BANCO POPULAR PORTUGAL

ANNUAL REPORT 2011

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.

General information

Banco Popular Portugal, S.A., was founded on 2 July 1991, and is registered at the Lisbon Commercial Registry Office under the same registration and taxpayer No. 502 607 084, with share capital of 451,000,000 euros. The head office is located at 51 Ramalho Ortigão in Lisbon. 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.

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 2011, particularly those issued by the Bank of Portugal regarding the presentation of accounting information.

The Annual Report and its accompanying documents are available at Banco Popular Portugal's Internet website: www.bancopopular.pt

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Board and Management

Board of the General Meeting

Augusto Fernando Correia Aguiar-Branco – Chairman

João Carlos de Albuquerque de Moura Navega – Secretary

Executive Board of Directors

Rui Manuel Morganho Semedo – Chairman

Jesús Santiago Martín Juárez

Tomás Pereira Pena

Jaime Jacobo González-Robatto Fernandez

Supervisory Board

Rui Manuel Ferreira de Oliveira - Chairman

Telmo Francisco Salvador Vieira

António José Marques Centúrio Monzelo

Ana Cristina Freitas Rebelo Gouveia – Alternate

Statutory Auditor

PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda., represente by Aurélio Adriano Rangel Amado or José Manuel Henriques Bernardo

Alternate Statutory Auditor

Jorge Manuel Santos Costa, Statutory Auditor.

Banco Popular Portugal Financial Highlights

(million euros, unless otherwise stated)

	2011	Variation % / p.p.	2010	2009	2008	2007
Business volume						
Total assets managed	10 258	-6.3%	10 952	9 467	9 094	8 135
On-balance sheet total assets	9 634	-5.9%	10 233	8 718	8 380	7 185
Own funds (a)	496	-14.3%	579	652	635	414
Customer funds:	4 778	11.7%	4 277	4 275	3 194	3 958
on balance sheet	4 154	16.7%	3 558	3 526	2 480	3 008
other intermediated customer funds	624	-13.2%	719	749	714	950
Lending to customers	6 530	-16.9%	7 855	6 247	6 388	6 000
Contingent risks	655	47.6%	444	395	454	399
Solvency						
Solvency ratio-BP	9.3%	0.7	8.6%	9.1%	9.0%	8.6%
Tier 1	9.3%	0.5	8.8%	9.5%	8.8%	6.2%
Risk management						
Total risks	7 185	-13.4%	8 298	6 641	6 842	6 399
Non-performing loans	169	-12.9%	194	300	306	99
Non-performing loans for more than 90 days	145	-7.7%	157	247	213	92
Non-performing loans ratio (%)	2.59%	0.12	2.47%	4.80%	4.80%	1.66%
Non-performing loans coverage ratio	129.0%	5.5	123.4%	80.0%	67.0%	67.0%
Earnings						
Net interest income	131.1	2.4%	128.0	103.8	131.0	136.9
Banking income	166.9	-17.1%	201.3	248.1	234.4	193.0
Operating income	47.1	-47.4%	89.6	142.3	134.3	100.9
Income before tax	24.4	12.6%	21.7	20.9	35.7	63.8
Net income	13.4	-15.5%	15.9	17.7	26.3	50.1
Profitability and efficiency						
Average net assets	10 411	14.0%	9 132	8 770	7 657	6 811
Average own assets	515	-14.7%	604	635	438	401
ROA (%)	0.13%	-0.05	0.17%	0.20%	0.34%	0.74%
ROE (%)	2.61%	-0.02	2.63%	2.79%	5.99%	12.48%
Operating efficiency (Cost to income) (%)	71.8%	16.28	55.5%	42.7%	42.7%	47.7%
(without depreciation) (%)	66.9%	15.34	51.6%	39.6%	39.3%	42.8%
Per share data						
Final number of shares (millions)	451	19.9%	376	376	376	176
Average number of shares (millions)	376	0.0%	376	376	176	176
Share book value (€)	1.101	-28.5%	1.540	1.733	1.688	2.350
Earnings per share (€)	0.030	-29.5%	0.042	0.047	0.070	0.285
Other data						
Number of employees	1 329	-1.0%	1 343	1 283	1 276	1 241
Number of branches	213	-8.2%	232	232	232	218
Employees per branch	6.2	7.8%	5.8	5.5	5.5	5.7
Number of ATMs	348	3.0%	338	337	326	315

(a) After appropriation of results for each year

MANAGEMENT REPORT

At the end of 2011, Banco Popular Portugal, S.A., reported shareholder's equity of 496 million euros, a network of 213 branches and a team of 1,329 staff. At 2011 year-end, the Bank had around 363 thousand customers and managed 10,258 million euros of total assets, including customer funds in the amount of 4,778 million euros. Net assets amounted to 9,634 million euros. In 2011, Banco Popular Portugal posted net profit of 13.4 million euros, which generated a return on equity of 2.61%.

On 30 December 2011, Popular Gestão de Imóveis was merged into Banco Popular Portugal, which fully owned that instrumental company.

The Bank's activity has been supported by the following financial companies that belong to the Banco Popular Group and allow the Bank to provide its customers with a wide range of banking products and services:

- Popular Gestão de Activos, S.A., wholly owned by Banco Popular Español, is a fund management company that manages, among others, the securities and real estate investment funds commercialized by Banco Popular Portugal.
- Popular Factoring, S.A., 99.8% held by Banco Popular Español, is a credit institution that provides the whole range of factoring products.
- Eurovida - Companhia de Seguros de Vida, S.A., which is 15.9 % held by Banco Popular Portugal, while Banco Popular Español owns the remaining share capital, is a life insurance company that provides life, retirement and investment insurance, namely those commercialized in the Bank's branches.
- Popular Seguros - Companhia de Seguros, S.A., indirectly owned by Banco Popular Portugal and Banco Popular Español through Eurovida, which fully owns its share capital, is an insurance company that trades in non-life insurance products providing them via the Bank's branches.

The Bank's activity

The year 2011 was marked by a serious aggravation of the financial, economic and social crisis, which spread to the states and gave rise to a new stage, the outbreak of the sovereign debt crisis. Public debt in some states has reached disturbingly high levels (and is still showing a rising trend) given their strong dependence on obtaining funds from the financial markets.

This unbalance has proven to be extremely detrimental in a time when economic agents have strongly decreased their leverage levels, not only because of legal requirements, but also due to risk management policies and their own expectations.

