

Banco Popular Portugal, SA

**Annual Report and
Accounts**

2016

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.

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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 513 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 2016, 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 (ROC No. 847)

(*) SUBSEQUENT EVENTS

After the 2016 accounts were filed and until the preparation of this report, the Director Tomás Pereira Pena resigned from his position on the Board of Directors with effect from 28 February 2017.

Banco Popular Portugal Financial Highlights

(million euros, unless otherwise stated)

	<u>2016</u>	<u>Variable</u> <u>Cash</u> <u>(% and</u> <u>p.p.)</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Turnover						
Total assets under management	8 874	-11.3%	10 004	9 391	10 078	9 565
Total on-balance sheet assets	7 942	-12.0%	9 029	8 406	9 222	8 867
Own funds (a)	779	4.5%	745	703	666	648
Customer funds	5 636	-6.2%	6 010	5 100	5 073	4 605
on-balance sheet funds	4 703	-6.6%	5 035	4 115	4 217	3 907
other intermediated customer funds	932	-4.4%	975	985	856	698
Loans and advances to customers	6 294	3.4%	6 086	5 775	5 510	6 021
Contingent risks	419	-3.7%	436	538	579	605
Solvency (CRD IV/CRR phasing in)						
Total capital ratio	14.8%	2.4	12.4%	12.1%	11.1%	10.6%
Tier 1 capital ratio	14.8%	3.2	11.6%	11.5%	11.1%	10.6%
Common Equity Tier 1	14.8%	3.2	11.6%	11.5%	11.4%	10.9%
Risk Management						
Total risks	6 713	2.9%	6 521	6 313	6 089	6 625
Past-due loans	419	11.0%	378	329	273	232
Past-due loans for over 90 days	399	9.2%	366	314	253	209
Past-due loan ratio (%)	6.66%	0.45	6.21%	5.70%	4.95%	3.85%
Past-due loan coverage ratio	37.1%	4.9	32.2%	111.1%	113.7%	102.0%
Earnings						
Net interest income	123.0	2.7%	119.8	124.7	121.2	148.9
Net fees and commissions	35.6	2.6%	34.7	41.8	32.5	35.0
Banking income	200.7	-5.2%	211.7	172.3	171.7	193.5
Operating income	61.8	-37.4%	98.8	59.6	58.9	80.0
Income before tax	-5.0	-109.0%	55.1	5.4	- 51.5	6.4
Net income	11.8	-69.2%	38.2	2.3	- 31.7	2.7
Profitability and efficiency						
Average net assets	8 782	5.2%	8 347	9 389	9 061	9 441
Average own assets	760	2.4%	742	706	672	538
ROA (%)	0.13%	-0.32	0.46%	0.02%	-0.35%	0.03%
ROE (%)	1.55%	-3.60	5.14%	0.32%	-4.72%	0.50%
Cost to income (%)	69.2%	15.9	53.3%	65.4%	65.7%	58.7%
(without depreciation) (%)	67.8%	15.9	51.9%	63.2%	62.8%	54.9%
Per share data						
Final number of shares (millions)	513	7.8%	476	476	476	476
Average number of shares (millions)	513	7.8%	476	476	476	451
Share book value (€)	1.519	-3.0%	1.566	1.477	1.399	1.361
Earnings per share (€)	0.023	-71.4%	0.080	0.005	-0.067	0.006
Other data						
Number of employees	901	-22.5%	1 162	1 299	1 300	1 309
Number of branches	118	-30.2%	169	173	174	179
Employees per branch	7.6	11.1%	6.9	7.5	7.5	7.3
Number of ATMs	322	2.2%	315	315	308	305

(a) After appropriation of results for each period

Management Report

As at 31 December 2016, Banco Popular Portugal reported shareholder's equity of 779,015 thousand euros, managed over 8,874 million euros of total assets, and around 5,636 million euros of customer funds. At the end of 2016, Banco Popular's net assets amounted to 7,942 million euros, and the net profit for the period was of around 11.8 million euros. At the end of the year, the bank's activity was supported by a network of 118 branches and a team of 901 staff.

Banco Popular Portugal offers a full range of products and services, together with the following companies that are also connected to the same group - Banco Popular Español Group (BPE).

- 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;

- 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

Despite the slowdown in the economy during the first half of 2016, Gross Domestic Product grew by 1.4% down from 1.6% in the previous year. Data for the fourth quarter of 2016 show a year-on-year increase in GDP by 2.0% boosted by domestic demand, namely private consumption and the recovery of investment.

This performance of the economy in 2016 is explained by the less unfavourable contribution of foreign demand when compared with 2015, since in terms of domestic demand the year was marked by a slight deceleration in private consumption (real rate of change of 2.3% vis-à-vis 2.6% in 2015) and by a reduction in investment with a real growth rate of around -0.9% (which compares with 4.6% in 2015). The less negative contribution of net external demand derived from the increase in the export of goods and services by around 4.4% (6.1% in 2015) and a slowdown in the growth of the export of goods and services, with an annual change of 4.4% down from 8.2% in 2015.

In the Portuguese economy, the unemployment rate decreased throughout 2016, from 12.4% at the end of 2015 to 11.1% in 2016 (10.5% at the end of the fourth quarter of 2016), i.e., there was a -1.3 percentage point variation coupled with the favourable evolution in terms of job creation, which is expected to reach 1.5% at the end of 2016 when compared with the previous year.

Inflation rose throughout 2016 and stood at 0.6% in terms of average annual rate of change, which compares with 0.5% in 2015. This upward trend is expected to continue and maybe even increase in 2017, which is in line with the gradual economic recovery of the Eurozone.

Although the Portuguese economy has been showing a clear and gradual recovery trend since 2013, some additional factors of domestic uncertainty and international environment might well dictate the projected recovery pace. We would like to emphasize specifically the persistence of the high levels of debt and default of the national economic agents, the pace of implementation of EU funds, the maintenance of high rates of structural unemployment, the budgetary evolution and compliance in the Eurozone countries, the recovery pace of emerging economies, and even the general guidelines for trade policies and monetary policies in the international context.

The expectations for the Portuguese economy next year point to the continuity and moderate recovery that we have been witnessing for the past few years together with the continued correction of macroeconomic unbalances, with an expected average annual growth rate of the GDP by 1.6%, thus following the previous year, mostly backed by investment (GFCF) and

exports since lower levels of growth are expected both regarding private consumption and public consumption.

The inflation rate, as measured by the harmonized consumer price index, should increase to 1.4% in 2017.

Simultaneously, we expect a decrease in unemployment numbers to levels that are very close to 10%, although with a strong probability of a slowdown in job creation. However, a gradual improvement of the labour market is expected in line with the expected economic activity growth.

Although with data that are still provisional, the Eurozone must have had a year-on-year increase of the GDP by 1.7% in the fourth quarter of 2016, according to Eurostat estimates, which reflects good progress in every country of the Eurozone. Thus, the average annual rate of change in GDP stood at 1.7% in 2016, which was lower than the 2% seen in 2015. Taking into consideration the larger economies in the Eurozone, Germany showed a small economic acceleration with an increase by 1.9% vis-à-vis 1.7% in the previous year. Other large economies in the Eurozone (France, Italy, and Spain) posted real GDP growth in line with 2015, especially Spain, which had an increase by 3.3%. All the EU countries also increased their real GDP by 1.9% in 2016.

For 2017 and 2018, the economic conditions in the Eurozone are favourable, which might introduce an additional positive pressure to external demand for the Portuguese economy. GDP growth forecasts in the Eurozone, according to the European Commission, stand at 1.6% for 2017, and 1.8% for 2018, backed by domestic demand and moderate growth both in terms of private consumption and of investment. Consequently, we expect the continued reduction of the unemployment rate in the Eurozone to levels below 10% in 2017. We would like to highlight the perspective of higher inflation rates, albeit controlled and within the ranges defined by the ECB, which might reach 1.7% in 2017 and 1.4% in 2018.

The expansive monetary policy and the continued adoption of unconventional measures by the ECB have marked 2016 and the respective reference interest rate framework. The historically low level of these rates shall remain in 2017 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 2016, Banco Popular strengthened its strategic positioning in the corporate segment with the continued increase in its market share. The private customer segment also showed a very positive evolution in its several sub-segments, backed by a very competitive offer in terms of home loans.

Regarding the private customer segment, there was an increase of around 22.4 thousand new customers. The preferred channel is still the attraction of customers via corporate customers or member-get-member references. The aforementioned investment in a competitive and prestigious offer in terms of home loans has also allowed the Bank to grow significantly in terms of new customers.

In the corporate segment, there was an increase by around 6.8 thousand new customers, particularly micro-businesses and SMEs. Despite the slight economic recovery, companies are still avoiding to make new investments.

Banco Popular has retained high levels of prestige for business owners, achieving the best satisfaction levels for the services rendered and customer care, and reaching No. 1 in the *Multimétrica Ranking* (carried out by Multimétrica Estudos de Mercado, a market research company specialized in mystery shopping in the Portuguese banking system). Increasing its offer and making available several credit lines agreed upon with PME Investimentos or with the European Investment Bank have ensured the Bank's positioning as a reference for Companies.

2016 was also a year of growth in terms of specialized credit, particularly regarding the amounts achieved in leasing services.

In the scope of the certification programme PME Líder promoted by IAPMEI, Popular certified 227 Companies.

Growth in the credit business exceeded 217 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.

In the scope of partnerships, we have maintained the offers in terms of health insurance - 'Popular Saúde by Médis' - and personal lending - Crédito Pessoal Cofidis, the latter now includes car solutions as well. Due to a partnership signed with TAP via the 'TAP Victoria' club, 380,000 miles have already been attributed to customers from the Personal Banking and Private Banking sectors, thus increasing the number of advantages offered by Banco Popular.

Given the banking sector's general investment in multichannel solutions, Banco Popular is designing a new app and implementing several improvements in its website to ensure the

maximum number of features for private and corporate customers, with simplicity but ensuring high security standards.

In 2016, Banco Popular Group celebrated 90 years since its creation and prepared a Brand and Communication campaign that aims to raise awareness of the Portuguese market to that event. The campaign aims to strengthen the group's experience and values, as well as its forward-looking vision, based on a young and dynamic team that is always attentive to the growing needs of their customers.

This communication strategy has consolidated the strategic positioning of the Bank, conjugating several actions in an always-on 360-degree campaign. Besides institutional and product advertising campaigns, Banco Popular has also invested in several partnerships with media partners for the development of marketing content targeted at specific niche businesses. Investing in home loans, thematic time deposits, and a comprehensive solution for corporate customers were Banco Popular's major strategies for 2016 regarding its product range.

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 in the corporate sector. The Bank has carried out a cycle of meetings with entrepreneurs and conferences with business associations throughout the country, focusing particularly on the European co-financing programme entitled 'Portugal 2020' to gain insight into the main needs and concerns of the corporate fabric and ensure an adequate offer and response.

Income and profitability

The income statement is summarised in Table 1. The Annual Accounts show the income statements for 2016 and the previous year pursuant to regulations issued by the Bank of Portugal. The financial statements were amended to include the retrospective application of the IFRS that resulted from **Notice No. 5/2015** issued by the Bank of Portugal, which revokes Notice No. 1/2005 and Notice No. 3/95 also issued by the Bank of Portugal.

Table 1. Individual Income Statement

(€ thousand)

	<u>2016</u>	<u>2015</u>	Change Amount	%
1 Interest and similar income	185 483	207 794	- 22 311	-10.7
2 Interest and similar charges	62 457	87 962	- 25 505	-29.0
3 Net interest income (1-2)	123 026	119 832	3 194	2.7
4 Loan fees and commissions	19 519	15 120	4 399	29.1
5 Net interest income (3+4)	142 545	134 953	7 592	5.6
6 Return on equity instruments	2 346	1 658	688	41
7 Net fees and commissions	35 642	34 731	911	2.6
8 Net income from financial transactions	14 968	127	14 841	11685.8
9 Net gains from the sale of other assets	- 10 721	- 3 213	- 7 508	-233.7
10 Other operating income	15 920	43 406	- 27 486	-63.3
11 Banking income (5+6+7+8+9+10)	200 700	211 662	- 10 962	-5.2
12 Personnel expenses	81 029	57 772	23 257	40.3
13 Administrative overheads	55 021	52 113	2 908	5.6
14 Depreciation	2 844	2 995	- 151	-5.0
15 Operating income (11-12-13-14)	61 806	98 782	- 36 976	-37.4
16 Provisions net of recoveries and write-offs	1 803	- 2 113	3 916	185.3
17 Adjustments to loans and advances to customers (net)	46 135	33 516	12 619	37.7
18 Net impairment of other assets	18 832	12 250	6 582	53.7
19 Profit before tax (15-16-17-18)	- 4 964	55 129	- 60 093	-109.0
20 Income tax	- 16 724	16 950	- 33 674	-198.7
21 Net income for the period (19-20)	11 760	38 179	- 26 419	-69.2

N.B.: These financial statements have been restated to conform with the retrospective application of IFRS as a result of the entry into force of Notice No. 5/2015 issued by the Bank of Portugal, which revokes Notice No. 1/2005 and Notice No. 3/95 also issued by the Bank of Portugal.

Net interest income

Total net interest income, including loan fees and commissions grew by 5.6%, or 7,592 thousand euros, when compared with the same period last year.

In 2016, net interest income in a strict sense amounted to 123 million euros, i.e., 3,194 thousand euros less, or -2.7%, when compared with 2015. This result was derived mostly from a drop by -10.7% (-22.3 million euros) in interest and similar income, which was offset by a decrease of -29% (-25.5 million euros) in interest and similar charges. The Bank

adopted a policy of reducing the cost of its liabilities, which resulted in savings of 16.8 million euros in interest paid to customers (around -21.4 million euros due to the price effect and +4.6 million euros due to the volume and maturity effect).

The downward adjustment of interest and similar income was mostly due to the drop by -17.4 million euros in interest from the loans granted. This decrease was due to the strong effect of the unfavourable interest rate (-27.8 million euros), explained by the drop in the average approval rate, given that the volume effect was positive (+10 million euros) due to the growth of the average size of loans granted in 2016. We would also like to highlight that the negative effect on net interest income contributed by the financial asset portfolio (-6.1 million euros) was fully offset by the higher levels of profitability of other investments when compared with 2015 (+1.2 million euros) as well as by the positive effect observed in other institutional assets obtained by the Bank and financial asset hedging (+8.7 million euros as seen on Table 2 below).

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 and lasting historically low levels.

Table 2 . Annual changes to net interest income - Causal analysis 2016 / 2015

(€ 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	9 988	- 27 838	417	- 17 433
Deposits with banks	995	224	1	1 220
Financial assets	- 7 147	906	128	- 6 113
Other assets	- 25	40	0	15
Total Investments	3 811	- 26 668	546	- 22 311
Deposits from customers	4 489	- 21 451	137	- 16 825
Deposits from banks	92	- 1 271	12	- 1 167
Own assets	0	0	0	0
Other liabilities	- 9 044	1 454	77	- 7 513
Total assets	- 4 463	- 21 268	226	- 25 505
Net interest income	8 274	- 5 400	320	3 194

Regarding average balances and rates, and according to Table 3, average assets in 2016 were supported by customer funds (55%) and deposits from banks (34%). Loans and advances to customers is still their main component, representing around 71% of total average assets, which is thus higher when compared with last year. We would like to highlight the drop in the weight of total assets of the financial asset portfolio (from 23% to 18%) by rotation and realization of capital gains.

Table 3 . Evolution of equity and average annual rates. Net interest income.

(€ thousand)

	2016				2015			
	Average Balance	Dist. (%)	Income or expense	Average Rate (%)	Average Balance	Dist. (%)	Income or expense	Average Rate (%)
Loans and advances to customers	6 265 209	71,3%	142 203	2,26	5 878 878	70,4%	159 636	2,72
Deposits with banks	687 812	7,8%	1 577	0,23	310 959	3,7%	357	0,11
Financial assets	1 619 570	18,4%	41 568	2,56	1 898 916	22,8%	47 681	2,51
Other assets	208 949	2,4%	135	0,06	257 756	3,1%	119	0,05
Total Assets (b)	8 781 540	100%	185 483	2,11	8 346 509	100%	207 794	2,49
Deposits from customers (c)	4 784 777	54,5%	37 090	0,77	4 390 132	52,6%	53 915	1,23
Deposits from banks	2 974 804	33,9%	3 259	0,11	2 912 895	34,9%	4 426	0,15
Equity accounts	760 226	8,7%	0	0,00	728 207	8,7%	0	0,00
Other liabilities	261 733	3,0%	22 107	8,42	315 275	3,8%	29 620	9,40
Total Liabilities and Shareholders' Equity (d)	8 781 540	100%	62 457	0,71	8 346 509	100%	87 962	1,05
Customer spread (a - c)				1,49				1,49
Net Interest Income (b - d)				1,40				1,44

Taking into consideration the evolution of the average interest rates of loans and deposits, we would like to stress that average assets stood at 8,782 million euros due to the higher importance of both the loans granted and the availabilities and investments. Assets had an overall profitability of 2.11%, which, when compared with the average cost of total resources allocated to the financing of assets (0.71%), has enabled an annual net interest income of 1.40%, i.e., 4 basis points lower than in the previous year.

The policy of reducing the cost of liabilities has led to a 46 basis points reduction in the average annual rate of customer funds and stood at 0.77% at the end of the year, which compares with 1.23% in 2015 (Table 3a). On the other hand, the average annual rate of loans dropped by 46 basis points, from 2.72% to 2.26%. Due to this combined effect, customer spread remained stable at 1.49%.

Table 3a . Evolution of equity and average annual rates. Net interest income.

	Average annual rate <u>2016</u> (%)	Average annual rate <u>2015 (restated)</u> (%)	Change <u>2016 / 2015</u> (p.p.)
Loans and advances to customers (a)	2,26	2,72	-0,46
Deposits with banks	0,23	0,11	0,12
Financial assets	2,56	2,51	0,05
Other assets	0,06	0,05	0,01
Total Assets (b)	2,11	2,49	-0,38
Deposits from customers (c)	0,77	1,23	-0,46
Deposits from banks	0,11	0,15	-0,04
Equity accounts	0,00	0,00	0,00
Other liabilities	8,42	9,40	-0,98
Total Liabilities and Shareholders' Equity (d)	0,71	1,05	-0,34
Customer spread (a - c)	1,49	1,49	0,00
Net Interest Income (b - d)	1,40	1,44	-0,04

From the analysis of Images 1 and 2, and following the trend witnessed in previous years, we can see the maintenance of the downward trend 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 2016 and given the current scenario of the evolution of interest rates, although customer spread has remained stable, the management of average prices and volumes of total assets and liabilities did not allow for the expected increase in net interest margin (resulting from the difference between the average investment rate and the average fund rate), which dropped from 1.44% to 1.40%.

Image 1 - Customer spread (%)

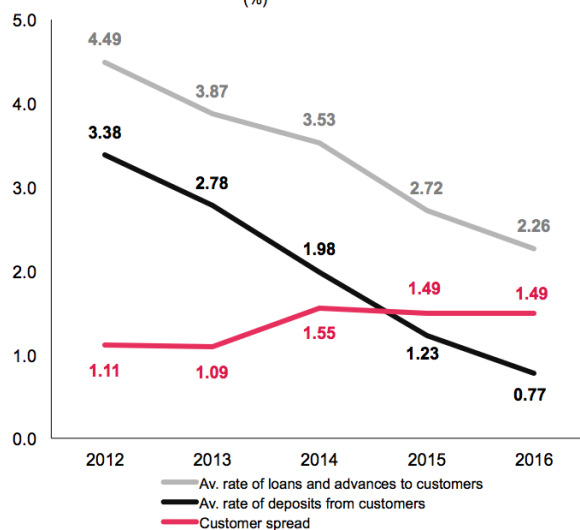
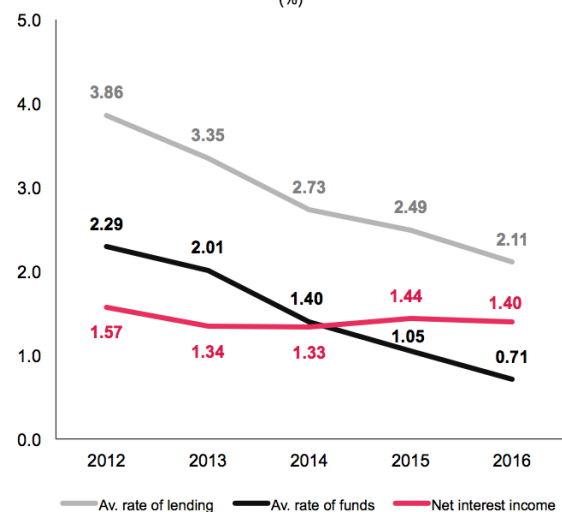


Image 2 - Net interest margin (%)

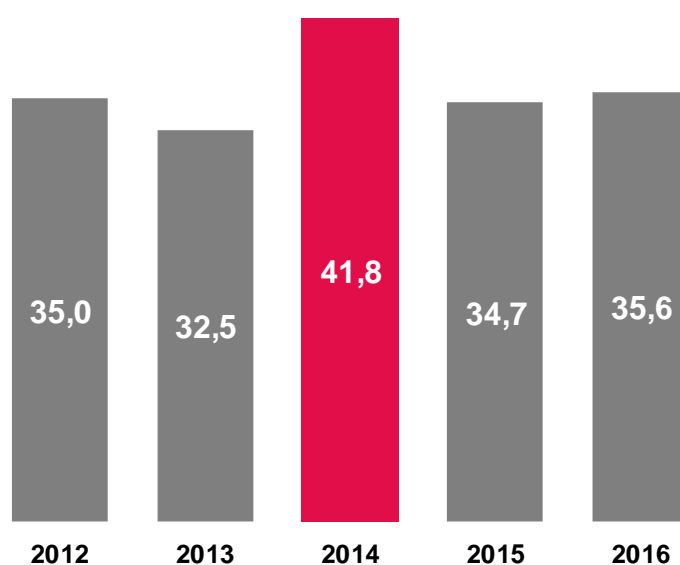


Banking income

In 2016, net fees and commissions charged to customers for the sale of products and services totalled 35.6 million euros, which corresponds to an increase by 2.6% when compared with the previous year (Image 3).

Image 3 - Net fees and commissions

(million euros)



As a complement, Table 4 shows the main items that have contributed to the changes in net fees and commissions for the year, from which we highlight the positive contribution of commissions from insurance brokerage (+78.7%) and account management (+16.3%) and the negative contribution of commissions from guarantees and sureties (-20.8%) and collection and payment handling (-7.3%).

Table 4 . Net Fees and Commissions

(€ thousand)

	<u>2016</u>	<u>2015</u>	Change Amount	%
Commissions from guarantees and sureties	3 930	4 960	- 1 030	-20,8
Commissions from collection and payment handling (11 759	12 691	- 932	-7,3
Commissions from asset management (net)	2 130	2 281	- 151	-6,6
Commissions from insurance brokerage	2 720	1 522	1 198	78,7
Commissions from account management	6 530	5 613	917	16,3
Commissions from processing services	1 557	1 566	- 9	-0,6
Commissions from structuring financial operations	2 176	1 878	298	15,9
Other fees and commissions (net)	4 840	4 220	620	14,7
Total	35 642	34 731	911	2,6

Regarding the remaining items of the banking product, we would like to highlight the increase by around 14.8 million euros in terms of financial transactions, the decrease by around 7.5 million euros in the sale of other assets and other operating profits by around 27.5 million euros. It should be noted that in 2015 this amount was strongly influenced by 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 to Primestar, S.A. (former Recbus – Recovery to Business, S.A.), 20% owned by Banco Popular Español. In 2016, the card business was sold to WiZink Bank, S.A., which also influenced these results, albeit less than the aforementioned transaction that took place in 2015, and this explains the negative performance of this item.

The positive effect in net interest income was not enough to offset the combined effect of these items, thus contributing negatively to a banking income of approximately 200.7 million euros, i.e., 10.9 million euros less, or -5.2%, when compared with 2015.

Operating income

The year 2016 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, albeit with some extraordinary effects. In 2016, operating expenses totalled 138.9 million euros, which represents an increase by 26 million euros, or +23.0%, when compared with the previous year.

Looking at Table 5 we can see that personnel expenses amounted to 81.0 million euros, which corresponds to an increase by 40.3% due to the extraordinary costs of around 28.1 million euros in 2016. This increase was mostly due to the outflow of resources in the second half of 2016 due to the implementation of a process of restructuring with the consequent optimization of organizational expenses, including the suitability of the size of the network of branches.

In Portugal, this adjustment ran until the end of 2016. The reorganization of the Bank's network of branches implied closing down 47 branches and laying off 270 employees (this number also includes some retirement processes), which was done by mutual agreement, i.e., via settlement agreements. To make sure that the employees had access to the unemployment benefit, in Portugal, the Ministry of Labour and Social Solidarity required the Bank to issue a declaration where it stated it is a restructuring business for staff purposes.

With reference to 31 December 2016 the settlement agreements/early retirement agreements shall take effect regarding those employees involved in the process of restructuring.

Within the scope of the aforementioned process, the Bank had an added expense in 2016 of 30 million euros, 28.1 million of which referring to personnel expenses and 2 million related to administrative overheads.

Administrative overheads totalled around 55.0 million euros, which corresponds to a 5.6% increase, or 2.9 million euros, when compared with the previous year. The positive effect of the reduction in the following items should be stressed: external consultants and auditors with savings of 753 thousand euros (-48.5%), advertising and publications with savings of 1.4 million euros (-32.7%), fees and regular payment agreements with savings of 578 thousand euros (-16.2%), and security, surveillance and cleaning with savings of 41 thousand euros (-9.1%). These positive effects were mostly absorbed by the increase in other services by around 4.5 million euros (+88.7%).

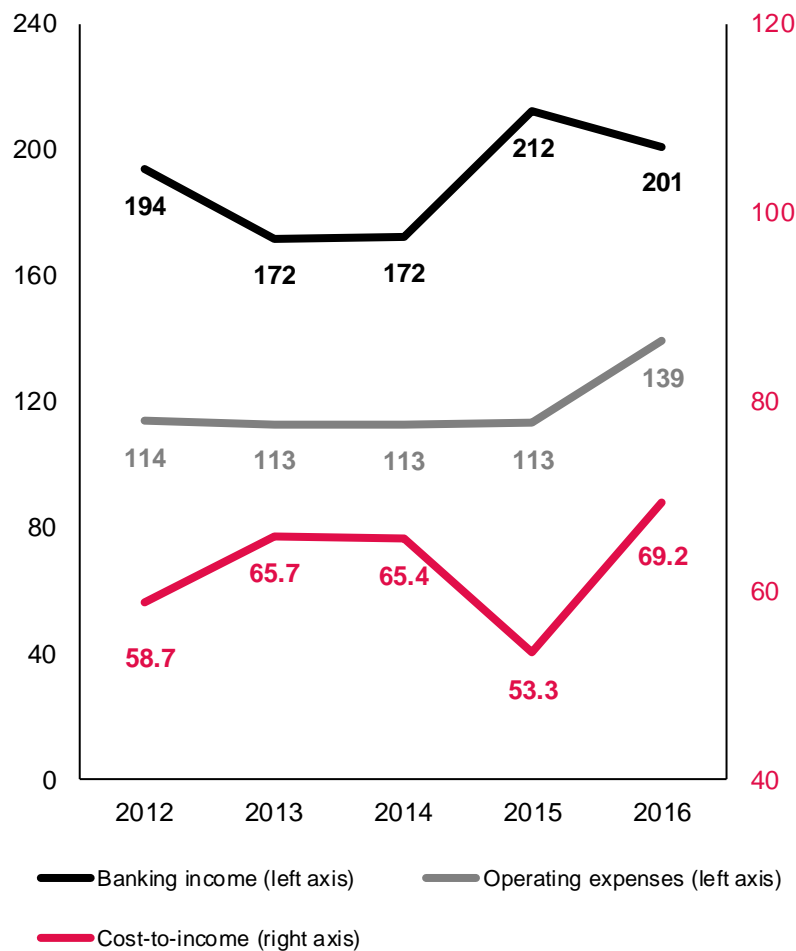
In terms of allocations for depreciation of fixed assets we have witnessed a positive performance (-151 thousand euros, or -5.0%) to 2.8 million euros.

Table 5 . Operating Expenses

(€ thousand)

	<u>2016</u>	<u>2015</u>	Change	
			Amount	%
Personnel expenses (a)	81 029	57 772	23 257	40.3
Wages and salaries	36 907	41 642	- 4 735	-11.4
Social security charges	10 362	11 063	- 701	-6.3
Pension fund	4 692	4 466	226	5.1
Other expenses	29 068	601	28 467	4736.6
Administrative overheads (b)	55 021	52 113	2 908	5.6
External supplies	2 465	2 602	- 137	-5.3
Rents and leasing	4 255	4 314	- 59	-1.4
Communications	3 898	3 932	- 34	-0.9
Travel, hotel and representation	1 197	1 272	- 75	-5.9
Advertising and publications	2 852	4 236	- 1 384	-32.7
Maintenance of premises and equipment	4 498	3 378	1 120	33.2
Transports	1 149	1 176	- 27	-2.3
Fees and regular payment agreements	2 983	3 561	- 578	-16.2
Legal expenses	2 265	1 749	516	29.5
IT Services	9 017	9 400	- 383	-4.1
Security, surveillance and cleaning	409	450	- 41	-9.1
Temporary work	4 055	3 969	86	2.2
External consultants and auditors	799	1 552	- 753	-48.5
SIBS	1 369	1 355	14	1.0
External real estate appraisers	909	809	100	12.4
Services rendered by Banco Popular Group	3 393	3 319	74	2.2
Other services	9 508	5 039	4 469	88.7
Other operating expenses (c=a+b)	136 050	109 885	26 165	23.8
Amortization for the period (d)	2 844	2 995	- 151	-5.0
Total (c+d)	138 894	112 880	26 014	23.0

The cost-to-income ratio, which corresponds to the part of banking income consumed by operating expenses, deteriorated in 2016 (increasing from 53.3% to 69.2%). This percentage resulted from the significant increase in operating expenses and the decrease in banking income. This evidence is reflected on Image 4.

Image 4 - Cost-to-income ratio*(million euros and % right axis)*

The weight of personnel expenses in banking income stood at 40.4%, which is higher than the 27.3% seen in 2015. Operating income thus amounted to approximately 61.8 million euros, which is 37.4% lower than in the previous year.

