed to and that identify the control procedures that have been implemented to manage those risks;

vi. Ensuring and monitoring the effective implementation of their guidelines and recommendations on the risk management structure in order to introduce amendments and/or improvements to the risk management system;

vii. Ensuring that risk management activities are granted enough independence, status and visibility and that they are subject to periodical revisions;

viii. Appointing the person in charge of risk management and the person in charge of compliance, and ensuring that those functions have sufficient autonomy to perform their duties objectively and independently, as well as the material and human resources necessary to the performance of their respective tasks;

ix. Supervising and monitoring regulatory compliance;

x. Coordinating the decision making process and the consistency of risk management responses;

xi. Ensuring that the business continuity plan is regularly reviewed and monitored (e.g. every year).

b) Risk Management Function – In charge of centralizing risk management, and namely:

i. Defining the Bank's risk policies upon approval of the Board;

ii. Suggesting to the Board of Directors appetite and tolerance levels as regards the main risks the institution is exposed to;

iii. Analysing, monitoring and suggesting guidelines for credit risk;

iv. Analysing, monitoring and suggesting guidelines for interest rate risk, liquidity risk, exchange rate risk, market risk, strategic risk, reputational risk and compliance risk, based on the Group's methodology;

v. Analysing the available data on the risks the Bank is exposed to;

vi. Using existing data to suggest improvements in terms of best practices regarding the Bank's credit and financial risk;

vii. Managing the process of integration of credit models into management practices;

viii. Monitoring and controlling the delegation of powers regarding credit attribution within the Bank's structure.

ix. Controlling the quality of the information that is made available and that serves as the basis for scoring and rating models;

x. Collaborating with the Group towards the development of common methodologies regarding the implementation of credit risk models;

xi. Participating, together with the other areas of the Bank, in Committees and working groups to support Risk Management;

c) Compliance Function – Compliance is in charge of ensuring that all legal requirements are met as well as their respective duties. Thus, their responsibilities are:

i. Regularly monitoring and assessing the adequacy and efficiency of internal standards and procedures in order to detect any risk of non-compliances with legal obligations and duties to which the institution is bound in the scope of its activity, as well as taking measures to correct any deficiencies in that compliance;

ii. Advising and assisting the governing bodies in terms of the fulfilment of legal obligations and duties to which the institution is bound;

iii. Ensuring the correct and regular functioning of the internal control system in the scope of prevention of money laundering and the financing of terrorism, as well as centralizing information and respective communication to the competent bodies;

iv. Participating in the definition of the internal control system;

v. Permanently monitoring the internal control system, assessing the adequacy, sufficiency and timeliness of the policies, means and procedures that integrate it;

vi. Immediately informing the Board of Directors about any indication of legal breach, violation of rules of conduct, relationship with customers or any other duties that may lead the institution or its employees to commit any legal violation;

vii. Keeping a record of breaches and measures suggested and adopted;

viii. Writing a report at least once a year that shall be presented to the governing and supervisory boards, identifying any breaches and the measures adopted to correct them;

ix. Controlling communications foreseen by Law that involve the competent authorities regarding information on every business sector,

x. Defining and maintaining a training programme for the staff on Compliance, Prevention of Money Laundering and the financing of terrorism;

xi. Coordinating the elaboration of periodical reporting that must be submitted to the Bank of Portugal in terms of prevention of money laundering and the financing of terrorism.

xii. Playing the role of privileged spokesperson with legal, authorities, the police and supervisory bodies.

xiii. Issuing opinions on the policies, means and internal procedures of corresponding institutions aimed at preventing money laundering and the financing of terrorism.

xiv. Raising awareness of the members of the remaining bodies of the company's structure to the importance of compliance and ensuring the culture of Compliance is spread.

d) Operational Control Division – Its main activities are:

i. Developing and monitoring operational controls, as well as those related do contracts and revenues tied with the day-to-day running of the Bank;

ii. Ensuring, together with the remaining functional areas of the Bank, the adequacy and continuous improvement of control procedures, trying to mitigate operational risk.

e) Internal Auditing Function – It has a key role in the assessment of the effectiveness of risk management and control systems. Internal auditors have the following responsibilities:

i. Analysing, by taking random samples, the processing of transactions and assessing their compliance degree with the internal regulations in force in the Bank, the regulations issued by the Supervising Bodies, and other applicable legislation;

ii. Verifying the correct and regular exercise of internal control mechanisms implemented in terms of circuits and routines;

iii. Reporting to the Board of Directors any deficiencies detected during the audit work, indicating recommendations that should be followed to correct them, thus contributing to improve the internal control procedures of the Institution;

iv. Ensuring, in the scope of its attributions, the relationship of the Bank with Legal and Police Authorities, as well as with the Supervising Bodies, by collecting, analysing, and supplying any documentation/information requested by the aforementioned entities that may be necessary to monitor criminal proceedings initiated by the police or taken to trial against the Bank's customers;

v. Making the necessary inquiries and investigations to determine individual liability in every circumstance in which the facts point or prove serious occurrences or practices against internal rules and regulations, the legislation in force, good banking practices, ethics of the Institution and the Financial Sector, that negatively affect the interests of the Bank and the Group's Companies and their customers;

vi. Writing reports on the activities implemented and, at least every year, a report that summarizes the main deficiencies detected in the auditing actions, indicating and identifying the recommendations issued and followed.

f) Risk Coordinators – These are key employees that identify the risks the Bank is exposed to particularly regarding business/unit/department/function. Their functions and responsibilities include:

i. Identifying and assessing risks and risk responses;

ii. Ensuring the consistency of the application of procedures to risk tolerance;

iii. Issuing recommendations for control activities;

iv. Reporting to Risk Management on the results and recommendations regarding the identification and assessment of risk events that have occurred in the Bank

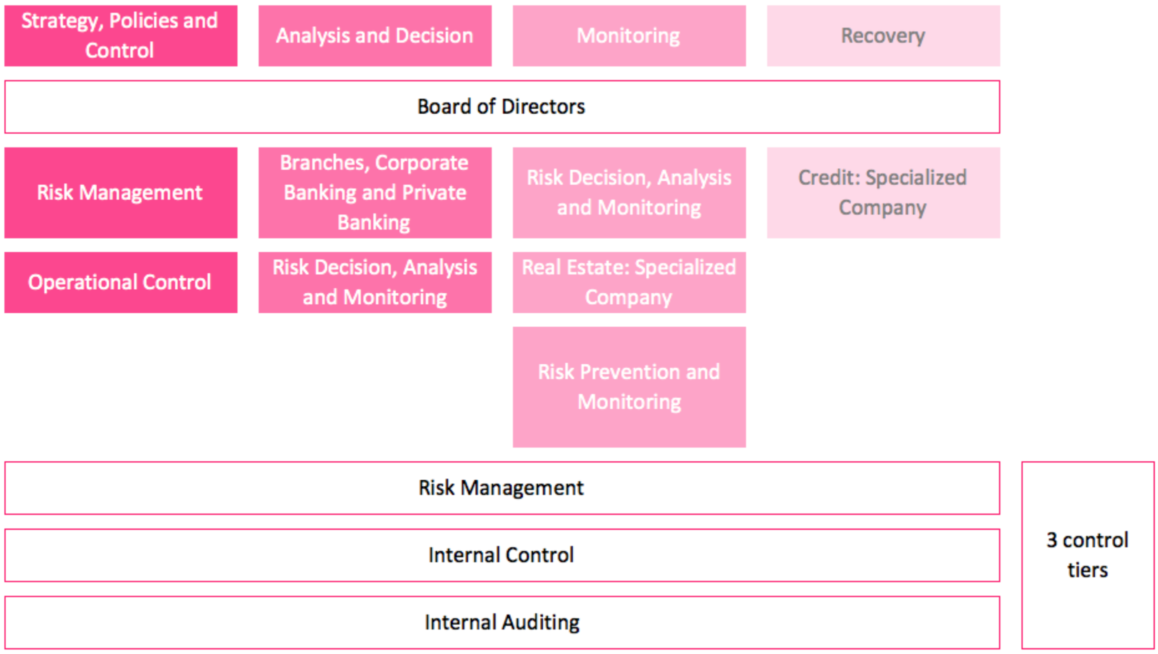
II.6 – Identification the main risks to which Banco Popular is exposed in the course of its activity

In the course of its activity Banco Popular Portugal is exposed to the following risks

Credit Risk

This type of risk arises from the possible loss triggered by the breach of contractual obligations of the Bank's counterparties. In the case of lending, it implies the loss of principal, interest and commissions, regarding amount, period and other conditions set forth in the contracts. Concerning off-balance sheet risks, it derives from the non-compliance of the counterparties regarding their obligations with third parties, which implies that the Bank has to assume as its own certain obligations depending on the contracts.

The organizational structure created to manage and monitor credit risk at Banco Popular Portugal from a macro perspective can be summarized as follows:



The Bank has implemented a risk analysis and assessment circuit based on a formal system of attributions for the authorization of transactions, which depend, among others, from the following factors:

- Nature, amount, maturity and interest rate of the transaction;
- Customer;
- Activity sector;
- Current and historical position of the relationship with the Bank and the financial system;
- Existing collaterals and their quality;
- Warning signals; and
- Probability of default.

People that have been assigned delegated powers to authorise transactions are integrated into the following areas and bodies of the Bank:

- Branches/Corporate and Private Banking;
- Commercial South and Commercial North;
- Risk Decision, Analysis and Monitoring;
- Executive Committee/Board of Directors.

Monitoring risk is a fundamental task when it comes to managing credit risk since it allows the Bank to be aware of the evolution of its customers' repayment capacity and take corrective action on time in order to avoid situations of non-performance. The methodology employed to monitor risks is mostly based on the analysis of a set of variables associated with transactions and customers that allow the Bank to measure the influence these variables might have on the Bank's exposures and accordingly determine the convenience of maintaining, augmenting, reducing or extinguishing risks. In this scope, the performance of the loan portfolio is regularly analysed in order to set in motion monitoring mechanisms according to the evolution of the overall risk of certain customers and their respective transactions, thus anticipating eventual situations of difficulties by applying preventive measures to current risks.

In 2012, The Bank decided to strengthen its credit recovery actions, and for that purpose nearly all customers with defaulted transactions migrated to an informally called recovery portfolio and the Specialized Business Network (RNE – 'Rede de Negócio Especializado') was created to monitor those customers.

This strategy has remained fruitful in the past few years and has allowed for a much closer monitoring of higher-risk customers, which in turn has implied the more swift detection of possible non-compliance events and the immediate adoption of solutions that are adequate to each of those situations.

In 2015, and following the sale of RNE, the business unit that was in charge of managing real estate assets and customer loans associated with the real estate sector, a 'servicing contract' was signed with Primestar (former RecBus), which resulted from the change in the procedures that were formerly employed; subsequently, the Department of Risk Prevention and Monitoring (PSR) was created, whose activity is focused on credit risk prevention and monitoring:

- analysing the credit portfolio in order to detect any situations of potential risk, starting to monitor them and, if necessary, present proposals for the limitation of the underlying default risk and inherent definition of 'Restrictive Credit Policies'.
Supervising the set of responsibilities that have defaulted up to 5 days in order to minimize them through the articulation of Branches, and ensuring that these promote and materialize their restructuring/solution before the loan becomes overdue;

- writing opinions on the proposals presented by the DAAR that go against the policies defined for each customer;

- monitoring the economic and financial situation of corporate customers, according to uniform and objective criteria and pursuant to the pre-defined guidelines;

- drafting risk monitoring and follow-up reports on customers with materially relevant risks pursuant to the criteria used by Popular Group;

- promoting the application of risk monitoring criteria that are recommended by Risk Management in order to guarantee that Bapop is meeting the implicit demands of the implementation of the management requirements defined by Basel II.