In the case of Portugal, the severe restrictions in terms of access to funding, at least in sustainable conditions, had the outcome of directing the country to foreign aid and the subsequent intervention of the IMF and the European Union. From the negotiations with these intervening bodies resulted an Economic and Financial Aid Plan, which has implied the implementation of adjusting measures that have had a strong impact on the country's economy. Although these measures may be seen as contractionary in nature, they are vital for the country's potential growth and return to the financial markets in the medium run. The above-described economic scenario has led to a drop by 1.6 % in terms of GDP for 2011 according to figures made available by the National Institute of Statistics (INE).

Commercial strategy

Banco Popular Portugal, as an economic agent operating in the Portuguese market, was not immune to these changes. In 2011, the Bank followed its strategy that strongly rested on its proximity to customers strengthening its bonds with them.

The decrease in the commercial gap, which resulted from raising customer funds and lending to SMEs, the closer relationship with its customers and the efficiency of the Bank's operation as a whole were also priorities this year. Overall, the business items with better performance were bank cards, EFTPOS, flat fees, leasing, factoring and insurance.

In the private customer segment, we have seen an increase of around 24 thousand new customers, reflecting the investment Banco Popular has made into expanding its customer base. This year, special emphasis was placed on improving the Bank’s offer to the several segments, particularly focusing on *Cliente Extra* (transactional customers) aiming at promoting customer loyalty and retention.

Fundraising, more precisely time deposits, was one of the main goals as far as private customers were concerned, together with increasing the insurance business and the sale of debit and credit cards. Flat fees for private customers, the basic account conditions for ‘Extra Customers’, increased by more than 75% up to 15,234 at the end of 2011. Loans to private customers, residential mortgage loans and personal and consumer loans were not considered a priority in 2011.

Regarding the corporate segment, we have witnessed an increase of around 8 thousand new customers, which has contributed to a 7% change in the corporate customer base. Regarding transactions, and in the same period, 4,000 new corporate Flat Fee Accounts were contracted, which corresponds to an increase of over 60%, as well as more than 2,200 new EFTPOS contracts signed, roughly the same number as in 2010.

Factoring and leasing of movable property were the businesses that posted a better performance in 2011, with improvements of 22% and 16% respectively when compared with 2010. International business also had a very positive performance. Direct loans to companies was another great priority in 2011, particularly during the first semester. Included in this group are BEI and PME Invest credit lines among others.

Income and profitability

The statement of income is summarised in table 1. The Annual Accounts show the income statements for the past two years pursuant to the regulations issued by the Bank of Portugal.

Table 1 - Income statement

(€ thousand)

		2011	2010	Change Amount	%
1	Interest and similar income	356 663	264 946	91 717	34.6
2	Interest expense and similar charges	225 576	136 961	88 615	64.7
3	**Net interest income** (1-2)	**131 087**	**127 985**	**3 102**	**2.4**
4	Return on equity instruments	64	785	- 721	-91.8
5	Net fees and commissions	48 683	45 788	2 895	6.3
6	Income from financial transactions (net)	- 4 525	13 085	- 17 610	-134.6
7	Income from the sale of other assets	- 1 775	14 574	- 16 349	112.2
8	Other operating profits/losses	- 6 677	- 896	- 5 781	<
9	**Banking income** (3+4+5+6+7+8)	**166 857**	**201 321**	**- 34 464**	**-17.1**
10	Personnel expenses	59 890	55 630	4 260	7.7
11	Other general administrative expenses	51 797	48 238	3 558	7.4
12	Depreciation	8 044	7 827	217	2.8
13	**Operating income** (9-10-11-12)	**47 126**	**89 626**	**- 42 500**	**-47.4**
14	Net loan provisions	2 104	52 241	- 50 137	-96.0
15	Impairment and other net provisions	20 595	15 686	4 909	31.3
16	**Profit before tax** (13-14-15)	**24 427**	**21 699**	**2 728**	**12.6**
17	Income tax	10 995	5 806	5 189	89.4
18	**Net income for the period (16-17)**	**13 432**	**15 893**	**- 2 461**	**-15.5**

Net interest income

In 2011, net interest income amounted to 131.1 million euros, showing an increase of 3.1 million euros, which is 2.4% more than in the previous year. According to table 2, this improvement in net interest income was due exclusively to the increase in the volume of the Bank's business activity which superseded the negative effect of the decline in interest rates.

Table 2 - Changes in net interest income: causal analysis

(€ thousand)

Changes in:	Due to changes in business volume	Due to changes in interest rates	Total change
Loans and advances to customers	26 303	50 582	76 885
Deposits with banks	- 2 160	- 2 501	- 4 661
Financial assets	19 896	- 402	19 494
Other assets	132	- 133	- 1
Total net investments	**44 170**	**47 547**	**91 717**
Deposits from customers	858	55 060	55 918
Deposits from banks	16 448	14 888	31 336
Own assets	0	0	0
Other liabilities	- 566	1 926	1 360
Total assets	**16 740**	**71 874**	**88 615**
Net interest income	**27 430**	**- 24 328**	**3 103**

As shown in table 3, the average assets of the Bank were backed by customer funds (37%) and by deposits from banks (56.4%), mostly deposits from the Banco Popular Group, from which loans and advances to customers is still its main component, representing 74.2% of the total. Taking into consideration the evolution of average annual interest rates of deposits with banks, we would like to highlight that average assets, which amounted to 10,411 million euros, posted an overall profitability of 3.43%, 53 basis points more than in the previous year.

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

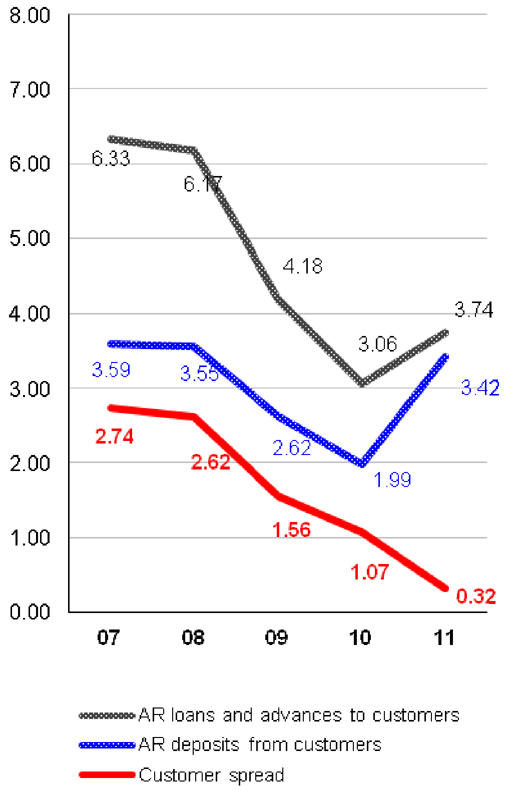
(€ thousand and %)