Net Income and Profitability

Banco Popular Portugal ended 2016 with net income of 11.8 million euros, after the net income of 38.2 million euros in 2015. This result is mostly due to the increase in personnel expenses, which amounted to around 23 million euros. Loan provisions increased by 16.5 million euros year-on-year, while impairment of other assets net of reversals and write-offs increased by around 6.6 million euros.

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



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 2016 and 2015 broken down by their percentage of average total assets.

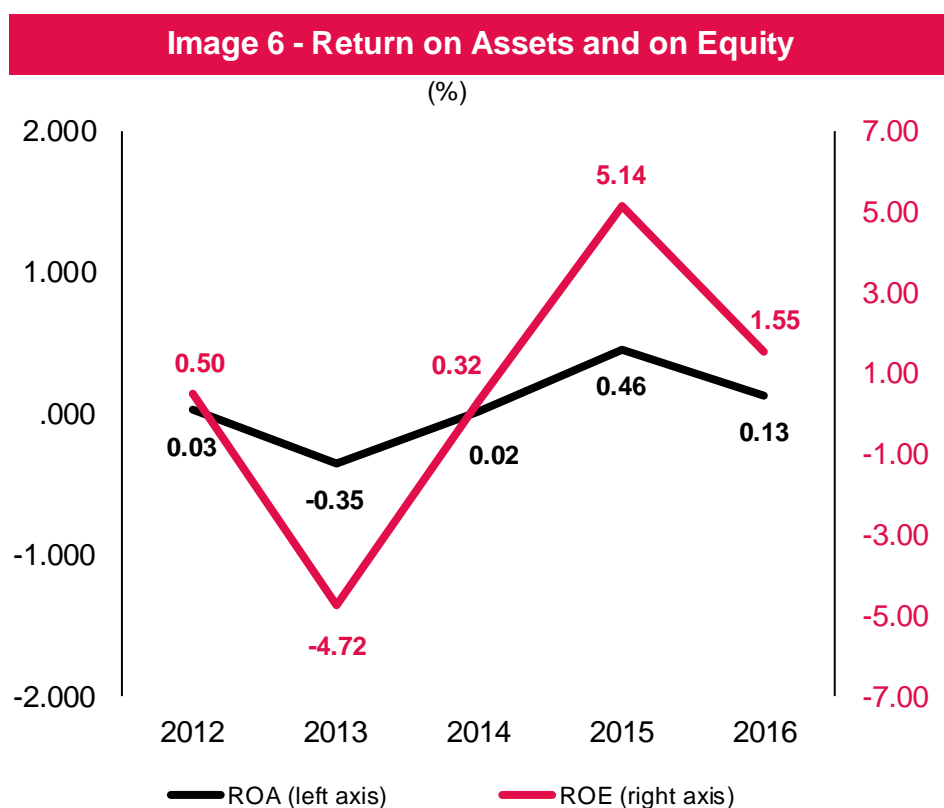
In 2016, operating profitability stood at 0.70%, 48 basis points lower than in the previous year.

Table 6 . Total Return on Investment

(€ thousand and % of average net assets)

	<u>2016</u>		<u>2015</u>		<u>Change</u>	
	amounts	%	amounts	%	in amount	%/ p.p.
Investment income	185 483	2.11	207 794	2.49	- 22 311	-0.38
Cost of assets	62 457	0.71	87 962	1.05	- 25 505	-0.34
Strict net interest income	123 026	1.40	119 832	1.44	3 194	-0.04
Loan net fees and commissions	19 519	0.22	15 120	0.18	4 399	0.04
Net interest income	142 545	1.62	134 953	1.62	7 592	0.00
Net fees and commissions	35 642	0.41	34 731	0.42	911	-0.01
Other operating profit/loss	22 513	0.26	41 978	0.50	- 19 465	-0.24
Banking income	200 700	2.29	211 662	2.54	- 10 962	-0.25
Personnel expenses	81 029	0.92	57 772	0.69	23 257	0.23
Administrative overheads	55 021	0.63	52 113	0.62	2 908	0.01
Depreciation	2 844	0.03	2 995	0.04	- 151	-0.01
Operating profitability	61 806	0.70	98 782	1.18	- 36 976	-0.48
Net loan provisions	47 938	0.55	31 403	0.38	16 535	0.17
Impairment and other net provisions	18 832	0.21	12 250	0.15	6 582	0.06
Return before tax	- 4 964	-0.06	55 129	0.66	- 60 093	-0.72
Income tax	- 16 724	-0.19	16 950	0.20	- 33 674	-0.39
Return after tax	11 760	0.13	38 179	0.46	- 26 419	-0.31
Memorandum item:						
Average net assets (€ million)	8 782		8 347		435	5.2
Average own funds (€ million)	760		742		18	2.4
Return on equity - ROE (%)	1.55		5.14		-3.59	-69.9
(net income after tax/average shareholders' equity)						
Gross return on equity (%)	-0.65		7.43		-8.08	-108.8
(income before tax/average shareholders' equity)						
Cost-to-income (%)	69.20		53.33		15.87	29.8

In 2016, return on equity (ROE), defined as the ratio of annual net income to average shareholders' equity, stood at 1.55%, which compares with 5.14% in the previous year. Image 6 shows the evolution of profitability indicators over the past 5 years.



Investments and assets

Total assets

The balance sheets as at 31 December 2015 and 2016 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 2016, Banco Popular's net assets amounted to 7,942 million euros, 1.1 million euros less than in the same period last year, which corresponds to a decrease by 12.0%.

Table 7 . Individual Balance Sheet

(€ thousand)

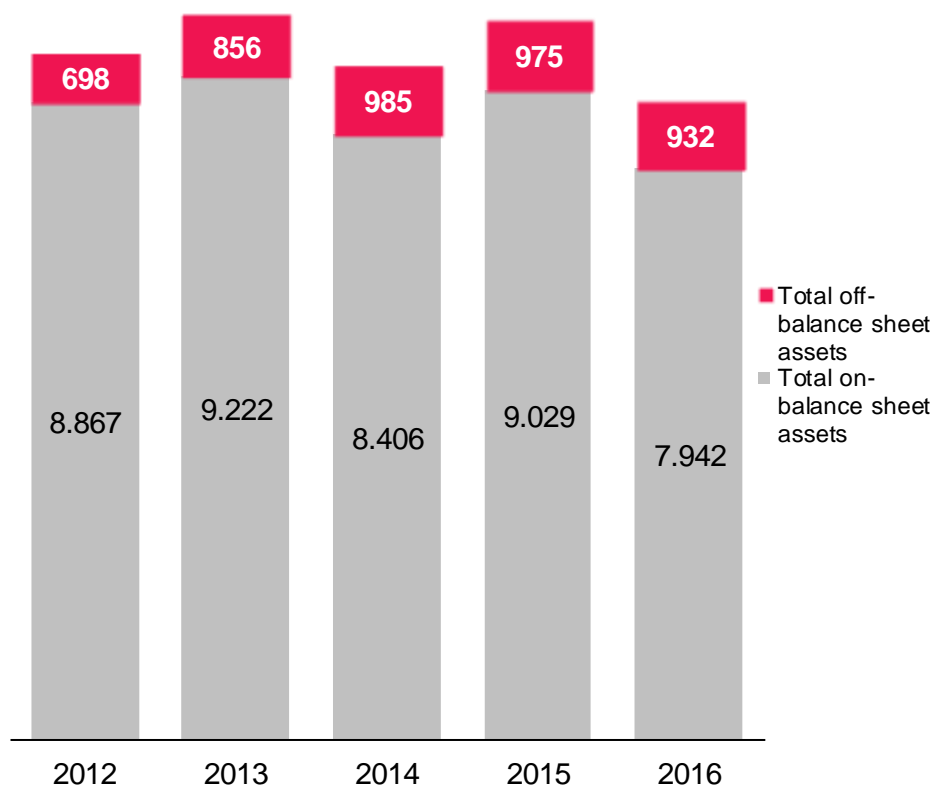
	<u>2016</u>	<u>2015</u>	Change Amount	%
Assets				
Cash and balances with central banks	164 673	55 505	109 168	196.7
Deposits with banks	98 768	76 428	22 340	29.2
Financial assets held for trading	39 288	49 893	- 10 605	-21.3
Available-for-sale financial assets	1 013 571	1 914 430	- 900 859	-47.1
Loans and advances to banks	145 885	606 616	- 460 731	-76.0
Loans and advances to customers	6 293 689	6 085 775	207 914	3.4
(-) Impairment on loans to customers	- 369 527	- 383 288	13 761	3.6
Hedge derivatives	0	1 055	- 1 055	-100.0
Non-current assets held for sale	0	0	0	0.0
Other tangible assets	59 055	68 497	- 9 442	-13.8
Intangible assets	1 214	147	1 067	725.9
Investment in subsidiaries and associates	18 899	20 243	- 1 344	-6.6
Current income tax assets	522	0	522	100.0
Deferred income tax assets	80 189	91 512	- 11 323	-12.4
Other assets	395 905	442 035	- 46 130	-10.4
Total Assets	7 942 131	9 028 848	-1 086 717	-12.0
Liabilities				
Deposits from central banks	0	0	0	0.0
Financial liabilities held for trading	41 734	41 452	282	0.7
Deposits from banks	2 231 603	2 924 272	- 692 669	-23.7
Deposits from customers	4 703 477	5 034 537	- 331 060	-6.6
Debt securities issued	1 902	38 092	- 36 190	-95.0
Hedge derivatives	15 059	121 337	- 106 278	-87.6
Provisions	5 451	2 860	2 591	90.6
Current income tax liabilities	12 291	45 894	- 33 603	-73.2
Deferred income tax liabilities	2 977	21 131	- 18 154	-85.9
Other liabilities	148 622	53 778	94 844	176.4
Total Liabilities	7 163 116	8 283 353	-1 120 237	-13.5
Equity				
Equity	513 000	476 000	37 000	7.8
Share premium	10 109	10 109	0	0.0
Revaluation reserves	- 26 965	1 722	- 28 687	-1665.9
Other reserves and retained earnings	271 111	219 485	51 626	23.5
Income for the period	11 760	38 179	- 26 419	-69.2
Total Equity	779 015	745 495	33 520	4.5
Total Liabilities + Equity	7 942 131	9 028 848	-1 086 717	-12.0

The Bank also manages other customer funds applied in investment, savings and retirement instruments, which amounted to 932 million euros at year end, representing a 4.4% decrease when compared with 2015.

Therefore, total assets managed by the Bank amounted to 8,874 million euros at the end of 2016, which represents an 11.3% drop when compared with the previous year.

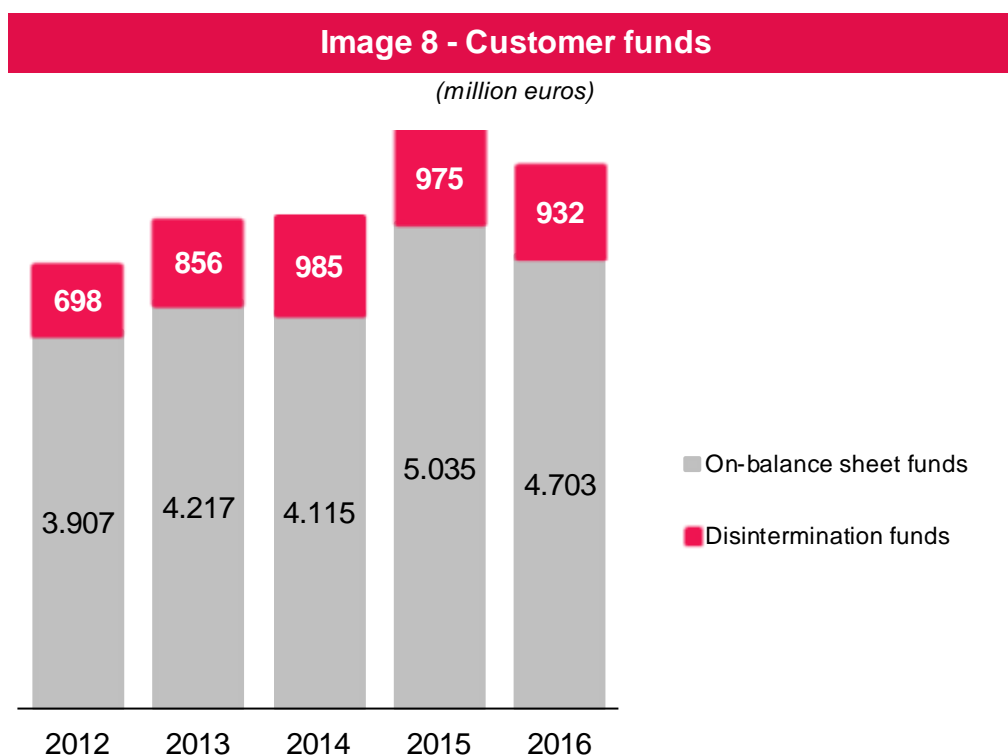
Image 7 - Total assets managed (Year-end amounts)

(million euros)



Customer funds

As at 31 December 2016, the total amount of on- and off-balance sheet customer funds amounted to 5,636 million euros, 6.2% less when compared with the previous year. Image 8 shows the performance of total customer funds over the past 5 years.



On-balance sheet funds, comprised mostly of customer deposits, totalled approximately 4,703 million euros, which corresponds to a decrease by 6.6% when compared with 2015.

Demand accounts significantly increased by around 422 million euros, or 37.0%, from 1,139.5 million euros to 1,561.1 million euros. Conversely, time deposits decreased by approximately 749 million euros, representing a 19.4% drop.

Table 8 . Customer funds

(€ thousand)

	<u>2016</u>	<u>2015</u>	Change Amount	%
CUSTOMER FUNDS :				
Deposits	4 684 956	5 013 697	- 328 741	-6.6
Demand accounts	1 561 085	1 139 514	421 571	37.0
Time deposits	3 118 770	3 867 797	- 749 027	-19.4
Savings accounts	5 101	6 386	- 1 285	-20.1
Cheques, payment orders and other funds	9 451	4 337	5 114	117.9
Interest payable	9 070	16 503	- 7 433	-45.0
ON-BALANCE SHEET FUNDS (a)	4 703 477	5 034 537	- 331 060	-6.6
Disintermediation funds				
Investment funds	176 411	251 751	- 75 341	-29.9
Investment and capitalisation insurance	512 977	482 405	30 572	6.3
Retirement insurance plans	100 289	104 093	- 3 804	-3.7
Portfolio management	142 631	137 122	5 509	4.0
OFF-BALANCE SHEET FUNDS (b)	932 307	975 371	- 43 064	-4.4
TOTAL CUSTOMER FUNDS (a + b)	5 635 784	6 009 908	- 374 124	-6.2

Off-balance sheet funds, which include placements in investment funds, pension plans, investment insurance plans, and assets managed by the private banking, dropped by 4.4%, down from 975.4 million euros in 2015 to 932.3 million euros at the end of 2016. The negative performance of this item was due to the fact that the decrease in investment funds and retirement insurance plans absorbed the growth in investment and capitalization insurance plans and portfolio management as seen on the table above.

As at 31 December 2016, Banco Popular Portugal was the depositary of nine investment funds managed by Popular Gestão de Activos, whose total portfolio amounted then to over 176 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	2016	2015	Change	
			Amount	%
Popular Acções	7 553	8 811	- 1 258	-14,3
Popular Euro Obrigações	5 310	6 725	- 1 415	-21,0
Popular Global 25	44 777	49 282	- 4 505	-9,1
Popular Global 50	40 826	46 984	- 6 158	-13,1
Popular Global 75	20 670	24 147	- 3 477	-14,4
Popular Tesouraria	25 402	21 613	3 789	17,5
Popular Objectivo Rendimento 2021	1 012	1 023	- 11	-1,1
Popular Predifundo	0	7 631	- 7 631	-100,0
ImoPopular	0	20 159	- 20 159	-100,0
Imourbe	12 702	14 541	- 1 839	-12,6
Popular Arrendamento FIIFAH	18 158	50 836	- 32 678	-64,3
Total	176 411	251 751	- 75 340	-29,9

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

Image 9 - Investment Fund Portfolio and Private Portfolios Managed

(million euros)

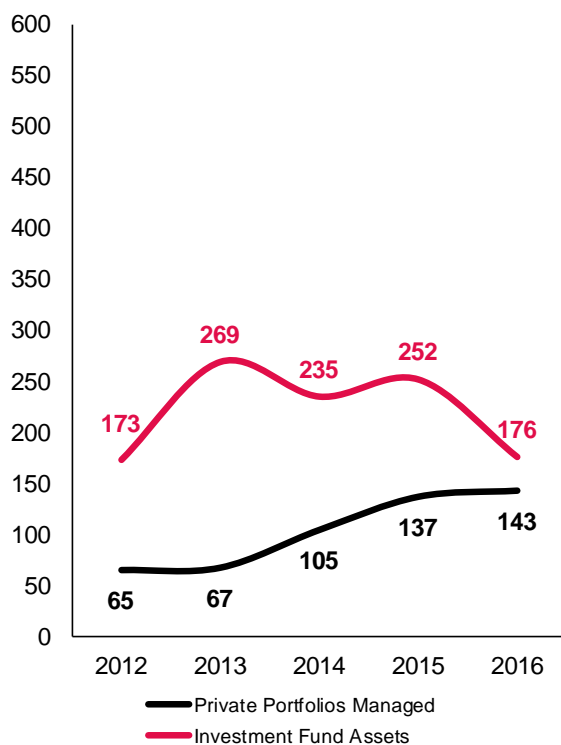
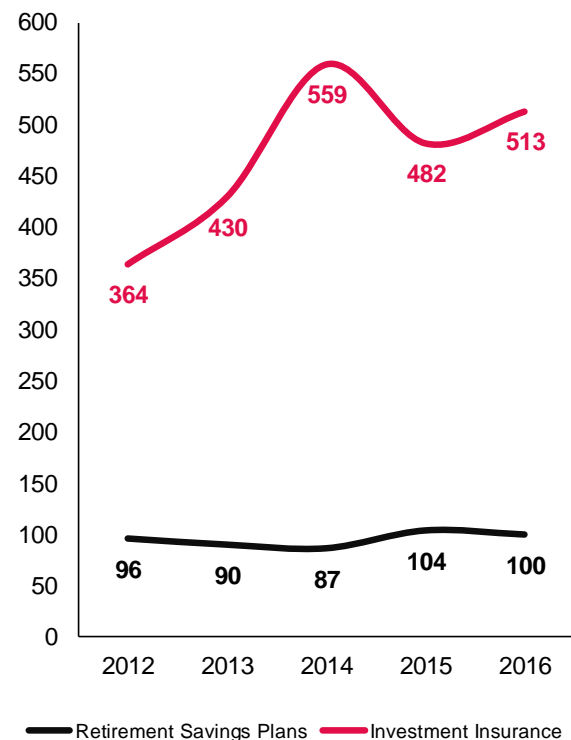


Image 10 - Financial Insurance Assets

(million euros)



Lending operations

Loans and advances to customers amounted to 6,294 million euros at the end of 2016, representing 79.2% of total net assets, or 74.6% if credit impairment is deduced. Loans and advances to corporate customers and the public sector totalled around 3,449 million euros (excluding other securitized loans and overdue loans), which corresponds to 62.0% 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)

	<u>2016</u>	<u>2015</u>	Change	
			Amount	%
Loans and advances to customers (a)				
Public sector	3 449 524	3 375 278	74 246	2.2
Private individuals	2 117 368	1 973 790	143 578	7.3
Residential mortgage loans	1 760 161	1 587 839	172 322	10.9
Personal and consumer loans	38 123	32 227	5 896	18.3
Other personal lending	319 084	353 724	- 34 640	-9.8
Total	5 566 892	5 349 068	217 824	4.1
Other loans (represented by securities) (b)	310 930	355 677	- 44 747	-12.6
Interest and commissions receivable (c)	- 3 314	3 270	- 6 584	-201.3
Past-due loans and interest (d)				
Due within 90 days	19 743	11 957	7 786	65.1
Over 90 days	399 438	365 803	33 635	9.2
Total	419 181	377 760	41 421	11.0
Total Gross Lending (a + b + c + d)	6 293 689	6 085 775	207 914	3.4
Specific Loan Provisions	369 527	383 288	- 13 761	-3.6
Total Net Lending	5 924 162	5 702 487	221 675	3.9

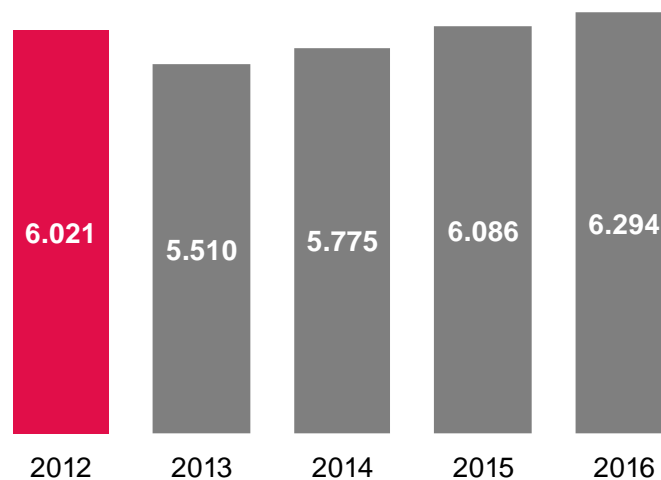
The increase in the amount of loans and advances to customers was due to an increase by around 218 million euros, or 4.1%, in terms of loans granted, 62.0% to companies and public bodies and the remaining 38% to private customers. Loans granted to companies and public bodies increased by over 74.2 million euros, or 2.2%, representing 54.8% of total gross

lending. Loans to private customers represented 33.6% of total gross lending, reflecting an upsurge of 7.3%, i.e., over 144 million euro. This increase of loans to customers was mostly supported by the 10.9% or around 172.3 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 euros)



The amount of past-due loans and interest at the end of 2016 totalled over 419 million euros, which represents an increase by 11.0% when compared with the previous year. This type of loans represented 6.66% of total lending. Taking into consideration only loans that have been non-performing for more than 90 days this indicator stood at 6.35%.

Total non-performing loans amounted to 861.9 million euros at the end of 2016, which represents around 13.7% of total lending operations.

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

(€ thousand)

	<u>2016</u>	<u>2015</u>	<u>Change</u>	
			Amount	%/ p.p.
Past-due loans and interest	419 181	377 760	41 421	11.0
Past-due loans by more than 90 days	399 438	365 803	33 635	9.2
Non-performing loans	861 925	971 104	-109 179	-11.2
Past-due loans / total loans (%)	6.66	6.21		0.45
Past-due loans over 90 days / total lending (%)	6.35	6.01		0.34
Non-performing loans / total lending (%)	13.70	15.96		-2.26
Net non-performing loans / total net lending (%)	9.15	11.54		-2.39
Impairment on loans to customers	369 527	383 288	-13 761	-3.6
Hedging Ratio (%)	37.14	32.23		4.91
memorandum item:				
Total lending	6 293 689	6 085 775	207 914	3.4

At the end of 2016, credit impairment amounted to 369.5 million euros, ensuring a hedge ratio of 40.9%.

Proposal for the appropriation of net income

Pursuant to the Articles of Association, the Board of Directors proposes that net income for 2016, in the amount of 11,759,552.19 euros, shall be appropriated as follows:

- Statutory Reserve	Euros 1,176,000.00
- Other Reserves	Euros 10,583,552.19

Outlook for 2017

This year is expected to allow further 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 segment, 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 customer-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 2017, 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 2017, 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 360° 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 employs 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 what level of risk is accepted by the institution.

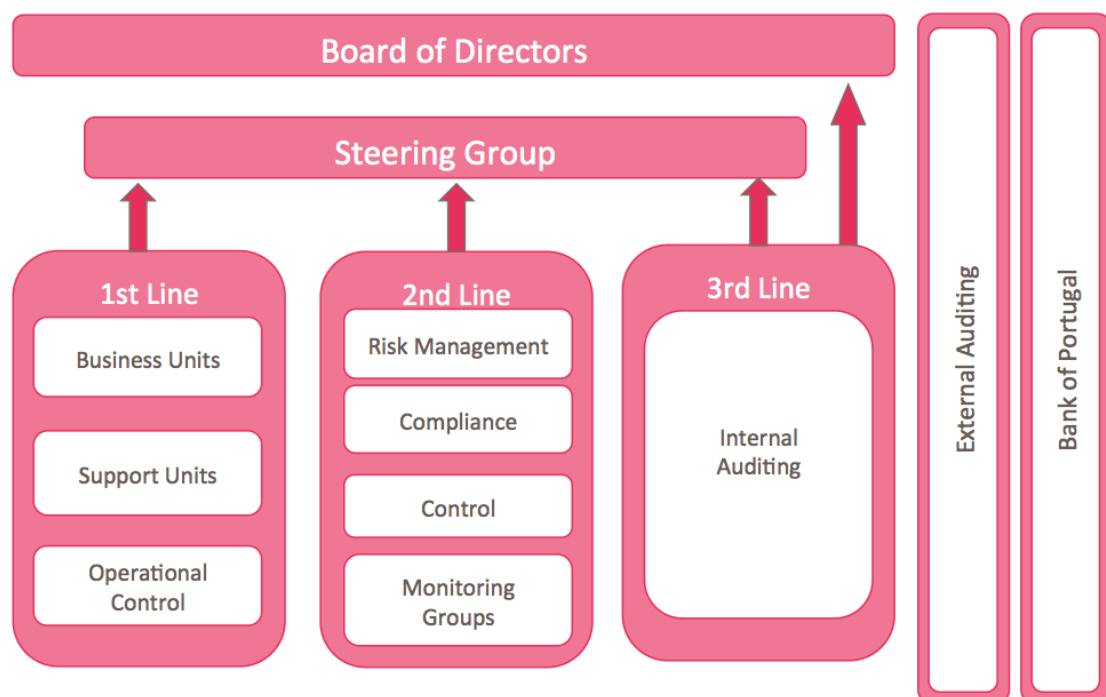
These guidelines are aligned with the risk management principles defined for the Bank:

- 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 to allow 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 Groups 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

Every business unit has the ability and the obligation to report to Risk Management any event that might present risk to the Bank. For each type of risk an internally appointed coordinator will analyse the incident and the application of the respective risk controls to decide whether any change in procedure is necessary. After the meeting where all the events are disclosed, Risk Management reports to the Board of Directors how the different risks were monitored and their respective outcome, and suggests the mitigation measures it deems necessary.

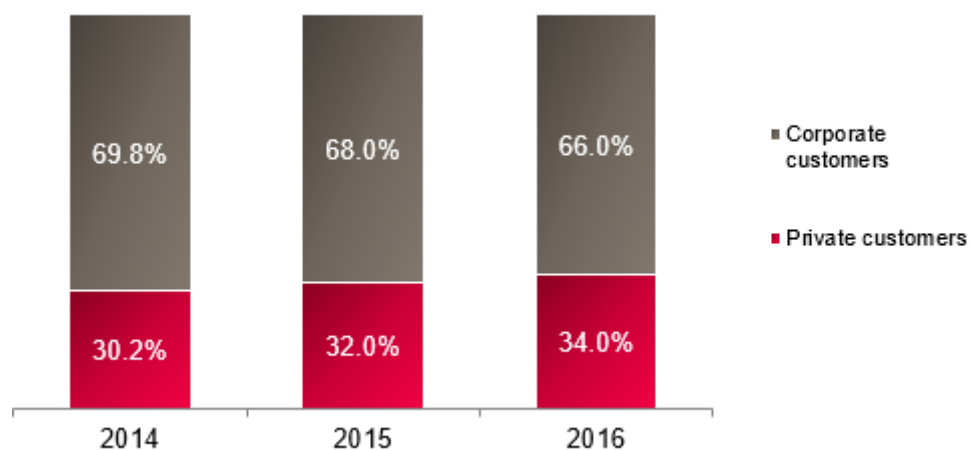
Credit and Concentration risk

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 must assume them 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 6,294 million euros at the end of December 2016, with a year-on-year increase of around 3.42%.

Loans to customers is the main asset of the Bank, representing around 74.6% of its net assets. As at 31 December 2016, around 66.0% of the portfolio had to do with advances and loans to corporate customers (mostly SME).

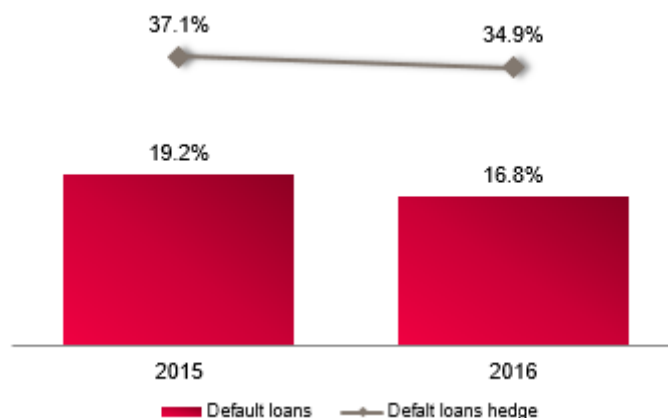
Portfolio broken down by type of counterparty



The evolution of the default ratio, calculated pursuant to CRR definition, is mostly attributable to the increase in loans granted and an improvement in the macroeconomic scenario, having reached 16.8% at the end of 2016.

There has been a decrease in the hedge ratio due to loan write-offs in 2016, which corresponded to fully hedged transactions for impairment with at least two years in arrears.

Evolution of non-performing loans



Main areas of activity in 2016

As far as credit risk is concerned, in 2016, Risk Management focused mainly on the aspects detailed in the following paragraphs.

- Continued implementation of internal models to assess risk

In line with the Group's policy, the Bank has further adapted the models to the specific characteristics of the country, and integrated them in terms of management, while playing a key role in delegating powers where credit is concerned.

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 (RWA), 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, namely for the differentiation of credit decision-making powers of the branches. For central bodies, the process of differentiation of credit decision-making powers is attributed by the risk level attributed by the rating models.

Scoring and rating models are also used to monitor credit risk and prepare information for management on the portfolio's risk profile. In view of the daily and 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.

- Credit Impairment Model

The Bank implemented an internal credit impairment model that enables it to present monthly detailed impairment reports on the quality of the loans granted and monitor its loan portfolio.