In the scope of the credit risk control activities, several reports are produced and disclosed to the Executive Committee/Board of Directors, from which we highlight:

- Monitoring past-due loans (evolution of past-due loans by geographical area);

- Loan portfolio impairment (monthly report);
- Information on credit risk (evolution of outstanding and past-due loans by commercial areas, geographical areas, types of product, large customers, etc.);
- Controlling concentration limits (detail on exposures that exceed the limits that have been pre-established by the Bank's policy);
- Monthly monitoring lending transactions by PD levels;

Concentration Risk

Concentration risk is monitored by Risk Management (RM).

RM ensures that adequate policies and procedures are maintained and implemented to monitor and manage credit concentration risk. It is also in charge of monitoring delegated powers in terms of concentration risk and periodically presents reports on concentration risk to the Board of Directors.

The procedures employed to manage and monitor concentration risk are mostly focused on defining the limits and analysing/reporting periodically. The most important reports produced by Risk Management and reviewed by the Board of Directors can be summarized as follows:

- Every month a report is prepared that accompanies the following concentration limits approved by the Bank’s Board, namely:
    - Customers with risk > 10% TIER I;
    - Customers with risk > 5% TIER I, excluding off-balance sheet and transactions guaranteed by deposits;
    - Risks > 100 million euros and above 25% of CRC;
    - Risks > 20 million euros and 50% of CRC;
    - Risks by activity sector;
    - LTV first housing above 75%;
    - LTV other housing above 60%.

Every year, pursuant to Instruction No. 5/2011, Banco Popular sends the Bank of Portugal information on concentration risk.

Market risk

Market Risk is the probability of negative impact on the Bank’s earnings or capital due to adverse changes in the market prices of the instruments in the trading book, caused by the volatility of equity prices, interest rates and foreign exchange rates.

Considering that the measurement and management of the impact of interest rate fluctuations on the Bank’s Balance Sheet is done separately via the Structural Interest Rate Risk of the Balance Sheet, and given the Bank’s activity and the structure of its Balance Sheet, market risk is limited to the fluctuation in the prices of the securities that comprise its portfolio.

We would like to highlight the fact that the Bank uses the standardised approach to calculate own funds requirements.

Foreign Exchange Rate Risk

Foreign exchange rate risk is the probability of negative impact on the Bank's earnings or equity due to adverse changes in foreign exchange rates caused by the volatility of the price of instruments that correspond to foreign exchange positions or by any change in the competitive position of the institution due to significant fluctuations in foreign exchange rates.

The Bank also uses the VaR methodology as a management instrument for its foreign currency position using the standard method to calculate own funds requirements.

Operational risk

Banco Popular Portugal interprets Operational Risk as defined in the Basel II Accord, i.e., as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Through the network of Operational Risk Managers (RRO) of each functional area, the Bank has identified every operational risk that may affect its performance. In this process, each functional area prepared a document describing their functions and a map of the corresponding operational risks, identifying existing control mechanisms employed to mitigate each risk factor.

For updating purposes, periodical revision cycles are carried out for these qualitative requirements, including organizational changes, and RRO mobility, as well as the assessment of the results obtained in previous cycles according to the experience acquired and functional adjustments that have taken place.

Aiming at fully and correctly identifying, classifying and recording operational risk events the Bank faces in its activity and their respective recoveries, events are automatically recorded on a specific database. A small number of those situations is manually collected by the RRO of each area within their functions.

Each record includes a description, dates (of occurrence, discovery and accounting), amounts (of real loss, potential loss, and recoveries) and classification according to Basel II (activity sector and event type).

Operational risk is assessed and preventive and detection procedures are considered.

In order to assess operational risk quantitative and qualitatively, the Bank considers, among others, the following mechanisms:

a. In the Internal Control and Operational Risk Committee's agenda Operational Risk is a compulsory item; high impact events are presented and discusses and, if necessary, measures are taken to mitigate them;
b. Residual risk is periodically assessed through a self-assessment report on risks and controls identified in each area of the Bank. The self-assessment report includes:
    i. Risks: assessment of impact and frequency, maximum and most probable (average);
    ii. Controls: assessment of efficacy/design and application/execution.
c. The amounts of actual loss, potential loss, potential recovery, direct recovery, and indirect recovery are recorded regarding each Operational Risk event effectively occurred and detected.

As previously stated, the Bank uses a database shared with Banco Popular Group to record events that correspond to operational losses originating in operational risk events. Losses arising from operational risk are booked not only for the financial amount directly accounted for, but also, whenever possible, taking into consideration other quantifiable costs.

The operational risk of the Bank is permanently monitored and reported to the Board of Directors, via the Executive Committee, to the Internal Control and Operational Risk Committee and to Operational Risk Committee of the Group.

When monitoring operational risk the Bank takes into consideration the following elements among others:

a) Analysing the results contained in risk maps and their respective self-assessment;
b) Recording events – maintaining the operational risk events database;
c) Key operational risk indicators (KRIs).

Meetings are held periodically with those in charge of risk at each department, raising awareness to the importance of monitoring and controlling operational risk in order to mitigate its potential impact on all levels of the organization.

The Bank permanently develops and maintains the operational risk events database.

The Bank identifies key risk indicators (KRI) in sensitive areas.

Nature, amount, maturity and interest rate of the transaction;

- Customer Ombudsman;
- Risk Analysis;
- Operations – Securities.

The characterization, procedures and responsibilities regarding the processing of key risk indicators are detailed in a specific internal document entitled ‘Key Risk Indicators Implementation Plan’.

Structural interest rate risk

This risk is defined as the risk originated by the fluctuations in interest rates and is estimated through the analysis made to maturities and repricing of on-balance sheet transactions involving assets and liabilities.

Banco Popular Portugal measures its structural interest rate risk by using the repricing gap method. This method consists in measuring exposures by different maturity and repricing dates in asset and liability cash flows. Briefly, this model groups those assets and liabilities into fixed time intervals (maturity date or date of the next interest rate revision when indexed) based on which the potential impact on net interest income is calculated.

In this framework, this model considers a scenario in which there is an immediate impact on interest rates, so that, on the date the interest rates are revised (both asset and liability transactions) the new rates incorporate that effect.

The Bank regularly assesses regularly the interest rate risk pursuant to Instruction No. 19/2005 issued by the Bank of Portugal - in which the impact of a shift of 200 basis points in the yield curve, both net, and margin is measured.

Liquidity risk

By controlling liquidity risk, the Bank intends to ensure that it will have the necessary funds to meet its payment obligations at all times, thus minimizing the risk of losses that would arise if those obligations were not met. The Bank is exposed to daily disbursements of cash arising from current accounts, loans and guarantees, margin account needs and other needs related with the regular functioning of a banking institution.

The Bank's primary source of funding are deposits from customers, complemented by access to the capital markets via bond issues and to the interbank market, where we focus on operations with Banco Popular Group. Simultaneously the Bank has tried to ensure other sources of funding, carefully selected for each maturity depending on pricing, stability, speed of access, depth, and compliance with the pre-established risk management policies. The liquidity management process, as performed by the Bank, includes:

- The daily funding needs that are managed by monitoring future cash flows in order to guarantee that the requirements are met. This includes write-backs as loans mature or are granted to customers;
- Maintaining a high-liquidity asset portfolio so that these can be easily converted into cash as a protection against any unexpected interruption in cash flows;
- Monitoring liquidity ratios taking into account external and internal requirements;
- Managing the concentration and profile of debt maturities resorting to the liquidity gap model.

Monitoring and reporting assume the form of cash flow measurement and projection reports for the following day, week and month, since these are important time brackets in terms of liquidity management. The starting point for these projections is an analysis of the contractual maturity of financial liabilities and the expected date for asset cash flows. The cash flow also monitors the degree of non-utilized loan commitments, the use of overdraft facilities and the impact of contingent liabilities such as letters of credit and guarantees.

Regarding the analysis of liquidity risk, besides the obligations established by the Bank of Portugal under the terms of Instruction No. 13/2009, the Bank also resorts to the concept of liquidity gap, i.e., from the balance sheet of the Bank as at 31 December 2015, based on the maturities of assets and liabilities it is possible to ascertain the ratio between the referred to maturities (positive or negative) according to residual maturity deadlines called liquidity gaps. The Bank also calculates LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), with the aim to monitor the evolution of liquidity and report it to the supervising authorities.

Reputational and Compliance Risk

Reputational risk is defined as the probability of negative impact on earnings or capital due to an adverse perception of the public image of the financial institution, grounded or otherwise, held by its different stakeholders, i.e., clients, suppliers, financial analysts, employees, investors or the public opinion in general.

Potential adverse impact on the Bank's reputation may arise from failures in terms of management and control of the aforementioned risks. In this scope, the Bank considers that the internal governance system, the policies and procedures in force, are adequate and enable the prevention and mitigation of reputational risk in its various forms.

Compliance risk is defined as the probability of negative impacts on income or equity the Bank may suffer as a result of its failure to comply with laws, regulations, specific requirements, agreements, codes of conduct and relationship with its customers, standards of good practices or principles of integrity and fair dealing, which may imply legal sanctions, loss of business opportunities, decreased expansion potential or the inability to demand the fulfilment of contractual obligations.

The main and more easily identifiable source of this type of risk is legal risk, i.e., failing to comply with laws, regulations, codes of conduct and code of 'good practices'. In this regard, Compliance and the Legal Department of Banco Popular Portugal, together with the Internal Control Department, ensure all legal requirements in force are met, assessing and trying to prevent possible relevant risks of material breaches from the economic or reputational standpoint.

Strategic Risk

Strategic risk is defined as the probability of negative impacts on results or equity deriving from inadequate strategic decisions, deficient implementation of decisions, or the inability to respond effectively to market changes and variations, as well as any possible internal restrictions in the context of the Bank's performance.

The following instruments are used to monitor strategic risk:

- Balance Sheet Simulations - several scenarios are generated for the evolution of the Bank's Balance Sheet taking into consideration assets, liabilities and net income;
- Income Account Simulations - the adequacy of the profitability and solvency levels is assessed depending on the balance sheet simulations that were performed. Calculating the impacts on net interest income, banking product, operating margin and net income for the period. Taking into consideration the impacts on the main activity ratios particularly solvency, profitability, efficiency, and liquidity ratios;

Strategic risk is periodically measured with special emphasis on:

- A monthly Management Report that allows to follow and interpret the institution's main management and performance indicators;
- Monthly following up and analysis of the main deviations from the objectives written down in the Strategic Plan;
- Monthly report with corrective proposals taking into consideration the deviations that occurred;

Property Risk

Property risk is defined as the probability of negative impact on results or equity arising from a general drop in the property portfolio and the inherent volatility of the real estate market.

The Bank is exposed to property risk as a result of its own real estate portfolio. These were assets whose ownership was transferred to the Bank following legal actions or in lieu of payment to settle loan debts (mostly loans for construction/property development and residential mortgage loans). These assets include urban and rural properties, plots of land, finished buildings or parts, and properties under construction.

Real Estate Assets are managed by Primestar (20% owned by Banco Popular Español), which is in charge of managing and selling Banco Popular Portugal's assets. This company has a very demanding governance model and the Bank participates in all its committees (Business, Follow-up and Board Committee) where every management and property sale policies are defined. The servicing agreement signed with this company only involves the management and promotion of the sale of the Bank's real estate properties, since the assets remain in the possession of the Bank. The internal body AGI-Real Estate Evaluation and Assessment is in charge of monitoring and following-up Primestar's activity regarding the management and sale of the properties that comprise the Bank's disinvestment portfolio.