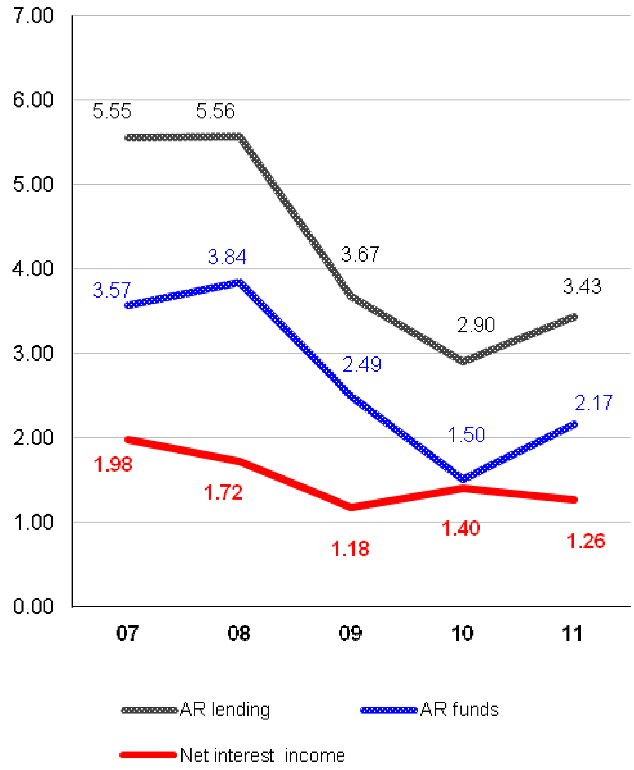
	2011				2010			
	Average Balance	Dist. (%)	Income or expense	Average Rate (%)	Average Balance	Dist. (%)	Income or expense	Average Rate (%)
Loans and advances to customers (a)	7 727 749	74.2	288 929	3.74	6 928 862	75.9	212 044	3.06
Deposits with banks	418 699	4.0	1 530	0.37	762 257	8.3	6 191	0.81
Financial assets	1 310 546	12.6	65 978	5.03	915 410	10.0	46 483	5.08
Other assets	954 364	9.2	227	0.02	525 776	5.8	228	0.04
Total Assets (b)	**10 411 358**	**100**	**356 663**	**3.43**	**9 132 306**	**100**	**264 945**	**2.90**
Deposits from customers (c)	3 838 646	36.9	131 338	3.42	3 795 936	41.6	75 420	1.99
Deposits from banks	5 871 988	56.4	80 442	1.37	4 538 168	49.7	49 105	1.08
Equity accounts	514 851	4.9	0	0.00	603 773	6.6	0	
Other liabilities	185 873	1.8	13 795	7.42	194 429	2.1	12 435	6.40
Total Liabilities and Equity (d)	**10 411 358**	**100**	**225 576**	**2.17**	**9 132 306**	**100**	**136 961**	**1.50**
Customer spread (a - c)				***0.32***				***1.07***
Net Interest Income (b - d)				***1.26***				***1.40***

Additionally, the average cost of assets tied with the financing of assets also rose by 67 basis points to 2.17%. This evolution implied a decrease in the annual net interest margin by 14 basis points.

However, this evolution of interest rates did not have the same influence on the Bank’s commercial activity. While loans and advances to customers showed a 68 basis points increase, going from 3.06% in 2010 to 3.74% in 2011, the average cost of customer funds increased by 143 basis points, from 1.99% to 3.42% in the same period.

This evolution was essentially due to a strong effort in raising funds from customers with the aim of financing customer lending with these funds and thus improving the commercial gap.





Looking at image 1, we can see that the evolution of customer spread in the past five years has shown a sharp downward trend particularly since 2009, going down from 2.62% in 2008 to 0.32% in 2011. Simultaneously, net interest income decreased from 1.98% in 2007 to 1.23% in 2011 as seen on image 2.

Banking income

Net fees and commissions charged to customers for the sale of products and services reached 48.7 million euros, rising by 6.3% when compared with the previous year. This amount reverses the downward trend of the previous year as can be seen in image 3.

Image 3- Net fees and commissions
(million euros)

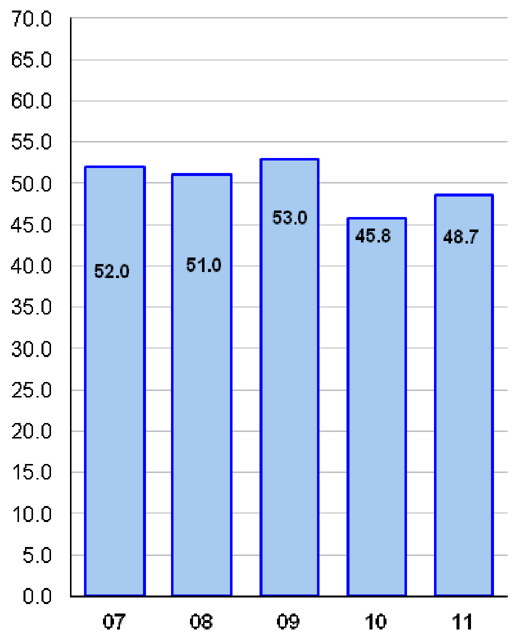


Table 4 shows that growth in 2011 was mostly due to fees and commissions from guarantees, which increased by 28.8%, account management fees, with a 17.6% rise, and to other fees and commissions.

Table 4 - Net fees and commissions

(€ thousand)

	2 011	2 010	change %
Fee and commission income from			
Lending	13 300	14 190	-6.3
Guarantees	6 555	5 089	28.8
Collection and payment handling (net)	14 992	15 071	-0.5
Asset management (net)	1 273	1 598	-20.3
Insurance sales	1 753	2 019	-13.2
Account management	4 403	3 743	17.6
Processing services	2 108	2 197	-4.1
Other commissions (net)	4 899	3 089	58.6
Commissions paid to promoters and agents	- 600	- 1 208	-50.3
Total	**48 683**	**45 788**	**6.3**

The year-on-year drop of financial transactions income by 17.6 million euros was justified largely by the sale of a financial asset in December 2010, which generated a realized gain of 14.7 million euros, and also by the payment of the new tax on liabilities enforced in May 2011, in a total of 3.5 million euros.

The evolution of net gains from the sale of other assets (- 16.3 million euros) was justified by the sale of an equity stake in Popular Factoring and Popular Gestão de Activos in 2010, which generated realized gains of 14.9 million in that year.