This model, monitored by Risk Management, is analysed and revised by external auditors, while every detail and methodology applied in the model is disclosed in the Impairment Report submitted half-yearly to the Bank of Portugal.

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, PD integrates two fundamental aspects: the quality of the loans granted and monitoring the customer throughout the life cycle of the transactions.

In 2016, and together with the Group, the methodology to calculate Loss Given Default (LGD) was changed, which resulted in a more robust process with the application of curves according to the status of defaulted loans.

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 regularly report on this type of risk to the Board of Directors.

The Bank defined a structure of maximum 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

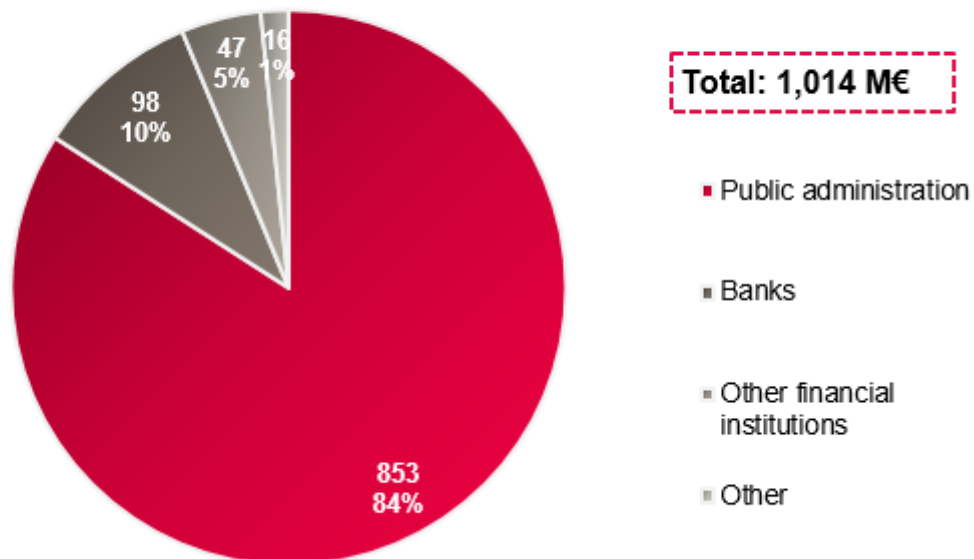
In order to estimate the capital requirements necessary to face concentration risk, the Bank resorted to the methodology published by the Bank of Portugal in its Instruction No. 5/2011, which is based on the 'Herfindahl' Index calculation.

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 1.0 billion euros at the end of

2016, which represents around 12.8% of the Bank's total net assets. The chart below sums up the typology of assets that comprise the fund portfolio:

Securities Portfolio by Type of issuer
December 2016



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 2016, the Bank's portfolio amounted to around 1,053 million euros, of which around 1,014 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.

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:

Steering Group – Top management structure that is the main responsible for management guidelines and policies, establishing and monitoring risk appetite and risk tolerance limits.

Risk Management (GR) – element of the structure that integrates operational risk management. 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.

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.

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.

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 most relevant situations are presented to the Risk Monitoring Group, which enables its respective analysis and the adoption of the most adequate mitigating measures.

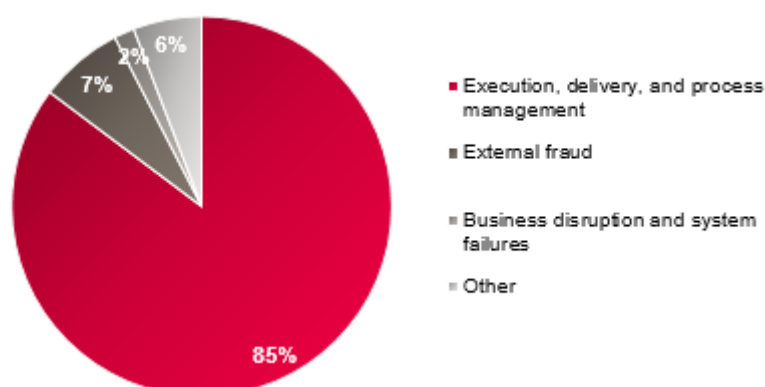
Since 31 December 2014, Banco Popular Portugal has calculated its own funds requirements for operational risk hedging according to the standard approach (TSA).

Quantitative situation

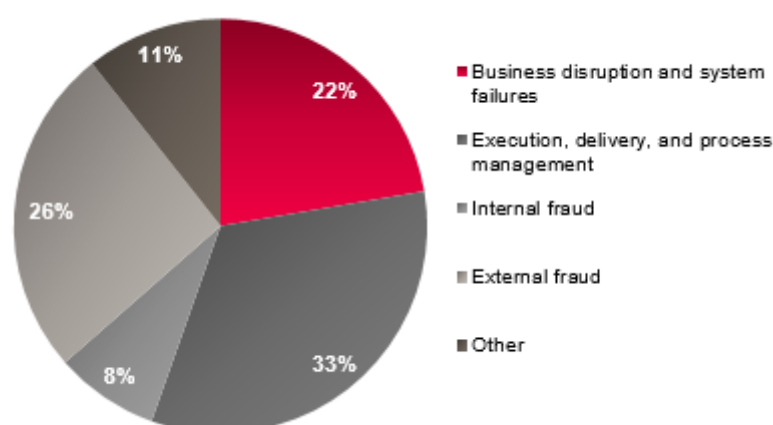
At the end of 2016, the losses identified that fit into the Operational Risk framework stood substantially below their capacity for the absorption of such losses, considering the amount of own funds to hedge Operational Risk defined according to the standard approach at the end of the year.

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 2016, 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 2016 amounted to around 192.1 million euros, representing around 2.4% 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.

Due to the importance attributed to property risk, it should be noted that the Bank has a Property Risk Management Policy, which includes both mortgages (as a collateral for loans) and assets held for sale.

Quality and Innovation

'Service Quality' - A Culture of Commitment to Customers

Serving our internal/external customers well and doing well what must 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 Portugal 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.

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 for the third year in a row. This is an assessment and classification system for brands based on customer satisfaction and acceptability.

The Quality of the Face-to-Face Service of Banco Popular was recognized in the second half of 2016 as the best in a cross-sectional study that evaluated the 13 main banks operating in Portugal made by Metriang, Lda..

Social and Corporate Responsibility

In 2016, Social Responsibility remained one of the foundations of Banco Popular's performance. With the support of key partners, several actions were implemented always trying to involve the Bank's staff and customers in aiding social welfare institutions.

These actions were initiated in 2016 with Entreaajuda, a long-standing partner of Popular, which aids social welfare institutions. The Bank promoted the participation of some of its staff in the volunteering action of Banco de Bens Doados [Donated Goods Bank], where they counted and packed school supplies. Another important action counted on the collaboration of CerciLisboa. The Pirlampo Mágico [Magic Firefly] campaign carried out every year in May brought the sale of Pirlampas Mágicos and other products to the Bank's head office. The money collected within the scope of this action was aimed at helping people with intellectual disabilities and/or multiple disabilities, trying to ensure their right to equal opportunities and full citizenship.

Promoting social responsibility also included a special intervention in the usual monthly meeting of coordinators. Together with Growithu, Popular invited the speaker Maria Palha to give one of her Inspiring Talks in the Bank's head office within the scope of inclusive recruiting.

However, we would like to highlight that the most significant actions were undertaken together with GRACE (Group of Reflection and Support to Corporate Citizenship), a non-profit organization that gathers over 100 companies and is exclusively dedicated to promoting Corporate Social Responsibility, and has been a partner of Popular since 2014. In March, the Bank signed the Portuguese Diversity Charter; in May, the Bank participated in the 'Volunteering with the Family' action undertaken by GRACE in Carvavelos and Vila Nova de Gaia, and promoted the plantation of vegetable gardens for needy families; and in October, the Bank joined the 11th edition of the GIRO (GRACE, Intervene, Recover, Organize), the largest corporate volunteering initiative under the motto 'Sea is Cool', which consisted in a set of volunteering actions targeted at protecting the Portuguese coast and recovering the natural maritime heritage, involving local coastal communities. Still in December, Banco Popular again offered its customers a 'Depósito Solidário', through which the Bank donates to charities 1 € for each 1,000 € deposited in a Special Time Deposit.

In 2016, there was also the usual solidarity campaign connected to the consignment of the income tax. Since Popular is contacted throughout the year by many charities and cannot contribute to all of them, the Bank undertakes a campaign that reminds its staff of the possibility of consigning 0.5% of their income tax in their own tax return. This is yet another way to be efficient and compassionate and to support those in need.

Energetic Efficiency: Cost Reduction and Environmental Sustainability

We are in living troubled times, when institutions and private individuals are growingly aware of the need to guarantee their environmental sustainability by implementing energy efficiency practices. The more we realize that our resources are not limitless, the more we strive to ensure that we use energy as efficiently as possible.

Banco Popular has implemented and maintained an environmental sustainability policy without prejudice to comfort levels and the quality of the staff's working conditions.

Besides what had already been implemented in previous years, Banco Popular has insisted on using energy as efficiently as possible, monitoring the consumption in buildings and branches and avoiding any waste of energy.

Water consumption has also been one of Banco Popular's concerns.

This monitoring process also includes trying to make our staff alter their less ecological behaviour and raising their awareness to this topic.

Savings in energy and water in 2016 vis-à-vis 2015 amounted to 867,775 Kwh and 722 m³, respectively. This corresponds to -10.9% in terms of energy and -4.8% in terms of water.

The decrease in electric power consumption implied launching less 470 tons of CO² into the atmosphere.

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, SA.

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, 20 March 2017

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	513 000 000	100%	100%

Annual Accounts

Balance Sheet

Individual Balance Sheet

(€ thousand)

	Notes/ Tables annexes	31/12/2016			31/12/2015	01/01/2015
		Amount before provisions impairment and depreciation	Provisions, impairment, and depreciation	Net amount		
		1	2	3 = 1 - 2	a)	a)
Assets						
Cash and balances w with central banks	17	164 673		164 673	55 505	134 282
Deposits with banks	18	98 768		98 768	76 428	80 219
Financial assets held for trading	19	39 288		39 288	49 893	78 280
Available-for-sale financial assets	21	1 013 571		1 013 571	1 914 430	1 879 094
Loans and advances to banks	22	145 885		145 885	606 616	197 962
Loans and advances to customers	23	6 293 689	369 527	5 924 162	5 702 487	5 424 416
Hedge derivatives	34	-		-	1 055	-
Non-current assets held for sale	25	-		-	-	20 747
Other tangible assets	26	143 395	84 340	59 055	68 497	70 631
Intangible assets	27	23 252	22 038	1 214	147	72
Investments in subsidiaries, associates, and joint ventures	20	22 579	3 680	18 899	20 243	-
Current income tax assets	15	522		522	-	3 566
Deferred income tax assets	28	80 189		80 189	91 512	93 722
Other assets	29	435 671	39 766	395 905	442 035	406 986
Total Assets		8 461 482	519 351	7 942 131	9 028 848	8 389 977
Liabilities						
Deposits from central banks	30	-		-	-	900 003
Financial liabilities held for trading	19	41 734		41 734	41 452	43 845
Deposits from banks	31	2 231 603		2 231 603	2 924 272	2 065 409
Deposits from customers	32	4 703 477		4 703 477	5 034 537	4 114 903
Debt securities issued	33	1 902		1 902	38 092	317 251
Hedge derivatives	34	15 059		15 059	121 337	142 258
Provisions	35	5 451		5 451	2 860	5 023
Current income tax liabilities		12 291		12 291	45 894	27 147
Deferred income tax liabilities	28	2 977		2 977	21 131	25 793
Other liabilities	36	148 622		148 622	53 778	38 789
Total Liabilities		7 163 116	0	7 163 116	8 283 353	7 680 421
Owner's Equity						
Owner's equity	39	513 000		513 000	476 000	476 000
Share premium	39	10 109		10 109	10 109	10 109
Revaluation reserves	40	- 26 965		- 26 965	1 722	- 2 981
Other reserves and retained earnings	41	271 111		271 111	219 485	224 145
Income for the period		11 760		11 760	38 179	2 283
Total Equity		779 015	0	779 015	745 495	709 556
Total Liabilities + Equity		7 942 131	0	7 942 131	9 028 848	8 389 977

a) These financial statements have been restated to conform with the retrospective application of IFRS as a result of the entry into force of Notice No. 5/2015 issued by the Bank of Portugal, which revokes Notice No. 1/2005 and Notice No. 3/95 also issued by the Bank of Portugal.

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Income Statement

Individual Income Statement

(€ thousand)

	Notes/ Tables annexes	31/12/2016	31/12/2015 a)
Interest and similar income	6	205 002	222 915
Interest and similar charges	6	62 457	87 962
Net interest income		142 545	134 953
Return on equity instruments	7	2 346	1 658
Fees and commissions received	8	42 586	41 887
Fees and commissions paid	8	6 944	7 156
Net gains from financial assets and liabilities at fair value through profit or loss	9	- 67 975	- 7 507
Net gains from available-for-sale financial assets	9	81 001	5 941
Net gains from foreign exchange differences	10	1 942	1 693
Income from the sale of other assets	11	- 10 721	- 3 213
Other operating income	12	15 920	43 406
Banking income		200 700	211 662
Personnel expenses	13	81 029	57 772
Administrative overheads	14	55 021	52 113
Depreciation for the year	26/27	2 844	2 995
Provisions net of reversals	35	1 803	- 2 113
Credit impairment net of reversals and recoveries	23	46 135	33 516
Impairment of other assets net of reversals and recoveries	29	18 832	12 250
Income before tax		- 4 964	55 129
Income tax		- 16 724	16 950
Current tax	15	- 20 358	20 783
Deferred tax	15	3 634	- 3 833
Net income before tax		11 760	38 179
Of which: Net income from discontinued operations		0	0
Net income for the period		11 760	38 179
Earnings per share (euro)		0.02	0.08

a) These financial statements have been restated to conform with the retrospective application of IFRS as a result of the entry into force of Notice No. 5/2015 issued by the Bank of Portugal, which revokes Notice No. 1/2005 and Notice No. 3/95 also issued by the Bank of Portugal.

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Statement of Comprehensive Income

Statement of Comprehensive Income

		(€ thousand)	
	Notes	31/12/2016	31/12/2015
Net income		11 760	38 179
Other comprehensive income:			
Items not reclassified as income			
Retirement pensions			
Remeasurement of defined benefit plans	37	13 447	- 6 943
		13 447	- 6 943
Items that may be reclassified as income			
Available-for-sale financial assets			
Revaluation of available-for-sale financial assets	40	- 38 909	6 083
Tax burden	40	10 222	- 1 380
		- 28 687	4 703
Total comprehensive income for the year		- 15 240	- 2 240
Individual comprehensive income		- 3 480	35 939

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Individual Statement of Changes in Equity

Individual Statement of Changes in Equity

		(€ thousand)				
	Notes	Share Capital	Share premium	Fair value reserves	Other reserves and retained earnings	Total Equity
Balance as at 01 January 2015	39	476 000	10 109	- 2 981	224 145	709 556
Transferred to reserves	41				2 283	0
Comprehensive income for the period				4 703	- 6 943	35 939
Balance as at 31 December 2015		476 000	10 109	1 722	219 485	745 495
Transferred to reserves	41				38 179	0
Capital increase	39	37 000				37 000
Comprehensive income for the period				- 28 687	13 447	- 3 480
Balance as at 31 December 2016		513 000	10 109	- 26 965	271 111	779 015

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Cash flow Statement

BANCO POPULAR PORTUGAL, SA

Cash Flow Statements for the years ended 31 December 2016 and 2015

(€ thousand)

	<u>Notes</u>	<u>31/12/2016</u>	<u>31/12/2015</u>
Cash flow from operating activities			
Interest, fees and other income received		213 522	225 474
Interest, fees and other expenses paid		- 53 816	- 72 989
Recovery of outstanding loans and interest		1 546	263
Cash paid to suppliers and employees		- 61 434	- 94 488
Contributions to the pension fund	37	- 70	- 11 360
Sub-total		99 748	46 900
Changes in operating assets and liabilities			
Deposits with central banks		- 113 373	74 143
Financial assets held for trading and at fair value through profit and loss		12 635	1 603
Loans and advances to banks		116 206	- 130 248
Deposits from banks		- 691 896	- 40 213
Loans and advances to customers		- 401 597	- 393 788
Deposits from customers		- 323 628	930 687
Risk management derivatives		- 194 347	- 60 154
Other operating assets and liabilities		124 911	49 295
Net cash flow from operating activities before income taxes		-1 371 341	478 225
Income tax		- 13 246	- 2 036
Net cash flow from operating activities		-1 384 587	476 189
Cash flow from investment activities			
Purchase of investment in subsidiaries and affiliates		- 90	-
Sale of investment in subsidiaries and affiliates		36 913	-
Dividends received		2 347	1 658
Purchase of available for sale financial assets		- 664 554	- 116 643
Sale of available for sale financial assets		1 647 319	166 664
Held-to-maturity investments		-	-
Non-current tangible assets held for sale		78 354	24 310
Purchase and sale of assets		- 2 519	- 1 366
Net cash flow from investing activities		1 097 770	74 623
Cash flow from financing activities			
Issue of own equity instruments	33	1 871	525 000
Redemption/repurchase of own equity instruments		- 39 494	- 808 536
Net cash flow from financing activities		- 37 623	- 283 536
Net changes in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	46	595 477	325 416
Effect of exchange rate fluctuations on cash and cash equivalents		- 1 917	2 785
Net changes in cash and cash equivalents		- 324 440	267 276
Cash and cash equivalents at the end of the period	46	269 120	595 477

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Notes to the Financial Statements

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016 AND 2015

(€ 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 website (www.bancopopular.es).

The Bank is not a listed company.

The Bank's shareholder can amend this set of financial statements after the Board of Directors has authorized their disclosure.

The financial statements as at 31 December 2016 were approved by the Board of Directors on 20 March 2017.

1.2 Bank structure

Thus, as at 31 December 2016, the Bank detained only one equity stake in the associated company Eurovida – Companhia de Seguros de Vida, S.A. (see note 20).

On 31 December 2015, Popular Factoring, S.A., handed the Bank of Portugal a merger project with Banco Popular Portugal, S.A. The planned acquisition of the Qualifying Holding, owned by Banco Popular Español, S.A. (sole shareholder of Banco Popular Portugal, S.A.), took place in April 2016, following the approval of the Bank of Portugal, by means of a share capital increase of Banco Popular Portugal, S.A., fully subscribed by its sole shareholder, Banco Popular Español, S.A., through contributions in kind substantiated by the Qualifying Holding pursuant to article 73 et seq. of the CIRC.

The Bank now wholly owns Popular Factoring, S.A., after the purchase of the qualifying holding from Banco Popular Español, S.A. (which was 99.83%) and after exercising its squeeze out right.

On 1 December 2016, Popular Factoring, S.A. merged with Banco Popular Portugal, S.A. as authorized by the Bank of Portugal, with effect on 1 January 2016.

In 2016, Banco Popular Portugal, S.A., also sold its card business segment to WiZink Bank, S.A.'s subsidiary in Portugal, with effect on 1 December (see note 12).

1.3 Process of restructuring

Following the Bank's reporting in August 2016, Banco Popular Español Group announced its strategic plan for 2016-2018 and the restructuring of its business. This plan focus on the profitable and recurrent business, actively promoting the reduction of unproductive assets, and implements a cost cutting plan that foresees savings of 175-200 million euros.

Following the communication forwarded to CNMV in Spain, published on 6 November, the process shall affect around 2,592 employees and closing 300 branches.

In Portugal, this adjustment ran until the end of 2016. The reorganization of the Bank's network of branches implied closing down 47 branches and laying off 270 employees (this number also includes some retirement processes), which was done by mutual agreement, i.e., via settlement agreements. To make sure that the employees had access to the unemployment benefit, in Portugal, the Ministry of Labour and Social Solidarity required the Bank to issue a declaration where it stated it is a restructuring business for staff purposes.

With reference to 31 December 2016 the settlement agreements/early retirement agreements shall take effect regarding those employees involved in the process of restructuring.

Within the scope of the aforementioned process, the Bank had an added expense in 2016 of 30 million euros, 28 million of which referring to personnel expenses and 2 million related to administrative overheads (see notes 13 and 14).

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

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.

These financial statements are the first financial statements prepared by the Bank according to the IFRS endorsed by the European Union, published and in force or published and brought forward to 1 January 2016, and according to IFRS 1 - 'First-time Adoption of International Financial Reporting Standards', having the Bank prepared its opening balance sheet on the transitional date on 1 January 2015. The financial statements of the Bank until 31 December 2015 were prepared according to the accounting principles established by the Bank of Portugal via Notice No. 1/2015 and defined in

Instructions No. 9/2005 and No. 23/2005, and the Adjusted Accounting Standards (AAS). In the process of transition from the previously adopted accounting standards to the IFRS, the Board of Directors amended some accounting and valuation criteria applied to the consolidated financial statements of 2015 so that these are presented according to the IFRS. Thus, the comparative amounts regarding the 2015 fiscal year were amended to reflect these adjustments.

Following this amendment, the portfolio of credit granted, guarantees, and other similar transactions is now subject to the constitution of impairment losses, calculated pursuant to the requirements foreseen in the IAS 39 and replacing what had been booked for specific risks, general credit risks, and country-risk, pursuant to Notice No. 3/95 of 30 June issued by the Bank of Portugal.

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.

Implementing Decree No. 5/2016 was published on 18 November 2016 and defines maximum limits for impairment losses and other value adjustments for specific credit risk deductible for effects of the calculation of taxable profit regarding corporate income tax, as well as rules to observe in its calculation, pursuant to Article 28-A(2) and 28-C(1) of the Corporate Income Tax Code (CIRC), approved by Decree-law No. 442-B/88 of 30 November, effective for annual periods beginning on or after 1 January 2016.

Following from the aforementioned legislation, the implementing decree, and the amendments to deferred tax estimates, the amounts disclosed in the financial statements as at 31 December 2015 are different from what had previously been reported. The Bank applied retrospectively the new legislation to its financial statements with reference to the first comparative period presented, i.e., 1 January 2015.

Pursuant to Article 69-A of the CIRC, Banco Popular Español chose to apply the Special Regime for Corporate Group Taxation (RETGS) in 2016 regarding its subsidiaries in Portugal, with Banco Popular Portugal, S.A., acting as the entity in charge of complying with the obligations of the parent company. Banco Popular Portugal, S.A., is thus in charge of settling the corporate income tax within the scope of RETGS. The companies in the group have established that any gains arising from the application of RETGS shall be allocated to Banco Popular Portugal, S.A.

In the preparation of its financial statements, Banco Popular Portugal, S.A., followed the historical cost convention, modified, when applicable, to account for the revaluation to fair value (financial assets held for trading, available-for-sale financial assets, financial liabilities held for trading, hedge derivatives).

The preparation of IFRS-compliant financial statements requires Banco Popular Portugal to make a number of estimates, assumptions and critical judgements in applying the accounting policies that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the periods presented.

Although these estimates are based on the Board of Administrator's best available knowledge of current and future events, actual results could be different from those estimates and assumptions used. The critical accounting estimates and judgements, i.e., those that have the greatest impact on the individual financial statements are disclosed in note 4.

IFRS Disclosures - New standards as at 31 December 2016

i) Impact of the adoption of standards that became effective on 1 January 2016

Standards

- a) **IAS 1** (amended), 'Disclosure initiative'. The amendments made to IAS 1 provide information on materiality and 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 did not have any impact on the Bank's Financial Statements.
- b) **IAS 16 and IAS 38** (amended), 'Clarification of acceptable methods of depreciation and amortisation'. 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 did not have any impact on the Bank's Financial Statements.
- c) **IAS 16 and IAS 41** (amended), 'Agriculture: bearer plants'. This amendment defines the concept of a plant that produces consumable biological assets (bearer plant) and removes this type of assets from the scope of IAS 41 - Agriculture to the scope of IAS 16 - Property, Plant and Equipment, and respective impact on remeasurement. However, the biological assets produced by these plants remain under the scope of IAS 41 - Agriculture. The adoption of this amendment did not have any impact on the Bank's Financial Statements.
- d) **IAS 19** (amended), 'Defined benefit plans – Employee contributions'. 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 did not have any impact on the Bank's Financial Statements.
- e) **IAS 27** (amended), 'Equity method in separate financial statements'. 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 retrospective application. The adoption of this amendment did not have any impact on the Bank's Financial Statements.
- f) **Amendments to IFRS 10, 12 and IAS 28**, 'Investment entities: applying the consolidation exception'. 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 these amendments did not have any impact on the Bank's Financial Statements.
- g) **IFRS 11** (amended), 'Accounting for acquisitions of interests in joint operations'. 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 did not have any impact on the Bank's Financial Statements.

h) Improvements to standards: 2010-2012 Cycle 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 these amendments did not have any impact on the Bank's Financial Statements.

i) Improvements to standards: 2012-2014 Cycle This improvement cycle affects the following standards: IFRS 5, IFRS 7, IAS 19, and IAS 34. The adoption of these amendments did not have any impact on the Bank's Financial Statements.

ii) EU endorsed published standards whose application is mandatory for periods beginning on or after 1 January 2017:

a) IFRS 9 (new), 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018). 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 Bank is already identifying the relevant impacts on the financial statements after the adoption of this amendment.

b) IFRS 15 (new), 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 January 2018). 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.

iii) Published (new and amended) standards and interpretations whose application is compulsory for annual periods beginning on or after 1 January 2017, which the EU has not endorsed yet.

I - Standards

a) IAS 7 (amended), 'Disclosure initiative' (effective for annual periods beginning on or after 1 January 2017). This standard is still going through the European Union endorsement process. This amendment introduces an additional disclosure on changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes, and how this information is reconciled with the cash flows arising from financing activities in the Cash Flow Statement. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.

b) IAS 12 (amended), 'Income taxes – Recognition of deferred tax assets for unrealised losses' (effective for annual periods beginning on or after 1 January 2017). This standard is still going through the European Union endorsement process. This amendment clarifies how to account for deferred tax assets related to assets measured at fair value, how to calculate future taxable profit when there are deductible temporary differences, and how to assess the recoverability of deferred

taxes when there are no restrictions in tax law. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.

- c) **IFRS 15** (amended), 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 January 2018). These amendments are still going through the European Union endorsement process. These amendments refer to guidance on identifying performance obligations, accounting for licenses of intellectual property, the principal versus agent assessment indicators, and the new practical expedients to simplify transition. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.
- d) **IFRS 16** (new), 'Financial instruments' (effective for annual periods beginning on or after 1 January 2019). This standard is still going through the European Union endorsement process. This new standard replaces IAS 17 with a significant impact on lessees that now must recognize a lease liability reflecting future lease payments and a 'right-of-use' asset for every lease contract, except for certain short-term leases and low-value assets. The definition of lease has also been changed and is now based on the 'right to control the use of an identified asset'. The adoption of this standard is not expected to have any materially relevant impact on the Bank's Financial Statements.
- e) **Improvements to standards: 2014-2016 Cycle** (effective in general for annual periods beginning on or after 1 January 2017). This improvement cycle is still going through the European Union endorsement process. This improvement cycle affects the following standards: IFRS 1, IFRS 12, and IAS 28. The adoption of this amendment is not expected to have any materially relevant impact on the Bank's Financial Statements.

II - Interpretations

- a) **IFRIC 22** (new), 'Foreign currency transactions and advance consideration' (effective for annual periods beginning on or after 1 de January 2018). This standard is still going through the European Union endorsement process. This is an interpretation of IAS 21 'The effects of changes in foreign exchange rates', and refers to the 'date of transaction' for transactions that include the receipt or payment of advance consideration in a foreign currency. The 'date of transaction' determines the exchange rate to be used for currency translation. 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 operating segment is a component of an entity:

- a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- b) whose operating results are reviewed regularly by the entity's 'chief operating decision maker' to make decisions about resources to be allocated to the segment and assess its performance;

c) for which discrete financial information is available.

The Bank determines and presents operating 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 between 20% and 50% 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. An impairment loss may be reversed up to the previously recognized impairment losses and may not exceed the carrying amount of the asset.

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.

Exchange losses or gains arising from the payment/receipt of transactions as well as from the conversion of foreign currency monetary assets and liabilities to the exchange rate on the reporting date are carried in the income statement as financing costs when associated with loans or as operating gains or losses for every other balance/transaction.

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 models and option valuation 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 and directly related to the rest of the contract, and the aggregate host contract (embedded derivative and the rest of the 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 as described below.

a) Fair value hedge accounting

Hedge derivatives are accounted for at fair value, and the gains and losses resulting from their revaluation are recognized in profit and loss. 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.

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 deferred (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.

After their initial recognition, financial assets may not be reclassified as financial assets at fair value through profit or loss.

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 right to compensation exists when it can be exercisable at any time in the normal course of business and is not contingent upon a future event or in case the entity defaults, becomes insolvent, or goes bankrupt.

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-term 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.

The Bank offers another product within the scope of its factoring activities: factoring for suppliers. The aim of this product is to provide the company with management, administration and processing payments regarding receivables that the suppliers legitimately hold over customers.

The item Loans and advances to customers includes the amount of the anticipation offers made to suppliers regarding their receivables and as a counterpart the heading Other liabilities is booked. The Bank anticipates the amount of the offers accepted by the suppliers. The amount of these anticipations is net of fees and commissions.

Additionally, on the invoice due date, the amount of the anticipations is repaid by the customer's payment of the via an escrow account with a support bank.

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 profit or loss up to its cost value.

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:

- significant financial stress of the borrower;
- a breach of contract, such as a default in principal and/or interest payments;
- concessions granted to the borrower, for reasons relating to the borrower's financial difficulty, that the lender would not have otherwise considered;
- probability that the borrower will go into bankruptcy or another 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, and the amount of the instrument may not be higher than its cost value.

Loans to customers whose terms have been renegotiated are no longer considered past due and are treated as new loan contracts. Restructuring procedures 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) Available-for-sale assets

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 are capitalized when the costs that are inherently 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.

Internally generated assets, namely internal development expenses, are recognized as cost when incurred whenever it is not possible to distinguish the stage of research from the stage of development, or when it is not possible to reliably determine the costs incurred at each stage or the probability of future economic benefits flowing to the entity.

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.

The acquisition cost includes the asset purchase price, the costs of the purchase, and all expenditures needed to prepare the asset for its intended use.

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.