At the time of transfer in lieu of payment, acquisition or legal award to settle the debt, for the materially relevant transactions external appraisals are always required. After that, new appraisals are carried out according to the time frames established by the Bank of Portugal or in between periods if there is any indication of any property value loss. Those assets are periodically subjected to sensitivity analyses that take into consideration the evolution of the market as perceived by the Bank. Therefore, the Bank considers these assets to be adequately evaluated and booked in its financial statements.

II.7 – Powers of board members, and in particular the power to issue shares

The Board of Directors has no powers to issue shares.

Any share capital increase requires the approval of the General Meeting on proposal of the Board of Directors.

II.8 – Policy on rotation of functions within the Board of Directors

Although not formalized there is, in fact, a policy of periodically rotation of functions within the Executive Committee that supports the Board of Directors in terms of the day-to-day management of the Bank.

II.9 - Rules applicable to appointment and replacement of members of the governing and supervisory bodies

The members of the Board of Directors are elected by the General Meeting for four-year terms, with the possibility of being re-elected. Directors will lose their term if, during it, they miss five consecutive meetings of the Board or seven interpolated with no justification accepted by the Board. The replacement of Directors is made by cooptation pursuant to legal terms, and it shall be submitted to ratification on the following General Meeting.

The members of the Supervisory Board are elected by the General Meeting for four-year terms, with the possibility of being re-elected. The Chairman of the Board of the General Meeting shall verify any possible conflicts of interest among its permanent members and make any moves necessary for replacement by an alternate member.

The Statutory Auditor, or the Audit Firm, is appointed by the General Meeting for a four-year period and an alternate Statutory Auditor, or Audit Firm, is also appointed.

II.10 – Meetings held by the governing and supervisory bodies

The Board of Directors meets ordinarily once a month and extraordinarily at the initiative of the Chairman or two other directors. Minutes from the meetings contain all the decisions taken in those meetings. During 2015, the Board of Directors met 14 times.

The Supervisory Board meets ordinarily at least once every three months and extraordinarily on request of the Chairman or of any other member. Minutes from the meetings contain all the decisions taken in those meetings. In 2015, the Supervisory Board met 4 times.

II.11 – Professional information on the members of the Board of Directors:

Carlos Manuel Sobral Cid da Costa Álvares - Chairman

Date of first appointment – 3 May 2013

Term of office – 31 December 2018

Professional qualifications: Degree in Business Management; Top Management Companies Programme - PADE at AESE/Business School

Professional activities in the past 5 years: - Grupo Banco Comercial Português – General Manager - Private; Central Manager and subsequently Director of Banco Popular Portugal, S. A.

Does not own any shares in the company.

Functions in other companies belonging to Banco Popular Group: - Chairman of the Board of Directors of Popular Gestão de Ativos, SGFI, S.A.; - Chairman of the Board of Directors of Popular Factoring, S.A.; - Member of the Board of Directors of Eurovida - Companhia de Seguros de Vida, S.A.; - Member of the Board of Directors of Popular Seguros - Companhia de Seguros, S.A.

Pedro Miguel da Gama Cunha - Member

Date of first appointment – 31 August 2015

Term of office – 31 December 2018

Professional qualifications: Degree in Economy; MBA

Professional activities in the past 5 years: - Banco Popular Portugal, S.A. – Manager Coordinator and Central Manager

Does not own any shares in the company.

Functions in other companies belonging to Banco Popular Group: - Member of the Board of Directors of Popular Factoring, S.A.; - Member of the Board of Directors of Eurovida – Companhia de Seguros de Vida, S.A.;- Member of the Board of Directors of Popular Seguros – Companhia de Seguros,S.A.; - Member of the Board of Directors of Primestar Servicing,S.A.; Manager at Consulteam – Consultores de Gestão, Lda.

Tomás Pereira Pena - Member

Date of first appointment – 27 May 2009

Term of office – 31 December 2018

Professional qualifications: Degree in Law

Professional activities in the past 5 years: - Banco Popular Español, S.A. - Head of Legal Services

Does not own any shares in the company.

Functions in other companies belonging to Banco Popular Group: - Head of Legal Services and Compliance at Banco Popular Español, S.A.; - Member of the Board of Directors of Popular Gestão de Ativos, SGFI, S.A.; - Member of the Board of Directors of Eurovida – Companhia de Seguros de Vida, S.A.; - Member of the Board of Directors of Popular Seguros - Companhia de Seguros, S.A.

Susana de Medrano Boix - Member

Date of first appointment – 31 March 2015

Term of office – 31 December 2018

Professional qualifications: Degree in Economic Sciences and Business Management

Professional activities in the past 5 years: - Banco Popular Español – CEO's Office Manager

Does not own any shares in the company.

Functions in other companies belonging to Banco Popular Group: - Member of the Board of Directors of Popular Gestão de Ativos, SGFI, S.A.; - Member of the Board of Directors of Eurovida – Companhia de Seguros de Vida, S.A.; - Member of the Board of Directors of Popular Seguros - Companhia de Seguros, S.A.; Member of the Board of Directors of Popular Factoring, S.A.

II.12 – Identification of the members of the Supervisory Board

Rui Manuel Ferreira de Oliveira - Chairman

António Manuel Mendes Barreira - Member

António Luis Castanheira da Silva Lopes - Member

Rui Manuel Medina da Silva Duarte - Alternate

According to their own self-assessment, effective Supervisory Board members meet the requirements of incompatibility rules as foreseen by No. 1 of Article 141; and the independence criteria as defined in No. 5 of Article 414, both from the Portuguese Companies Act (‘Código das Sociedades Comerciais’).

II.13 – Professional information on the members of the Supervisory Board

Rui Manuel Ferreira de Oliveira

Date of first appointment – 7 May 2007

Term of office – 31 December 2018

Professional qualifications: Degree in Business Management

Professional activities in the past 5 years: Financial controller at Setefrete-Serviços Administrativos ACE; Chairman of the Supervisory Board of AXA Portugal, AXA Vida and Terra Peregrín – Participações SGPS, SA

Does not own any shares in the company.

Functions in other companies belonging to Banco Popular Group:

António Manuel Mendes Barreira

Date of first appointment – 31 March 2015

Term of office – 31 December 2018

Professional qualifications: Degree in Business Management obtained at ISCTE; Statutory Auditor;

Professional activities in the past 5 years: Consulting partner at WG Consulting

Does not own any shares in the company.

Functions in other companies belonging to Banco Popular Group: Chairman of the Supervisory Board of Eurovida – Companhia de Seguros de Vida, S.A. and Chairman of the Supervisory Board of Popular Seguros – Companhia de Seguros, S.A.

António Luis Castanheira da Silva Lopes

Date of first appointment – 31 March 2015

Term of office – 31 December 2018

Professional qualifications: Degree in Accounting; Certified Public Accountant

Professional activities in the past 5 years: - Manager at PricewatherhouseCoopers; - Member of the Supervisory Board at Luz Saúde, SGPS, SA; Member of the Supervisory Board at Terra Peregrín – Participações SGPS, SA;

Does not own any shares in the company.

Functions in other companies belonging to Banco Popular Group:

Rui Manuel Medina da Silva Duarte (alternate)

Date of first appointment – 31 March 2015

Term of office – 31 December 2018

Professional qualifications: - Certified information Systems Auditor (USA)

Professional activities in the past 5 years: - Senior Manager at PricewatherhouseCoopers

Does not own any shares in the company.

Functions in other companies belonging to Banco Popular Group:

II.14 – remuneration policy for the managing and supervisory bodies

Banco Popular Portugal, S.A. is fully owned by Banco Popular Español, S.A., and is therefore included in the Banco Popular Group, which has defined management policies, including remuneration policies, that are uniform and transversal to all the companies that comprise it.

The central focus of the remuneration policy, in turn, entails a governance system that ensures the effective enforcement of the best practices in this matter. In this context, the General Meeting has the competence to determine the pay of the members of the governing bodies (article 399, CSC), while the Board of Directors is in charge of determining the pay of the Bank's employees. In addition, the governing bodies and the supervisory bodies of the credit institutions should firstly define and supervise the enforcement of the governance systems that ensure effective and prudent management practices (article 88/1, CRD IV and article 115-A, RGICSF). Furthermore, the Compensation Committee of the parent-company should monitor the process that leads to the preparation, determination and disclosure of such remunerations.

Aiming at, on the one hand, abiding by Law No. 28/2009 of 19 June, and by the Legal Framework of Credit Institutions and Financial Companies; and, on the other, strengthening the transparency of the process of defining the pay structure for 2015, the following remuneration policy for the members of the governing bodies of Banco Popular Portugal, SA, was approved of at the General Meeting held on 31 March 2015.

1. Scope and competence for the application

1.1. The present policy shall be applied to the following executives of Banco Popular:

1.1.1. Members of the Board of Directors;

1.1.2. Members of the Supervisory Board;

1.2. For the purpose of the present Policy, by 'executives' we mean the members of the governing bodies referred to in the previous numbers.

1.3. The *Comisión de Remuneraciones* of Banco Popular Español S.A. (CRBPE) monitors the enforcement of the present Policy and ensures its full efficacy.

2. Remuneration policy of the members of the Board of Directors

Remuneration structure

2.1. The remuneration of the members of the Board of Directors includes a variable and a fixed component (part of the latter is the base salary and part is a complement due for individual performance).

Variable remuneration component

2.2. The variable remuneration component depends on whether the performance targets set for Banco Popular Group and for Banco Popular Portugal were achieved-

2.3. The performance indicators consider:

a) the performance of the departments or areas the executives are in charge of;

b) the overall performance of the bank and the group to which it belongs.

2.4 The variable component of the remuneration is broken down as follows:

a) 50% is paid in cash;

b) 50% is paid in eligible financial instruments pursuant to the legislation in force.

2.5 The variable component of the remuneration is partially deferred: 50% is paid in the year it was attributed and 50% in three equal conditional successive annual shares.

2.6 The financial instruments attributed pursuant to paragraph (b) of No. 2.4 are not transmissible for a period of three year counted from the date of attribution.

2.7 The instalments referred to in No. 2.5 may only be paid if their sustainability in light of the financial situation of the Bank on the date of payment and its adequacy to the performance of the Bank, the unit or the department the executive member of staff is in charge of is confirmed through a documented opinion of the CRBPE.

2.8 The instalments referred to in No. 2.5 may be subject to reduction or reversal, if the executive:

a) Participated in or was in any way responsible for conduct which resulted in significant losses for the Bank;

b) Participated in or was in any way responsible for fraudulent statements on the Bank's financial information or the adoption of any other unlawful behaviour that has resulted in manipulating or tampering with the performance criteria;

c) Failed to meet appropriate standards of fitness and propriety.

2.9 The variable component of the remuneration may not exceed the amount of the fixed component for each executive member of staff, unless a qualified majority of two-thirds of the General Board Meeting decides otherwise.

2.10 The variable component of the remuneration may not limit the capacity of BANCO POPULAR to strengthen its own funds basis. Consequently, the performance assessment used to calculate the variable component of the remuneration must foresee adjustments considering the various types of current and future risks, as well as the cost of own funds and the liquidity the credit institution needs.

Pension Plan

2.11 The members of the Board of Directors exercising their functions on an exclusive basis at BANCO POPULAR are entitled to receive retirement and survivor’s pensions according to the following regulations:

a) Discretionary pension benefits should take the form of eligible financial instruments pursuant to the legislation in force.

b) In case executives leave the Bank before retirement, discretionary pension benefits they are entitled to shall be held by the Bank for a period of five years, at the end of which they become an acquired right and the former executives are entitled to receive their payment.

c) When executives reach retirement, the discretionary pension benefits they are entitled to and whose respective payment right has already been acquired are withheld by the Bank for a period of five years, at the end of which they are paid to the former executives.