Consequently, net operating revenues, which amounted to around 167 million, have decreased by 17.1% when compared with the previous year. Without considering the realized gains obtained in 2010, that drop would have been by 2.8%.

Operating income

Operating expenses totalled 119.7 million euros, which corresponds to a 7.2% increase year-on-year.

As seen in table 5, wages and salaries amounted to 59.9 million euros, which represents an increase by 7.7%. This evolution was mostly due to the significant rise in mandatory social security contributions, with an increase by 77.8%. Direct expenses with wages and salaries grew by only 0.9% when compared with the previous year.

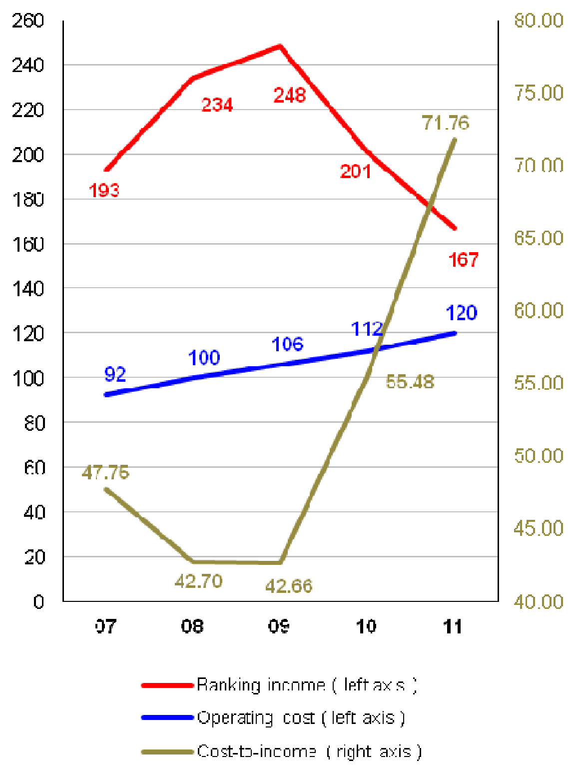
On the other hand, total general expenses stood at 51.8 million euros, with an increase by 7.4% when compared with the previous year. Growth was attributable mostly to the increase in maintenance, chiefly of premises, as well as transfer pricing, consultants and external auditors, equipment connection charges, rents and leasing and legal expenses. There was a decrease in transport expenses, external real estate appraisers and advisory services.

Provisions set aside for fixed asset depreciation amounted to 8.044 million euros, 2.8% more than in 2010 as a consequence of the closing down of branches that were occupying rented property, which implied an anticipation of depreciation regarding conversion works.

Table 5 - Operating costs			
(€ thousand)			
	2 011	**2 010**	**change %**
Personnel expenses (a)	**59 890**	**55 630**	**7.7**
Wages and salaries	42 181	41 812	0.9
Social security charges	11 336	6 374	77.8
Pension Fund	5 418	6 169	-12.2
Other personnel expenses	955	1 275	-25.1
General expenses (b)	**51 797**	**48 238**	**7.4**
External supplies	3 053	2 719	12.3
Rents and leasing	5 347	4 756	12.4
Communications	4 048	3 711	9.1
Travel, hotel and representation	1 307	1 555	-15.9
Advertising and publicity	2 586	2 887	-10.4
Maintenance of premises and equipment	5 586	4 249	31.5
Transports	1 194	2 104	-43.3
Advisory services	3 584	4 266	-16.0
Legal expenses	1 746	1 211	44.2
IT services	4 982	4 650	7.1
Security, surveillance and cleaning	1 795	2 122	-15.4
Temporary work	5 401	5 045	7.1
Consultants and external auditors	2 239	1 274	75.7
External real estate appraisers	1 069	1 806	-40.8
Other general expenses	7 860	5 883	33.6
Operating expenses (c=a+b)	**111 687**	**103 868**	**7.5**
Depreciation (d)	**8 044**	**7 827**	**2.8**
Total (c+d)	**119 731**	**111 695**	**7.2**

The cost-to-income ratio, which corresponds to the part of net operating revenues consumed by operating expenses rose to 71.8%, which is slightly higher when compared with previous years. As seen on image 4, the increase of this ratio in the past two years was due to a decrease in net operating revenues mostly due to the decrease in other non-recurrent income, specifically the realized gains obtained from the sale of an equity stake in affiliated companies.

Image 4 - Cost-to-income ratio



The weight of personnel expenses in banking income stood at 35.8% at the end of 2011, which is higher than the 27.6% obtained in 2010.

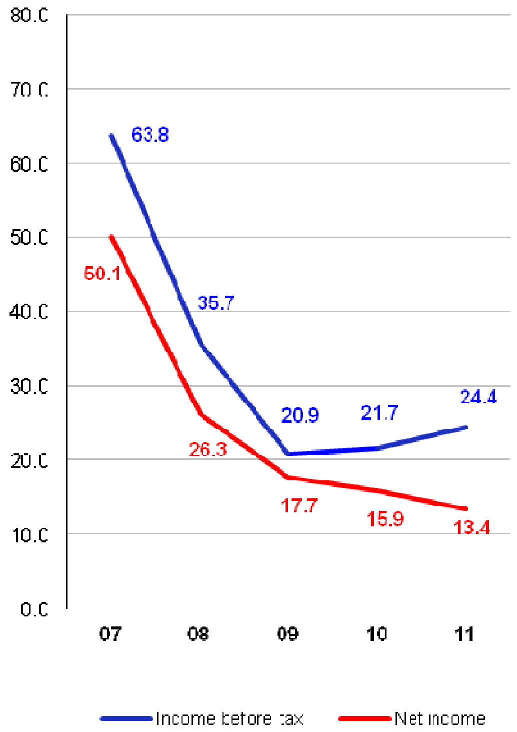
Operating income thus amounted to 47.1 million euros, which corresponds to a 47.4% decrease when compared with the previous year.

Net income and Profitability

Provisions in the total amount of 22.7 million euros, 66.6% less than in the previous year, were set aside chiefly to face the increase in impairment charges associated with properties received in exchange for loans and implied that profit before taxes stood at 24.4 million euros, which reflects a 12.6% year-on-year increase.

After deducting income taxes, in the amount of 11 million euros, a net profit of 13.4 million euros was obtained, which represents a 15.5% decrease when compared with the previous year. This amount corresponds to 0.03 euros per share, slightly below 2010 figures. Image 5 shows the evolution of income before tax and net income.

Image 5 - Net income performance
(million euros)



By analysing the income statement and the balance sheet together one can assess the profitability of the Bank's financial activity, comparing profits and costs and their respective margins with the investments and the assets that originated them. Table 6 shows income statements for 2011 and 2010 broke down by components in terms of their percentage of average total assets.