Costs incurred with dismantling or removing an asset installed on the premises of a third party are considered part of the initial cost of those assets when their amount is significant.

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
Transport equipment	4
Other equipment	4 to 10

The useful lives of the assets are revised every year so that depreciations comply with the asset consumption patterns. Changes to the useful lives are treated as a change of accounting estimates and are prospectively applied.

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 of the asset's value in use (calculated based on the current value of estimated future cash flows arising from continuous use and the sale of the asset at the end of its defined useful life) and fair value, minus disposal costs. When the conditions that have led to the recognition of impairment losses cease to exist, those losses are reversed up to the carrying amount the asset would have if no impairment had been recognized.

Gains and losses arising from disposals are determined by comparing proceeds with the 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). When the conditions that have led to the recognition of impairment losses cease to exist, those losses are reversed up to the carrying amount the asset would have if no impairment had been recognized.

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 (an amount that is equivalent to the net investment amount made in the leased assets as well as any non-guaranteed residual estimated in favour of the lessor). 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 are recognised whenever: i) the Bank has a legal or constructive obligation as a result of past events; ii) it is more likely than not that an outflow of resources will be required to settle that obligation; and iii) the amount can be reliably estimated. Whenever one of the criteria above is not met or the existence of the obligation is contingent upon the occurrence (or non-occurrence) of a given future event, the Bank shall disclose that fact as a contingent liability, pursuant to note 50, except when the assessment of the requirement of the outflow of resources for the settlement of that obligation is considered remote.

Provisions are measured at the present cost of settling the obligation using a before tax interest rate, which reflects the market assessment for the discount period and the provision risk at stake.

Provisions for other risks and charges

Provisions for restructuring costs and legal proceedings 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 legal proceedings that oppose the Bank to a third party are made according to the internal risk assessment made by Management with the support and guidance of their legal consultants.

The Bank recognizes a provision for onerous contracts on the date that, for the ongoing contract, is determined that the cost of settling the obligation exceeds its estimated economic benefits. This analysis is performed on a contract by contract basis with the information provided by those in charge of the projects.

The Bank recognizes a provision whenever it has assumed the obligation of restoring leased spaces to a third party in which it has done restoration work or implemented assets to the condition in which they were at the date of the lease agreement. The provision is calculated based on the costs of dismantling and the period estimated for that considering the negotiated lease term.

The impact from these supplements and reversals of provisions is recognized in the item provisions net of reversals and write-offs of the income statement.

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 expenses;
- Return on plan assets;
- 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) End of career bonus

In compliance with the Collective Bargaining Agreement (ACT) for the banking sector in Portugal published on BTE No. 29 on 8 August 2016, the Bank no longer grants 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 that attribution.

Pursuant to clause 74 of the new ACT, the seniority bonus was replaced by an end of career bonus: on the date of retirement due to disability or presumable disability, the employee is entitled to a bonus that is 1.5 times their monthly remuneration effectively earned on that date.

Every year the Bank determines the amount of liabilities using actuarial calculations based on the Project Unit Credit method. 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 end of career bonuses are recognised in item Other Liabilities.

2.16 Income taxes

Income tax for the period includes current taxes and deferred taxes. Income taxes are recognized in the individual statement of comprehensive income, except when related to items that are directly recognized in shareholder's equity.

The amount of current income tax payable is determined based on profit before tax and adjusted according to the tax rules in force. In accordance with the legislation in force, tax returns are subject to revising and restating by the tax authority within a 4-year period.

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, based on the tax rate approved in Portugal, 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.

Deferred tax liabilities are always accounted for regardless of the Bank's performance.

2.17 Financial liabilities

Financial liabilities arise from contractual obligations to settle a given item by delivering money, and/or other financial asset(s) regardless of their legal form.

These instruments are recognized (i) initially at fair value minus transaction costs, and (ii) subsequently at amortized cost using the effective interest rate method, except for possible uncovered sales, and financial liabilities at fair value through profit or loss, which are subsequently measured at fair value.

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.

Any tangible asset that may be reclassified as non-current asset held for sale may no longer be depreciated from the date it was classified as a tangible asset held for sale until the date it is sold.

Assets booked in this item may not be depreciated, and are measured at the lower of carrying amount and fair value less costs to sell.

When the carrying amount is higher than the fair value, less costs to sell, impairment losses are recognized in item 'Impairment and other net provisions'.

When, due to any changes in the Bank's circumstances, non-current assets held for sale, and/or disposal groups, no longer meet the criteria for an asset to be classified as held for sale, then these assets and/or disposal groups are reclassified according to the underlying nature of the assets and remeasured at the lower of (i) the carrying amount before the assets or disposal groups were classified as held for sale as adjusted for any subsequent depreciation/amortisation or re-valuation in case these assets had not been classified as held for sale, and (ii) their recoverable amount at the date of reclassification according to their underlying nature. These adjustments are disclosed in profit or loss.

2.19 Insurance 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 they refer to are booked as a receivable in item Other Assets.

In 2016 and 2015 fees and commissions received from insurance brokerage were explained as follows.

	2016	2015
Life	2 517	944
Non-life	609	578
	<u>3 126</u>	<u>1 522</u>

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 1.01 billion euros at the end of 2016, representing around 12.8% of the Bank's total net assets. The typology of these assets was broken down as follows: Portuguese public debt (24.6%), Spanish public debt (46.2%), Italian public debt (13.3%), banks (11.2%), and others (4.7%).

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.

3.2 Fair value of financial assets and liabilities

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.

Fair value change recognized in the income statement for the period is analysed as follows:

	31/12/2016		31/12/2015	
	Fair value	Change	Fair value	Change
Financial assets at fair value through profit or loss				
Other equity instruments	500	-198	11 992	-332
Trading derivatives				
Interest rate sw aps	37 471	27 254	37 534	4 211
Futures and other forw ard contracts	1 085	-	334	-
Options	232	1 453	33	757
Available-for-sale financial assets				
Debt instruments issued by residents	249 169	823	45 117	578
Equity instruments issued by residents	759	0	652	- 1
Other equity instruments issued by residents	46 291	0	46 500	-
Debt instruments issued by non-residents	717 275	75 429	1 822 086	5 364
Equity instruments issued by non-residents	77	2 993	75	-
Hedge derivatives - assets	-	-	1 056	-
Financial liabilities at fair value through profit or loss				
Trading derivatives				
Interest rate sw aps	41 417	- 27 352	41 094	- 3 461
Futures and other forw ard contracts	85	-	283	-
Options	232	- 359	74	- 52
Hedge derivatives - liabilities	15 059	- 67 017	121 337	- 8 630
		13 026		- 1 566

The net income of financial assets and liabilities at fair value that have not been classified as hedging includes an amount of 80 241 thousand euros (2015: 7 396 thousand euros).

Quoted market prices (level 1)

This category includes financial instruments with available quoted prices in official active markets and those for which transaction prices on liquid markets are usually disclosed.

A quoted price in an official active market is preferable and when more than one official active markets exist, the principal market where these financial instruments are traded is chosen.

The Bank considers market prices those disclosed by independent entities, with the assumption that these operate following their own economic interests and that those prices are representative of the active market, obtaining, whenever possible, prices from more than one source (for the same asset and/or liability). When re-evaluating financial assets, the Bank analyses all the different market prices in order to select those that appear to me more representative for that instrument. Additionally, prices for recent transactions of similar financial assets, when available, are used as inputs, which are later compared to the prices provided by the aforementioned sources in order to better substantiate the Bank's option for a given price.

This category includes, among others, the following financial instruments:

- i) Derivatives traded on an organized exchange;
- ii) Listed shares;
- iii) Listed open-end funds;
- iv) Closed-end funds whose underlying assets are only listed financial instruments;
- v) Bonds with more than one provider and whose instruments are listed;
- vi) Financial instruments with market quotes even when they are not available from the usual information sources (e.g. Securities traded based on their recovery rate).

Valuation based on market observables (level 2)

This category includes financial assets that are measured using internal models, namely discounted cash flow models and option valuation models, which imply using estimates and require judgements that can vary depending on the complexity of the products to be measured. However, the Bank uses other inputs in its models provided by the market, such as interest rates, credit spreads, volatiles, and quote indexes. It also includes instruments whose measurement is obtained through the quotes disclosed by independent entities operating in markets with more reduced liquidity.

Additionally, the Bank uses observable market inputs that result from quoted prices for similar assets or liabilities in active markets.

This category includes, among others, the following financial instruments:

- i) Unlisted bonds;
- ii) OTC derivatives; and
- iii) Commercial paper for which there are observable market inputs, namely yield curves and credit spread that are applicable to the issuer.

Valuation based on inputs that are not observable in the market (level 3)

This level includes valuations based on internal valuation models or quotes provided by third parties whose inputs are not observable in the market. The bases and assumptions to calculate fair value are in accordance with the principles defined in IFRS 13.

This category includes, among others, the following financial instruments:

- i) Unlisted shares;
- ii) Closed-end securities;

Assets and Liabilities at fair value	31/12/2016				31/12/2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets held for trading								
Variable-income securities	487	-	14	501	2 038	-	9 954	11 992
Derivatives	-	38 787	-	38 787	-	37 901	-	37 901
Financial assets held for sale								
Debt securities	966 444	-	-	966 444	1 866 044	1 158	-	1 867 202
Equity securities	-	-	47 127	47 127	-	-	47 228	47 228
Hedging derivatives	-	-	0	0	-	1 055	-	1 055
Total Assets at fair value	966 931	38 787	47 141	1 052 859	1 868 082	40 114	57 182	1 965 378
Financial liabilities held for trading (Derivatives)	-	41 734	-	41 734	-	41 452	-	41 452
Hedging derivatives	-	15 059	-	15 059	-	121 337	-	121 337
Total Liabilities at fair value	0	56 793	0	56 793	0	162 789	0	162 789

Assets classified in level 3 include equity stakes in closed-end investment funds whose value results from the disclosure of the Net Value of the Fund determined by the Management Company, according to the audited accounts of the respective funds. The amount of these funds results from a set of diversified assets and liabilities booked at fair value in their respective accounts using internal methodologies employed by the management company. Within this scope it is not feasible to present a sensitivity analysis of the different components of the respective assumptions used by these entities.

The principal valuation methods used for level 3 can be found on the following table:

	Financial assets held for trading	Available-for-sale financial assets
Balance as at 01/01/ 2016	9 954	47 228
Purchases	-	-
Sales/maturity	- 9 940	-
Revaluation	-	- 101
Balance as at 31/12/2016	14	47 127

We have not performed a sensitivity analysis of variable yield securities classified as held for trading since they have an individual immaterial value.

Equity securities classified as available for sale, included in level 3, refer essentially to closed-end securities, stakes measured according to their quote prices supplied by their respective Management Company, and therefore it is not reasonable to analyse the impact of the change of the underlying variables when obtaining the quote price for that unit.

The principal methodologies and assumptions used to estimate the fair value of financial assets and liabilities booked at amortized cost in the balance sheet are as follows:

	Assets/liabilities at amortized cost	Fair value			Total fair value
		Quoted market prices	Valuation based on market observables	Valuation based on inputs that are not observable in the market	
		(Level 1)	(Level 2)	(Level 3)	
Cash and balances with central banks	164 673	-	164 673	-	164 673
Deposits with banks	98 768	-	98 768	-	98 768
Loans and advances to banks	145 885	-	145 885	-	145 885
Loans and advances to customers	5 924 162	-	-	5 940 718	5 940 718
Total assets measured at amortized cost	6 333 488	0	409 326	5 940 718	6 350 044
Deposits from banks	2 231 603	-	2 231 603	-	2 231 603
Deposits from customers	4 703 477	-	-	4 703 477	4 703 477
Debt securities issued	1 902	-	-	1 922	1 922
Total liabilities measured at amortized cost	6 936 982	0	2 231 603	4 705 399	6 937 002

Cash and balances with central banks, Deposits with banks, and Loans and advances to banks

These are very short-term assets and therefore their carrying amount is a reasonable estimate of their respective fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on discounted expected cash flows of principal and interest, considering that instalments are paid on their due dates. Expected future cash flows of homogeneous loan portfolios, e.g., mortgage loans, are estimated on a portfolio basis. The discount rates used are the current rates for similar loans.

Deposits from central banks and Deposits from banks

The fair value of deposits from central banks and deposits from banks is estimated based on the update of expected cash flows of principal and interest.

Deposits from customers

The fair value of these financial instruments is estimated based on the update of expected cash flows of principal and interest. The discount rate used reflects the rates used for similar deposits at the reporting date. Considering that the applicable interest rates are renewed for periods of less than one year, there are no materially relevant differences in their fair value.

Debt securities issued

The fair value of these instruments is based on market quotes when available; when they are not available, it is estimated based on discounted expected future cash flows of principal and interest of these instruments.

The Board of Directors considered that as at 31 December 2016, the fair value of assets and liabilities at amortised cost did not differ significantly from its book value.

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 must 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 to mitigate credit risk. The most traditional one is securing collaterals in 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 2016 and 2015, maximum exposure to credit risk was as follows:

	31/12/2016	31/12/2015
On-balance sheet		
Deposits with banks	98 768	76 428
Financial assets held for trading	38 787	37 900
Other financial assets at fair value through profit or loss		
Available-for-sale financial assets	966 444	1 867 203
Loans and advances to banks	145 885	606 616
Loans and advances to customers	6 293 689	6 085 775
Other assets	183 869	272 676
	7 727 442	8 946 598
Off-balance sheet		
Financial guarantees	284 843	288 817
Other guarantees	93 943	102 654
Lending commitments	931 655	904 138
Documentary credits	40 470	44 034
	1 350 911	1 339 643
Total	9 078 353	10 286 241

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 2016 and 2015, 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, 79.6 % of total maximum exposure results from loans and advances to customers (2015: 68.0%).

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:

- 59.7% of the amount of loans and advances to customers has eligible collaterals;
- 93.3% of customer credit portfolio is not past due.

Pursuant to IFRS 7 as at 31 December 2016 the exposure by segment and maturity is broken down as follows:

	Exposure as at 31/12/2016						Total
	Property constr. and CRE	Corporate	Corporate customers	Home loans	Other	Relevant	
Without overdue or individual impairment	345 771	485 615	1 593 933	1 744 308	406 903	604 226	5 180 756
Less than 30 days	345 771	485 615	1 593 933	1 744 308	406 903	604 226	5 180 756
With overdue but without individual impairment	135 966	41 912	344 606	192 338	59 256	60 175	834 252
Less than 30 days	13 400	0	19 563	56 082	2 324	6 714	98 082
From 1 to 60 days	1 964	41 304	66 903	21 598	1 353	0	133 122
From 1 to 90 days	4 019	0	8 724	11 312	791	3 647	28 494
From 1 to 180 days	7 276	9	13 162	23 033	1 778	19 452	64 710
From 1 to 365 days	20 509	261	26 702	18 483	2 887	8 439	77 282
Over 365 days	88 798	338	209 551	61 830	50 123	21 922	432 562
Loans with individual impairment	44 182	98 786	44 863	3 049	13	87 789	278 681
Less than 30 days	10 315	45 634	18 104	0	0	28 145	102 198
From 1 to 60 days	1	0	989	0	0	7 355	8 345
From 1 to 90 days	844	0	8	0	0	3	854
From 1 to 180 days	1 692	7 561	2 174	0	11	1 896	13 333
From 1 to 365 days	5 952	12 540	3 788	0	0	7 136	29 417
Over 365 days	25 379	33 050	19 800	3 049	2	43 254	124 533
Total	525 918	626 313	1 983 402	1 939 695	466 171	752 190	6 293 689

- 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.

31/12/2016	Financial Institutions	Public Sector	Property constr. & develop.	Other industries	Services	Private customers	
						Home loans	Other loans
Deposits with banks	98 768						
Financial assets held for trading	1 874		24 017	55	13 342		
Available-for-sale financial assets	144 596	852 657			16 318		
Loans and advances to banks	145 846						
Loans and advances to customers		7 077	812 529	1 118 957	2 260 880	1 777 018	320 542
Investment in subsidiaries and associates					18 899		
Other assets	55 132	104 168		334			
	<u>446 216</u>	<u>963 902</u>	<u>836 546</u>	<u>1 119 346</u>	<u>2 309 439</u>	<u>1 777 018</u>	<u>320 542</u>

31/12/2015	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					
	<u>1 103 545</u>	<u>1 604 467</u>	<u>869 676</u>	<u>1 131 318</u>	<u>2 443 829</u>	<u>1 603 497</u>	<u>173 323</u>

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 2016, the Bank's portfolio amounted to around 1.01 billion euros, of which around 0.5 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 0.004% 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:

<u>31/12/2016</u>	<u>USD</u>	<u>GBP</u>	<u>CHF</u>	<u>JPY</u>	<u>CAD</u>	<u>AUD</u>	<u>NOK</u>	<u>Other</u>
Assets								
Cash and cash equivalents	304	39	108	7	26	8	4	10
Deposits with banks	44 091	11 617	176	73	3 893	4 557	3 039	243
Available-for-sale financial assets	61	-	-	-	-	-	-	-
Loans and advances to banks	21 228	17 606	-	-	-	-	16	-
Loans and advances to customers	3 165	-	-	-	-	-	-	-
Other assets	3 510	236	2	-	2	256	2	-
	<u>72 359</u>	<u>29 498</u>	<u>286</u>	<u>80</u>	<u>3 921</u>	<u>4 821</u>	<u>3 061</u>	<u>253</u>
Liabilities								
Deposits from banks	39 109	17 704	186	81	-	-	-	-
Deposits from customers	46 834	11 857	108	-	3 871	4 581	2 928	182
Other liabilities	3 215	122	1	6	175	340	38	-
	<u>89 158</u>	<u>29 683</u>	<u>295</u>	<u>87</u>	<u>4 046</u>	<u>4 921</u>	<u>2 966</u>	<u>182</u>
Net balance sheet position	<u>- 16 799</u>	<u>- 185</u>	<u>- 9</u>	<u>- 7</u>	<u>- 125</u>	<u>- 100</u>	<u>95</u>	<u>71</u>
Foreign exchange forward transactions	17 073	-	-	-	-	-	-	-
Net position	<u>274</u>	<u>- 185</u>	<u>- 9</u>	<u>- 7</u>	<u>- 125</u>	<u>- 100</u>	<u>95</u>	<u>71</u>

<u>31/12/2015</u>	<u>USD</u>	<u>GBP</u>	<u>CHF</u>	<u>JPY</u>	<u>CAD</u>	<u>AUD</u>	<u>NOK</u>	<u>Other</u>
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	-
	<u>103 035</u>	<u>66 312</u>	<u>461</u>	<u>155</u>	<u>8 104</u>	<u>5 272</u>	<u>2 950</u>	<u>469</u>
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
	<u>90 554</u>	<u>66 399</u>	<u>217</u>	<u>50</u>	<u>6 300</u>	<u>5 364</u>	<u>2 852</u>	<u>129</u>
Net balance sheet position	<u>12 481</u>	<u>- 87</u>	<u>244</u>	<u>105</u>	<u>1 804</u>	<u>- 92</u>	<u>98</u>	<u>340</u>
Foreign exchange forward transaction	- 12 096	-	- 258	- 170	- 1 984	-	- 137	- 401
Net position	<u>385</u>	<u>- 87</u>	<u>- 14</u>	<u>- 65</u>	<u>- 180</u>	<u>- 92</u>	<u>- 39</u>	<u>- 61</u>

- 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

Interest rate risk assesses the impact on net interest income and equity as a result of 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 2016

	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Not sensitive	Total
Cash and Currency Market	132 443	75 386	0	0	201 496	409 326
Loans and advances to customers	1 237 950	1 846 715	2 187 518	614 898	37 081	5 924 163
Securities market	14 000	136 801	150 706	82 534	86 415	470 457
Other assets	0	0	0	0	556 122	556 122
Total Assets	1 384 393	2 058 903	2 338 224	697 432	881 114	7 360 067
Currency market	351 581	1 097 263	732 758	50 000	0	2 231 603
Deposit market	954 564	381 276	1 325 052	1 991 032	51 553	4 703 477
Securities market	0	0	0	1 871	31	1 902
Other liabilities	0	0	0	0	226 136	226 136
Total Liabilities	1 306 145	1 478 539	2 057 810	2 042 903	277 720	7 163 117
Gap	78 248	580 364	280 414	-1 345 471	603 394	
Accumulated gap	78 248	658 612	939 026	- 406 445	196 950	

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	

- 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.

31/12/2016

	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Not sensitive	Total
Cash and Currency Market	132 443	75 386	0	0	201 496	409 326
Loans and advances to customers	1 237 950	1 846 715	2 187 518	614 898	37 081	5 924 163
Securities market	14 000	136 801	150 706	664 936	86 415	1 052 859
Other assets	0	0	0	0	556 122	556 122
Total Assets	1 384 393	2 058 903	2 338 224	1 279 834	881 114	7 942 469
Currency market	351 581	1 097 263	732 758	50 000	0	2 231 603
Deposit market	954 564	381 276	1 325 052	1 991 032	51 553	4 703 477
Securities market	0	0	0	1 871	31	1 902
Other liabilities	0	0	0	0	226 136	226 136
Total Liabilities	1 306 145	1 478 539	2 057 810	2 042 903	277 720	7 163 117
Gap	78 248	580 364	280 414	- 763 069		
Accumulated gap	78 248	658 612	939 026	175 957		
Impact of a 1% increase	33	386	6 678			
Accumulated impact	33	419	7 097			
Accumulated effect	7 097					
Net interest income	142 545					
Accumulated gap	4.98%					

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 considering 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 2016, 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 2016 with the main classes grouped by maturity date:

Liquidity gap of the balance sheet as at 31 December 2016

	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	164 673				
Deposits with banks	98 768				
Financial assets held for trading			500		
Available-for-sale financial assets		136 801		63 428	813 342
Loans and advances to banks	77 891	52 755	5 100	0	10 100
Loans and advances to customers	414 468	405 468	648 236	1 438 912	2 970 738
Other assets	391		57 476	100 047	334
Total Assets	756 191	595 024	711 312	1 602 387	3 794 514
Deposits from central banks					
Financial assets held for trading					
Deposits from banks	353 728	945 954	531 300	300 000	100 000
Deposits from customers	2 468 097	415 862	1 346 330	463 712	406
Debt securities issued				1 871	
Current income tax liabilities			12 291		
Other liabilities	35 621	10 974	46 023	1 468	6 363
Total Liabilities	2 857 446	1 372 790	1 935 944	767 051	106 769
Gap	-2 101 255	- 777 766	-1 224 632	835 336	3 687 745
Accumulated gap	-2 101 255	-2 879 021	-4 103 653	-3 268 317	419 428

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

- Off-balance sheet exposures (Liquidity risk)

As at 31 December 2016, 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:

31/12/2016	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated
Contingent liabilities:						
Documentary credits	-	-	-	-	-	40 470
Guarantees and Sureties	5 279	3 794	6 624	48 364	5 766	308 959
Commitments:						
Irrevocable loans	-	-	-	-	-	-
Revocable loans	51 536	98 799	615 242	27 644	28 573	109 862
Total	56 815	102 593	621 866	76 008	34 339	459 291

31/12/2015	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

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 (GR) - 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 2016, the Bank held investment accounts in the amount of 6 204 472 thousand euros (2015: 5 166 508 thousand euros) and managed estimated financial assets in the amount of 142 520 thousand euros (2015: 179 114 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 2016, Core Tier 1 ratio calculated pursuant to CRD IV/CRR for 2016 stood at 14.8%, which was highly above the minimum regulatory amount of 9.25%.

	31/12/16	31/12/15
Own funds		
Common Equity Tier 1 (CET1)	761,439	693,589
Basic own funds (Tier 1)	761,439	693,589
Eligible own funds (Total)	761,439	736,995
Risk-weighted assets (RWA)	5,133,242	5,966,646
Solvency ratios (Phasing in)		
CET1	14.8%	11.6%
Tier 1	14.8%	11.6%
Total	14.8%	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.

Consequently, using different methodologies or different assumptions and judgements in the application of a given model might originate estimates that differ from those reported and summarised in note 47.

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 pursuant to IFRS 13 - Fair Value Measurement.

Consequently, using different methodologies or different assumptions and judgements in the application of a given model might originate estimates that differ from those reported and summarised in notes 19 and 21.

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.

The impairment amount of available for sale financial assets calculated based on the above-mentioned criteria are stated on note 21.

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.

The sensitivity analysis of the above-mentioned assumptions is presented in note 37.

Any changes to these assumptions might have a significant negative impact on the reported values.

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 to the interpretation of tax legislation may influence the amount of deferred tax that has been recognised (see note 15).

5. Segmental reporting

The Bank operates essentially in the financial sector and its activity is targeted at corporate, institutional and private customers. Pursuant to the Group's management model, these segments correspond to those used for management purposes following the guidelines of the Board of Directors.

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:

31/12/2016	Retail Banking	Commercial Banking	Other Segments	Total
Interest and similar income	127 523	32 073	45 406	205 002
Interest and similar charges	31 974	3 265	27 218	62 457
Return on equity instruments	-	-	2 346	2 346
Fees and commissions received	17 432	4 303	20 851	42 586
Fees and commissions paid	1 658	7	5 279	6 944
Income from Financial Operations (net)	42	81	14 845	14 968
Gains from the sale of other assets	-	-	- 10 721	- 10 721
Other Operating Income (net)	170	1 041	14 709	15 920
Net assets	4 061 681	1 880 733	1 999 717	7 942 131
Liabilities	3 516 457	3 415 956	230 703	7 163 116

31/12/2015	Retail Banking	Commercial Banking	Other Segments	Total
Interest and similar income	117 035	57 836	48 044	222 915
Interest and similar charges	47 942	4 913	35 107	87 962
Return on equity instruments	-	-	1 658	1 658
Fees and commissions received	18 085	5 533	18 269	41 887
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)	-	-	43 406	43 406
Net assets	3 606 576	2 714 701	2 707 571	9 028 848
Liabilities	3 681 096	4 276 999	325 258	8 283 353

6. Net interest income

This item is broken down as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Interest and similar income from :		
Cash and cash equivalents	75	57
Deposits with banks	1 502	300
Loans and advances to customers	161 722	174 757
Other financial assets at fair value	0	0
Other available-for-sale financial assets	41 568	47 681
Other	135	120
	<u>205 002</u>	<u>222 915</u>
Interest and similar charges from:		
Deposits from Central Banks	0	340
Deposits from banks	3 259	4 086
Deposits from customers	35 658	49 539
Debt securities issued	1 432	4 377
Interest from hedge derivatives	22 107	29 548
Other	1	72
	<u>62 457</u>	<u>87 962</u>
Net interest income	<u>142 545</u>	<u>134 953</u>

7. Return on equity instruments

Balance for this item is as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Available-for-sale financial assets	319	65
Investments in subsidiaries, associates, and joint ventures	2 027	1 593
	<u>2 346</u>	<u>1 658</u>

8. Revenue and expense with fees and commissions

These items are broken down as follows:

	31/12/16	31/12/15
Revenue from Fees and Commissions from:		
Guarantees and sureties	3 930	4 960
Means of collection and payment	14 721	16 344
Asset management	4 037	4 355
Insurance brokerage	2 720	1 522
Account maintenance	6 530	5 613
Processing fees	1 557	1 566
Structured operations	2 176	1 878
Other	6 915	5 649
	42 586	41 887
Expenses with Fees and Commissions from:		
Means of collection and payment	2 962	3 653
Asset management	1 907	2 074
Insurance brokerage	1 524	518
Other	551	911
	6 944	7 156

9. Net income from financial operations

This item is broken down as follows:

	31/12/2016		31/12/2015	
	Gains	Losses	Gains	Losses
Financial assets and liabilities held for trading				
Variable income securities	125	322	202	535
Derivative financial instruments	28 707	27 712	40 657	39 202
	28 832	28 034	40 859	39 737
Assets and liabilities at fair value through profit or loss				
Fixed income securities	-	-	-	-
	0	0	0	0
Hedge derivatives at fair value	77 505	146 278	75 829	84 459
Available-for-sale financial assets and liabilities				
Fixed income securities	81 008	7	5 943	-
Variable income securities	-	-	-	1
	81 008	7	5 943	1
Income from financial assets and liabilities held for trading through profit or loss	187 345	174 319	122 631	124 197

During the first half of 2016, the Bank received 15.1 thousand euros in dividends from financial assets held for trading (2015: 43.5 thousand euros). Besides the ineffectiveness of the hedging relationships active at the end of 2016, this item also includes the amount of 65 304 thousand euros from the sale of assets via the sale of the hedged items.

The effect seen in item Hedge 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 income from foreign exchange differences

These items are broken down as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Exchange gains		
Spot	55	127
Forward	4 113	1 596
	<u>4 168</u>	<u>1 723</u>
Exchange losses		
Spot	2 227	30
Forward	0	0
	<u>2 227</u>	<u>30</u>
Income from exchange differences (net)	<u>1 941</u>	<u>1 693</u>

11. Net income from the sale of other assets

This item is broken down as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Gains from the sale of held-for-sale tangible assets	1 669	2 032
Gains from other tangible assets	28	261
	<u>1 697</u>	<u>2 293</u>
Losses from credit assignments	-	-
Losses from the sale of held-for-sale tangible assets	12 418	5 506
Losses from the sale of other tangible assets	-	-
	<u>12 418</u>	<u>5 506</u>
	<u>- 10 721</u>	<u>- 3 213</u>

12. Other operating income

This item is broken down as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Contributions to the DGF	2	164
Contributions to the Resolution Fund	990	886
Contributions to the Single Resolution Fund	3 123	2 140
Contributions to the Investor-Compensation Scheme	5	0
Other operating expenses	5 211	6 036
Council tax	766	524
Other taxes	745	676
Contribution on the banking sector	5 619	5 254
<i>Other operating income</i>	<u>16 461</u>	<u>15 680</u>
Income from staff transfer	1 274	1 285
Income from property	530	863
Capital gains on the sale of business unit	26 577	48 666
Recovery of loans, interest, and expenses	2 757	3 049
Other operating income and revenues	1 243	5 223
<i>Other operating income</i>	<u>32 381</u>	<u>59 086</u>
Other net operating income	<u>15 920</u>	<u>43 406</u>

The amount of capital gains, in 2016, is explained by the earnings obtained from the sale of the credit and debit card business to WiZink Bank, S.A. - subsidiary in Portugal (henceforth WiZink). This sale was completed on 1 December 2016 after complying with all the necessary legal requirements.