For the purpose of the present Policy, by 'discretionary pension benefits' we mean pension benefits that are more advantageous than those foreseen in the general framework of the Bank's retirement pensions granted to the members of the governing or supervisory bodies, or other members of staff, on a discretionary basis, as part of their remuneration and that do not include the benefits obtained by the employees pursuant to the Bank's pension framework.

Compensations due for directors' dismissal without just cause

2.12 No agreements are foreseen that determine the amounts to pay in case of dismissal of executive members of the Board of Directors without due cause besides the provisions of Law.

Compensations or buy-out from contracts in previous employment

2.13 Compensations to be paid to new executives due to termination of activity in previous employment should align with the long-term interests of the Bank and do not involve guaranteed variable remunerations, except in the first year of activity when approved by the CRBPE.

3. Remuneration policy of the members of the Supervisory Board

Remuneration structure

3.1 The remuneration of the members of the Supervisory Board is composed of a single fixed component paid in cash.

4. Revision of the Remuneration Policy

4.1. The CRBPE shall periodically revise the present Remuneration Policy, submitting recommendations to the management body for its respective improvement.

4.2. Upon receiving the Report prepared and presented by the CRBPE, which contains the revision of the present Remuneration Policy referred to in the previous number, the management body shall approve of the recommendations made by the CRBPE or shall present groundings for its refusal, identifying alternative solutions whenever weaknesses have been detected or if the revised policy is not compliant with the applicable legislation, or any recommendations issued by EBA, the Bank of Portugal or CMVM.

4.3. The management body shall annually submit to the General Meeting of the Bank for its final approval the justified recommendations aimed at improving the present Remuneration Policy.

II.15 – Remunerations earned by the governing and supervisory bodies

The executive members of the Board of Directors earned a total amount of 1,554,985 € in 2015, which included both fixed and variable components and which was fully paid in cash.

The amounts paid to each member of the Board of Directors are detailed as follows:

(euros)

	Annual remuneration			
	Fixed	Complement for personal performance	Seniority Bonus	total
Rui Manuel Morganho Semedo	277,645	869,810	0	1,147,455
Carlos Manuel Sobral Cid da Costa Álvares	290,446	53,000	0	343,446
Pedro Miguel da Gama Cunha	53,802	0	10,282	64,084
Tomás Pereira Pena	0	0	0	0
José Ramon Alonso Lobo	0	0	0	0
Susana de Medrano Boix	0	0	0	0
Total	621,893	922,810	10,282	1,554,985

The members of the Board of Directors that also hold managing positions at Banco Popular Español are accordingly remunerated by that entity.

The members of the Supervisory Board earned a total fixed sum of 22,635,00 € in 2015. The amounts paid to each member of the Supervisory Board are detailed as follows:

	Euros Annual Remuneration
Rui Manuel Ferreira Oliveira	9,600
Telmo Francisco Salvador Vieira	1,500
António Manuel Mendes Barreira	4,500
António José Centúrio Monzelo	1,500
António Luis Castanheira da Silva Lopes	4,500
Total	21,600.00

III – Information and Auditing

III.1 – Structure of ownership of Banco Popular Portugal, S.A.

Share capital – € 476.000.000,00, represented by 476.000.000 ordinary shares with the unitary nominal value of € 1.00, not admitted to trading in a regulated market in Portugal.

III.2 – Qualified stakes

Banco Popular Español, S.A. – owns directly 100% of the share capital and of the righting votes of Banco Popular Portugal.

III.3 – Rules applicable to amendments of the Articles of Association

The Bank's Articles of Association may be amended by deliberation of the General Meeting taken by absolute majority of votes.

III.4 – Availability of the annual reports of the Supervisory Board

The annual reports and the opinions issued by the Supervisory Board as regards the Bank's activity are available, together with the annual accounts, at the Bank's website, www.bancopopular.pt.

III.5 – Remunerations paid to the Statutory Auditor

The amounts paid to the Statutory Auditor, PricewaterhouseCoopers, in 2015 were as follows

Remuneration	Euros annual
Statutory audit	88,500
Other guarantee and reliability services	160,500
Other	18,650
Total	267,650

Lisbon, 17 February 2016

THE BOARD OF DIRECTORS

Statement of the Board of Directors

BANCO POPULAR PORTUGAL, S.A.

Head Office: R. Ramalho Ortigão, No. 51, 1099-090 Lisbon

Share capital: Eur 476,000,000.00

Registered at the Lisbon Commercial Registry

under the Taxpayer No. 502.607.084

STATEMENTS REFERRED TO IN ARTICLE 245(1)(c) OF THE PORTUGUESE SECURITIES CODE

Paragraph (c) of article 245(1) of the Portuguese Securities Code states that each of the responsible persons of the entity shall issue a statement as explained therein.

STATEMENT OF THE BOARD OF DIRECTORS

The members of the Board of Directors of Banco Popular Portugal, S.A., identified below by name, have individually signed the following statement:

'Pursuant to paragraph (c) of article 245(1) of the Portuguese Securities Code, I declare that, to the best of my knowledge, the management report, the annual accounts, the statutory audit and auditor's report and other accounting documents disclosed by Banco Popular Portugal, S. A., all referred to 2015, were drawn up in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial position and the results of that entity and that the management report faithfully states the trend of the business, the performance and position of that entity, and contains a description of the principal risks and uncertainties faced.'

Lisbon, 17 February 2016

Board of Directors

Carlos Manuel Sobral Cid da Costa Álvares	(Chairman)
Pedro Miguel da Gama Cunha	(Member)
Tomás Pereira Pena	(Member)
Susana de Medrano Boix	(Member)

Remuneration Policy for the Members of the Managing and Supervisory Bodies

Introduction

The present Remuneration Policy of the members of the managing and supervisory bodies (hereafter abbreviated to 'Remuneration Policy') as adopted by BANCO POPULAR PORTUGAL, SA (hereafter also abbreviated to BANCO POPULAR) is aimed at complying with the provisions set forth in articles 115C to 115G of the Legal Framework of Credit Institutions and Financial Companies ('RGICSF') and ensures that BANCO POPULAR has adopted the highest national and international standards as regards the corporate governance of credit institutions.

Justification

Credit institutions shall have 'remuneration policies and practices that promote and are coherent with sound and prudent risk management practices' (article 14/1i of the RGICSF). Pursuant to Directive No. 2013/36/EU of the European Parliament and of the Council of 26 June 2013 ('CRD IV'), the remuneration policy shall not encourage taking risks at higher levels than those tolerated by each credit institution. Furthermore, it should be compatible with the corporate strategy and aims, values and long-term interests of the institution, as well as include measures to avoid any conflict of interest.

Other necessary attributes of the remuneration policy are recognized in different international texts. The remuneration policy should be clear and aligned with the long-term interests of the credit institution (NAPF, *Remuneration principles for building and reinforcing long-term business success*, 2013). This policy should, in turn, identify those categories of staff with relevant remuneration status and whose professional activities have a material impact on the bank's risk profile (EBA, Guidelines on Sound Remuneration Policies, 2010). Finally, the remuneration policy should be adapted to the specific characteristics of each credit institution. It should be borne in mind that Banco Popular Portugal, SA, is fully owned by Banco Popular Español, SA, and is therefore part of Banco Popular Group, which has defined management policies, including remuneration policies, that are uniform and transversal to all the companies that comprise it.

The central focus of the remuneration policy, in turn, entails a governance system that ensures the effective enforcement of the best practices in this matter. In this context, the General Meeting has the competence to determine the pay of the members of the governing bodies (article 399, CSC), while the Board of Directors is in charge of determining the pay of the Bank's employees. In addition, the governing bodies and the supervisory bodies of the credit institutions should firstly define and supervise the enforcement of the governance systems that ensure effective and prudent management practices (article 88/1, CRD IV and article 115-A, RGICSF). Furthermore, the Compensation Committee of the parent-company should monitor the process that leads to the preparation, determination and disclosure of such remunerations.

1. Scope and competence for the application

1.1. The present policy shall be applied to the following executives of Banco Popular:

1.1.1. Members of the Board of Directors;

1.1.2. Members of the Supervisory Board;

1.2. For the purpose of the present Policy, by 'executives' we mean the members of the governing bodies referred to in the previous numbers.

1.3. The *Comisión de Remuneraciones* of Banco Popular Español S.A. (CRBPE) monitors the enforcement of the present Policy and ensures its full efficacy.

2. Remuneration policy of the members of the Board of Directors

Remuneration structure

2.1. The remuneration of the members of the Board of Directors includes a variable and a fixed component (part of the latter is the base salary and part is a complement due for individual performance).

Variable remuneration component

2.2. The variable remuneration component depends on whether the performance targets set for Banco Popular Group and for Banco Popular Portugal were achieved-

2.3. The performance indicators consider:

a) the performance of the departments or areas the executives are in charge of;

b) the overall performance of the bank and the group to which it belongs.

2.4 The variable component of the remuneration is broken down as follows:

a) 50% is paid in cash;

b) 50% is paid in eligible financial instruments pursuant to the legislation in force.

2.5 The variable component of the remuneration is partially deferred:50% is paid in the year it was attributed and 50% in three equal conditional successive annual shares.

2.6 The financial instruments attributed pursuant to paragraph (b) of No. 2.4 are not transmissible for a period of three year counted from the date of attribution.

2.7 The instalments referred to in No. 2.5 may only be paid if their sustainability in light of the financial situation of the Bank on the date of payment and its adequacy to the performance of the Bank, the unit or the department the executive member of staff is in charge of is confirmed through a documented opinion of the CRBPE.

2.8 The instalments referred to in No. 2.5 may be subject to reduction or reversal, if the executive:

a) Participated in or was in any way responsible for conduct which resulted in significant losses for the Bank;

b) Participated in or was in any way responsible for fraudulent statements on the Bank's financial information or the adoption of any other unlawful behaviour that has resulted in manipulating or tampering with the performance criteria;

c) Failed to meet appropriate standards of fitness and propriety.

2.9 The variable component of the remuneration may not exceed the amount of the fixed component for each executive member of staff, unless a qualified majority of two-thirds of the General Board Meeting decides otherwise.

2.10 The variable component of the remuneration may not limit the capacity of BANCO POPULAR to strengthen its own funds basis. Consequently, the performance assessment used to calculate the variable component of the remuneration must foresee adjustments considering the various types of current and future risks, as well as the cost of own funds and the liquidity the credit institution needs.

Pension Plan

2.11 The members of the Board of Directors exercising their functions on an exclusive basis at BANCO POPULAR are entitled to receive retirement and survivor’s pensions according to the following regulations:

a) Discretionary pension benefits should take the form of eligible financial instruments pursuant to the legislation in force.

b) In case executives leave the Bank before retirement, discretionary pension benefits they are entitled to shall be held by the Bank for a period of five years, at the end of which they become an acquired right and the former executives are entitled to receive their payment.

c) When executives reach retirement, the discretionary pension benefits they are entitled to and whose respective payment right has already been acquired are withheld by the Bank for a period of five years, at the end of which they are paid to the former executives.

For the purpose of the present Policy, by 'discretionary pension benefits' we mean pension benefits that are more advantageous than those foreseen in the general framework of the Bank's retirement pensions granted to the members of the governing or supervisory bodies, or other members of staff, on a discretionary basis, as part of their remuneration and that do not include the benefits obtained by the employees pursuant to the Bank's pension framework.

Compensations due for directors' dismissal without just cause

2.12 No agreements are foreseen that determine the amounts to pay in case of dismissal of executive members of the Board of Directors without due cause besides the provisions of Law.

Compensations or buy-out from contracts in previous employment

2.13 Compensations to be paid to new executives due to termination of activity in previous employment should align with the long-term interests of the Bank and do not involve guaranteed variable remunerations, except in the first year of activity when approved by the CRBPE.