Operating profitability stood at 0.45% in 2011, which was down 53 basis points when compared with the previous year. This reduction was primarily due to the joint effect of the drop by 46 basis points in fees and commissions and other operating profits/losses, and the decrease by 14 basis points in net interest income, which were softened by a 7 basis points decrease in the weight of overheads.

Return on assets (ROA), defined as the relation between net income and average net assets, stood at 0.13%, down from 0.17% in 2010.

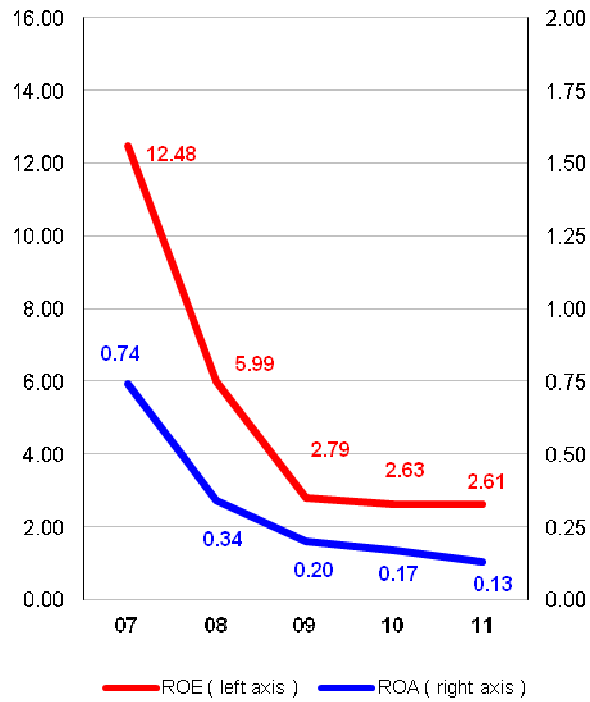
Table 6 - Total return on investment

(€ thousand and % of average net assets)

	2011		2010		Change	
	amount	%	**amount**	%	**amount**	%
Investment income	356 663	3.43	264 946	2.90	91 717	0.52
Cost of assets	225 576	2.17	136 961	1.50	88 615	0.67
Net interest income	***131 087***	**1.26**	***127 985***	**1.40**	***3 102***	**-0.14**
Net fees and commissions	48 683	0.47	45 788	0.50	2 895	-0.03
Other operating profits/losses	- 12 913	-0.12	27 548	0.30	- 40 461	-0.43
Banking income	***166 857***	**1.60**	***201 321***	**2.20**	***- 34 464***	**-0.60**
Personnel expenses	59 890	0.58	55 630	0.61	4 260	-0.03
Other general administrative expenses	51 797	0.50	48 238	0.53	3 558	-0.03
Depreciation	8 044	0.08	7 827	0.09	217	-0.01
Operating profitability	***47 126***	**0.45**	***89 626***	**0.98**	***- 42 500***	**-0.53**
Net loan provisions	2 104	0.02	52 241	0.57	- 50 137	-0.55
Impairment and other net provisions	20 595	0.20	15 686	0.17	4 909	0.03
Return before tax	***24 427***	**0.23**	***21 699***	**0.24**	***2 728***	**0.00**
Income tax	10 995	0.11	5 806	0.06	5 189	0.04
Return after tax	***13 432***	**0.13**	***15 893***	**0.17**	***- 2 461***	**-0.05**
Memorandum item:						
Average net assets (€ million)	10 411		9 132		1 279	14.0
Average own funds (€ million)	515		604		- 89	-14.7
Return on equity - ROE (%)	2.61		2.63		-0.02	-0.9
(net income after tax/average shareholders' equity)						
Gross return on equity (%)	4.74		3.59		1.15	32.0
(income before tax/average shareholders' equity)						
Cost to income (%)	66.9		51.6		15.3	29.7

Return on equity (ROE), defined as the relation between net income and average shareholders' equity, stood at 2.61% in 2011, which is very similar to figures for 2010. Image 6 shows the performance of these profitability indicators over the past five years.

Image 6 - ROA and ROE (%)



Funds and lending

Total Assets

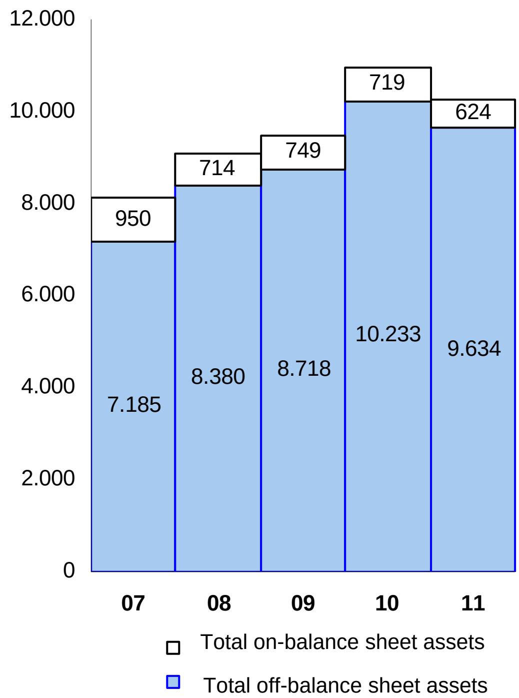
The balance sheets as at 31 December 2011 and 2010 are summarised in table 7. In the section Annual Accounts, those same balance sheets are presented in accordance with the model defined by the Bank of Portugal.

At the end of 2011, Banco Popular's net assets amounted to 9.634 million euros, 599 million euros less than in the previous year, which corresponds to a 5.9% drop. However, in terms of average annual balances, total assets reached 10.411 million euros, an improvement by 14% when compared with the previous year.

The Bank also manages other off-balance sheet customer funds, applied in investment, savings and retirement instruments, whose overall amount stood at 624 million euros at the end of the year, representing a 13.1% drop when compared with the previous year.

Image 7 - Total assets under management

(million euros)



As a consequence, total assets managed by the Bank stood at 10,258 million euros at 2011 year-end, posting a decrease by 6.3% when compared with the previous year.