WiZink's shareholders are Banco Popular Español, S.A., (49%) and Varde Partners (51%). It is a bank that specializes in credit and debit cards and it has recently purchased Barclaycard's business in Portugal. It is a bank without branches that complements the bank where the customers have their other banking products.

With this transaction, the Group has tried to accomplish two main goals: on the one hand, maximizing the management of the credit and debit card business in Portugal, taking advantage of the knowledge and know-how of a specialized partner; on the other hand, separating the management of this business has allowed Banco Popular Portugal, S.A., to focus on the activity of traditional commercial banking targeted at savings and financial services provided to private customers, families, and companies, and particularly SMEs.

As at 1 December 2016, the aforementioned sale represented a decrease in the Bank's net assets of approximately 11 442 thousand euros, a decrease in its liabilities of around 768 thousand euros, and capital gains from the sale of around 26 577 thousand euros.

The amount in the capital gains item, in 2015, 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 transaction, the Group has tried to accomplish two main goals: 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 10 531 thousand euros (note 29); 4 603 thousand de euros);
- ii) in Other third party services, the costs associated with the management of legal actions, expenses, and others are recognized in the amount of 6 785 thousand euros (2015: 2 986 thousand de 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 defaulted loans are recognized in the amount of 5 215 thousand euros (2015: 2 308 thousand de euros) (note 29).

This transaction encompassed a significant risk and benefit transfer between the parties.

13. Personnel expenses

This item is broken down as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Wages and salaries	36 907	41 642
Obligatory social security charges from:		
- Wages and salaries	10 362	11 063
- Pension Fund	4 692	4 466
- Other obligatory social security charges	182	193
Other expenses	28 886	408
	<u>81 029</u>	<u>57 772</u>

The amount in item Other expenses, in 2016, is mostly explained by the costs incurred with the process of restructuring, namely regarding the termination of employment contracts and early retirement processes (see note 1.3).

14. Administrative overheads

This item is broken down as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
With supplies		
Water, energy, and fuel	1 299	1 675
Items of regular consumption	251	214
Software licences	403	365
Other third party supplies	512	348
With services		
Rents and leasing	4 255	4 314
Communications	3 898	3 932
Travel, hotel, and representation	1 197	1 272
Advertising and publications	2 852	4 236
Maintenance of premises and equipment	4 498	3 378
Transports	1 149	1 176
Fees and regular payment agreements	2 983	3 561
Legal expenses	2 265	1 749
IT Services	9 017	9 400
Security, surveillance, and cleaning	409	450
Temporary work	4 055	3 969
External consultants and auditors	799	1 552
SIBS	1 369	1 355
External real estate appraisers	909	809
Services rendered by the parent company	3 393	3 319
Other third party services	9 508	5 039
	<u>55 021</u>	<u>52 113</u>

In 2016, Administrative overheads include costs incurred with the process of restructuring in the amount of 2 million euros (See note 1.3).

15. Income tax

Corporate Income Tax for 2016 was calculated based on the Special Tax Framework for Groups of Companies (Regime Especial de Tributação para Grupos de Sociedades - RETGS), in which the Bank was appointed by Banco Popular Español, S.A., as the dominant company of the group in Portugal.

Corporate Income tax for 2016 was calculated based on a nominal rate of 21% over the tax base. Both in 2016 and 2015, 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 2016 and 2015, 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:

	31/12/16	31/12/15
Current tax on profits		
For the year	- 20 823	20 892
Adjustments in respect of prior years	465	- 109
	- 20 358	20 783
Deferred taxes		
Origination and reversal of temporary differences	3 634	- 3 833
Total tax in the income statement	- 16 724	16 950
Income before tax	(4 964)	55 129
Tax burden	336.9%	30.7%

As a result of the publication of Regulating Decree 5/2016, of 18 November, that defined the tax scheme for impairment losses due to credit risk applicable in 2016, the initial impact of corporate tax regarding impairments for credit risk as at 1 January 2016 was booked on Retained Earnings.

The reconciliation between the nominal tax rate and the tax burden for 2016 and 2015, 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:

	31/12/16		31/12/15	
	Tax rate	Amount	Tax rate	Amount
Income before tax		(4 964)		55 129
Tax at nominal rate	21.0%	(1 042)	21.0%	11 577
Municipal surcharge after deferred tax	(151.93%)	7 542	22.2%	12 228
Autonomous taxation	(9.69%)	481	1.6%	880
Tax benefits	1.9%	(96)	(0.17%)	(95)
Effect of provisions not acceptable as costs	(421.09%)	20 903	51.8%	28 554
Capital gains and losses	0.6%	(29)	(0.05%)	(28)
Other net value adjustments	(2.03%)	101	(0.01%)	- 8
Contribution on the banking sector	(23.77%)	1 180	2.0%	1 103
Tax loss	9.1%	(452)	(14.49%)	(7 989)
Impact of tax consolidation	199.6%	(9 908)	0.0%	0
Initial impact of retained earnings	795.8%	(39 503)	(45.95%)	(25 330)
Tax from previous years	(9.37%)	465	(0.20%)	- 109
Impact of deferred tax	(73.21%)	3 634	(6.95%)	(3 833)
	336.9%	- 16 724	30.7%	16 950

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:

31/12/2016	Booked at fair value		Accounts	Available-for-sale Hedging	Hedge	Non-financial	
	Traded	Fair value op.	receivable	financial assets	derivatives	assets	Total
Assets							
Cash and balances w ith central banks			164 673				164 673
Deposits w ith other banks			98 768				98 768
Financial assets held for trading	39 288						39 288
Other fin. assets at fair value thr. prof ./loss							0
Available-for-sale financial assets				1 013 571			1 013 571
Loans and advances to banks			145 885				145 885
Loans and advances to customers			5 924 162				5 924 162
Hedging derivatives							0
Other assets			157 999			237,906	395 905
	39 288	0	6 491 487	1 013 571	0	237 906	7 782 252

31/12/2016	Booked at fair value	Other financial	Hedge	Non-financial	
	Traded	liabilities	derivatives	liabilities	Total
Liabilities					
Deposits from central banks					0
Deposits from banks		2 231 603			2 231 603
Financial liabilities held for trading	41 734				41 734
Deposits from customers		4 703 477			4 703 477
Debt securities issued		1 902			1 902
Hedge derivatives			15 059		15 059
Other liabilities		102 782		45 840	148 622
	41 734	7 039 764	15 059	45 840	7 142 397

31/12/2015	Booked at fair value		Accounts	Available-for-sale	Hedge	Non-financial	
	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			5 702 487				5 702 487
Hedge derivatives					1 055		1 055
Other assets			243 309			198,726	442 035
	49 893	0	6 684 345	1 914 430	1 055	198 726	8 848 449

31/12/2015	Booked at fair value	Other financial	Hedge	Non-financial	
	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
Hedge 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

17. Cash and balances with Central Banks

The balance of this item is broken down as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Cash and cash equivalents	39 706	43 911
Demand accounts with the Bank of Portugal	124 967	11 594
	<u>164 673</u>	<u>55 505</u>

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:

	<u>31/12/16</u>	<u>31/12/15</u>
Deposits with banks in Portugal		
Demand accounts	594	460
Cheques payable	15 901	13 150
Other deposits	626	2 120
	<u>17 121</u>	<u>15 730</u>
Deposits with banks abroad		
Demand accounts	80 782	59 169
Cheques payable	865	1 529
	<u>81 647</u>	<u>60 698</u>
	<u>98 768</u>	<u>76 428</u>

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 in 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, 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:

<u>31/Dec/2016</u>			
	Contract value (Notional amount)	Fair value	
		Assets	Liabilities
Trading derivatives			
a) Foreign currency derivatives			
Currency forw ards	20 725	1 085	85
b) Interest rate derivatives			
Interest rate sw aps	310 385	37 471	41 417
Options	60 875	232	232
Total derivatives held for trading (assets/liabilities)		<u>38 788</u>	<u>41 734</u>

<u>31/Dec/2015</u>			
	Contract value (Notional amount)	Fair value	
		Assets	Liabilities
Trading derivatives			
a) Foreign currency derivatives			
Currency forw ards	59 476	334	284
Options	5 298	0	41
b) Interest rate derivatives			
Interest rate sw aps	402 147	37 534	41 094
Options	47 498	33	33
Total derivatives held for trading (assets/liabilities)		<u>37 901</u>	<u>41 452</u>

As at 31 December 2016, the fair value of other financial assets and liabilities held for trading was as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Other financial assets		
Variable income securities		
Equity stakes	500	11 992
	<u>500</u>	<u>11 992</u>
Total	<u>500</u>	<u>11 992</u>
Total financial assets held for trading	<u>39 288</u>	<u>49 893</u>
Total financial liabilities held for trading	<u>41 734</u>	<u>41 452</u>

The change in results may be seen in note 3.2.

20. Investments in subsidiaries and associates

As at 31 December 2016, the Bank only held an equity stake in the associated company Eurovida – Companhia de Seguros de Vida, S.A., booked for 18 899 thousand euros (2015: 20 243) thousand euros, net of impairment.

In case the Bank consolidated the accounts of this associate, the impact of the equity method of accounting would be as follows:

Effective stake (%)	Consolidated financial results for Eurovida as at 31/12/2016			Impact of the application of the equity method	
	Net Assets	Owner's Equity	Net Profit	On consolidation reserves	On net income
15.9348%	1 001 714	98 436	8 450	-4 560	1 346

Effective stake (%)	Consolidated financial results for Eurovida as at 31/12/2015			Impact of the application of the equity method	
	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

21. Available-for-sale financial assets

The balance of this item is broken down as follows:

	31/12/16	31/12/15
Securities issued by residents		
Government bonds - at fair value	249 169	45 117
Other debt securities - at fair value	-	-
Equity securities - at fair value	759	652
Equity stakes	46 291	46 500
	<u>296 219</u>	<u>92 269</u>
Securities issued by non-residents		
Government bonds - at fair value	530 565	758 407
Other debt securities - at fair value	186 710	1 063 678
Other securities	77	76
	<u>717 352</u>	<u>1 822 161</u>
Total	<u>1 013 571</u>	<u>1 914 430</u>

As at 31 December 2016 and 2015, the market value of the available-for-sale financial assets by residual maturity is as follows:

31/12/2016

Nature/type of security	<u>Up to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>Over 5 years</u>	<u>Indetermined maturity</u>	<u>Total</u>
Resident public sector				249 169		249 169
Non-resident public sector				530 565		530 565
Other foreign banks	136 802		16 301	33 607		186 710
Other equity instruments					836	836
Equity stakes					46 291	46 291
						1 013 571

31/12/2015

Nature/type of security	<u>Up to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>Over 5 years</u>	<u>Indetermined maturity</u>	<u>Total</u>
Resident public sector			13 981	31 136		45 117
Non-resident public sector			602 774	155 633		758 407
Other foreign banks		387 969	632 947	42 762		1 063 678
Other equity instruments					728	728
Equity stakes					46 500	46 500
						1 914 430

In 2015, the Bank had 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 2016, the Bank repurchased the assets of that securitisation from the securitisation fund entitled Navigator Mortgage Finance No. 1 Fund.

22. Loans and advances to banks

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

	<u>31/12/16</u>	<u>31/12/15</u>
Loans and advances to banks in Portugal		
Time deposits	100	37
Loans	15 000	10 000
Other	2 022	5
Interest receivable	0	0
	<u>17 122</u>	<u>10 042</u>
Loans and advances to banks abroad		
Time deposits	128 624	594 564
Reverse repurchase agreements	-	-
Other	100	1 937
Interest receivable	39	73
	<u>128 763</u>	<u>596 574</u>
	<u>145 885</u>	<u>606 616</u>

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

	<u>31/12/16</u>	<u>31/12/15</u>
Up to 3 months	130 646	475 137
From 3 months to 1 year	5 100	130 269
Over 5 years	10 100	1 137
Interest receivable	39	73
	<u>145 885</u>	<u>606 616</u>

These transactions are performed essentially with the parent company and at market rates.

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:

	<u>31/12/16</u>	<u>31/12/15</u>
Domestic lending		
Public sector	3 420 208	3 345 956
Private customers	2 085 166	1 945 814
Home loans	1 735 219	1 568 480
Residential mortgage loans	38 004	32 211
Personal and consumer loans	311 943	345 123
	<u>5 505 374</u>	<u>5 291 770</u>
Foreign lending		
Public sector	29 316	29 322
Private customers	32 202	27 976
Home loans	24 942	19 359
Residential mortgage loans	119	16
Personal and consumer loans	7 141	8 601
	<u>61 518</u>	<u>57 298</u>
Other lending (represented by securities)	310 930	355 677
Interest and commissions receivable	- 3 314	3 270
Past-due loans and interest		
Due within 90 days	19 743	11 957
Over 90 days	399 438	365 803
	<u>419 181</u>	<u>377 760</u>
Gross Total	<u>6 293 689</u>	<u>6 085 775</u>
Minus:		
Credit impairment	369 527	383 288
	<u>369 527</u>	<u>383 288</u>
Net total	<u>5 924 162</u>	<u>5 702 487</u>

As at 31 December 2016, credit operations included 915 676 thousand euros in mortgage loans assigned to the issuance of mortgage bonds (2015: 889 775 thousand de euros) (note 33).

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

	31/12/16	31/12/15
Up to 3 months	819 936	876 237
From 3 months to 1 year	648 236	692 505
From 1 to 5 years	1 438 912	1 300 943
Over 5 years	2 970 738	2 835 060
Undetermined maturity (past due)	419 181	377 760
Interest and commissions receivable	- 3 314	3 270
	6 293 689	6 085 775

Credit impairment

The balance of item credit impairment risks is detailed in the following table:

	31/12/2016	31/12/2015
Balance as at 1 January	383 288	350 832
Appropriations	47 129	33 516
Transfers	3 482	-
Used	63 378	1 060
Cancelled	994	-
Balance as at 31 December	369 527	383 288
Appropriations for impairment	47 129	33 516
Write-offs	- 994	-
Credit impairment net of reversals and recoveries	46 135	33 516

Impairment for type of loan in 2016 is broken down as follows:

	Public sector	Banks	Financial companies	Non-financial companies	Private customers	Total
Balance as at 1 January	0	0	7 447	331 500	44 341	383 288
Appropriations	216	23	658	36 771	9 461	47 129
Transfers	-	- 5	- 84	- 11 773	15 344	3 482
Used	-	-	4 347	54 057	4 974	63 378
Cancelled	-	-	84	849	61	994
Balance as at 31 December	216	18	3 590	301 592	64 111	369 527

24. Held-to-maturity investments

In 2016 and pursuant to IAS 39, the Bank does not own any held-to-maturity investments.

25. Non-current assets held for sale

As at 31 December 2016, the Bank did not own any non-current assets held for sale.

26. Other tangible assets

This item is broken down as follows:

	31/12/2016					31/12/2015
	Real estate	Equipment	Art and antiques	Assets in progress	Total	Total
Balance as at 01 January						
Acquisition costs	108 310	49 443	149	65	157 967	160,247
Accumulated depreciation	- 38 887	- 48 173		0	- 87 060	-87,207
Accumulated impairment	- 2 410				- 2 410	-2,410
Acquisitions		1 326		413	1 739	1,478
Transfers						
Acquisition costs	- 15 991			- 261	- 16 252	- 1 392
Accumulated depreciation	8 174				8 174	702
Disposals / Write-offs						
Acquisition costs	0	- 59			- 59	- 2 366
Accumulated depreciation	0	59			59	2 364
Impairment depreciation	0				0	0
Depreciation for the year	- 1 641	- 1 462			- 3 103	-2,919
Balance as at 31 December						
Acquisition costs	92 319	50 710	149	217	143 395	157,967
Accumulated depreciation	- 32 354	- 49 576		0	- 81 930	-87,060
Accumulated impairment	- 2 410				- 2 410	-2,410
Net amount	57 555	1 134	149	217	59 055	68,497

27. Intangible assets

This item is broken down as follows:

	31/12/2016			31/12/2015
	Software	Miscellaneous	Total	Total
Balance as at 01 January				
Acquisition costs	18 775	2 240	21 015	20 864
Accumulated depreciation	- 18 760	- 2 109	- 20 869	- 20 793
Acquisitions	1 402	175	1 577	151
Transfers				
Acquisition costs	78	582	660	0
Depreciation for the year	- 920	- 249	- 1 169	- 76
Balance as at 31 December				
Acquisition costs	20 255	2 997	23 252	21 015
Accumulated depreciation	- 19 680	- 2 358	- 22 038	- 20 869
Net amount	575	639	1 214	146

28. Deferred taxes

Deferred taxes are calculated in respect of all the temporary differences using an effective tax rate of 26.5%, except those regarding tax loss for which a 21% rate was used.

On the one hand, due to the regulating decree referred to in note 2, deferred taxes were also adjusted to this new reality regarding non-deductible impairment, and, on the other hand, due to the significant amount of the effective rate in the past few years, we have updated the corporate income tax rate for deferred tax to 26.5% (previously, 22.5%).

Balances for these items are as follows:

	Balance as at 31/12/15	Equity			Reserves		Balance as at 31/12/16
		Expense	Income	Transfers	Increase	Decrease	
Deferred Tax Assets							
Available-for-sale securities	20 583				6 895	14 825	12 653
Tangible assets	1 075	224	168				1 019
Taxable provisions	61 370	28 473	25 150	217			58 264
Fees and commissions	113	53					60
Seniority bonus	1 021	413	189	26			823
RGC provisions	0						0
Other assets/liabilities	7 351	7	26				7 370
Tax loss	0						0
	<u>91 513</u>	<u>29 170</u>	<u>25 533</u>	<u>243</u>	<u>6 895</u>	<u>14 825</u>	<u>80 189</u>
Deferred Tax Liabilities							
Available-for-sale securities	21 082				20 598	2 446	2 930
Property revaluation	49		2				47
	<u>21 131</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>20 598</u>	<u>2 446</u>	<u>2 977</u>

Item 'Other assets/liabilities' reflects deferred taxes arising from tax adjustments due to inspections that have been performed since 2004, amounting to 7,201 thousand euros (2015: 7,201 thousand euros), which are at a stage of tax litigation and transfer of responsibilities from the pension fund to the social insurance scheme, whose amount totalled 169 thousand euros (2015: 150 thousand euros).

29. Other assets

This item is detailed as follows:

	31/12/16	31/12/15
Recoverable government subsidies	96	77
Recoverable taxes	23 360	18 576
Pledge accounts	55 288	161 681
Other debtors	78 590	63 115
Other income receivable	533	328
Expenses with deferred charges	4 414	4 673
Asset operations pending settlement - Miscellaneous	25 348	29 367
Assets received in lieu of payment	229 553	197 650
Other tangible assets held for sale	7 995	958
Pension liabilities	8 886	60
Other transactions pending settlement	1 608	146
	<u>435 671</u>	<u>476 631</u>
Impairment of assets received in lieu of payment	- 33 011	- 31 324
Impairment of other tangible assets held for sale	- 615	- 367
Impairment for other assets	- 6 140	- 2 905
	<u>395 905</u>	<u>442 035</u>

'Pledge accounts' includes a collateral to guarantee derivatives positions, which amounts to 54 690 thousand euros (2015: 160 880 thousand euros).

'Other debtors' includes legal decisions due to advances on account of invoicing, which await the support documentation.

'Asset operations pending settlement – Miscellaneous' is mostly composed of transfers/allocations that await the support documentation.

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

Impairment for other assets	31/12/16	31/12/15
Balance as at 1 January	3 272	1 313
Appropriations	6 220	7 237
Used	2 644	5 000
Cancelled	93	278
Balance as at 31 December	6 755	3 272

Movements by type of impairment for other assets in 2016 were the following:

Impairment for other assets	Impairment of other tangible assets held for sale	Impairment for other assets
Balance as at 1 January	367	2 905
Appropriations	678	5 543
Used	336	2 308
Cancelled	94	-
Balance as at 31 December	615	6 140

Movements in the account 'Assets received in lieu of payment' in 2016 were as follows:

	31/12/2016				31/12/2015
	Available-for-sale properties	Properties not available for sale	Equipment	Total	Total
Balance as at 01 January					
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
Additions					
Acquisitions	118 087	8 202	91	126 380	88 093
Other	3 829	-	-	3 829	1 246
Disposals					
Gross amount	- 97 920	-	- 153	- 98 073	- 37 236
Transfers	6 678	- 6 834	- 76	- 232	- 375
Impairment losses	- 13 432	- 2 833	- 50	- 16 315	- 6 920
Used	9 602	0	73	9 675	1 266
Transfers	- 2 429	2 429	0		
Reversed	4 947	0	6	4 953	2 134
Balance as at 31 December					
Gross amount	223 708	5 477	368	229 553	197 649
Accumulated impairment	- 31 597	- 1 402	- 12	- 33 011	- 31 324
Net amount	192 111	4 075	356	196 542	166 325

30. Deposits from central banks

As at 31 December 2016 and 2015, the Bank held no deposits from central banks.

31. Deposits from banks

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

	<u>31/12/16</u>	<u>31/12/15</u>
Domestic credit institutions		
Deposits	375 588	482 774
Interest payable	196	596
	<u>375 784</u>	<u>483 370</u>
International credit institutions		
Loans	100 000	106 250
Deposits	1 038 380	1 539 470
Repurchase agreements	716 969	794 379
Other funds	45	5
Interest payable	425	798
	<u>1 855 819</u>	<u>2 440 902</u>
	<u>2 231 603</u>	<u>2 924 272</u>

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:

	<u>31/12/16</u>	<u>31/12/15</u>
Spot	133 009	16 199
Forward		
Up to 3 months	1 166 673	1 162 837
From 3 months to 1 year	531 300	1 693 842
From 1 to 5 years	300 000	50 000
Over 5 years	100 000	-
Interest payable	621	1 394
	<u>2 098 594</u>	<u>2 908 073</u>
	<u>2 231 603</u>	<u>2 924 272</u>

Transactions with repurchase agreements are broken down between type and maturity as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Mortgage bonds		
Up to 3 months	170 802	-
Up to 5 months	448 099	-
Other bonds		
Up to 3 months	98 068	759 124
Up to 9 months	-	35 255
	<u>716 969</u>	<u>794 379</u>

These transactions are performed essentially with the parent company and at market rates.

32. Customer funds

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

	<u>31/12/16</u>	<u>31/12/15</u>
Resident funds		
Demand accounts	1 506 407	1 102 703
Time deposits	2 978 093	3 772 675
Savings accounts	5 101	6 386
Cheques payable	9 423	4 328
Other funds	28	9
	<u>4 499 052</u>	<u>4 886 101</u>
Non-resident funds		
Demand accounts	54 678	36 811
Time deposits	140 677	95 122
Cheques payable	0	0
	<u>195 355</u>	<u>131 933</u>
Interest payable	9 070	16 503
	<u>4 703 477</u>	<u>5 034 537</u>

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

	<u>31/12/16</u>	<u>31/12/15</u>
Spot	1 561 086	1 139 515
Forward		
Up to 3 months	1 322 873	1 599 448
From 3 months to 1 year	1 346 330	1 632 538
From 1 to 5 years	463 712	645 725
Over 5 years	406	808
Interest payable	9 070	16 503
	<u>3 142 391</u>	<u>3 895 022</u>
	<u>4 703 477</u>	<u>5 034 537</u>

33. Debt securities issued

The balance of this item is broken down as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Bonds	1 072	2 383
Euro Medium Term Note	799	35 167
Interest payable	31	542
	<u>1 902</u>	<u>38 092</u>

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 2016, 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 granting 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 2016, 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+120%	BBBL
BAPOP Mortgage bonds 30/06/2018	225 000	0	30/06/2015	30/06/2018	Monthly	1M Euribor+120%	BBBL
BAPOP Mortgage bonds 28/09/2018	300 000	0	28/09/2015	28/09/2018	Monthly	Euribor 1M+120%	BBBL

On 31 December 2016, autonomous equity assigned to these issuances amounted to 916 347 thousand euros (2015: 890 993 thousand de euros) (see note 23).

During 2011, Banco Popular Portugal constituted a Mortgage Bond Issuance Programme whose maximum amount is 2.5 billion euros. In the scope of this programme, the Bank has already carried out 38 issuances and as at 31 December 2016, its balance was broken down as follows:

Issuance date	Serial number	Amount	Number	Nominal unit value	Reimbursement date
09/08/2016	37th	247	247	1 000	09/08/2019
29/09/2016	38th	552	552	1 000	29/09/2019
		799			

34. Hedge derivatives

'Hedge derivatives' is composed as follows:

	31/12/2016			31/12/2015		
	Notional amount	Carrying amount		Notional amount	Carrying amount	
		Assets	Liabilities		Assets	Liabilities
Interest rate contracts						
Swaps	314 000	-	15 059	1 370 000	1 055	121 337

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 2016, the net fair value of hedging and trading interest rate swaps (see above) was negative (see note 19) in the amount of -19 006 thousand euros (2015: -123 843 thousand euros).

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

As at 31 December 2016 and 2015, the notional amount by residual maturity was detailed as follows:

<u>31/12/2016</u>					
	<u>Up to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Interest rate contracts	70 000	-	14 000	230 000	314 000

<u>31/12/2015</u>					
	<u>Up to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Interest rate contracts	-	-	1 176 000	194 000	1 370 000

35. Other provisions

Balances and movements for the Provisions account were as follows:

Other Provisions (Liabilities) - Movements	<u>31/12/16</u>	<u>31/12/15</u>
Balance as at 1 January	2 860	5 023
Appropriations	3 892	477
Transfers	1 277	-
Used	489	50
Cancelled	2 089	2 590
Balance as at 31 December	<u>5 451</u>	<u>2 860</u>

Other Provisions (Liabilities) - Balances	<u>31/12/16</u>	<u>31/12/15</u>
Impairment of guarantees and commitments	2 026	2 183
Other provisions	3 425	677
	<u>5 451</u>	<u>2 860</u>

Movements by type of other provisions in 2016 were the following:

Other Provisions (Liabilities) - Movements	<u>Impairment of guaranties and commitments</u>	<u>Provisions for law suits</u>
Balance as at 1 January	2 183	677
Appropriations	666	3 226
Transfers	1 277	-
Used	111	378
Cancelled	1 989	100
Balance as at 31 December	<u>2 026</u>	<u>3 425</u>

36. Other liabilities

This item is detailed as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Factoring creditors	13 864	
Suppliers of goods	3 561	3 307
Tax withheld at source	2 807	3 582
Personnel expenses	39 642	13 075
Other expenses	42 907	15 515
Other revenues with deferred income	2 152	2 297
Funding operations pending payment	39 020	12 898
Other accruals and deferred income	4 669	3 105
	<u>148 622</u>	<u>53 779</u>

'Factoring creditors' corresponds to invoices without recourse that have not been advanced.

'Other expenses' includes the amount payable to Primestar, S.A. (former Recbus - Recovery to Business, S.A.) for their services.

'Personnel expenses' includes an estimate to cover the costs arising from the process of restructuring (see note 1.3).

'Funding operations pending payment' corresponds to remittances and payment orders pending application.

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 2016, the number of participants in the fund was 1 106 (2015: 1 111). On this date, there were 52 retired people and 24 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	31/12/16	31/12/15
Obligations at the beginning of the year	163 239	154 196
Service expenses	2 485	2 781
Interest expense	3 845	3 756
Pensions paid	- 1 583	- 1 307
Actuarial deviations	- 15 036	3 813
Obligations as at 31 December	152 950	163 239

Current amount of liabilities	31/12/16	31/12/15
Past Services		
- Old age	125 387	136 972
- Payable pensions	27 563	26 266
	152 950	163 238
Future Services		
- Old age	24 224	38 991
	24 224	38 991

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 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.

Contributions foreseen for defined benefit plans for the following annual period amount to 1 498 thousand euros.

Equity Amount of the Fund

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

Equity amount of the Fund	31/12/16	31/12/15
Amount at the beginning of the year	163 299	154 305
Contributions paid		
Employer	0	11 300
Employees	783	766
Return on Fund assets	2 258	627
Pensions paid	- 1 583	- 1 307
Other net differences	- 2 921	- 2 392
Amount of the Fund as at 31 December	161 836	163 299
Current obligations for past services	152 950	163 239
Hedging level	105.8%	100.0%

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:

	31/12/16	31/12/15	31/12/14	31/12/13	31/12/12	31/12/11
Current amount of liabilities	152 950	163 239	154 196	128 411	108 961	94 708
Equity amount of the Fund	161 836	163 299	154 305	128 495	121 796	113 703
Net Assets/(Liabilities)	8 886	60	109	84	12 835	18 995
Hedging level	105.8%	100.0%	100.1%	100.1%	111.8%	120.1%

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	31/12/2016	31/12/2015
Fixed income securities	67.99%	61.44%
Variable income securities	18.05%	28.21%
Real estate	3.33%	3.46%
Liquidity	10.63%	6.89%
	<u>100.00%</u>	<u>100.00%</u>

Bonds	%
Listed	86.04%
Unlisted	3.33%
Liquidity	10.63%
	<u>100.00%</u>

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	31/12/2016	31/12/2015
AAA	0.00%	5.67%
AA	4.10%	6.41%
A	8.10%	11.75%
BBB	33.95%	52.45%
Other (NR)	53.85%	23.72%
	<u>100.00%</u>	<u>100.00%</u>

On 31 December 2016, the Fund had 1 000 000 BPE Financiaciones bonds issued by Banco Popular Español in the amount of 1 024 thousand euros and Banco Popular Español SA bonds in the amount of 998 thousand euros.