3. Remuneration policy of the members of the Supervisory Board

Remuneration structure

3.1 The remuneration of the members of the Supervisory Board is composed of a single fixed component paid in cash.

4. Revision of the Remuneration Policy

4.1. The CRBPE shall periodically revise the present Remuneration Policy, submitting recommendations to the management body for its respective improvement.

4.2. Upon receiving the Report prepared and presented by the CRBPE, which contains the revision of the present Remuneration Policy referred to in the previous number, the management body shall approve of the recommendations made by the CRBPE or shall present groundings for its refusal, identifying alternative solutions whenever weaknesses have been detected or if the revised policy is not compliant with the applicable legislation, or any recommendations issued by EBA, the Bank of Portugal or CMVM.

4.3. The management body shall annually submit to the General Meeting of the Bank for its final approval the justified recommendations aimed at improving the present Remuneration Policy.

5. Approval, entry into force, and amendments

5.1. The present Policy was approved of by the General Meeting and shall enter into force on 24 March 2016, and it can be amended by decision of said management body.

6. Interpretation

6.1. Any reference to any legal provision, any guidelines or any other text that provides recommendations or has a similar nature should be interpreted as a reference to said provision, guidelines or text with a similar nature according to the wording in force on the date of its respective application, as well as to the other regulations or recommendations that may replace, amend or complement them.

7. Disclosure

7.1. The present Policy is disclosed on *Banco* Popular's WEBSITE.

Remuneration Policy for Key Function Holders

Introduction

The present Remuneration Policy for the members of the holders of essential positions (hereafter abbreviated to 'Remuneration Policy') as adopted by BANCO POPULAR PORTUGAL, SA (hereafter also abbreviated to BANCO POPULAR) is aimed at complying with the provisions set forth in articles 115C to 115G of the Legal Framework of Credit Institutions and Financial Companies ('RGICSF') and ensures that BANCO POPULAR has adopted the highest national and international standards as regards the corporate governance of credit institutions.

Justification

Credit institutions shall have 'remuneration policies and practices that promote and are coherent with sound and prudent risk management practices' (article 14/1i of the RGICSF). Pursuant to Directive No. 2013/36/EU of the European Parliament and of the Council of 26 June 2013 ('CRD IV'), the remuneration policy shall not encourage taking risks at higher levels than those tolerated by each credit institution. Furthermore, it should be compatible with the corporate strategy and aims, values and long-term interests of the institution, as well as include measures to avoid any conflict of interest.

Other necessary attributes of the remuneration policy are recognized in different international texts. The remuneration policy should be clear and aligned with the long-term interests of the credit institution (NAPF, *Remuneration principles for building and reinforcing long-term business success*, 2013). This policy should, in turn, identify those categories of staff with relevant remuneration status and whose professional activities have a material impact on the bank's risk profile (EBA, Guidelines on Sound Remuneration Policies, 2010). Finally, the remuneration policy should be adapted to the specific characteristics of each credit institution. It should be borne in mind that Banco Popular Portugal, SA, is fully owned by Banco Popular Español, SA, and is therefore part of Banco Popular Group, which has defined management policies, including remuneration policies, that are uniform and transversal to all the companies that comprise it.

The central focus of the remuneration policy, in turn, entails a governance system that ensures the effective enforcement of the best practices in this matter. In this context, the General Meeting has the competence to determine the pay of the members of the governing bodies (article 399, CSC), while the Board of Directors is in charge of determining the pay of the Bank's employees. In addition, the governing bodies and the supervisory bodies of the credit institutions should firstly define and supervise the enforcement of the governance systems that ensure effective and prudent management practices (article 88/1, CRD IV and article 115-A, RGICSF). Furthermore, the Compensation Committee of the parent-company should monitor the process that leads to the preparation, determination and disclosure of such remunerations.

Besides the governance bodies already referred, the sound and prudent management of credit institutions is also based on the performance of some particularly relevant functions, such as compliance, internal auditing and risk management. These members of staff are here jointly considered in charge of the internal control system. The fact that these functions are essential justifies that the remuneration status of their respective holders is treated differently in order to adequately ensure their independence. Therefore, and pursuant to the provisions set forth in article 115-C/2 of the RGICSF, the present Policy also encompasses the holders of such functions as well as any employees with a remuneration status equivalent to those of any other function whose remuneration is comprehended in the present Policy, as long as their professional activities have a material impact on the risk profile of Banco Popular.

1. Scope and competence for the application

1.1. The present policy shall be applied to the following executives of Banco Popular:

1.1.1. Central Managers;

1.1.2. *Head of Compliance;*

1.1.3. Heads of the Risk Management and Internal Auditing divisions;

1.1.4. Other employees identified by the CRBPE receiving total remuneration that takes them into the same remuneration bracket as that foreseen for the categories stated in the previous paragraphs, as long as their respective professional activities have a material impact on the risk profile of Banco Popular.

1.2. For the purpose of the present Policy, by 'executives' we mean the members of the governing bodies referred to in the previous numbers.

1.3. The *Comisión de Remuneraciones* of Banco Popular Español S.A. CRBPE monitors the enforcement of the present Policy and ensures its full efficacy.

2. Remuneration policy of the members of Central Management

Remuneration structure

2.1. The remuneration of the members of Central Managers includes a variable and a fixed component (part of the latter is the base salary and part is a complement due for individual performance).

Variable remuneration component

2.2. The variable remuneration component depends on whether the performance targets set for Banco Popular Group and for Banco Popular Portugal were achieved-

2.3. The performance indicators consider:

a) the performance of the departments or areas the executives are in charge of;

b) the overall performance of the bank and the group to which it belongs.

2.4 The variable component of the remuneration is broken down as follows:

a) 50% is paid in cash;

b) 50% is paid in eligible financial instruments pursuant to the legislation in force.

2.5 The variable component of the remuneration is partially deferred:50% is paid in the year it was attributed and 50% in three equal conditional successive annual shares.

2.6 The financial instruments attributed pursuant to paragraph (b) of No. 2.4 are not transmissible for a period of three year counted from the date of attribution.

2.7 The instalments referred to in No. 2.5 may only be paid if their sustainability in light of the financial situation of the Bank on the date of payment and its adequacy to the performance of the Bank, the unit or the department the executive member of staff is in charge of is confirmed through a documented opinion of the CRBPE.

2.8 The instalments referred to in No. 2.5 may be subject to reduction or reversal, if the executive:

a) Participated in or was in any way responsible for conduct which resulted in significant losses for the Bank;

b) Participated in or was in any way responsible for fraudulent statements on the Bank's financial information or the adoption of any other unlawful behaviour that has resulted in manipulating or tampering with the performance criteria;

c) Failed to meet appropriate standards of fitness and propriety.

2.9 The variable component of the remuneration may not exceed the amount of the fixed component for each executive member of staff, unless a qualified majority of two-thirds of the General Board Meeting decides otherwise.

2.10 The variable component of the remuneration may not limit the capacity of BANCO POPULAR to strengthen its own funds basis. Consequently, the performance assessment used to calculate the variable component of the remuneration must foresee adjustments considering the various types of current and future risks, as well as the cost of own funds and the liquidity the credit institution needs.

Pension Plan

2.11 The pension policy is regulated pursuant to the following:

a) Discretionary pension benefits should take the form of eligible financial instruments pursuant to the legislation in force.
b) In case executives leave the Bank before retirement, discretionary pension benefits they are entitled to shall be held by the Bank for a period of five years, at the end of which they become an acquired right and the former executives are entitled to receive their payment.
c) When executives reach retirement, the discretionary pension benefits they are entitled to and whose respective payment right has already been acquired are withheld by the Bank for a period of five years, at the end of which they are paid to the former executives.

For the purpose of the present Policy, by 'discretionary pension benefits' we mean pension benefits that are more advantageous than those foreseen in the general framework of the Bank's retirement pensions granted to the members of the governing or supervisory bodies, or other members of staff, on a discretionary basis, as part of their remuneration and that do not include the benefits obtained by the employees pursuant to the Bank's pension framework.

Compensations or buy out from contracts in previous employment

2.12 Compensations to be paid to new executives due to termination of activity in previous employment should align with the long-term interests of the Bank and do not involve guaranteed variable remunerations, except in the first year of activity when approved by the CRBPE.

3. Remuneration policy of the members of the heads of the internal control system

Remuneration structure and supervision

3.1 The remuneration of the heads of the internal control system includes a variable and a fixed component (part of the latter is the base salary and part is a complement due for individual performance).

3.2 The variable component of the remuneration depends on the objectives associated with their functions, regardless of the performance of the sectors they are in charge of.

3.3 The remuneration of the heads of the internal control system shall be directly supervised by CRBPE.

4. Remuneration policy for other employees that have a material impact on the risk profile

Remuneration structure and supervision

4.1 The remuneration of other employees that have a material impact on the risk profile of the Bank follows, with the necessary adaptations, number 2 above and is directly supervised by the CRBPE.

5. Revision of the Remuneration Policy

5.1. The CRBPE shall periodically revise the present Remuneration Policy, submitting recommendations to the management body for its respective improvement.

5.2. Upon receiving the Report prepared and presented by the CRBPE, which contains the revision of the present Remuneration Policy referred to in the previous number, the Board of Directors shall approve of the amendments suggested by the CRBPE or shall present groundings for their refusal, identifying alternative solutions whenever weaknesses have been detected or if the revised policy is not compliant with the applicable legislation, or any recommendations issued by EBA, the Bank of Portugal or CMVM.

6. Approval, entry into force, and amendments

6.1. The present Policy was approved of by the General Meeting and shall enter into force on 24 March 2016, and it can be amended by decision of said management body.

7. Interpretation

7.1. Any reference to any legal provision, any guidelines or any other text that provides recommendations or has a similar nature should be interpreted as a reference to said provision, guidelines or text with a similar nature according to the wording in force on the date of its respective application, as well as to the other regulations or recommendations that may replace, amend or complement them.

8. Disclosure

8.1. The present Policy is disclosed on *Banco* Popular's WEBSITE.

Policy for the Prevention, Communication and Remedy of Conflicts of Interests

1. Object, scope, and competence

1.1. The present document contains the Policy for the Prevention, Communication and Remedy of Conflicts of Interest of BANCO POPULAR ('Conflict of Interest Policy')**,** which is alluded to in paragraph 9 of the Selection and Assessment Policy for the members of the managing and supervisory bodies and key function holders at BANCO POPULAR, pursuant to article 30-A/2 of the Legal Framework of Credit Institutions and Financial Companies ('RGICSF').

1.2. The Policy for the Prevention of Conflicts of Interests regarding the financial intermediation activity of BANCO POPULAR is stated on a separate document.

1.3. The present Conflict of Interest Policy aims to prevent the risk of subjecting the members of the managing and supervisory bodies and Key Function Holders at BANCO POPULAR to the undue influence of other persons or entities, as well as to ensure that the preparation, implementation and execution of decisions taken by the Executives of BANCO POPULAR is exclusively targeted at the sound and prudent management of the Bank and is not vulnerable to the personal interests of the Executives or any other entities with which they are direct or indirectly related.

1.4. The present Conflict of Interest Policy shall be applied to the following executives of BANCO POPULAR:

1.4.1. Members of the Board of Directors;

1.4.2. Members of the Supervisory Board;

1.4.3. Key function holders in the credit institution.

1.5. Pursuant to the previous number, the key function holders are:

1.5.1. The Central Managers of the Bank

1.5.2. The Bank's Head of Compliance;

1.5.3. Those in charge of risk management in the Bank;

1.5.4. Those in charge of internal auditing in the Bank;

1.5.5. The remaining members designated as key function holders by the *Comisión de Nombramientos* of Banco Popular Español S.A. ('CNBPE').