Table 7 - Balance Sheet

(€ thousand)

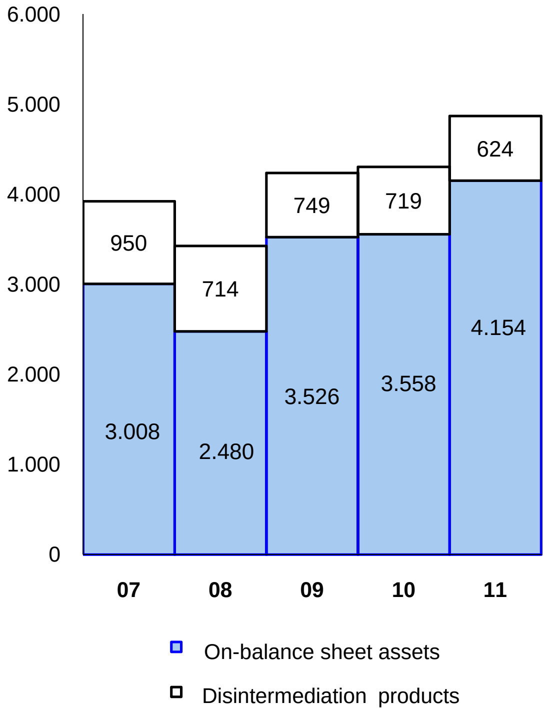
	2 011	2 010	Change Amount	%
Assets				
Cash and balances with central banks	138 221	123 775	14 446	11.7
Deposits with banks	140 324	91 452	48 872	53.4
Financial assets held for trading	34 942	21 344	13 598	63.7
Other financial assets at fair value through profit or loss	30 496	31 400	- 904	-2.9
Available-for-sale financial assets	1 503 439	1 392 094	111 345	8.0
Loans and advances to banks	148 835	167 141	- 18 306	-11.0
Loans and advances to customers	6 530 474	7 854 587	-1 324 113	-16.9
(-) Provisions for non-performing loans	- 162 610	- 183 723	21 113	11.5
Held-to-maturity investments	545 326	176 345	368 981	209.2
Other tangible assets	93 338	102 578	- 9 240	-9.0
Intangible assets	817	1 400	- 583	-41.6
Investment in subsidiaries and associates	22 579	26 959	- 4 380	-16.2
Deferred income tax assets	121 839	67 052	54 787	81.7
Other assets	486 015	360 562	125 453	34.8
Total Assets...	**9 634 035**	**10 232 966**	**- 598 931**	**-5.9**
Liabilities				
Deposits from central banks	495 137	500 111	- 4 974	-1.0
Financial liabilities held for trading	29 374	18 329	11 045	60.3
Deposits from banks	3 648 429	5 210 299	-1 561 870	-30.0
Deposits from customers	4 154 043	3 558 491	595 552	16.7
Debt securities issued	605 816	214 780	391 036	182.1
Hedging derivatives	82 554	38 549	44 005	114.2
Provisions	61 134	59 428	1 706	2.9
Current income tax liabilities	2 063	2 825	- 762	-27.0
Deferred income tax liabilities	9 530	9 617	- 87	-0.9
Other liabilities	49 628	41 488	8 140	19.6
Total Liabilities...	**9 137 708**	**9 653 917**	**- 516 209**	**-5.3**
Shareholder's Equity				
Share capital	451 000	376 000	75 000	19.9
Share premium	10 109	10 109	0	0.0
Fair value reserves	- 233 632	- 85 197	- 148 435	-174.2
Other reserves and retained earnings	255 418	262 244	- 6 826	-2.6
Profit for the period	13 432	15 893	- 2 461	-15.5
Total Equity...	**496 327**	**579 049**	**- 82 722**	**-14.3**
Total Liabilities + Equity..	**9 634 035**	**10 232 966**	**- 598 931**	**-5.9**

Customer funds

The overall amount of on- and off-balance sheet customer funds reached 4,778 million euros at the end of 2011, 11.7% more when compared with the previous year. Image 8 shows the performance of total customer funds over the past 5 years.

Image 8 - Customer Funds

(million euros)



On-balance sheet funds, comprised mostly of customer deposits, reached a total of 4,154 million euros, which corresponds to an increase by 16.7% when compared with the previous year. In terms of annual average balances, customer funds have also improved by 2%, totalling 3,839 million euros.

Although demand accounts grew by 11.5%, their relative weight in terms of total deposits has suffered a slight reduction and now stands at 16.4% as a result of the 18% increase in time deposits.

Table 8 - Customer funds

(€ thousand)

	2 011	2 010	Change Amount	%
On-balance sheet customer funds				
Deposits	**4 105 860**	**3 529 739**	**576 121**	**16.3**
Demand accounts	671 127	601 704	69 423	11.5
Time deposits	3 424 715	2 901 882	522 833	18.0
Savings accounts	10 018	26 153	- 16 135	-61.7
Cheques and payment orders	**4 985**	**6 309**	**- 1 324**	**-21.0**
Interest payable and other similar charges	**43 198**	**22 443**	**20 755**	**92.5**
ON-BALANCE SHEET CUSTOMER FUNDS (a)	**4 154 043**	**3 558 491**	**595 552**	**16.7**
Disintermediation funds				
Investment funds	175 513	210 215	- 34 702	-16.5
Investment and capitalisation insurance	257 605	266 781	- 9 176	-3.4
Retirement insurance plans	97 804	112 855	- 15 051	-13.3
Client portfolio under management	93 425	128 678	- 35 253	-27.4
OFF-BALANCE SHEET CUSTOMER FUNDS (b)	**624 347**	**718 529**	**- 94 182**	**-13.1**
TOTAL CUSTOMER FUNDS (a + b)	**4 778 390**	**4 277 020**	**501 370**	**11.7**

Intermediated off-balance sheet funds – including investment fund applications, retirement plans, funds raised through investment insurance products and assets managed through private banking – decreased by 13.1%, amounting to around 624 million euros at the end of the year, due to the decrease seen in all its items, but particularly in portfolio management and investment funds. The evolution of these funds is showed at the bottom of table 8.

Banco Popular Portugal is the depositary of 21 investment funds managed by Popular Gestão de Activos, whose total portfolio amounts to 175.5 million euros, 17% less than at the end of 2010. Table 9 shows the evolution of each investment fund managed over the past two years.