Costs for the year

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

Cost for the year	31/12/16	31/12/15
Service Cost	2 485	2 782
Net interest	3 845	3 756
Return on plan assets	- 3 846	- 3 758
Other	2 138	1 626
Total	4 622	4 406

Actuarial gains and losses

The amount of actuarial gains and losses for the years 2016 and 2015 are broken down as follows:

Actuarial gains and losses	31/12/16	31/12/15
Actuarial gains/losses as at 1 January	- 35 629	- 28 686
Actuarial losses for the year - obligations	15 036	- 3 812
Actuarial gains for the year - Fund	- 1 588	- 3 131
Actuarial gains/losses as at 31 December	<u>- 22 181</u>	<u>- 35 629</u>

Actuarial assumptions

The main actuarial and financial assumptions used were as follows:

	31/12/16		31/12/15	
	Assump.	Real	Assump.	Real
Discount rate	2.06%	2.06%	2.33%	2.40%
Expected return rate on Fund assets	2.06%	1.40%	2.33%	0.46%
Salaries and other benefits increase rate	0.8%	0.8%	0.8%	0.0%
Pensions increase rate	0.5%	0.5%	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 5.6%	Increase by 6.5%
Salaries and other benefits increase rate	0.25%	Increase by 5.1%	Decrease by 4.9%
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 3.6%	Decrease by 3.7%

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 2016, 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%	- 1 238	-0.76
Credit risk (Basel III)	- 6 581	-4.07
Market risk		
Shares		
-20%	- 13 780	-8.51
Real estate		
-15%	- 805	-0.5

Considering all the risks, the impact on the asset portfolio would be -13.84%, which represents -22 404 thousand euros (considering the amount of the fund as at 31 December 2016). In this sense, the level of funding for liabilities, considering the minimum solvency level of the Portuguese Insurance Institute would be 209.50%.

For a severe shock, the scenario would be:

Severe shock		
Risk factor	Impact	%
Interest Rate Risk		
+30%	- 1 849	-1.14
Credit risk (Basel III)	- 13 106	-8.1
Market risk		
Shares		
-35%	- 24 146	-14.92
Real estate		
-25%	- 1 344	-0.83

Considering all the risks, the impact on the asset portfolio would be -24.99%, which represents -40 445 thousand euros. In this sense, the level of funding for liabilities, considering the minimum solvency level of the Portuguese Insurance Institute would be 188.35%.

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

Financial asset/liability adequacy

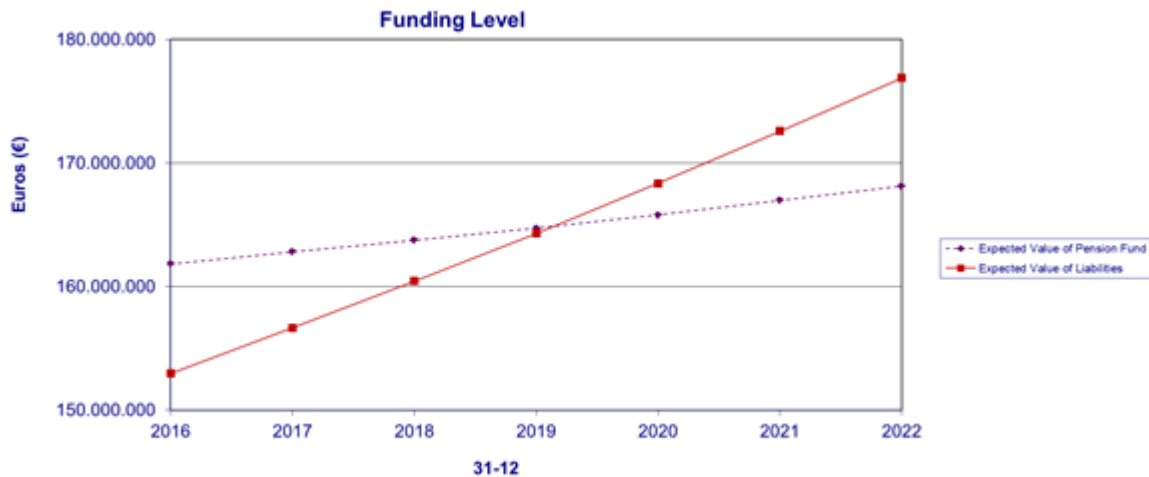
With the aim of assessing the adequacy between financial assets and liabilities, we carried out an ALM study on financial flows. For that effect, we projected liabilities in the funding scenario, assuming the current actuarial evaluation assumptions.

We assumed that the current population is a closed group. Based on the liabilities as at 31 December 2016, 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 2.06%, 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 and average duration of liabilities

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

	Up to 1 year	From 1 to 3 years	3 to 5 years	Over 5 years	Total
Benefit (monthly)	129	162	193	1 308	1 792

The average duration of liabilities in the defined benefit plans and detailed payments of benefits up to maturity are as follows.

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022-2026</u>
Portugal	129	162	162	193	193	311

38. Contingent commitments and liabilities

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

	<u>31/12/16</u>	<u>31/12/15</u>
Contingent liabilities		
Guarantees and Sureties	378 786	391 471
Documentary credits	40 470	44 034
Commitments		
Irrevocable loans	512 082	609 985
Revocable loans	931 656	904 138
	<u>1 862 994</u>	<u>1 949 628</u>

On 31 December 2016, the item Irrevocable loans included the amount of 5 314 thousand euros (2015: 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.

	<u>31/12/16</u>	<u>31/12/15</u>
Assets pledged as collateral	45 000	1 269 000

The amount of the item Assets pledged as collateral includes 45 000 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) (2015: 214 000 thousand euros).

Additionally, as at 31 December 2016 and 2015, the balances regarding off-balance sheet accounts were as follows:

	<u>31/12/16</u>	<u>31/12/15</u>
Deposit and custody of securities	6 204 472	5 166 509
Amounts received for collection	130 008	84 630
	<u>6 334 480</u>	<u>5 251 139</u>

39. Share capital and Share premium

As at 31 December 2016, the Bank's share capital was represented by 513 000 thousand shares with the nominal value of 1 euro each, which was subscribed and fully paid by Banco Popular Español, SA.

On 4 April 2016, a share capital increase in the amount of 37 000 000 euros was approved, through the issuance of 37 000 thousand shares with the nominal value of 1 euro each, subscribed and paid by Banco Popular Español, S.A., by delivering 2 495 631 Popular Factoring, S.A., shares with a nominal value of 5 euros each.

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.

In 2016 and 2015, the Bank complied with all the capital requirements defined by the Bank of Portugal.

40. Fair value reserves

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

	<u>31/12/16</u>	<u>31/12/15</u>
Revaluation reserves and Fair Value		
Available-for-sale investments		
Net balance as at 1 January	1 722	- 2 981
Revaluation at fair value	- 38 909	6 083
Deferred taxes	10 222	- 1 380
Balance as at 31 December	<u>- 26 965</u>	<u>1 722</u>

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.

41. Other reserves and retained earnings

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

	<u>31/12/16</u>	<u>31/12/15</u>
Statutory reserve	36 784	35 450
Other reserves	304 708	292 699
Retained earnings	- 70 381	- 108 664
	<u>271 111</u>	<u>219 485</u>

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

	<u>31/12/16</u>	<u>31/12/15</u>
Statutory reserve		
Balance as at 1 January	35 450	35 221
Trasnf. Retained earnings	1 334	229
Balance as at 31 December	<u>36 784</u>	<u>35 450</u>
Other reserves		
Balance as at 1 January	292 699	290 645
Trasnf. Retained earnings	12 008	2 054
Trasnf. Revaluation reserves		
Balance as at 31 December	<u>304 707</u>	<u>292 699</u>
Retained earnings		
Balance as at 1 January	- 108 664	- 101 721
Net income for the previous year	38 178	2 283
Actuarial gains/losses of the Pension Fund	13 448	- 6 943
Transf. Legal Reserve	- 1 334	- 229
Transf. Other Reserves	- 12 008	- 2 054
Balance as at 31 December	<u>- 70 380</u>	<u>- 108 664</u>
	<u>271 111</u>	<u>219 485</u>

- 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, of 31 December) requires that 10% of net 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:

	31/12/16	31/12/15
Directors	73	81
Management	242	378
Technical personnel	459	493
Clerical staff	127	210
	<u>901</u>	<u>1 162</u>

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 (with executive functions) and the Supervisory Board are detailed, individually and in group, on the following table:

	Fixed remuneration		Variable Remuneration	Total Remuneration	Term of office
	Remuneration	Performance Complement			
Board of Directors					
Carlos Manuel Sobral Cid da Costa Ávares - Chairman	300	53	0	353	From 4/7/2015
Pedro Miguel da Gama Cunha	159	0	0	159	From 31/8/2015
	459	53	0	512	

	Fixed Remuneration	Term of office
Supervisory Board		
Rui Manuel Ferreira de Oliveira - Chairman	10	
António Luis Castanheira da Silva Lopes	6	From 1/4/2015
António Manuel Mendes Barreira	6	From 1/4/2015
	<u>22</u>	

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 Remuneration	Variable Cash Remuneration	Total Remun.
Executive Committee	4	644	18	662
Risk Management	1	45	3	48
Compliance	1	54	0	54
Asset Management	1	89	5	94
Auditing	1	82	4	86
	<u>8</u>	<u>914</u>	<u>30</u>	<u>944</u>

44. Remuneration of the Statutory Auditor

The amounts paid to the Audit Firm PricewaterhouseCoopers in 2016 and 2015 were:

	31/12/16	31/12/15
Statutory audit	163	166
Assurance and reliability services	96	83
Other	3	19
	<u>262</u>	<u>268</u>

Fees for assurance services include reports on credit impairment and the half-yearly limited audit to report to BPE Group.

Fees for other assurance and reliability services include services within the scope of (i) the revision of the internal control system, including the specific scope of prevention of money laundering and the financing of terrorism, (ii) the revision of safekeeping of customers' assets, and (iii) the annual audit to covered bonds issuances.

Fees for other services include agreed procedures regarding the payable ex-ante contribution to the Single Resolution Fund.

45. Relationship with related companies

As at 31 December 2016 and 2015, the amounts payable and receivable regarding related companies were as follows:

	Credit		Debit		Income		Expense	
	31/12/16	31/12/15	31/12/16	31/12/15	31/12/16	31/12/15	31/12/16	31/12/15
Eurovida, SA	-	2 002	54 686	58 605	5 882	4 201	1 592	2 317
Popular Gestão de Activos, SA	74	111	1 656	1 524	1 532	1 775	7	23
Popular Factoring, SA	-	98 303	-	-	-	1 816	-	315
Imopopular Fundo Especial I.I.	-	2 716	-	66	-	86	-	-
Popular Arrendamento	2	4	3 308	13 612	39	52	9	24
Popular Seguros, SA	-	-	724	775	742	701	-	-
Popular Predifundo	-	3 228	-	1	-	57	-	-
SPE-Special Purpose Entities	-	1 221	-	-	-	1 062	-	-
Consulteam, Lda	-	-	56 780	47 722	739	740	-	-
Primestar	42 117	-	38 895	-	1 404	-	22 531	-
	<u>42 193</u>	<u>107 585</u>	<u>156 049</u>	<u>122 305</u>	<u>10 338</u>	<u>10 490</u>	<u>24 139</u>	<u>2 679</u>
Banco Popular Español, SA	<u>254 863</u>	<u>802 137</u>	<u>1 813 140</u>	<u>2 497 710</u>	<u>91 958</u>	<u>94 611</u>	<u>197 318</u>	<u>150 099</u>

As at 31 December 2016, the guarantees pledged by the Bank to related companies amounted to 84 067 thousand euros (2015: 76 196 thousand euros).

As at 31 December 2016, the Bank received deposits from BPE to guarantee the risk associated with loans granted by the Bank in the amount of 49 741 thousand euros (2015: 98 690 thousand euros).

Transactions with related companies are performed in normal market conditions (rates for debits vary between 0.0% and 5.0% and for credits vary between 3.05% and 29.50%).

The companies stated in the table above, except for the insurance companies (Eurovida, S.A. and Popular Seguros, S.A.) are considered related companies via their relationship with Banco Popular Español, S.A. (parent company).

As at 31 December 2016, 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 236 thousand euros.

46. Cash and cash equivalents

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

	31/12/16	31/12/15
Cash (note 17)	39 706	43 914
Cash and balances with banks (note 18)	98 768	76 428
Deposits with banks with maturities of less than 3 months	130 646	475 135
	<u>269 120</u>	<u>595 477</u>

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 must 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 to mitigate credit risk. The most traditional one is securing collaterals when 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 the Group to BAPOP, 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 for 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.

For the public sector, the maximum limit for a customer/economic group in this sector will be up to 8% of total capital. Technical guarantees are also taken into consideration to calculate this limit.

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: 12.5%;
- Property development: 12.5%;
- Manufacturing and mining industries: 15%;
- Information and communication, education, and other services: 5%;
- Wholesale and retail trade, repair of motor vehicles: 12.5%;
- Remaining sectors: 10% (Agriculture, forestry and fisheries; Energy and water supply; 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 determines that write-offs may only be carried out when the loans simultaneously have been non-performing for 2 years and have an impairment level of 100%.

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 the characteristics of restructuring operations, these 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. Customers 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 frame defined by Notice No. 5/2006 issued by the Bank of Portugal. However, in the case of properties related with transactions done with customers with significant exposures (subject to individual credit analysis in terms of the credit impairment model), 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 hedge 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 must 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 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) defaulted 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:

PD segmentation	LGD segmentation
State and other public bodies	
Banco Popular Group	
Employees	
Corporate Customers	
Relevant Customers	
Credit cards - Private individuals	
Home loans	Home loans with LTV ≤80%
	Home loans with LTV > 80%
	Collateralised private individuals
Consumer credit	Consumer credit
	Non-Collateralised private individuals
Property development	
Property construction	Collateralised construction loans
	Non-collateralised construction loans
Corporate customers	Credit cards - Corporate
	Collateralised companies
	Non-collateralised companies

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 history reflects the current economic conditions, the observations obtained are adjusted through the following risk weights that may be adjusted every six months according to the regular exercise of PD backtesting:

	Year 1	Year 2	Year 3	Year 4	Year 5
Weight	5.0%	10.0%	15.0%	30.0%	40.0%

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

At all times, between 25% and 30% of total on-balance sheet loans of BAPOP have to be individually analysed. In case the above-mentioned limits do not allow that percentage to be within that interval they may be adjusted.

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. For defaulted loans, PD is 100%.

LGD is an estimate of loss given default of a customer. To calculate this variable, we use the entire history of the Bank's recoveries regarding every defaulted operation, as well as possible future estimates for cases in which the operations are not settled at the time of the analysis.

For these operations we consider:

- 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-offs.

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 portfolio	
	Performing	Healed	> 30 days	Other signs
Relevant Customers	1.0%	3.2%	69.9%	35.1%
Corporate Customers	0.6%	0.0%	83.2%	26.2%
Property constr.	3.4%	5.8%	50.9%	32.2%
Home loans	0.7%	2.3%	41.2%	13.0%
Consumer credit	2.4%	5.0%	25.0%	15.7%
Employees	0.1%	0.0%	54.5%	4.8%
Corporate customers	2.6%	5.9%	49.0%	25.7%
State and other public bodies	0.0%	0.0%	10.7%	0.0%
Banco Popular Group	0.0%	0.0%	0.0%	0.0%
Property development	8.3%	1.7%	64.8%	42.6%

- Restructured loans

Segment:	Time frame of the restructuring process (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
Relevant Customers	58.0%	52.0%	46.5%	41.3%	36.5%	32.1%	28.0%	24.2%	20.8%	17.7%	14.8%	12.3%
Corporate Customers	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%
Property constr.	50.2%	45.3%	41.0%	37.1%	33.6%	30.4%	27.6%	25.1%	22.8%	20.8%	19.0%	17.3%
Home loans	35.8%	31.4%	27.5%	24.0%	21.0%	18.3%	16.1%	14.1%	12.5%	11.2%	10.0%	9.1%
Consumer credit	39.6%	34.8%	30.6%	26.9%	23.6%	20.9%	18.5%	16.4%	14.7%	13.2%	12.0%	11.0%
Employees	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Corporate customers	41.3%	36.8%	32.8%	29.3%	26.2%	23.5%	21.2%	19.1%	17.4%	15.9%	14.6%	13.5%
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	58.0%	52.0%	46.5%	41.3%	36.5%	32.1%	28.0%	24.2%	20.8%	17.7%	14.8%	12.3%

Segment:	Time frame of the restructuring process (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
Relevant Customers	10.0%	7.9%	6.2%	4.6%	3.2%	2.1%	1.2%	1.0%	1.0%	1.0%	1.0%	1.0%
Corporate Customers	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%
Property constr.	15.7%	14.3%	12.8%	11.4%	10.0%	8.5%	7.0%	5.3%	3.5%	3.4%	3.4%	3.4%
Home loans	8.4%	7.9%	7.4%	7.1%	6.8%	6.5%	6.2%	5.9%	5.5%	5.1%	4.5%	3.7%
Consumer credit	10.2%	9.5%	8.8%	8.2%	7.6%	7.0%	6.3%	5.4%	4.5%	3.3%	2.4%	2.4%
Employees	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Corporate customers	12.6%	11.8%	11.0%	10.3%	9.6%	8.8%	8.0%	7.1%	6.0%	4.8%	3.4%	2.6%
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	10.0%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%

- Healing loans

Segment:	Time frame of the healing process (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
Relevant Customers	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%
Corporate Customers	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Property constr.	49.4%	46.8%	41.2%	33.6%	24.8%	15.7%	7.3%	3.4%	3.4%	3.4%	3.4%	3.4%
Home loans	37.0%	37.0%	37.0%	35.3%	31.0%	25.0%	18.2%	11.5%	5.6%	1.3%	0.7%	0.7%
Consumer credit	20.6%	20.6%	20.6%	20.6%	19.3%	17.3%	14.8%	12.2%	10.1%	8.6%	8.3%	9.6%
Employees	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Corporate customers	43.4%	42.3%	39.6%	35.7%	31.1%	26.0%	21.0%	16.4%	12.7%	10.3%	9.6%	10.9%
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	56.7%	56.7%	56.7%	56.7%	56.7%	56.7%	56.7%	56.7%	56.7%	56.7%	56.7%	56.7%

The LGDs presented below are average LGDs arising from the application of a new estimate model developed together with the Group, which is based on a time curve depending on how long these operations have been defaulted.

Segment:	LGD
Corporate Customers	11.6%
Relevant Customers	11.6%
Collateralised construction loans	20.6%
Non-collateralised construction loans	37.1%
Home loans with LTV ≤80%	9.9%
Home loans with LTV >80%	23.2%
Consumer credit	80.0%
Employees	6.3%
Collateralised companies	18.9%
Non-collateralised companies	40.3%
State and other public bodies	0.0%
Banco Popular Group	0.0%
Collateralised private individuals	21.9%
Non-Collateralised private individuals	52.3%
Property development	32.7%

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

As at 31 December 2016, an increase by 10% in PD would imply an increase by 1.6 million euros in the total amount of impairment. A similar increase in LGD would imply an increase by 18.4 million euros.

An increase by 10% in both variables would imply a 20.1 million euro increase in the total amount of impairment.

Quantitative disclosures:

a) Detailed exposures and impairments by segment.

Segment:	Exposure as at 31/12/2016						Impairment as at 31/12/2016		
	Total exposure	Performing loans	Of which: healed	Of which: Restructured	Non-performing loans	Of which: restructured	Total impairment	Performing loans	Non-performing loans
Corporate	626 313	559 586	0	21 463	66 727	31 068	55 316	18 332	36 984
Property constr. and CRE	525 918	350 984	697	31 487	174 934	82 556	69 004	3 136	65 868
Home loans	1 939 695	1 823 481	3 116	96 895	116 214	49 928	26 312	3 884	22 427
Relevant	752 190	634 308	12 804	51 966	117 883	62 289	51 534	12 495	39 039
Corporate customers	1 983 402	1 653 315	2 966	44 960	330 087	95 764	132 404	11 128	121 276
Other	466 171	410 091	26	6 260	56 080	12 319	34 958	459	34 499
Total	6 293 689	5 431 765	19 609	253 032	861 925	333 924	369 527	49 434	320 092

Segment:	Exposure as at 31/12/2015						Impairment as at 31/12/2015		
	Total exposure	Performing loans	Of which: Healed	Of which: Restructured	Non-performing loans	Of which: restructured	Total impairment	Performing loans	Non-performing loans
Corporate	326 012	263 988	0	4 207	62 023	21 462	30 077	466	29 611
Property constr. and CRE	548 971	347 213	201	34 071	201 757	87 047	87 918	8 424	79 494
Home 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 31/12/2016						Impairment as at 31/12/2016				
	Total exposure	Performing loans			Non-performing loans		Total impairment	Performing loans		Non-performing loans	
		Days past due <30		Days past due between 30 and	Days past due			Days past due		Days past due	
		Without signs	With signs		<= 90	> 90		< 30	between 30 - 90	<= 90	> 90
Corporate	626 313	440 430	77 854	41 302	12 967	53 760	55 316	17 923	409	4 360	32 624
Property construction a	525 918	294 047	51 664	5 274	25 329	149 605	69 004	3 024	112	7 407	58 461
Home loans	1 939 695	1 576 946	215 208	31 326	9 819	106 395	26 312	2 833	1 052	836	21 591
Relevant	752 190	556 474	70 713	7 121	15 783	102 099	51 534	9 030	3 465	4 268	34 771
Corporate customers	1 983 402	1 448 038	138 670	66 606	54 910	275 177	132 404	10 030	1 098	10 363	110 912
Other	466 171	392 929	15 305	1 858	1 280	54 800	34 958	398	60	134	34 365
Total	6 293 689	4 708 864	569 413	153 487	120 088	741 837	369 527	43 239	6 196	27 369	292 724

Segment:	Exposure as at 31/12/2015						Impairment as at 31/12/2015					
	Total exposure	Performing loans			Non-performing loans		Total impairment	Performing loans		Non-performing loans		
		Days past due < 30		Days past due between 30 - 90	Days past due			Days past due		Days past due		
		Without signs	With signs		<= 90	> 90		< 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 a	548 971	280 095	63 397	3 721	39 276	162 481	87 918	7 923	500	13 654	65 839	
Home 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	

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

31/12/2016 Production year	Corporate			Property construction and CRE			Home loans		
	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment
<= 2004	198	279 596	2 131	1 374	27 897	4 215	4 652	174 049	3 401
2005	17	72	0	102	9 093	2 523	1 888	97 701	2 031
2006	29	4 661	3	156	10 213	1 331	1 710	86 084	1 878
2007	45	819	15	281	31 038	7 904	1 979	104 050	3 583
2008	37	17 207	100	1 041	16 621	3 338	2 662	149 613	1 839
2009	26	19 941	7 460	488	18 969	6 866	3 072	186 218	4 008
2010	35	2 632	1 239	592	31 577	12 320	4 019	272 547	3 756
2011	35	7 935	18	697	34 318	8 621	1 968	151 071	1 641
2012	62	27 345	13 946	583	37 397	6 207	875	69 425	940
2013	98	70 664	11 201	898	44 141	4 395	1 085	76 780	770
2014	85	26 223	1 540	991	59 916	3 798	1 549	123 925	573
2015	153	96 881	17 612	1 176	92 505	3 784	2 026	190 008	1 644
2016	338	72 336	51	1 602	112 234	3 703	2 772	258 224	248
Total	1 158	626 313	55 316	9 981	525 918	69 004	30 257	1 939 695	26 312

31/12/2016 Production year	Relevant			Corporate customers			Other		
	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment	Number of transactions	Amount	Constituted impairment
<= 2004	77	74 368	3 096	5 880	145 704	10 997	5 897	206 506	1 984
2005	5	4 710	588	160	5 688	820	180	3 735	532
2006	15	33 490	6 355	221	6 927	2 427	363	6 534	2 021
2007	13	25 863	601	439	24 333	6 638	634	13 019	3 822
2008	39	69 978	3 294	2 830	26 078	7 878	7 057	15 556	5 524
2009	175	40 601	3 505	1 164	43 811	12 833	2 184	15 138	5 595
2010	32	32 892	3 264	1 932	72 107	18 754	2 873	26 587	7 611
2011	39	31 332	316	2 287	108 230	16 516	2 087	21 871	5 159
2012	28	21 852	24	2 866	112 502	16 990	1 290	9 791	947
2013	59	41 493	14 969	5 052	191 877	11 864	1 561	13 331	633
2014	129	50 816	6 428	5 728	295 220	11 873	2 128	47 138	543
2015	181	213 215	7 742	6 439	424 283	9 059	1 704	52 361	383
2016	397	111 580	1 352	9 485	526 640	5 754	1 495	34 604	204
Total	1 189	752 190	51 534	44 483	1 983 402	132 404	29 453	466 171	34 958

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

c.1) By segment:

31/12/2016 Assessment	Corporate		Property construction and CRE		Home loans	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	553 386	54 740	89 822	29 189	6 348	1 400
Collective	72 927	576	436 097	39 815	1 933 347	24 912
Total	626 313	55 316	525 918	69 004	1 939 695	26 312

Assessment	Relevant		Corporate customers		Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	752 190	51 534	156 191	26 146	76 317	25	1 634 254	163 033
Collective	0	0	1 827 211	106 258	389 854	34 933	4 659 435	206 493
Total	752 190	51 534	1 983 402	132 404	466 171	34 958	6 293 689	369 527

31/12/2015 Assessment	Corporate		Property construction and CRE		Home loans	
	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

Assessment	Relevant		Corporate customers		Other		Total	
	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

c.2) By business sector:

31/12/2016 Assessment	Property constr.		industries		Commerce	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	222 279	66 534	250 077	11 608	165 428	21 568
Collective	229 617	29 548	763 443	34 728	764 033	59 669
Total	451 896	96 082	1 013 520	46 336	929 460	81 237

Assessment	Financial/Insurance Companies		Real Estate		Others		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	99 563	4 236	255 036	12 492	626 316	44 608	1 618 697	161 046
Collective	49 440	1 892	141 935	5 808	801 377	33 520	2 749 845	165 166
Total	149 003	6 129	396 970	18 300	1 427 693	78 128	4 368 542	326 212

31/12/2015 Assessment	Property constr.		industries		Commerce	
	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

Assessment	Financial/Insurance Companies		Real Estate		Others		Total	
	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

c.3) By geography:

31/12/2016		
Portugal		
Assessment	Exposure	Impairment
Individual	1 634 254	163 033
Collective	4 659 435	206 493
Total	6 293 689	369 527

31/12/2015		
Portugal		
Assessment	Exposure	Impairment
Individual	1 724 906	203 480
Collective	4 360 868	179 808
Total	6 085 775	383 288

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

31/12/2016									
Measure	Performing loans			Non-performing loans			Total		
	Number of transactions	Exposure	Impairment	Number of transactions	Exposure	Impairment	Number of transactions	Exposure	Impairment
Maturity date extension	681	49 989	1 206	688	99 377	22 586	1 369	149 366	23 793
Grace period	203	62 381	4 178	233	70 111	22 587	436	132 492	26 765
Other measures	2 252	140 661	23 857	2 198	164 437	50 105	4 450	305 097	73 962
Total	3 136	253 032	29 241	3 119	333 924	95 279	6 255	586 956	124 520

31/12/2015									
Measure	Performing loans			Non-performing loans			Total		
	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

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

	31/12/2016
Initial balance of the portfolio of restructured loans (gross of impairment)	564 290
Restructured loans during the period	139 072
Interest from the restructured portfolio	- 1 120
Settlement of restructured loans (partial or full)	- 111 518
Loans reclassified from 'restructured' to 'performing'	- 45
Other	- 3 724
Final balance of the portfolio of restructured loans (gross of impairment)	586 956

31/12/2015

Initial balance of the portfolio of restructured loans (gross of impairment)	599 089
Restructured loans during the period	167 934
Interest from the restructured portfolio	- 335
Settlement of restructured loans (partial or full)	- 117 976
Loans reclassified from 'restructured' to 'performing'	- 82 043
Other	- 2 378
Final balance of the portfolio of restructured loans (gross of impairment)	564 290

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

31/12/2016	Corporate				Property construction and CRE				Home loans			
	Real estate		Other real collaterals		Real estate		Other real collaterals		Real estate		Other real collaterals	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5 M€	15	5 889	4	503	1 802	204 472	586	42 897	23 148	3 228 393	749	27 029
>= 0.5 M€ E < 1 M€	7	4 295	2	1 422	121	87 329	15	8 514	250	161 923	7	4 415
>= 1 M€ E < 5 M€	7	16 247	1	3 576	99	196 595	11	16 618	39	58 092	7	10 495
>= 5 M€ E < 10 M€	6	45 776	0	0	8	54 720	0	0	1	5 198	1	5 671
>= 10 M€ E < 20 M€	0	0	1	10 392	1	15 822	0	0	0	0	0	0
>= 20 M€ E < 50 M€	0	0	0	0	0	0	0	0	0	0	0	0
>= 50 M€	2	736 453	0	0	0	0	0	0	0	0	0	0
Total	37	808 660	8	15 892	2 031	558 938	612	68 029	23 438	3 453 606	764	47 610

31/12/2015	Corporate				Property construction and CRE				Home loans			
	Real estate		Other real collaterals		Real estate		Other real collaterals		Real estate		Other real collaterals	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	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€ E < 1 M€	0	0	1	541	128	89 778	18	10 313	240	154 743	2	1 110
>= 1 M€ E < 5 M€	3	6 324	1	3 576	96	176 958	8	9 995	38	57 725	7	10 270
>= 5 M€ E < 10 M€	1	8 194	0	0	8	53 766	0	0	2	10 397	0	0
>= 10 M€ E < 20 M€	0	0	1	10 392	0	0	0	0	0	0	0	0
>= 20 M€ E < 50 M€	0	0	0	0	0	0	0	0	0	0	0	0
>= 50 M€	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

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

Segment/Ratio	31/12/2016			
	Number of properties	Performing loans	Non-performing loans	Impairment
Corporate				
Without any collateral	n.a.	505 856	65 218	53 603
< 60%	6	27 683	0	17
>= 60% and < 80%	1	0	0	0
>= 80% and < 100%	1	8 086	0	691
>= 100%	29	17 961	1 509	1 004
Property construction and CRE				
Without any collateral	n.a.	153 904	99 462	43 862
< 60%	487	83 585	24 491	5 710
>= 60% and < 80%	136	38 210	6 726	707
>= 80% and < 100%	100	26 211	9 843	1 964
>= 100%	1 308	49 075	34 412	16 760
Home loans				
Without any collateral	n.a.	46 650	11 305	3 498
< 60%	10 694	552 812	29 736	4 711
>= 60% and < 80%	6 891	696 847	19 045	2 679
>= 80% and < 100%	4 033	421 528	21 912	4 133
>= 100%	1 820	105 644	34 217	11 291

Segment/Ratio	31/12/2015			
	Number of properties	Performing loans	Non-performing 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
Home 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

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

Assets	31/12/2016		
	Number of properties	Fair value of the asset	Carrying amount
Land			
Urban	228	16 205	13 610
Rural	80	12 473	8 279
Properties under development			
Residential	338	36 941	35 959
Commercial	7	818	764
Other	28	2 665	2 570
Built properties			
Residential	443	56 967	52 576
Commercial	169	26 431	24 809
Other	334	57 713	50 772
Other	6	2 881	2 772
	<u>1 633</u>	<u>213 094</u>	<u>192 111</u>

Assets	31/12/2015		
	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
	<u>1 480</u>	<u>174 754</u>	<u>162 749</u>

Time elapsed since repossession/foreclosure	31/12/2016				
	< 1 year	>= 1 year and < 2.5	>= 2.5 years and < 5 years	>= 5 years	Total
Land					
Urban	11 811	1 002	286	511	13 610
Rural	4 986	648	2 302	343	8 279
Properties under development					
Residential	2 665	18 067	7 582	7 645	35 959
Commercial	0	589	46	129	764
Other	0	129	1 755	686	2 570
Built properties					
Residential	22 539	16 938	6 158	6 941	52 576
Commercial	19 840	2 944	978	1 047	24 809
Other	32 233	10 573	1 942	6 024	50 772
Other	636	278	1 268	590	2 772
	<u>94 710</u>	<u>51 168</u>	<u>22 317</u>	<u>23 916</u>	<u>192 111</u>

Time elapsed since repossession/foreclosure	31/12/2015				Total
	< 1 year	>= 1 year and < 2.5	>= 2.5 years and < 5 years	>= 5 years	
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

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

The Bank does not have internal credit rating models approved by the regulator.