1.6. For the purpose of the present Policy, by 'executives' we mean the members of the governing bodies referred to in the previous numbers.

1.7. CRBPE monitors the enforcement of the present Policy and ensures its full efficacy.

2. General principles

2.1. Any Relevant Business between BANCO POPULAR or a company it has a significant stake in ('Investee Company') and a Related Party must be preceded by (i) previous communication to the CNBPE, and (ii) previous opinion issued by the CNBPE.

2.2. Relevant Businesses between BANCO POPULAR or a company it has a significant stake in ('Investee Company') and Related Parties should be conducted under normal market conditions. Namely, lending or financing operations covered by the present Policy should not define preferential conditions when compared with those that would be available to other borrowers in similar circumstances.

3. Definitions

3.1. *Investee Company*: Companies with which BANCO POPULAR, has an association with pursuant to Article 20 of the Securities Code ('Código dos Valores Mobiliários'), as well as any other entity – regardless of its legal form – upon which BANCO POPULAR has a direct or indirect significant influence;

3.1.1. *Relevant Business:* Any legal business, regardless of its legal form, or material act that can result or might possibly result, direct or indirectly, individually or in combination with other businesses or material acts that form a unit from a temporal or economic standpoint:

3.1.2. The constitution of a current or contingent obligation in the scope of BANCO POPULAR or an Investee Company, of over € 100,000 (one hundred thousand euros);

3.1.3. The extinction of a legally protected right or interest previously in the scope of BANCO POPULAR or Investee Company, of over € 100,000 (one hundred thousand euros);

3.1.4. The encumbrance of assets that belong to BANCO POPULAR or Investee Company, regardless of their legal form and amount;

3.1.5. In general, any form of appropriation of assets that belong to BANCO POPULAR or Investee Company, of over € 100,000 (one hundred thousand euros).

3.2. *Related Party:* Besides the Executives themselves, any person or entity, regardless of their legal form, that has a family, legal or business connection with an Executive of any of the following types:

3.2.1. Executive's spouse or domestic partner, children or ancestors in a direct line, collateral relatives to the fourth degree, and any other person with whom the Executive has lived for over a year;

3.2.2. The Investee Companies controlled by the Executive of by any of the people referred to in the previous number pursuant to the meaning defined in paragraph 3.1.

3.2.3. Entities where the Executives hold managing of supervisory positions or in any other way participate in the main management decisions;

3.2.4. Shareholders with stakes higher than 2% at BANCO POPULAR, calculated pursuant to article 20 of the CVM and their investee companies according to the meaning attributed to the expression in paragraph 3.1.

3.2.5. Third parties with whom BANCO POPULAR or its Investee Companies have established relevant commercial relations in terms of the length of time or the amounts involved.

4. Procedures

4.1. In case a Relevant Business is being considered, prepared or negotiated between BANCO POPULAR or an Investee Company and a Related Party, the Executive or Executives involved shall immediately write a Previous Communication of Relevant Business.

4.2. The Previous Communication of Relevant Business shall be delivered to the CNBPE and includes at least the main information on the parties, object, time frame, collaterals, and other relevant elements of the projected Business that allow for the full assessment of the interests involved and the way it will affect the assets and the business plan of BANCO POPULAR or its Investee Company.

4.3. The Previous Communication of Relevant Business may be urgent, in which case the CNBPE will make an effort to issue an opinion in 5 days.

4.4. The CNBPE will rapidly issue a justified opinion on the projected Relevant Business: (a) without any objection; (b) without any objection, but with certain conditions; (c) with objections.

4.5. In the cases foreseen in paragraph (b) of the previous number, the Executive or Executives involved have to provide evidence that the conditions imposed by the CNBPE were met.

4.6. In the cases foreseen in paragraph (c) of the previous number, the Relevant Business is considered rejected, and it shall not even be submitted for approval of the competent bodies.

4.7. In the case foreseen in the previous number, the Executives that might have a conflict of interest in that business are prevented from participating or voting on the decisions of the management board or the Auditing Committee (if applicable).

4.8. The Annual Governance Report of BANCO POPULAR shall include a list of the Relevant Businesses signed between BANCO POPULAR or its Investee Companies and Related Parties, for which the CNBPE has raised objections, as well as the Relevant Businesses for which conditions have been defined pursuant to paragraph 4.4(b).Accordingly, the management board shall identify the reasons and elements that have allowed it to conclude that the said conditions were met.

4.9. Neglecting the duties of previous communication of Relevant Businesses with Related Parties to the CNBPE, as well as conducting a business for which objections have been raised outside the scope of the cases foreseen in paragraph 4.6 is considered a serious breach of the legal and contractual duties of the Executives.

5. Other conflicts of interests

5.1. Executives shall inform the CNBPE and the respective body or committee as soon as possible regarding any fact that may constitute or most probably cause a conflict of interest with BANCO POPULAR.

5.2. The Executives involved in a conflict of interest may not interfere in the decision-making process regarding the act at issue, without prejudice to the duty of providing information or any explanation that the body, committee or respective members request.

5.3. The Executives have cooperation duties in compliance with the present Policy, namely providing information on Relevant Businesses.

5.4. The Compliance *Department* of BANCO POPULAR shall prepare and update a list of possible conflicts of interest and provide that list to the CNBPE.

6. Approval, entry into force, and amendments

6.1. The present Policy was approved of by the General Meeting and shall enter into force on 1 April 2015, and it can be amended by decision of said management body.

7. Disclosure

7.1. The present Policy is disclosed on *Banco* Popular's WEBSITE.

Policy for the Selection and Assessment of the Members of Managing and Supervisory Bodies, and of Key Function Holders

Introduction

The present Policy for the selection and assessment of the members of the managing and supervisory bodies as adopted by BANCO POPULAR (hereafter abbreviated to 'Selection and Assessment Policy') is aimed at complying with the provisions set forth in articles 115C to 115G of the Legal Framework of Credit Institutions and Financial Companies ('RGICSF') and ensures that BANCO POPULAR has adopted the highest national and international standards as regards the corporate governance of credit institutions.

Banco POPULAR (herein also 'Bank') had adopted the so-called classic or Latin model in terms of governance structure as described in article 278/1, paragraph (a) of the Commercial Companies Code.. In the case of BANCO POPULAR, this model includes a Board of Directors and a Supervisory Board. For effects of the present Policy, the reference to 'governing and supervisory bodies' includes the Board of Directors and the Supervisory Board of BANCO POPULAR, which are jointly considered, and the reference to 'members of the governing body and of the supervisory board' includes every member of the Bank's Board of Directors and of the Supervisory Board, regardless of their statute of executive or non-executive managers, or independent or non-independent members.

Justification

Credit institutions should have 'robust governance arrangements, which include a clear organisational structure with well-defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks they are or might be exposed to, adequate internal control mechanisms, including sound administration and accounting procedures, and remuneration policies and practices that are consistent with and promote sound and effective risk management' (Article 74/1 of Directive No. 2013/36/EU of the European Parliament and of the Council of 26 June 2013: 'CRD IV' and article 14/1 of the RGICSF).

In this context, the management bodies and the supervisory bodies of the credit institutions should firstly define and supervise the enforcement of the governance systems that ensure effective and prudent management practices, including the segregation of duties in the organisation and the prevention of conflicts of interest (article 88/1, CRD IV and article 115-A, RGICSF).

The management body performs these key functions in terms of the governance of the institution, since it simultaneously has **the overall responsibility for the institution**, and shall define, approve and implement, on the one hand, and oversee, on the other, **the strategic objectives** of the institution, among which is the **adequate and prudent risk management**.

The importance of the individual and collective fitness of the members of the management and supervisory bodies becomes evident when the competences of these bodies are taken into consideration (albeit with little detail), as well as the crucial role they perform in the sound and prudent management of credit institutions.

The overall responsibility for the institution includes the definition of the main strategic objectives as far as the banking business is concerned, in general, and the guarantee of

financial robustness of the institution, in particular, but also the main decisions regarding hiring more relevant members of staff or structuring a remuneration policy.
In terms of risk, the management body, in its executive capacity, is accountable for the definition and implementation of a risk strategy that is adequate to the overall strategy of the institution, its size and complexity. This overall risk strategy includes, among other aspects, the definition of the institution's risk appetite, the implementation of adequate information channels and the management of the risks assumed. Furthermore, the management body must define internal standards and procedures that promote an institutional risk culture that leads to ethical integrity values, internal scrutiny, and organisational transparency and robustness.
In its supervisory role, the Supervisory Board must be able to monitor the risks and challenges the credit institution faces in its activity, pro-actively and critically examining the decisions that will be taken or that have been taken.

1. Scope and competence for the application

1.1. The present policy shall be applied to the following executives of BANCO POPULAR:

1.1.1. Members of the Board of Directors;

1.1.2. Members of the Supervisory Board;

1.1.3. Key function holders.

1.2. Pursuant to the previous number, the key function holders are:

1.2.1. The Central Managers of the Bank;

1.2.2. The Bank's Head of Compliance;

1.2.3. Those in charge of risk management in the Bank;

1.2.4. Those in charge of internal auditing in the Bank;

1.2.5. The remaining members designated as key function holders by the *Comisión de Nombramientos* of Banco Popular Español S.A. (CNBPE). ('CNBPE').

1.3. For the purpose of the present Policy, by 'executives' we mean the members of the governing bodies referred to in the previous numbers.

1.4. CRBPE monitors the enforcement of the present Policy and ensures its full efficacy.

2. Collective fitness of the management and supervisory bodies

Versatility

2.1. The governing and supervisory bodies of BANCO POPULAR should be composed of members that collectively ensure the sound and prudent management of the Bank.

2.2. The collective composition of the management and supervisory bodies should ensure that decisions taken by these bodies are not dominated by any single individual or small group of individuals to the detriment of the Bank's interests as a whole.

2.3. In particular, the management and supervisory bodies should collectively be composed of members that can ensure:

2.3.1. The definition, approval, implementation and supervision of the **strategic objectives** of the Bank;

2.3.2. The understanding, definition, implementation, management and supervision of a **solid risk culture and strategy** for the Bank;

2.3.3. The definition, approval, implementation and supervision of the **internal corporate governance structure** of the Bank;

2.3.4. The understanding and decision-making process behind the **overall business** and the **operations** through which the Bank develops its activity in all its complexity, as well as their corresponding supervision;

2.3.5. The understanding, implementation and supervision of adequate control processes regarding **own funds rules**, **liquidity management** and **contingency plans** of the Bank;

2.3.6. The knowledge, critical analysis, monitoring and adaptation of the **structure of the group** in which the Bank is included, in order to ensure integrated risk management and supervision, as well as a precise and timely information flow.

2.4. For the purposes of what we have just described, the management and supervisory bodies shall be composed of members that collectively gather knowledge, competences and experience in the following areas of the banking and financial activities, among others

2.4.1. Definition and implementation of business plans, and medium and long-term strategic plans;

2.4.2. Banking and financial operations;

2.4.3. Financial analysis;

2.4.4. Accounting policies;

2.4.5. Financial auditing and operational control;

2.4.6. Own funds requirements and liquidity management;

2.4.7. Risk analysis and management;

2.4.8. Remuneration policies;

2.4.9. Internal and external disclosures;

2.4.10. Legal and regulatory framework;

2.4.11. Governance system.

Availability

2.5. he governing and supervisory boards of BANCO POPULAR should be composed of a sufficient number of members with sufficient availability to commit the necessary dedication to perform their management and supervisory functions, taking into consideration the Bank's risk profile, its size and the complexity of its activity.