Table 9 - Investment fund portfolio (asset value)

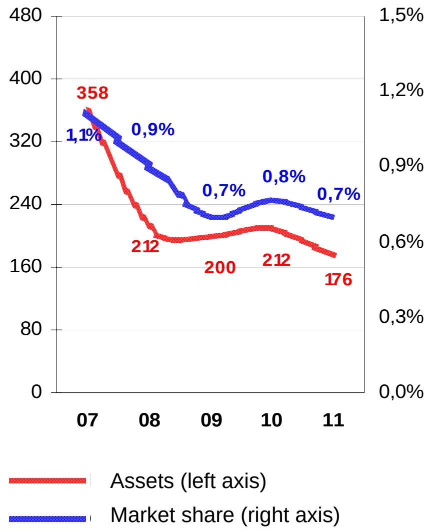
(€ thousand)

Funds	2 011	2 010	Variation Amount	Variation %
Valor	3 521	6 785	- 3 264	-48.1
Acções	2 320	4 039	- 1 719	-42.6
Euro Obrigações	5 644	8 912	- 3 268	-36.7
PPA Acções	0	108	- 108	-100.0
Global 25	7 415	13 786	- 6 371	-46.2
Global 50	3 560	5 451	- 1 891	-34.7
Global 75	1 904	3 351	- 1 447	-43.2
Tesouraria	3 321	9 890	- 6 569	-66.4
Popular Imobiliário FEI	11 072	22 822	- 11 750	-51.5
Aquaagrícola	0	7 486	- 7 486	-100.0
Oportunidades Globais II	0	12 227	- 12 227	-100.0
Grandes Empresas	5 349	5 410	- 61	-1.1
Economias Emergentes I	8 155	8 268	- 113	-1.4
Economias Emergentes II	9 698	0	9 698	>
Multiactivos I	1 673	0	1 673	>
Multiactivos II	1 229	0	1 229	>
Multiactivos III	1 205	0	1 205	>
Obrig.Ind.Emp. Alemanha e EUA	4 660	0	4 660	>
Obrig.Ind.Ouro (Londres)	3 743	0	3 743	>
Fundurbe	11 567	11 418	149	1.3
Imourbe	13 399	12 776	623	4.9
Imopopular	28 182	28 360	- 178	-0.6
Imoportugal	27 934	28 015	- 81	-0.3
Predifundo	19 962	22 423	- 2 461	-11.0
Total	**175 513**	**211 527**	**- 36 014**	**-17.0**

Image 9 shows the performance of the investment fund portfolio over the past 5 years, as well as the evolution of its respective market share, which has been on a downward trend due to the decrease in the portfolio's amount as a result of the financial crisis that has been felt in these past few years.

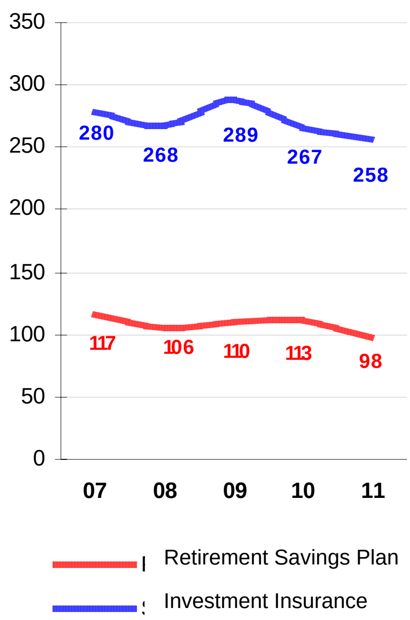
Image 9 - Investment funds

(million euros and %)



Banco Popular commercializes Eurovida's retirement plans and investment insurance, holding an equity stake in that company. Raising customer funds via these products has decreased by 13.3%, in terms of retirement plans, and by 3.4% in terms of investment insurance, as can be seen at the end of table 8. Image 10 shows the performance of these products in the past 5 years.

Image 10 - Retirement and investment insurance
(million euros)



Loan transactions

Loans and advances to customers is the strongest component in the Bank's assets, comprising 65.4% of total gross assets at the end of 2011. Total credit operations amounted to 6,530 million euros at the end of the year, reflecting a reduction by 1,324 million euros, which corresponds to a decrease by 16.9% when compared with the previous year.

This change was mostly due to the decrease in terms of securitised loans granted in 2010. Without considering securitised loans, loan transactions diminished by only 2.7%, i.e., - 184 million euros.

Image 11 shows that the performance of lending has had, except for the year 2010, a slight increase over the past few years.

In terms of average balances, total lending to customers stood at 7,728 million euros, which corresponds to an 11.5% increase.

The annual performance of loans and advances to customers has allowed for a substantial improvement in the transformation ratio, which stood below figures for 2010 at 30 percentage points, which corresponds to an increase by 754 million euros. This ratio stood at 153.1% as at December 2011, with an absolute gap of 2,207 million euros.

Image 11 - Loan transactions
(million euros)

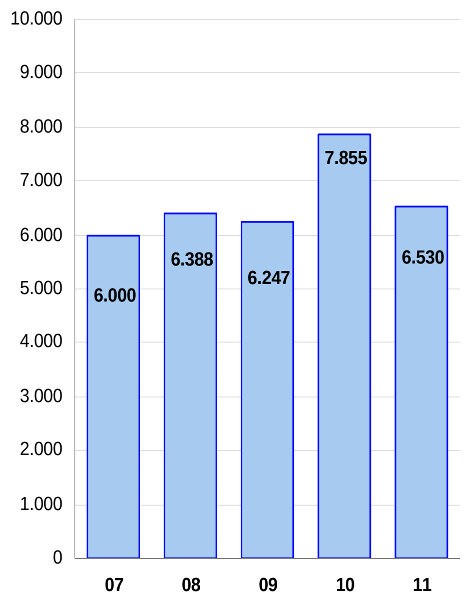


Table 10 shows the distribution of loans and advances to customers at the end of 2011 and 2010.

Table 10 - Loan transactions

(€ thousand)

	2 011	2 010	Change Amount	%
Loans and advances to customers (a)				
Public sector	3 863 861	4 125 000	- 261 139	-6.3
Private customers	1 928 765	1 790 739	138 026	7.7
Residential mortgage loans	1 442 411	1 260 464	181 947	14.4
Personal and consumer loans	69 899	87 349	- 17 450	-20.0
Other personal lending	416 455	442 926	- 26 471	-6.0
Total (a)	5 792 626	5 915 739	- 123 113	-2.1
Other loans (represented by securities) (b)	555 850	1 726 209	-1 170 359	-67.8
Interest and commissions receivable (c)	12 715	18 382	- 5 667	-30.8
Past-due loans and interest (d)				
Due within 90 days	24 664	37 502	- 12 838	-34.2
Over 90 days	144 619	156 755	- 12 136	-7.7
Total (d)	169 283	194 257	- 24 974	-12.9
Total (a + b + c + d)	**6 530 474**	**7 854 587**	**-1 324 113**	**-16.9**

The reduction in the amount of loans and advances to customers was mostly due to special securitised lending operations. In terms of retail, loans and advances to companies and public administrations decreased by 261 million euros, 6.3% less than in the previous year. As far as loans and advances to private customers are concerned, mortgage loans have showed a year-on-year increase by 14.4%, i.e., 182 million euros, amounting to 1,442 million euros.