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. Disclosure of information on encumbered assets (Instruction No. 28/2014 issued by the Bank of Portugal)

As at 31 December 2016 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	1,133,791		6,808,340	
030	Equity instruments	0	0	47,627	0
040	Debt securities	163,054	163,054	1,113,145	1,113,145
120	Other assets	970,737		5,647,568	

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 bond and encumbered ABS
		010	030
010	Carrying amount of selected financial liabilities	1,068,279	1,133,791

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.
de colateral para a emissão de covered bonds.
- b) In 2016, 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 161%) and in terms of mortgage bonds (over 112%).
- 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. 3/2015 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.

49. Earnings per share

Basic earnings per share are calculated by dividing the profit for the period attributable to the shareholder of Banco Popular Portugal, S.A. by the number of ordinary shares.

Earnings per share in 2016 amounted to 0.02 euros (2015: 0.08 euros).

50. Contingent liabilities

Resolution Fund

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. In accordance with EU regulations, the capitalization of Novo Banco was ensured by the Resolution Fund created by Decree-law No. 31-A/2012, of 10 February.

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.

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:

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, a narrow set of assets will remain, as well as shareholdings of the subordinated creditors and related parts.

Pursuant to Decree-law No. 31-A/2012, the assets of the Resolution Fund arise from the payment of the contributions due by the institutions that participate in the Fund and the contribution on the banking sector. Additionally, it is also foreseen that whenever these assets prove to be insufficient to comply with its obligations alternative means of financing may be used, namely: (i) special contributions made by banks; and (ii) amounts from loans.

Arising from the above-mentioned decisions, the risk of litigation involving the Resolution Fund is significant, as well as the risk of possible insufficiency of assets to ensure all obligations are met, particularly the short-term reimbursement of loans.

Within this framework, in the second quarter of 2016, the Portuguese government reached an agreement with the European Commission in order to change the conditions of the financing granted by the Portuguese State and the banks that participate in the Resolution Fund in order to preserve financial stability by promoting conditions that ensure predictability and stability of the contributions

made to the Resolution Fund. For that purpose, an amendment to the loan agreements signed with the Resolution Fund was recently formalized, introducing a set of changes regarding the reimbursement plans, the rates of return, and other terms and conditions associated with these loans so that these are adjusted to the ability of the Resolution Fund to fully comply with its obligations based on regular revenues, i.e., without the need to charge the banks that participate in the Resolution Fund for special contributions or any other type of extraordinary contribution.

In this context, based on the currently available information, the Board of Directors believes that the risks of any additional charges regarding the set of the obligations stated above in connection with the Resolution Fund are low.

51. Subsequent events

Banco Popular Portugal, S.A., through its Board of Directors and Banco Popular Español, S.A., have approved an intra-community cross-border split project of Banco Portugal, S.A., as the company being divided, in favour of Banco Popular Español, S.A., as the beneficiary company.

The split will be made as follows:

- a) The banking activity of Banco Popular Portugal, S.A., shall be fully integrated into Banco Popular Español, S.A.;
- b) Banco Popular Español, S.A., will create a subsidiary for that activity in Portugal;
- c) After changing the type of institution to a leasing company, Banco Popular Portugal, S.A., will maintain its finance and property leasing activity.

This split is subject to the cumulative compliance with certain suspensive conditions and administrative authorizations that shall be better described in the split project, which is expected to be concluded in the last quarter of this year.

THE CERTIFIED PUBLIC ACCOUNTANT

THE BOARD OF DIRECTORS

Corporate Governance Report

(Pursuant to paragraph 2 (b) of Article 70 of the Portuguese Companies Act)

2016 Fiscal Year

Banco Popular Portugal, S.A. (also known as 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

Composition 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 bodies of the Bank are the Board of Directors, the Supervisory Board, and the Statutory Auditor or Audit Firm. The members of these bodies were appointed for a four-year term (2015-2018) on 31 March 2015, except for Pedro Miguel da Gama Cunha, who was appointed on 31 August 2015.

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 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

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.

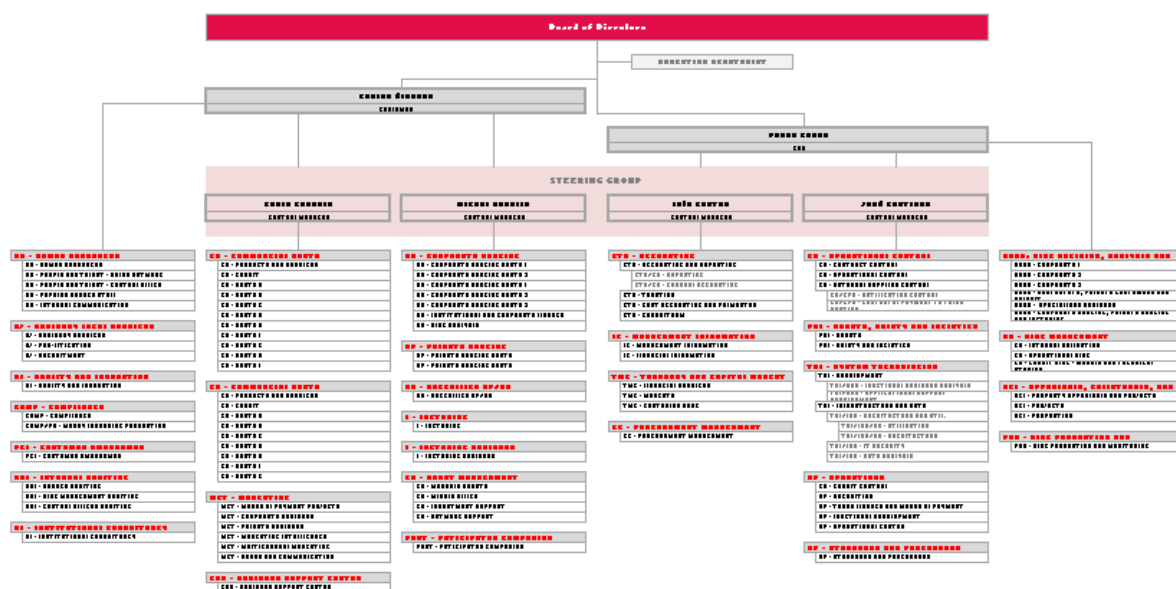
Pursuant to the Bank's statutes and without prejudice to those defined by law, the Board of Directors has the following attributions:

- 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 powers are its Chairman, Carlos Manuel Sobral Cid da Costa Álvares, and its General Business Manager, Pedro Miguel da Gama Cunha.

Without prejudice to the role of the Board of Directors as a statutory management body, the organization chart also includes the Steering Group (4 Central Managers), who support the day-to-day running of the Bank within the wider guidelines of the Group and the Board of Directors.

The current attribution of functions by the members of the Board of Directors can be seen in the following organization chart:



Popular

II.3 – Activity Monitoring Groups

Regarding the management of the Bank, on 22 September 2016 it was decided that the advisory company structures that supported the Board of Directors (previously named Committees) should be restructured in order to increase the constant improvement of the Bank's management model as a unit of Banco Popular Group. The Bank has committed to comply with the law and international practices while also clarifying the reporting lines from the Central Managers to the Board of Directors. Such structures encompass a set of advisory fora where Directors, Central Managers and Executive Coordinators are represented in various combinations. These fora are generically known as Monitoring Groups.

The most important Monitoring Group, which meets weekly with Management (the Executive Directors) and Top Management (Central Managers), is called Steering Group. The former Executive Committee created on 1 January 2011 was dissolved.

This Steering Group aims at monitoring the Bank's activity, sharing information, advising, issuing recommendations or opinions, and supporting the decisions of the managing body. Its main attributions are advising and supporting the Board of Directors, namely by:

- Suggesting the improvement of any adopted measures;
- Suggesting the definition of policies that are transversal to the Bank's activity;

- c) Informing the Board of Directors of any situations or events they are aware of and they believe to conflict with the compliance with established standards and guidelines or that may harm the application of the Bank's guidelines;
- d) Monitoring the decision-making process and making the implementation and follow-up process more effective; and
- e) Monitoring and analysing the insights and guidelines produced by the Bank or by the Group, or by national or international bodies, with a view to possibly implementing them for the continuous improvement of the Bank's procedures.

Besides the creation of the Steering Group, the other specialized committees that had been created to monitor the Bank's activity and support the managing body with a consulting nature were renamed, namely:

Internal Control and MiFID Monitoring Group

This group aims at monitoring the internal control system and the Bank's compliance environment, namely by using the standards provided by MiFID, in order to protect the Bank's reputation and minimize its respective risk.

Risk Monitoring Group

Together with Banco Popular Group, the Risk Monitoring Group participates in the definition of the framework for risk management and risk level monitoring for the different typologies to which the Bank is exposed.

This Group participates in the definition and assessment of risk policies that affect the Bank and in establishing the Bank's present and future risk appetite and respective strategy within that scope.

It suggests a control and risk management policy for the Bank which should at least identify:

- (i) The different types of risk (credit, operational, technological, financial, legal, reputational and others) that the Bank has to face, including financial or economic risks, contingent liabilities, and other off-balance risks;
- (ii) The measures foreseen to mitigate the impact of identified risks, in case they become effective;
- (iii) The information and internal control systems that shall be used to control and manage said risks.

It also collaborates with Banco Popular Group implementing the following exercises (on a consolidated level):

- (iv) Monitoring the risk level for every typology (especially as regards credit and operational risk), ensuring that these are compatible with the objectives, available resources, and strategies approved for the development of the activity;
- (v) Together with the 'Basel Supervisory Committee' of the Group, monitoring the local implementation in management of IRB models, as well as defining risk-adjusted *pricing* policies;
- (vi) monthly monitoring the main indicators of credit impairment, non-performing loans, large risks statistics, customers classified with restrictive policies, and preparing the Monthly Risk Management Bulletin;

(vii) Analysing and planning capital and respective internal *stress tests*, also collaborating in the definition of Banco Popular Group's risk appetite and tolerance, performing these exercises on a consolidated basis.

The Group assesses the suggestions made by the different members that compose it (according to risk typologies), regarding topics such as:

- (i) Pricing of the transactions adjusted to the corporate model and the entity's risk strategy;
- (ii) Supervising the application of the risk strategy;
- (iii) Changes regarding handbooks, regulations, limits, models, and processes;
- (iv) Assessing and acquiring knowledge on any topics related to risk and its respective measurement or mitigation;
- (v) Analysing the proposal of action plans to mitigate deviations and internal management indicators regarding risks;
- (vi) Assessing any material changes to the credit impairment model.

Investment Costs Monitoring Group

This Group aims at analysing and discussing cost and investment proposals put forward by all the bodies of the structure with the prior agreement of the Central Manager.

Products and Processes Monitoring Group

This Group aims at identifying suggestions for improvement opportunities in terms of products, services, and processes.

ALCO Monitoring Group

This Group focuses on the analysis, discussion, and presentation of proposed solutions to control the management of interest rate, exchange rate, and liquidity risks according to the banking activity of the Group in Portugal.

Ombudsman Monitoring Group

This Group aims at identifying complaints, customer suggestions, and opportunities for improvement. Following nonconformities, this Group assesses objective measures to address those nonconformities and identify opportunities to communicate with the Customers.

Affiliated Companies Monitoring Group

This Group monitors all the business activity related with the Bank's sub-assets and non-performing assets (loans and properties).

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.

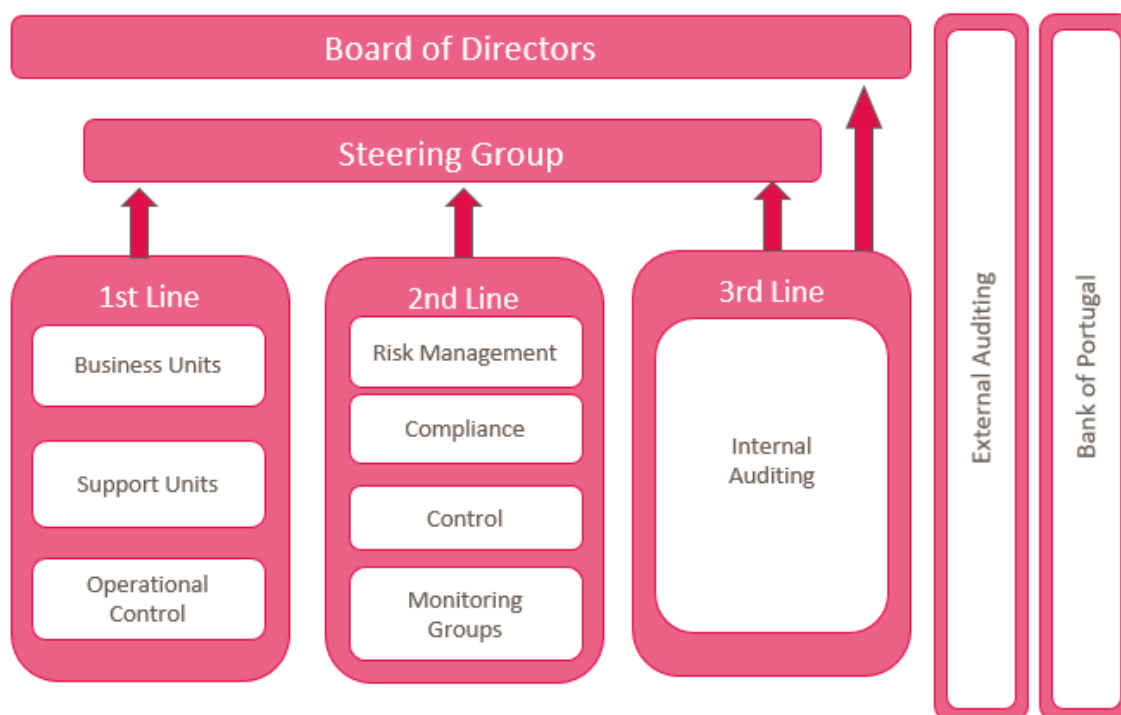
The functions of the Board of Directors are approving the Bank's strategy and undertaking to see it adequately implemented, as well, as defining, approving of and revising the organizational structure of the Bank and ensuring its adequate implementation and maintenance. The Board of Directors shall promote 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 performed by Risk Management, Compliance, Internal Control, and Monitoring Groups;

(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 relate to 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.

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. Upon a proposal, 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 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 periodic 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 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. Presenting the Board of Directors with the Bank's risk policies for their approval;
- 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 and other associated risks;
- 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. Dealing with 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 working groups to support Risk Management.

c) Compliance - Compliance aims to ensure the application of legal, regulatory, and best practices requirements in the context of the Bank's activity, conciliating, on the one hand, the perspectives of regulatory compliance and, on the other hand, business compliance, as well as monitoring and assessing internal control procedures regarding the prevention of money laundering and the financing of terrorism, centralizing information, and making all the due reports to the competent judicial authorities. The main attributions of COMP/Compliance are:

- i) Having a deep knowledge of the Bank's activity, identifying and assessing the application and impact of legal and regulatory provisions in conjunction with the other bodies of the Bank and the external auditor;
- ii) Ensuring the application of legal, regulatory, and best practices requirements in the context of the Bank's activity, conciliating the perspective of regulatory compliance, on the one hand, and business compliance, on the other;
- iii) Monitoring changes and developments regarding regulations and assessing the adequacy and efficiency of internal standards and procedures in order to prevent the non-compliance of the Bank with its legal obligations and duties within the scope of its activity;
- iv) Promoting in conjunction with the other bodies of the structure the necessary measures to correct possible deficiencies detected in terms of regulatory compliance and taking the prevention and verification actions needed to ensure the continuous compliance with the applicable legislation, regulations, and best practices, and assisting in the implementation of corrective measures;
- v) Advising and assisting the governing bodies in terms of the fulfilment of legal obligations and duties to which the institution is bound, as well as immediately informing the Board of Directors about any sign of a legal breach, violation of rules of conduct and relationship with customers, or breach of any other duties that may lead the institution or its employees to commit any legal violation;
- vi) Developing advisory work, providing guidelines for the functional areas on the compliance with requirements that are relevant in the context of concrete matters raised in the course of the Bank's activity;
- vii) Keeping a record of breaches and measures suggested and adopted;
- viii) Writing an annual report that shall be presented to the governing and supervisory boards, identifying any breaches and the measures adopted to correct them;

- ix) Participating in the definition of the 'Assistir' system and in the internal control aspect, collaborating and promoting the reporting to the supervisory entities in conjunction namely with risk management and internal auditing functions;
- x) Permanently monitoring the internal control system, assessing the adequacy, sufficiency and timeliness of the policies, means and procedures that integrate it;
- xi) Managing the relationship with supervisory bodies in order to ensure good monitoring of developments and evolution in regulatory matters, as well as the resolution and healing of nonconformities;
- xii) Controlling communications foreseen by Law that involve the competent authorities regarding information on every business sector;
- xiii) Defining and maintaining a training programme for the staff on Compliance, Prevention of Money Laundering and the financing of terrorism;
- xiv) 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;
- xv) Playing the role of privileged spokesperson with legal, authorities, the police and supervisory bodies;
- xvi) Issuing opinions on the policies, means and internal procedures of corresponding institutions aimed at preventing money laundering and the financing of terrorism.

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 Bank;
- 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.

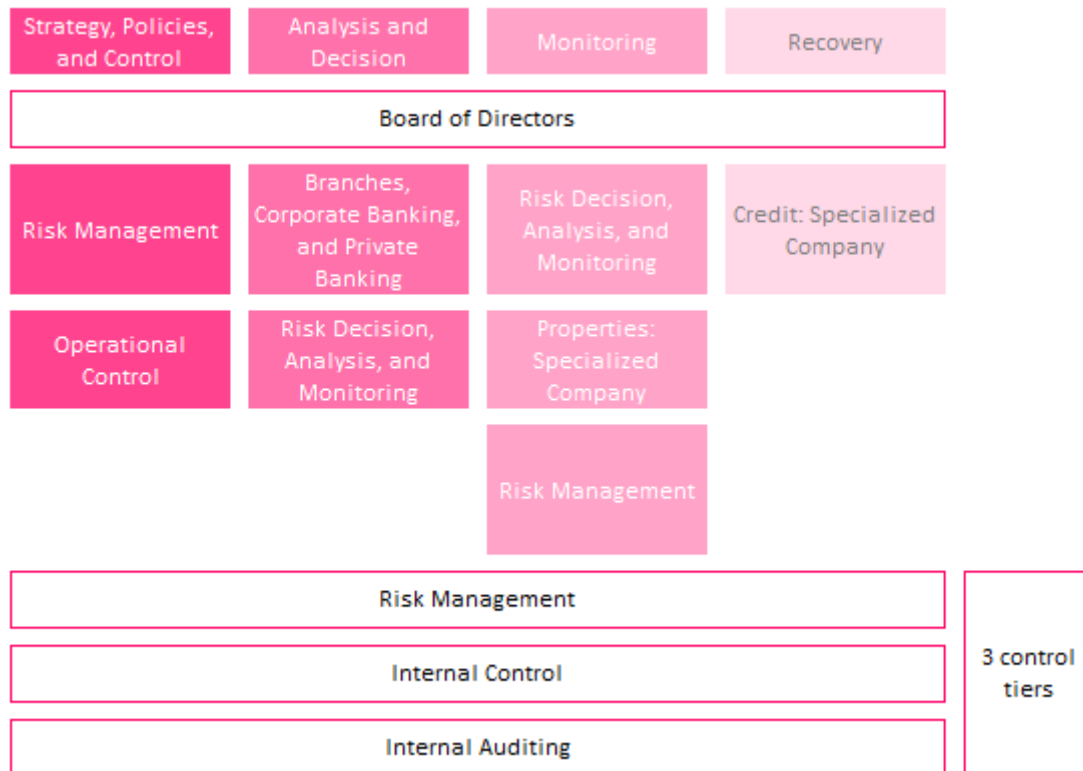
II.6 – Identification the main risks to which Banco Popular is exposed in the course of its activity

In the course of its activity Banco Popular Portugal is exposed to the following risks

Credit Risk

This type of risk arises from the potential 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 must 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;

- Retail Branches and Large Companies;
- Commercial South and Commercial North;
- Risk Decision and Analysis; and
- 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 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 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 allowed for a much closer monitoring of higher-risk customers, which in turn has implied the swifter 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 the management of RNE, the business unit that was in charge of managing real estate assets and non-performing customer loans, a 'servicing contract' was signed with 'Recbus, S.A.', currently Primestar, which resulted from the change in the procedures that were formerly employed; subsequently, the Department of Risk Prevention and Monitoring (PSR), which integrated the Risk Management Department in 2017. The risk monitoring division is targeted at monitoring credit risk:

- analysing and monitoring the credit portfolio in order to detect any situations of potential risk, and, if necessary, present proposals for the limitation of the underlying default risk and inherent definition of 'Restrictive Credit Policies';
- supervising credit 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 the Group;
- promoting the application of risk monitoring criteria that are recommended by Risk Management in order to guarantee that the Bank 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 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); and
- 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 of Directors, namely:
 - Customers/Group with risk > 10% TIER I;
 - Customers/Group 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 80%;
 - 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 securities portfolio, 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 (Value at Risk) 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 Regulation (EU) No. 575/2013 of the European Parliament and the Council, i.e., as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risks'.

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. Operational Risk is compulsorily included in the agenda for the meeting of the 'Risk Monitoring Group', where 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 internal 'Risk Monitoring Group' 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) Monitoring and assessing operational risk events;
- 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:

- 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'.

Interest rate risk

This risk is defined as the risk arising from changes in market interest rates derived from the temporary differences between the repricing of assets and liabilities, as well as the inequality of maturities.

The Bank measures its 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.

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 considering 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 2016, 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.

Compliance Risk

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 follow-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. These assets are those properties that were initially accepted as collaterals for mortgage loans.

Real Estate Assets are managed by Primestar, S.A. (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 Monitoring Groups where every management and property sale policies is 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 disinvestment in real estate assets is one of the priority aims of the Group in general and the Bank in particular. Therefore, the Bank has implemented several actions to improve the effectiveness of the selling process (estate agents, website, powers delegated to certain bodies to make the process swifter).

Additionally, and in order to achieve a higher volume of sales, Risk Management, in conjunction with the other bodies of the Bank, may gather batch of properties and a property portfolio for investors and funds.

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 a formal policy on this matter does not exist, there is the practice of periodically rotating the functions within the Board of Directors.

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 co-optation 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 – Competence and attributions of the Supervisory Board

The Supervisory Board has the functions attributed by law, namely those set forth in article 420 of the Commercial Societies Code, as well as those provided in the Regulations of the Supervisory Board available on the Bank's website.

In terms of additional services hired from the external auditor, the Supervisory Board essentially ensures that the independence and impartiality of the external auditor needed to provide auditing services is not compromised and that additional services are provided with the utmost quality and autonomy.

However, and although the possibility of suggesting to the Board of Directors the dismissal of the auditor with just cause is not expressly included in the competencies of the Supervisory Board, supervising and reporting any irregularities on the first General Meeting after such verification is a fully assumed attribution that arises from its general functions and duties.

In case those irregularities constitute just cause for dismissal, the Supervisory Board shall present the shareholders a proposal for that effect.

The Supervisory Board is also in charge of ensuring communication with the External Auditor, having access and direct knowledge of the External Auditor's activities. Regarding this principle, the reports made by the External Auditor are addressed to the Supervisory Board and discussed in joint meetings of this body with a member of the Board of Directors, and the Supervisory Board shall ensure that the necessary conditions are ensured inside the company for the provision of auditing services.

Within its supervisory attribution and revision of the company's reporting documents, the Supervisory Board shall annually assess the external auditor and the result of that assessment is contained in its Report and Opinion on the annual accounts.

II.11 – 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 2016, the Board of Directors met 16 times.

The regulations of the Board of Directors are available on the Bank's website ([www.bancopopular.pt/Particulares/nosso-banco/governance/Regulamento do Conselho de Administração](http://www.bancopopular.pt/Particulares/nosso-banco/governance/Regulamento%20do%20Conselho%20de%20Administra%C3%A7%C3%A3o)), where they can be consulted.

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 2016, the Supervisory Board met 11 times.

The regulations of the Supervisory Board are available on the Bank's website ([www.bancopopular.pt/Particulares/nosso-banco/governance/Regulamento do Conselho de Administração](http://www.bancopopular.pt/Particulares/nosso-banco/governance/Regulamento%20do%20Conselho%20de%20Administra%C3%A7%C3%A3o)), where they can be consulted.

II.12 – Statutory Auditor

Besides the legal obligations on this matter, the Bank has no policy that imposes the rotation of the external auditor or their representative.

II.13 – 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 and Insead/Fontainbleay Programme.

Professional activities in the past 5 years: - Grupo Banco Comercial Português: – Private Managing Director; - Banco Popular Portugal, S.A.: - Managing Director; - Popular Factoring, S.A.: Chairman of the Board of Directors

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.; - 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 in Management;

Professional activities in the past 5 years: - Banco Popular Portugal, S.A.: – Senior

Manager and subsequently Central Manager; Popular Factoring, S.A.: - Member of the Board of Directors

Does not own any shares in the company

Functions in other companies belonging to Banco Popular Group: - 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.: – Legal Services Manager

Does not own any shares in the company

Functions in other companies belonging to Banco Popular Group: - Head of Legal Services 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, S.A.: – CEO's Office Manager; - Popular Banca Privada: Managing Director; - Popular Factoring, S.A.: Member of the Board of Directors

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.14 – 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.15 – 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

Does not hold any other positions 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 Committee of Eurovida – Companhia de Seguros de Vida, S.A., of Popular Seguros – Companhia de Seguros, S.A., and of Popular Gestão de Ativos, SGFI, 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 PricewaterhouseCoopers; - 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: – Member of the Supervisory Committee of Popular Gestão de Ativos, SGFI, S.A.

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 PricewaterhouseCoopers

Does not own any shares in the company

Does not hold any other positions in other companies belonging to Banco Popular Group.

II. 16 Reporting irregularities

The Bank has what it calls 'Whistleblowing Regulations' that define the principles, attributions, and duties related with reporting irregularities/non-compliances within the scope of the whistleblowing channel.

These regulations enforce the general duty to report irregularities, indicating Compliance as the competent entity to do that. When there are probable foundations, Compliance performs the necessary

investigations to fully ascertain the facts. After that investigation is concluded, Compliance writes a report, transmitting its conclusions to the Bank's Board of Directors so that adequate measures can be adopted to correct the irregularity and impose the respective sanction if that is the case.

These regulations also have other provisions, namely in the sense of safeguarding the confidentiality of that report.

Access to the 'Whistleblowing Regulations' is restricted.

II.17 Capital market representative

The representative of the company for capital market relations is José Miguel Pires Ganhão, whose information and contact numbers are available at the Bank's website (www.bancopopular.pt/Particulares/mais-informacao/investidores).

II.18 Place where the information can be found

The following information is available on the Bank's website:

(i) information on the company, its head office, and other data

www.bancopopular.pt/Particulares/nosso-banco/quem-somos

(ii) Regulations of the Board of Directors and the Supervisory Board

www.bancopopular.pt/Particulares/nosso-banco/governance

(iii) information on the identity of the members of the governing bodies

www.bancopopular.pt/Particulares/nosso-banco/orgaos-sociais

(iv) information on the identity of the capital market representative

www.bancopopular.pt/Particulares/mais-informacao/investidores

(v) reporting documents, annual accounts, half year accounts, and, when applicable, quarterly accounts

www.bancopopular.pt/Particulares/nosso-banco/ilInformacoes-financeiras

(vi) decisions taken on the General Meetings of the company

www.bancopopular.pt/particulares/mais-informacao/investidores/ilInfo-privilegiada

II.19 – 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 2016, 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 23 March 2016.

1. Scope and competence for 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* do 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 oversee;

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 considering 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 or 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-outs 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.20 – Remunerations earned by the governing and supervisory bodies

The members of the Board of Directors earned a total amount of 512,252 € in 2016, 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:

Annual remuneration (euros)

	Fixed		total
Carlos Manuel Sobral Cid da Costa Álvares	353,000	(*)	353,000
Pedro Miguel da Gama Cunha	159,252		159,252
Tomás Pereira Pena	0		0
Susana de Medrano Boix	0		0
Total	512,252		512,252

(*) - Includes Complement for Individual Performance

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 21,000 € in 2016. Individually, they have earned the following amounts:

Annual remuneration (euros)

Rui Manuel Ferreira de Oliveira	9,600
António Manuel Mendes Barreira	6,000
António Luis Castanheira da Silva Lopes	6,000
Total	21,600

III – Information and Auditing

III.1 – Structure of ownership of Banco Popular Portugal, S.A.

Share capital – 513.000.000,00 €, represented by 513.000.000 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 2016 were as follows:

	(€ thousand)
Statutory audit	163
Other guarantee and reliability services	96
Other	3
Total	<hr/> 262

Fees for the statutory audit include services such as reports on credit impairment and the half-yearly limited audit to report to BPE Group.