Diversity

2.6. The selection and assessment of the members of the management and supervisory boards and key function holders highly encourages the diversity of qualifications and necessary skill for the performance of the executive tasks at BANCO POPULAR.

2.7. Although BANCO POPULAR views the diversity of professional qualifications in a good light, as well as geographic and generational diversity, it grants priority to gender diversity in so far as it is a sub-represented group among the Bank's executives pursuant to the Diversity Policy detailed in paragraph 8 *below*.

2.8. Gender diversity in managing functions is viewed as an instrument that allows BANCO POPULAR, to take advantage of its human resources more effectively, as a way to increase the independence of its executives and as a direct contribution to foster gender equality and to be socially aware.

3. Collective fitness of the members of the management and supervisory bodies

3.1. Without prejudice to the final competence of the General Meeting of BANCO POPULAR regarding the appointment of the members of the management and supervisory bodies, the CNBPE is in charge of the initial assessment of new members, as well as their successive individual and collective assessment pursuant to article 30-A/1 of the RGICSF.

Propriety

3.2. A member of the governing or supervisory board is considered of good repute when there are no elements regarding their personal or professional conduct that can raise reasonable doubt as to their capacity to ensure the sound and prudent management of the Bank.

3.3. When assessing propriety, the Bank should take into account the way the candidates usually run their professional or personal businesses, how they perform their professional duties, particularly regarding aspects that can reveal their capacity to make sound and judicious decisions, or their tendency to promptly fulfil their obligations or to show a conduct that is compatible with the preservation of market trust, taking into consideration all the circumstances that allow the assessment of the professional behaviour for the functions at issue.

3.4. At the initial and successive propriety assessments of a candidate or member of the governing or supervisory board all the relevant and available data shall be taken into consideration, regardless of the legal framework of such data in light of each of the jurisdictions involved and regardless of the place where the actions were performed or their effects occurred.

3.5. When assessing the propriety to which the previous numbers refer, the following elements, among others, are taken into consideration:

3.5.1. Relevant criminal and administrative records and any misdemeanour:

3.5.2. Specific mitigating or aggravating circumstances or others that in any other way may affect the judgement of the fact or event attributed to the candidate;

3.5.3. Any type of incident, albeit minor, but whose context or repetition may cause reasonable doubt regarding the fitness of the candidate.

3.6. During the propriety assessment the previous numbers refer, the following items are also taken into consideration:

3.6.1. The circumstances mentioned in Nos. 3, 5 and 6 of article 30-D/3 of the RGICSF, according to the text in force at the time of the assessment, as well as any other similar standards that shall replace, amend or complement said legal standards;

3.6.2. The elements mentioned in paragraphs 13.5 to 13.7 of EBA's Guidelines of 22 November 2012 on the assessment and suitability of the members of the management and supervisory boards and key function holders ('EBA's Guidelines'), pursuant to the text in force at the time of the assessment, as well as any similar recommendations that shall replace, amend or complement EBA's Guidelines.

Experience

3.7. The members of the governing and supervisory boards of BANCO POPULAR shall possess the necessary experience to perform their duties, taking into account the responsibility that underlies their competences, the complexity of the Bank's activity, its respective size, and the need to ensure the sound and prudent management of the institution in the context of safeguarding the financial system and the interests of their respective customers, depositors, investors and other customers.

3.8. The members of the governing or supervisory boards are considered to have the necessary experience when their previously held positions - particularly as regards length of service, the responsibilities formal and materially undertook and their level of performance - make them suitable to understand the operation and activity of the Bank, the challenges that BANCO POPULAR faces, the complexity of the operations that BANCO POPULAR is part of, the risks the Bank is exposed to, while being able to critically analyse the decisions taken.

3.9. When assessing the experience of a candidate or a member of the governing or supervisory board, the elements mentioned in paragraph 14 of EBA's Guidelines shall be taken into account.

Availability

3.10. The members of the management and supervisory boards must commit to the performance of their duties the adequate availability to the full exercise of their powers, the size of the Bank and its respective activity.

3.11. In cases when the members of the governing or supervisory boards accumulate or wish to accumulate the position at the Bank with other governing or supervisory positions in other entities, they must present annually an estimation of the number of hours per week that they intend to commit to their functions with the Bank, as well as to the other functions they perform, and also to justify the reasons they believe they will still have the adequate availability pursuant to paragraph 3.10.

3.12. The duties stated in paragraph 3.11 shall prevail even in the cases foreseen in No. 4 and No. 6 of article 33/4 of the RGICSF.

Independence

3.13 The members of the management and supervisory boards shall avoid the risk of undue influence from other persons or entities and shall therefore have the rightful conditions that will allow them to perform their duties impartially.

3.14 During the assessment, all the situations that might affect the independence are taken into consideration, namely the following:

a) Past and present positions held in the Bank or in another credit institution;
b) Family relationships or similar, as well as professional or economic relationships with other members of the governing or supervisory boards of the Bank, its parent company or its subsidiaries;
b) Family relationships or similar, as well as professional or economic relationships with a person that has a qualified holding in the Bank, its parent company or its subsidiaries;

4. Selection and assessment process

Initial assessment of individual suitability and selection

4.1. The initial assessment of the individual suitability of the members of the management and supervisory boards should precede their selection or presentation to the General Meeting for approval or their appointment by that body.

4.2. The management board makes pro-active efforts to identify new members for the management and supervisory boards, as well as to timely prepare their respective succession process without prejudice to the competence of the partners and the General Meeting on this matter.

4.3. The inclusion of candidates on lists that shall be submitted to vote at the General Meeting, as well as the presentation of candidates to be appointed by the management board must be preceded by an initial assessment process which ends with the preparation and disclosure of an Initial Assessment Report.

4.4. Banco POPULAR shall make every effort to amend its statutes, regulations and other documents that regulate the day-to-day management of the Bank, as well as the adopted practices, so that the inclusion of candidates on lists that shall be submitted to vote at the General Meeting by the shareholders, or the presentation of candidates to be appointed by the management board is compulsorily preceded by the Selection and Assessment Process to which the present paragraph refers.

4.5. The initial assessment of the suitability of the members of the management and supervisory boards and the preparation and disclosure of their respective Initial Assessment Report shall be carried out by the CNBPE.

4.6. Once a possible candidate to a governing or supervisory body is identified, CNBPE promotes the collection of relevant information for the initial assessment of his/her aptitude, which will at least comprise the elements referred to in the Questionnaire presented as Annex 1. The Questionnaire may be filled in by the candidates themselves or by CNBPE based on the collected information or by an external entity hired by CNBPE for that effect.

4.7. The CNBPE - as well as the management board -, may hire external entities that can help them define the candidate's profile, select the best method for their respective identification, and perform the initial assessment and selection. The management board shall provide the CNBPE with the technical and financial human resources necessary for the Bank's selection and assessment process to be carried out pursuant to the highest standards of quality, thoroughness, transparency, and compliance with national and international standards.

4.8. The Initial Assessment Report on the suitability of the candidate, prepared and presented by the CNBPE pursuant to the previous numbers must contain at least the separate and justified analysis of the following elements:

4.8.1. Experience

4.8.2. Knowledge and skills

4.8.3. Propriety

4.8.4. Availability

4.8.5. Adequacy of the applicant – pursuant to the elements described in paragraphs 4.8.1 to 4.8.4. - for the expected tasks to be performed in the governing or supervisory body

4.8.6. Three preferential areas for the acquisition, maintenance and further development of knowledge and skills, taking into consideration the individual needs of the candidate concerned, the Bank's needs and the innovation trends in the banking and financial sector.

4.9. The information that is considered relevant for the initial assessment of the candidate's suitability shall necessarily be accompanied by supporting documents.

4.10. Upon completion of the Initial Assessment Report, the CNBPE shall inform the shareholder or shareholders that have identified and suggested the candidate, as well as the management board.

4.11. In case the Initial Assessment Report concludes that the candidate is not suitable, their respective proponents may choose to withdraw the application or submit it to the appreciation of the Bank of Portugal pursuant to article 30-B/3 of the RGICSF. In this case, the candidates may only be suggested by the shareholders or by the management board after the assessment of their respective fitness made by the Bank of Portugal and its authorization for the exercise of their functions pursuant to articles 30-B/4 and 30-A/6 of the RGICSF.

4.12. In case the candidate is included on a list submitted to the General Meeting for approval, the CNBPE shall present the Initial Assessment Report to the Chairman of the Board of the General Meeting of the Bank, who shall deliver it to the shareholders in the scope of the preparatory information for the Meeting, as well as inform the shareholders of the adequacy requirements of the people to be appointed, which are included in the present Selection and Assessment Policy.

Successive assessment of individual and collective suitability

4.13. The successive assessment of the individual suitability of the members of the management and supervisory boards shall be performed by the CNBPE.

4.13.1. Annually; and

4.13.2. Whenever new facts or events determine the need for a suitability reassessment. This need may arise from facts that the CNBPE or the management board are made aware of.

4.14. The members of the management and supervisory boards have the duty to inform the Bank immediately (through the Chairman of the CNBPE) of any subsequent fact that comes to their knowledge after the date of appointment and that can change the content of the statements that underlay the Questionnaire referred to in paragraph 4.6 or that changes or might change - according to a reasonable evaluation - the assessment of the member's individual fitness, propriety, experience, competence and knowledge, availability or adequacy to the functions.

4.15. The successive collective assessment of the management and supervisory boards shall also be conducted every year by the CNBPE.

4.16. As a result of the assessment referred to in paragraphs 4.13 and 4.15, the CNBPE shall prepare an Annual Report of Successive Assessment on the individual and collective suitability of the management and supervisory boards, which shall have at least a justified analysis of the following items.

Individual successive assessment

4.16.1. Summarized description of the elements contained in the Individual Assessment Report referred to in paragraph 4.8.

4.16.2. Description of the changes that have occurred regarding the elements contained in the Individual Assessment Report referred to in paragraph 4.8.

4.16.3. Adequacy of the time committed by each individual to the performance of their functions;

4.16.4. Compliance with the annual objectives in terms of acquisition, maintenance and further development of knowledge and skills;

4.16.5. Objectives in terms of acquisition, maintenance and further development of knowledge and skills for the following year pursuant to paragraph 7.6.

Collective successive assessment

4.16.6. Structure, size, composition and performance of the management and supervisory boards;

4.16.7. Adequacy of the time committed in aggregate to the performance of their functions;

4.16.8. Compliance with the diversity objectives detailed in paragraph 8;

4.16.9. Adequacy of aggregate skills, knowledge and experience taking into consideration the Bank's activity.

4.16.10. Compliance with the annual objectives in terms of acquisition, maintenance and further development of knowledge and skills;

4.16.11. The three preferential areas for the acquisition, maintenance and further development of knowledge and skills for the following year;

4.16.12. Recommendations for any possible changes.

5. Individual suitability of key function holders

5.1. The requirements of propriety, experience and availability stated in paragraph 3 shall apply to key function holders with the necessary adaptations.

6. Selection and assessment process for key function holders

Initial assessment of individual suitability and selection

6.1. The initial assessment of the individual suitability of key function holders must precede their recruitment.

6.2. The management board makes every effort to identify possible candidates to key function holders, as well as to timely prepare their respective succession process.

6.3. Once a possible candidate to a governing or supervisory body is identified, CNBPE promotes the collection of relevant information for the initial assessment of his/her aptitude, which will at least comprise the elements referred to in the Questionnaire presented as Annex 2. The Questionnaire may be filled in by the candidates themselves or by CNBPE based on the collected information or by an external entity hired by CNBPE for that effect.

6.4. The information that is considered relevant for the initial assessment of the candidate's suitability shall necessarily be accompanied by supporting documents.

6.5. The provisions set forth in paragraph 4.7 shall apply, with the necessary adaptation, to the Initial Assessment Report on the suitability of key function holders that shall be prepared by the CNBPE and presented to the management board.

6.6. In case the management board intents to hire a key function holder that has not been assessed by the CNBPE, the decision to hire him/her as well as the justification for doing so must by included in the minutes of the meeting.

6.7. The justification to which paragraph 6.6 refers must analyse separately - at least - the reasons considered relevant by the CNBPE in its Assessment Report to conclude on the lack of suitability.

Successive assessment of key function holders

6.8. The successive assessment of key function holders shall be performed by the CNBPE and carried out pursuant to the terms foreseen for the successive assessment of individual suitability of the members of the management and supervisory boards with the necessary adaptation.

7. Continuous Training Programme for members of management and supervisory boards and key function holders

7.1. The Bank allocates the resources and time needed to ensure the acquisition, maintenance and further development of knowledge and skills needed for the full performance of the duties attributed to the management and supervisory boards, as well as to key function holders.

Continuous training of the management and supervisory boards

7.2. In the Report to which paragraph 4.13 refers at least three preferential areas shall be identified regarding the acquisition, maintenance and further development of knowledge and skills of the management and supervisory boards, as a whole, taking into account the Bank's needs and the innovation trends in the banking and financial sector.

7.3. These preferential areas shall be reviewed every year.

7.4. The compliance with these objectives shall be monitored in the Successive Assessment Annual Report for the following year.

Continuous training of the members of the management and supervisory bodies

7.5. During the initial assessment and selection processes of the members of the management and supervisory boards and key function holders described in paragraphs 4 and 6, the Bank shall identify for each member of the management and supervisory boards and key function holder three preferential areas for the acquisition, maintenance and further development of knowledge and skills, taking into account the individual needs of the executive, the needs of the Bank, and the innovation trends in the banking and financial sector.

7.6. During the successive assessment processes of the members of the management and supervisory boards and key function holders described in paragraphs 4 and 6:

7.6.1. Courses, seminars and training programmes, and other means for the acquisition, maintenance and further development of knowledge and skills attended in the past year by the member of the governing or supervisory board/ key function holder shall be identified;

7.6.1.1. Particularly relevant for this purpose shall be the inclusion of the said identified means in the preferential areas established in the initial assessment process and in its successive revisions;

7.6.2. The means for the acquisition, maintenance and further development of knowledge and skills to be attended by the member of the governing or supervisory board/ key function holder in the following year shall be identified (albeit subject to change);

7.6.3. The preferential areas defined in the initial assessment and selection process shall be reviewed taking into consideration the knowledge and skills acquired in the meantime, as well as the Bank's needs and the innovation trends in the banking and financial sector.

7.7. The Bank may count on one or more external entities that help to identify, select and evaluate the means for the acquisition, maintenance and further development of knowledge and skills for their directors, members of the Supervisory Board and key function holders.

8. Diversity policy

Diversity in executive functions

8.1. Banco POPULAR undertakes to have by 1 May 2017 at least 25% women in its staff:

8.1.1. In the Board of Directors;

8.1.2. In the Supervisory Board;

8.1.3. In the total number of key function holders.

8.2. In 2022, the CNBPE shall reassess the regime established in the previous number and submit to the General Meeting a proposal for its maintenance, amendment or deletion.

Selection report and short lists

8.3. In its Initial Assessment Report on executives, the CNBPE identifies and recommends candidates for executive positions and assesses the composition of those positions namely in terms of diversity.

8.4. The final short lists of candidates for appointment in executive functions shall always include candidates from both genders.

Meritocracy and non-discrimination

8.5. The remuneration policy of the employees of BANCO POPULAR is based on a principle of recognition of the individual worthiness and the responsibility associated with each function, and strictly forbids namely any remuneration and career advancement gender-based discrimination.

Active parenting

8.6. Besides complying with labour laws in terms of the protection of parental rights BANCO POPULAR promotes a policy of organization of working hours that fosters a balanced conciliation of the private and professional lives and the full exercise of parental rights.

Monitoring programmes for executives

8.7. In order to monitor the implementation of the present Policy as regards gender diversity, and coordinated by a director appointed by the CNBPE, BANCO POPULAR shall develop a monitoring programme for female executives and employees with high potential in the Bank.

9. Prevention, communication and remedy of conflicts of interest

9.1. The prevention, communication and remedy of conflicts of interest policy is part of a separate document, also approved of by the General Meeting of BANCO POPULAR and published on the Bank's website.

10. Revision of the Selection and assessment policy

10.1. The CNBPE shall revise the present Selection and Assessment Policy every two years, submitting recommendations to the managing body for its respective improvement.

10.2. Upon receiving the Report prepared and presented by the CNBPE, which contains the revision of the present Selection and Assessment Policy referred to in the previous number, the managing body shall approve of the recommendations made by the CNBPE or shall present groundings for its refusal, identifying alternative solutions whenever weaknesses have been detected or if the revised policy is not compliant with the applicable legislation, or any recommendations issued by EBA, the Bank of Portugal or CMVM.

10.3. The managing body shall annually submit to the General Meeting of the Bank for its final approval the justified recommendations aimed at improving the present Selection and Assessment Policy.

11. Approval, entry into force, and amendments

11.1. The present Policy was approved of by the General Meeting and shall enter into force on 1 April 2015, and it can be amended by decision of said management body.

12. Disclosure

12.1. The present Policy is disclosed on *Banco* Popular's WEBSITE.

Statutory Audit and Auditor's Report

PWC – PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda.

Statutory Audit and Auditor's Report

Introduction

1. In accordance with the applicable legislation, we present our Statutory Audit and Auditor's Report on the financial information included in the Management Report and in the accompanying financial statements of Banco Popular Portugal, S. A. (hereafter also 'Bank'), which comprise the Balance Sheet as at 31 December 2015 (showing total assets of 9,012,507 thousand euros and total equity of 714,307 thousand euros, including net income of 13,343 thousand euros), the Statements of income, of comprehensive income, of changes in equity, and of cash flows for the year then ended, and the corresponding Notes. These financial statements were prepared in accordance with the Adjusted Accounting Standards introduced by Notice No. 1/2005 issued by the Bank of Portugal, which are based on the International Financial Reporting Standards (IFRS) as adopted by the European Union, with the exceptions referred to in Notices Nos. 1/2005, 4/2005, and 7/2008 issued by the Bank of Portugal.

Responsibilities

2. The Board of Directors is responsible for (i) preparing the Management Report and the financial statements that present fairly and adequately the financial position of the Bank, the results of its operations, its comprehensive income, its changes in equity and its cash flows; (ii) maintaining historical financial information, prepared in accordance with the Adjusted Accounting Standards issued by the Bank of Portugal, which is complete, true, current, clear, objective and lawful as required by the Portuguese Securities Code ('Código dos Valores Mobiliários'); (iii) adopting adequate accounting policies and criteria; (iv) maintaining an appropriate internal control system; and (v) disclosing any relevant fact that may have influenced the activity of the Bank, its financial position or results.

3. Our responsibility is to verify the financial information included in the above-referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the Portuguese Securities Code, in order to issue a professional and independent report based on our audit.

Scope

4. We conducted our audit in accordance with the Technical Standards and Audit Guidelines issued by the Portuguese Institute of Statutory Auditors (‘Ordem dos Revisores Oficiais de Contas’), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. Accordingly our audit included: (i) verifying, on a test basis, the information underlying the figures and its disclosures contained in the financial statements, and assessing the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements; (ii) evaluating the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances; (iii) assessing the applicability of the going concern basis of accounting; (iv) assessing the appropriateness of the overall presentation of the financial statements; and (v) assessing whether the financial information is complete, true, current, clear, objective and lawful.

5. Our audit also included the verification that the financial information included in the Management Report is consistent with the financial statements, as well as the verification of the disclosures required by Nos. 4 and 5 of Article 451 of the Portuguese Companies Act (‘Código das Sociedades Comerciais’).

6. We believe that our audit provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the financial statements referred to above present fairly in all material respects the financial position of Banco Popular Portugal, S.A. as at 31 December 2015, the results of its operations, comprehensive income, changes in equity, and cash flows for the year then ended in accordance with the Adjusted Accounting Standards issued by the Bank of Portugal, and the information contained therein is complete, true, current, clear, objective and lawful.

Report on other legal requirements

8. It is also our opinion that the financial information included in the Management Report is consistent with the financial statements and that the Corporate Governance Report includes the information required by Article 245-A of the Portuguese Securities Market Code.

Lisbon, 23 March 2016

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by
António Alberto Henriques Assis, Statutory Auditor

Report and Opinion of the Supervisory Board

To the Shareholders of
Banco Popular Portugal, S.A.,

1. In accordance with the law and our mandate, we present our report on our supervisory activity and our opinion on the Management Report and the financial statements presented by the Board of Directors of Banco Popular Portugal, S.A. for the year ended 31 December 2015.

2. In the course of our activities, we monitored, with the frequency and to the extent that we deemed appropriate, the Bank's activity. We have verified the timeliness and adequacy of the accounting records and supporting documentation, as well as the adequacy and efficiency of the systems of internal control, risk management, and internal audit. We have also monitored compliance with the law and the articles of association.

3. We have also monitored the work conducted by PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. and we assessed the attached Statutory Audit and the Auditor's Report issued by that company with which we are in agreement.

4. As part of our duties, we have verified that:

i) the Balance Sheet and the Statements of income, of comprehensive income, of changes in equity, of cash flows, and the corresponding Notes, allow for an adequate understanding of the financial position of the Bank, the results and comprehensive income of its operations, of changes in equity, and of cash flows;

ii) the accounting policies and the valuation criteria adopted are adequate;

iii) the Management report is sufficiently illustrative of the evolution of the Bank's operation and its situation highlighting the most significant aspects;

iv) the Corporate governance report includes the information required by Article 245-A of the Portuguese Securities Market Code;

v) the proposal for the appropriation of net income is in accordance with the applicable legal and statutory provisions.

5. All considered, and taking into consideration the information provided by the Board of Directors and the Services of the Bank, as well as the conclusions stated in the Statutory Audit and Auditor's Report, we are of the opinion that:

i) the Management report is approved;

ii) the Corporate governance report is approved;

iii) the financial statements are approved;

iv) the proposal for the appropriation of net income is approved.

6. In conclusion, we would like to express our gratitude to the Board of Directors and all the employees of the Bank with whom who had contact, for their precious collaboration.

Lisbon, 23 March 2016

The Chairman of the Supervisory Board
Rui Manuel Ferreira de Oliveira

Member
António Manuel Mendes Barreira

Member
António Luís Castanheira da Silva Lopes

Statement of the Supervisory Board

BANCO POPULAR PORTUGAL, S.A.

Head Office: R. Ramalho Ortigão, No. 51, 1099-090 Lisbon

Share capital: Eur 476,000,000.00

Registered at the Lisbon Commercial Registry

under the Taxpayer No. 502.607.084

STATEMENT OF THE SUPERVISORY BOARD

The members of the Supervisory Board of Banco Popular Portugal, S.A., identified below by name, have individually signed the following statement:

'Pursuant to paragraph (c) of article 245(1) of the Portuguese Securities Code, I declare that, to the best of my knowledge, the management report, the annual accounts, the statutory audit and auditor's report and other accounting documents disclosed by Banco Popular Portugal, S. A., all referred to 2014, were drawn up in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial position and the results of that entity and that the management report faithfully states the trend of the business, the performance and position of that entity, and contains a description of the principal risks and uncertainties faced.'

Lisbon, 23 March 2016

Supervisory Board

Rui Manuel Ferreira de Oliveira	(Chairman)
António Manuel Mendes Barreira	(Member)
António Luís Castanheira da Silva Lopes	(Member)