Fees for Assurance and reliability services include services within the scope of (i) the revision of the internal control system, including the specific scope of prevention of money laundering and the financing of terrorism, (ii) the revision of safekeeping of customers' assets, and (iii) the annual audit to covered bonds issuances.

Fees for Other services include agreed procedures regarding the payable *ex-ante* contribution to the Single Resolution Fund.

Lisbon, 20 March 2017

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 513,000,000.00

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 2016, 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, 20 March 2017

The 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 Governing 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 referred to as 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 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* do 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 oversee;
- 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 considering 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-outs 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 become effective on 30 March 2017, 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.** This 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 if 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 if 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* do 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 oversee;
- 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 considering 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-outs 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 oversee.

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 become effective on 30 March 2017, 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. This Policy is disclosed on BANCO POPULAR'S WEBSITE.

Policy for the Prevention, Communication and Remedy of Conflicts of Interests

Object, scope, and competence

The present document contains the Policy for the Prevention, Communication 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').

The Policy for the Prevention of Conflicts of Interests regarding the financial intermediation activity of BANCO POPULAR is stated on a separate document.

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.

The present Conflict of Interest Policy shall be applied to the following executives of BANCO POPULAR:

- Members of the Board of Directors;

- Members of the Supervisory Board;

- Key function holders in the credit institution.

Pursuant to the previous number, the key function holders are:

- The Central Managers of the Bank;

- The Bank's Head of Compliance;

- Those in charge of risk management in the Bank;

- Those in charge of internal auditing in the Bank;

- The remaining members designated as key function holders by the *Comisión de Nombramientos* of Banco Popular Español S.A. ('CNBPE').

For the purpose of the present Policy, by 'executives' we mean the members of the governing bodies referred to in the previous numbers.

CRBPE monitors the enforcement of the present Policy and ensures its full efficacy.

1. General principles

- 1.1. 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.
- 1.2. 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.

2. Definitions

- 2.1. *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;
 - 2.1.1. *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;
 - 2.1.2. 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);
 - 2.1.3. 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);
 - 2.1.4. The encumbrance of assets that belong to BANCO POPULAR or an Investee Company, regardless of their legal form and amount;
 - 2.1.5. In general, any form of appropriation of assets that belong to BANCO POPULAR or Investee Company, of over € 100,000 (one hundred thousand euros).
- 2.2. *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:
 - 2.2.1. 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;
 - 2.2.2. The Investee Companies controlled by the Executive or by any of the people referred to in the previous number pursuant to the meaning defined in paragraph 3.1;

- 2.2.3.** Entities where the Executives hold managing or supervisory positions or in any other way participate in the main management decisions;
- 2.2.4.** Shareholders with stakes higher than 2 per cent 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;
- 2.2.5.** 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.

3. Procedures

- 3.1.** 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.
- 3.2.** 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.
- 3.3.** The Previous Communication of Relevant Business may be urgent, in which case the CNBPE will try to issue an opinion in 5 days.
- 3.4.** 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.
- 3.5.** In the cases foreseen in paragraph (b) of the previous number, the Executive or Executives involved must provide evidence that the conditions imposed by the CNBPE were met.
- 3.6.** In the cases foreseen in paragraph (c) of 3.4, the Relevant Business is considered rejected, and it shall not even be submitted for approval of the competent bodies.
- 3.7.** 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).
- 3.8.** 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.
- 3.9.** 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.

4. Other conflicts of interests

- 4.1.** 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.
- 4.2.** 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.
- 4.3.** The Executives have cooperation duties in compliance with the present Policy, namely providing information on Relevant Businesses.
- 4.4.** The Compliance Department of BANCO POPULAR shall prepare and update a list of possible conflicts of interest and provide that list to the CNBPE.

5. Approval, entry into force, and amendments

- 5.1.** The present Policy was approved of by the General Meeting and shall become effective on 1 April 2015, and it can be amended by decision of said management body.

6. Disclosure

- 6.1.** This 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 referred to as '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 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. The 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 oversees 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 reputation 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 considering 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 to, 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;
- c) 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 applicant to the Board of Directors or the Supervisory Board is identified, CNBPE shall gather relevant information for his/her initial fitness assessment, which shall at least include the elements referred to in the Questionnaire included as Attachment 1. That questionnaire may be filled in by the applicant or by CNBPE based on the information gathered, or by an external body 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 applicant to a key function is identified, CNBPE shall gather relevant information for his/her initial fitness assessment, which shall at least include the elements referred to in the Questionnaire included as Attachment 2. That questionnaire may be filled in by the applicant or by CNBPE based on the information gathered, or by an external body 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 intends 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 be 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 considering 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 become effective on 1 April 2015, and it can be amended by decision of said management body.

12. Disclosure

- 12.1.** This Policy is disclosed on BANCO POPULAR'S WEBSITE.

Statutory Audit and Auditor's Report



Certificação Legal das Contas e Relatório de Auditoria

Relato sobre a auditoria das demonstrações financeiras

Opinião

Auditámos as demonstrações financeiras anexas do Banco Popular Portugal, S.A. ("Banco" ou "Banco Popular Portugal"), que compreendem o balanço em 31 de dezembro de 2016 que evidencia um total de 7.942.131 milhares de euros e um total de capital próprio de 779.015 milhares de euros, incluindo um resultado líquido de 11.760 milhares euros, a demonstração de resultados e a demonstração do rendimento integral, a demonstração das alterações no capital próprio e a demonstração dos fluxos de caixa relativas ao ano findo naquela data, e as notas anexas às demonstrações financeiras que incluem um resumo das políticas contabilísticas significativas.

Em nossa opinião, as demonstrações financeiras anexas apresentam de forma verdadeira e apropriada, em todos os aspetos materiais, a posição financeira do Banco Popular Portugal, S.A. em 31 de dezembro de 2016 e o seu desempenho financeiro e fluxos de caixa relativos ao ano findo naquela data de acordo com as Normas Internacionais de Relato Financeiro (IFRS) tal como adotadas na União Europeia.

Bases para a opinião

A nossa auditoria foi efetuada de acordo com as Normas Internacionais de Auditoria (ISAs) e demais normas e orientações técnicas e éticas da Ordem dos Revisores Oficiais de Contas. As nossas responsabilidades nos termos dessas normas estão descritas na secção "Responsabilidades do auditor pela auditoria das demonstrações financeiras" abaixo. Somos independentes do Banco nos termos da lei e cumprimos os demais requisitos éticos nos termos do código de ética da Ordem dos Revisores Oficiais de Contas.

Estamos convictos de que a prova de auditoria que obtivemos é suficiente e apropriada para proporcionar uma base para a nossa opinião.

Matérias relevantes de auditoria

As matérias relevantes de auditoria são as que, no nosso julgamento profissional, tiveram maior importância na auditoria das demonstrações financeiras do ano corrente. Essas matérias foram consideradas no contexto da auditoria das demonstrações financeiras como um todo, e na formação da opinião, e não emitimos uma opinião separada sobre essas matérias.

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Matérias relevantes de auditoria**Síntese da abordagem de auditoria****Perdas por imparidade de crédito a clientes**

Divulgações relacionadas com as perdas por imparidade de crédito a clientes apresentadas nas notas 2.9 a), 3.3, 23 e 47 do anexo às demonstrações financeiras do Banco

O apuramento das perdas por imparidade no crédito concedido a clientes requer a aplicação de um conjunto de pressupostos e julgamentos por parte da Administração do Banco no que respeita à identificação, quer do momento do reconhecimento quer do correspondente montante, o que justifica que esta tenha constituído uma matéria relevante para efeitos da nossa auditoria. Em 31 de dezembro de 2016 o valor bruto da rubrica de crédito concedido a clientes ascende a 6.293.689 milhares de euros (2015: 6.085.775 milhares de euros) e as perdas por imparidade reconhecidas a essa data ascendem a 369.527 milhares de euros (2015: 383.288 milhares de euros).

As perdas por imparidade são apuradas em termos individuais para as operações individualmente significativas, sendo que para o remanescente da carteira a imparidade é apurada em análise coletiva.

- O Banco desenvolve um processo de análise individual para os clientes que apresentem exposições mais significativas, avaliadas em termos do montante das suas responsabilidades e da existência de indícios de incumprimento. Nestes casos, a imparidade é apurada através da análise detalhada da posição económica e financeira de cada cliente individualmente, tendo por referência (i) a estimativa dos fluxos de caixa que poderão no futuro ser gerados pelo cliente para o cumprimento das suas responsabilidades ou (ii) a valorização dos colaterais recebidos no âmbito da concessão de crédito, sempre que se antecipe a sua recuperação por via da dação/execução

Os procedimentos de auditoria que desenvolvemos incluíram a revisão dos controlos instituídos pelo Banco no que se refere à aprovação, registo e monitorização do crédito concedido a clientes, bem como a apreciação das metodologias, dos dados e dos pressupostos adotados pela Administração no apuramento das perdas por imparidade. Estes procedimentos abrangeram, entre outros, o teste detalhado aos controlos e procedimentos de gestão do risco de crédito pelo Banco, com particular ênfase nos controlos internos subjacentes à atempada identificação, registo e correta mensuração das perdas por imparidade.

Neste âmbito, testámos o desenho e a eficácia operacional dos controlos chave instituídos pelo Banco para identificar clientes com indícios de imparidade ou em situação de incumprimento e determinar as correspondentes perdas por imparidade. Os procedimentos e controlos testados compreenderam os relacionados com: (i) a atempada identificação dos clientes com indícios de imparidade ou em situação de incumprimento; (ii) a própria calculatória do modelo de imparidade definido pelo Banco, incluindo os *inputs* e pressupostos da Administração; (iii) a estimativa do valor recuperável dos colaterais quando aplicável; e (iv) o governo interno associado ao processo de apuramento e aprovação das perdas por imparidade.

Adicionalmente, por amostragem, analisámos um conjunto de clientes (incluindo alguns que não estavam identificados pela Administração como tendo indícios de imparidade ou encontrando-se em situação de incumprimento).

<i>Matérias relevantes de auditoria</i>	<i>Síntese da abordagem de auditoria</i>
<p>desse mesmo colateral. Quando decorrente da análise individual não tenha resultado qualquer perda por imparidade, essas exposições transitam para a análise coletiva, sendo-lhes aplicada uma perda por imparidade IBNR ("incurred but not reported").</p> <ul style="list-style-type: none"> • Para as exposições não abrangidas pela análise individual, o Banco aplica um modelo de análise coletiva para apuramento das perdas por imparidade. Quando um grupo de ativos financeiros é avaliado numa base coletiva, os fluxos de caixa futuros desse grupo são estimados tendo por base os fluxos contratuais desses ativos e os dados históricos relativos a perdas em ativos com características de risco de crédito similares. Sempre que o Banco entende necessário, a informação histórica é atualizada com base nos dados correntes observáveis, para que esta reflita os efeitos das condições atuais. 	<p>com o objetivo de obter o nosso próprio julgamento sobre a existência de indícios de imparidade, e avaliar de que forma as perdas por imparidade foram atempadamente identificadas e reconhecidas pela Administração.</p> <p>Relativamente aos clientes analisados individualmente pelo Banco, para uma amostra representativa da carteira de crédito a clientes em 31 de dezembro de 2016, os procedimentos desenvolvidos consistiram em: (i) rever a documentação associada ao processo de concessão de crédito; (ii) analisar o suporte contratual e os colaterais mais relevantes, e confirmar o registo desses colaterais a favor do Banco; (iii) questionar as avaliações dos colaterais que se encontravam disponíveis; (iv) apreciar a evolução das exposições; e (v) desafiar a visão dos responsáveis do Banco quanto à situação económico-financeira dos clientes e quanto à previsão de fluxos de caixa esperados do negócio dos clientes, bem como sobre as perspetivas de cobrabilidade dos créditos. Sempre que concluímos pela necessidade de revisão de algum <i>input</i> ou pressuposto utilizado pela Administração, procedemos a um novo cálculo do montante de imparidade e comparámos os resultados por forma a avaliar a existência de eventuais divergências.</p> <p>Para a carteira cuja imparidade é apurada através do modelo de análise coletiva desenvolvemos um conjunto de procedimentos específicos com o objetivo de avaliar de que forma os pressupostos considerados pela Administração, para efeitos do modelo de imparidade, contemplavam todas as variáveis de risco por comparação ao histórico de desempenho e recuperações da carteira de crédito a clientes do Banco, às condições macroeconómicas a que cada cliente se encontra exposto, bem como ao nosso conhecimento das atuais práticas no sector. Os procedimentos desenvolvidos consistiram em: (i) apreciar a informação constante da carteira de crédito a 31 de dezembro de 2016 e os dados históricos considerados no modelo; (ii) rever e testar a</p>

<i>Matérias relevantes de auditoria</i>	<i>Síntese da abordagem de auditoria</i>
	segmentação e a classificação dos créditos quanto à existência de indícios de imparidade ou de incumprimento; (iii) rever a adequação dos parâmetros de risco utilizados no cálculo da imparidade, estimados pelo Banco para cada segmento; (iv) desafiar os principais pressupostos e fontes de informação utilizadas nas recuperações futuras incorporadas no apuramento dos parâmetros de risco (por amostragem) e (v) rever e testar as recuperações históricas incorporadas no apuramento dos parâmetros de risco (por amostragem).
<p>Valorização de imóveis recebidos por recuperação de crédito</p> <p><i>Divulgações relacionadas com a valorização de imóveis apresentadas na nota 29 do anexo às demonstrações financeiras do Banco</i></p> <p>Dada a significativa expressão dos imóveis no Balanço do Banco, os quais se encontram refletidos na rubrica de Outros Ativos, estes constituíram uma matéria relevante para efeitos da nossa auditoria por requererem a aplicação de um conjunto de pressupostos e julgamentos por parte da Administração no que respeita à sua valorização e à determinação, quer do momento do reconhecimento quer do montante, das correspondentes perdas por imparidade.</p> <p>Em 31 de dezembro de 2016 o valor bruto destes ativos ascende a 229.185 milhares de euros (31.12.2015: 197.143 milhares de euros) e o montante das correspondentes perdas por imparidade reconhecidas a essa data ascende a 32.999 milhares de euros (31.12.2015: 31.283 milhares de euros).</p> <p>De acordo com as políticas em vigor no Banco, os imóveis são objeto de avaliações periódicas, realizadas por peritos avaliadores registados na CMVM, que dão origem ao registo de perdas por imparidade sempre que o valor decorrente dessas avaliações seja inferior ao seu valor contabilístico.</p>	
	<p>Os procedimentos de auditoria que desenvolvemos incluíram a identificação e a apreciação dos procedimentos e controlos instituídos pelo Banco para assegurar que os registos dos imóveis aquando da entrada e saída em carteira são realizados corretamente e que o processo de valorização dos imóveis é adequado.</p> <p>Para uma amostra de imóveis, foi analisada a sua valorização e, quando aplicável, a subsequente perda por imparidade registada com base nas avaliações de peritos avaliadores. Sempre que necessário, efetuámos reuniões para compreensão e entendimento dos julgamentos e pressupostos adotados na valorização atribuída aos imóveis em análise. As qualificações dos peritos avaliadores foram devidamente avaliadas, incluindo a confirmação do seu registo na CMVM.</p> <p>Adicionalmente, testámos uma amostra de imóveis cuja venda tenha ocorrido durante o exercício de 2016, comparando o valor de alienação com a última avaliação obtida, de forma a aferir sobre a razoabilidade das avaliações obtidas pelo Banco.</p>

Matérias relevantes de auditoria**Síntese da abordagem de auditoria****Benefícios pós-emprego dos colaboradores**

Divulgações relacionadas com os benefícios pós-emprego dos colaboradores apresentadas nas notas 2.15 e) e 37 do anexo às demonstrações financeiras do Banco

Em 31 de dezembro de 2016 as responsabilidades do Banco com o plano de "Benefícios pós-emprego dos colaboradores" ascendem a 152.950 milhares de euros (2015: 163.239 milhares de euros), abrangendo essencialmente benefícios por pensões de reforma e sobrevivência, cuidados de saúde e subsídio por morte, entre outros previstos no Acordo Coletivo de Trabalho ("ACT") para o setor bancário.

Estas responsabilidades são estimadas tendo por base avaliações atuariais efetuadas por atuário externo certificado pela Autoridade de Supervisão de Seguros e Fundos de Pensões ("ASF"). Estas avaliações incorporam um conjunto de pressupostos financeiros e atuariais, nomeadamente a taxa de desconto, a taxa de inflação, as tábuas de mortalidade e invalidez, as taxas de crescimento das pensões e dos salários, entre outros e que correspondem à melhor estimativa da Administração quanto às características dos benefícios e da população dos colaboradores e ao comportamento atual e futuro dessas variáveis. No caso concreto da taxa de desconto utilizada nos estudos atuariais, esta é determinada com base nas taxas de mercado relativas a obrigações de entidades com elevada qualidade em termos de risco de crédito, denominadas na moeda em que os benefícios irão ser pagos (euros) e com maturidade semelhante à data do termo do pagamento dos benefícios do plano.

Neste contexto, alterações que se venham a registar de futuro nos pressupostos financeiros e atuariais utilizados podem originar impactos materiais nas responsabilidades líquidas e nos ativos associados a estes benefícios, pelo que este tema foi considerado uma matéria relevante para

Os procedimentos de auditoria que desenvolvemos incluíram a identificação e a apreciação dos processos instituídos pelo Banco para assegurar que é correta e completa a informação recolhida e fornecida ao atuário para calcular as responsabilidades e as necessidades de financiamento do plano.

Os nossos trabalhos incluíram reuniões com a Administração e com o atuário a fim de identificar as metodologias e as opções consideradas na definição dos principais pressupostos financeiros e atuariais adotados. Face à relevância dos julgamentos requeridos à Administração, procedemos à avaliação da razoabilidade dos principais pressupostos comparando-os com os dados que, de forma independente, nos foi possível obter. Ainda neste âmbito, procedemos à revisão da conformidade (i) do histórico da informação dos colaboradores utilizada para efeitos do cálculo das responsabilidades; (ii) do reconhecimento contabilístico de cortes ou liquidações dos planos, de custos respeitantes a serviços passados e outras alterações de pressupostos e estimativas ocorridas ao longo do exercício; e (iii) do justo valor dos ativos do fundo, calculando-o sempre que possível, de forma independente para uma amostra de ativos detidos.

Matérias relevantes de auditoria**Síntese da abordagem de auditoria**

efeitos da nossa auditoria.

Financiamento do Fundo de Resolução

Divulgações relacionadas com o Fundo de Resolução apresentadas na nota 50 do anexo às demonstrações financeiras do Banco

As medidas de resolução aplicadas em 2014 ao Banco Espírito Santo, S.A. (processo que deu origem à criação do Novo Banco, S.A. ("Novo Banco") e em 2015 ao Banif criaram incertezas relacionadas com a eventual insuficiência de recursos do Fundo de Resolução para assegurar o cumprimento das suas responsabilidades, em particular o reembolso a curto prazo dos financiamentos que contraiu para o efeito. Essas incertezas têm vindo a assumir maior relevância em função dos desenvolvimentos associados ao processo de venda do Novo Banco e ao contencioso originado por essas mesmas medidas de resolução. Consequentemente, a possibilidade de os bancos participantes no Fundo de Resolução virem a ser chamados a realizar contribuições extraordinárias para o Fundo de Resolução tem constituído uma preocupação para o Banco e para o sector, e nessa medida esta foi uma matéria considerada relevante para efeitos da nossa auditoria. Nesse contexto, acompanhamos todo o conjunto de iniciativas desenvolvidas para encontrar uma solução que pudesse mitigar tais incertezas.

A análise sobre a capacidade do Fundo de Resolução gerar os fluxos de caixa necessários para fazer face às suas responsabilidades, e a avaliação sobre a existência de risco de imparidade sobre o crédito concedido ao Fundo de Resolução, envolveu um conjunto de pressupostos e estimativas assumidos pelo próprio Fundo de Resolução e pela Administração do Banco.

Os procedimentos de auditoria que desenvolvemos incluíram: (i) a análise das condições contratuais dos financiamentos contraídos pelo Fundo de Resolução junto dos bancos participantes e do Estado Português; (ii) a compreensão das contribuições que poderão ser exigidas aos bancos participantes, à luz do Decreto-Lei nº 24/2013, de 19 de fevereiro, e as clarificações prestadas pelas entidades envolvidas; (iii) a apreciação do impacto que a recente reestruturação desses financiamentos terá na capacidade do Fundo de Resolução em fazer face às suas responsabilidades, que incluiu uma significativa extensão dos prazos de vencimento, (iv) a análise das cláusulas que permitem ajustar esse prazo a potenciais alterações nas responsabilidades do Fundo de Resolução sem necessidade de recurso a contribuições especiais ou extraordinárias, e (v) a apreciação da nova forma de cálculo da taxa de juro aplicável.

Adicionalmente, avaliamos os pressupostos e estimativas considerados na preparação do plano de negócios do Fundo de Resolução e que fundamentam a sua capacidade de cumprir com o serviço da dívida dos referidos financiamentos, bem como eventuais contingências e as suas despesas operacionais.

<i>Matérias relevantes de auditoria</i>	<i>Síntese da abordagem de auditoria</i>
<i>Processo de reestruturação do grupo Banco Popular</i>	
<i>Divulgações relacionadas com o processo de reestruturação do Banco nas notas 1.3, 13 e 14 do anexo às demonstrações financeiras do Banco</i>	
<p>Em agosto de 2016 o Grupo Banco Popular Espanhol anunciou o seu Plano Estratégico 2016/2018 e a reestruturação do seu negócio. Este Plano Estratégico assenta no negócio rentável e recorrente, promovendo ativamente a redução dos ativos improdutivos e coloca em prática um plano de redução de custos que prevê uma poupança entre 175 milhões de euros e 200 milhões de euros anuais a partir de 2017.</p> <p>Em 31 de dezembro de 2016 o Banco Popular Portugal reconheceu um custo com o processo de reestruturação de cerca de 31 milhões de euros. Esta foi uma matéria considerada relevante para efeitos da nossa auditoria pela sua natureza e pela sua materialidade nas demonstrações financeiras do exercício de 2016.</p> <p>Os custos incorridos decorreram essencialmente da reformulação da rede de agências, por via do encerramento de 47 agências e da saída de 270 colaboradores (onde se incluem também processos de reformas), através de um método consensual, ou seja, por via da celebração de acordos de cessação dos contratos de trabalho.</p>	<p>Os nossos procedimentos de auditoria incluíram (i) a compreensão do processo de reestruturação implementado pelo Banco, (ii) a apreciação do racional e dos dados considerados pela Administração no apuramento dos custos incorridos com o processo e (iii) o teste detalhado ao apuramento dos custos incorridos pelo Banco com o encerramento de agências e com a rescisão dos contratos de trabalho com colaboradores.</p>
<i>Responsabilidades do órgão de gestão e do órgão de fiscalização pelas demonstrações financeiras</i>	

O órgão de gestão é responsável pela:

- a) preparação de demonstrações financeiras que apresentem de forma verdadeira e apropriada a posição financeira, o desempenho financeiro e os fluxos de caixa do Banco de acordo com as Normas Internacionais de Relato Financeiro (IFRS) tal como adotadas na União Europeia;

- b) elaboração do relatório de gestão, incluindo o relatório de governo societário, nos termos legais e regulamentares aplicáveis;
- c) criação e manutenção de um sistema de controlo interno apropriado para permitir a preparação de demonstrações financeiras isentas de distorção material devido a fraude ou erro;
- d) adoção de políticas e critérios contabilísticos adequados nas circunstâncias; e
- e) avaliação da capacidade do Banco de se manter em continuidade, divulgando, quando aplicável, as matérias que possam suscitar dúvidas significativas sobre a continuidade das atividades.

O órgão de fiscalização é responsável pela supervisão do processo de preparação e divulgação da informação financeira do Banco.

Responsabilidades do auditor pela auditoria das demonstrações financeiras

A nossa responsabilidade consiste em obter segurança razoável sobre se as demonstrações financeiras como um todo estão isentas de distorções materiais devido a fraude ou erro, e emitir um relatório onde conste a nossa opinião. Segurança razoável é um nível elevado de segurança, mas não é uma garantia de que uma auditoria executada de acordo com as ISAs detetará sempre uma distorção material quando exista. As distorções podem ter origem em fraude ou erro e são consideradas materiais se, isoladas ou conjuntamente, se possa razoavelmente esperar que influenciem decisões económicas dos utilizadores tomadas com base nessas demonstrações financeiras.

Como parte de uma auditoria de acordo com as ISAs, fazemos julgamentos profissionais e mantemos ceticismo profissional durante a auditoria e também:

- a) identificamos e avaliamos os riscos de distorção material das demonstrações financeiras, devido a fraude ou a erro, concebemos e executamos procedimentos de auditoria que respondam a esses riscos, e obtemos prova de auditoria que seja suficiente e apropriada para proporcionar uma base para a nossa opinião. O risco de não detetar uma distorção material devido a fraude é maior do que o risco de não detetar uma distorção material devido a erro, dado que a fraude pode envolver conluio, falsificação, omissões intencionais, falsas declarações ou sobreposição ao controlo interno;
- b) obtemos uma compreensão do controlo interno relevante para a auditoria com o objetivo de conceber procedimentos de auditoria que sejam apropriados nas circunstâncias, mas não para expressar uma opinião sobre a eficácia do controlo interno do Banco;
- c) avaliamos a adequação das políticas contabilísticas usadas e a razoabilidade das estimativas contabilísticas e respetivas divulgações feitas pelo órgão de gestão;

- d) concluímos sobre a apropriação do uso, pelo órgão de gestão, do pressuposto da continuidade e, com base na prova de auditoria obtida, se existe qualquer incerteza material relacionada com acontecimentos ou condições que possam suscitar dúvidas significativas sobre a capacidade do Banco para dar continuidade às suas atividades. Se concluirmos que existe uma incerteza material, devemos chamar a atenção no nosso relatório para as divulgações relacionadas incluídas nas demonstrações financeiras ou, caso essas divulgações não sejam adequadas, modificar a nossa opinião. As nossas conclusões são baseadas na prova de auditoria obtida até à data do nosso relatório. Porém, acontecimentos ou condições futuras podem levar a que o Banco descontinue as suas atividades;
- e) avaliamos a apresentação, estrutura e conteúdo global das demonstrações financeiras, incluindo as divulgações, e se essas demonstrações financeiras representam as transações e acontecimentos subjacentes de forma a atingir uma apresentação apropriada;
- f) comunicamos com os encarregados da governação, incluindo o órgão de fiscalização, entre outros assuntos, o âmbito e o calendário planeado da auditoria, e as conclusões significativas da auditoria incluindo qualquer deficiência significativa de controlo interno identificada durante a auditoria;
- g) das matérias que comunicamos aos encarregados da governação, incluindo o órgão de fiscalização, determinamos as que foram as mais importantes na auditoria das demonstrações financeiras do ano corrente e que são as matérias relevantes de auditoria. Descrevemos essas matérias no nosso relatório, exceto quando a lei ou regulamento proibir a sua divulgação pública;
- h) declaramos ao órgão de fiscalização que cumprimos os requisitos éticos relevantes relativos à independência e comunicamos todos os relacionamentos e outras matérias que possam ser percecionadas como ameaças à nossa independência e, quando aplicável, as respetivas salvaguardas.

A nossa responsabilidade inclui ainda a verificação da concordância da informação constante do relatório de gestão com as demonstrações financeiras, e as verificações previstas nos números 4 e 5 do artigo 451.º do Código das Sociedades Comerciais.

Relato sobre outros requisitos legais e regulamentares

Sobre o relatório de gestão

Dando cumprimento ao artigo 451.º, n.º 3, alínea e) do Código das Sociedades Comerciais, somos de parecer que o relatório de gestão foi preparado de acordo com os requisitos legais e regulamentares aplicáveis em vigor, a informação nele constante é concordante com as demonstrações financeiras auditadas e, tendo em conta o conhecimento e apreciação sobre o Banco, não identificámos incorreções materiais.



Sobre o relatório de governo societário

Dando cumprimento ao artigo 451.º, n.º 4 do Código das Sociedades Comerciais, somos de parecer que o relatório de governo societário inclui os elementos exigíveis ao Banco nos termos do artigo 245º-A do Código dos Valores Mobiliários, não tendo sido identificadas incorreções materiais na informação divulgada no mesmo, cumprindo o disposto nas alíneas c), d), f), h), i) e m) do referido artigo.

Sobre os elementos adicionais previstos no artigo 10º do Regulamento (UE) n.º 537/2014

Dando cumprimento ao artigo 10.º do Regulamento (UE) n.º 537/2014 do Parlamento Europeu e do Conselho, de 16 de abril de 2014, e para além das matérias relevantes de auditoria acima indicadas, relatamos ainda o seguinte:

- a) Fomos nomeados/eleitos auditores do Banco pela primeira vez na assembleia geral de acionistas realizada em 20 de abril de 2005 para um mandato compreendido entre 2005 e 2006, mantendo-nos em funções até ao presente período. A nossa última nomeação ocorreu na assembleia geral de acionistas realizada em 31 de março de 2015 para o mandato compreendido entre 2015 e 2018;
- b) O órgão de gestão confirmou-nos que não tem conhecimento da ocorrência de qualquer fraude ou suspeita de fraude com efeito material nas demonstrações financeiras. No planeamento e execução da nossa auditoria de acordo com as ISAs mantivemos o ceticismo profissional e concebemos procedimentos de auditoria para responder à possibilidade de distorção material das demonstrações financeiras devido a fraude. Em resultado do nosso trabalho não identificámos qualquer distorção material nas demonstrações financeiras devido a fraude;
- c) Confirmamos que a opinião de auditoria que emitimos é consistente com o relatório adicional que preparámos e entregámos ao órgão de fiscalização do Banco em 29 de março de 2017;
- d) Declaramos que não prestámos quaisquer serviços proibidos nos termos do artigo 77.º, n.º 8, do Estatuto da Ordem dos Revisores Oficiais de Contas e que mantivemos a nossa independência face ao Banco durante a realização da auditoria.

29 de março de 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
representada por:



António Alberto Henriques Assis, R.O.C

Report and Opinion of the Supervisory Board

To the Shareholder 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 2016.

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; and
- 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, 29 March 2017

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 513,000,000.00

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 2016, 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, 29 March 2017

Supervisory Board

Rui Manuel Ferreira de Oliveira	(Chairman)
António Manuel Mendes Barreira	(Member)
António Luís Castanheira da Silva Lopes	(Member)