At the end of 2011, loans and advances to companies and administrations represented 66.7% of total retail credit, while loans and advances to private customers corresponded to 33.3% of the total, having increased its relative weight by 3 percentage points.

The amount of past due loans and interest totalled 169.3 million euros at the end of 211, 12.9% less than in the previous year. As seen on table 11, this item represented 2.59% of total credit operations (2.47% in 2010). Taking into consideration solely loans that have been non-performing for more than 90 days, this indicator is reduced to 2.21% (2.0% in 2010).

Total non-performing loans amounted to 235 million euros at the end of 2011, which represented 3.60% of total loans and advances to customers.

Table 11 - Past-due loans and non-performing loans

(€ thousand)

	2 011	2 010	Change	
			Amount	% / p.p.
Past-due loans and interest	169 284	194 257	-24 973	-12.9
Past-due loans by more than 90 days (a)	144 620	156 755	-12 135	-7.7
Doubtful loans reclassified as past-due loans (b)	90 257	120 798	-30 541	-25.3
Non-performing loans (a+b)	234 877	277 554	-42 676	-15.4
Past-due loans / total loans (%)	2.59	2.47		0.12
Past-due loans by more than 90 days / total loans (%)	2.21	2.00		0.22
Non-performing loans / total loans (%)	3.60	3.54		0.05
Non-performing loans, net / total loans, net (%)	1.30	1.36		-0.06
Provisions for credit risks	218 289	239 725	-21 436	-8.9
Hedging ratio (%)	128.9	123.4		5.5
Memorandum item:				
Total loans	*6 530 474*	*7 854 587*	*-1324 113*	*-16.9*

At the end of 2011, provisions for credit risks amounted to 218.3 million euros, ensuring a hedging ratio of 128.9%, with an improvement by 5.5 percentage points when compared with the previous year.

Outlook for 2012

The outlook for 2012 suggests further slowdown in the world economic growth, particularly in the Euro Zone, due to the need to ensure budgetary consolidation, and a significant contraction in the economic activity because of the adjustment of the macroeconomic imbalance and the deceleration in exports. The Portuguese economy is shrouded in uncertainty that results from both the deceleration of the global economy and the sovereign debt crisis in the Euro Zone.

In spite of this sorry state of affairs, Banco Popular Portugal will strengthen its position as a bank targeted at SMEs, whose main objective is to grow in this segment both in terms of the number of

customers and market share, supporting companies that wish to develop their activity in Portugal and abroad.
The private segment will not be overlooked, since this is a highly important segment where funds can be raised to support SMEs and consequently the Portuguese economy.

Risk management

During 2011, the Bank continued to pursue its efforts to promote and coordinate risk management and control systems. The Bank also duly prepared the legally required reports on risk exposure, from which we would like to highlight:

- Implementing the scoring and rating models with the development of mechanisms that imply delegating credit powers through the Bank’s structure, supported by the usage of the already mentioned credit risk models;
- Applying with the Bank of Portugal to be allowed to use the Standardised Approach to operational risk;
- Developing internal reporting systems as regards the monitoring of the different risks;
- Describing and systematizing policies for the different existing risk typologies.

In the Financial Statements there are several references to the risk management process adopted by Banco Popular Portugal, particularly in the Notes to the Accounts and in the Market Discipline Report. Herein can be found a summary of those matters.

Credit risk

Credit 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, it derives from the non-compliance of the counterparties regarding their obligations with third parties, which implies that the Bank has to assume as its own certain obligations depending on the contracts. The credit risk of the Bank results mainly from its commercial banking activity, which is its core business.

The ongoing macroeconomic difficulties, which were acutely felt all throughout 2011, were still at the basis of the increase in the number of insolvent companies, which totalled around 4,700 cases, reflecting a 14% increase when compared with the previous year.

As far as the overall number of insolvencies, including individuals, are concerned there were around 10,800 new cases in Portugal, which represents a 65% escalation when compared with 2010, from which it is obviously noticeable the high number of insolvent individuals.

It is also worth mentioning that, in the fourth quarter of the previous year, insolvency levels overcame for the first time, since the beginning of the crisis, the 3,000 processes per quarter barrier. The sectors that have showed the highest growth level in terms of insolvencies are directly related to consumption.

Due to the strong historical association of the Bank with the real estate sector, we have noticed even higher levels of non-performing loans. Consequently, the segment of real estate property showed deterioration of 47.7% at year-end, being the second segment that presents greater frailties as regards the afore-mentioned impairment model.

In coordination with the Group, BABOP is currently at the implementation stage of the credit scoring and rating models of BPE, which has implied the reformulation and optimization of all internal and external information sources about customers.

This optimization process has allowed the Bank to gather more high-quality information with a structure that allows it to have timely knowledge of possible warning signals on customers, namely legal incidents, insolvencies and economic and financial indicators. In order to improve the quality of customer information, the initial central uploading of corporate tax forms is at its pilot project stage.

The implementation of these risk management procedures in the management model itself has been an essential tool to aid credit decision, with the delegation of credit powers to branches for residential mortgage lending, personal and consumer lending and credit cards, on the basis of the risk levels attributed to private customers by the scoring models. Furthermore, the credit decision procedure at central level already considers automatically a differentiation in the credit powers by Credit Analysts and Board Members, taking into consideration the risk level attributed by the rating models.

On the other hand, besides aiding in the credit decision process, the scoring and rating models are also being used to monitor credit risk in the preparation of information targeted at management on the risk profile of a credit portfolio. By updating every month their respective risk ratings, it is possible to identify customers with a higher risk or with greater possibility of default in a certain period of time, allowing for a closer and faster monitoring of possible warning signals.

Regarding large companies, BAPOP has also been implementing the rating model and it is expected that during 2012 the whole portfolio of loans to Large Companies is analysed and assigned a risk level that shall be updated at least once a year.

Based on the models referred to previously, BAPOP is now working in order to soon be able to differentiate the price of loan transactions in terms of their respective risk level and capital consumption.

Credit impairment model

As mentioned before, although BAPOP does not yet have advanced internal methods to assess credit risk (BIS II), it has developed, with the aid of external consultants, a credit impairment model, which allows it to fulfil the requirement of presenting its financial statement in the IAS format, producing impairment reports, as well as monthly assessing the quality of loans granted and subsequently following them.

This model is accompanied by the Risk Management Department and is reported to the Bank of Portugal half-yearly in the scope of the Impairment Report, where the full methodology is detailed.

During 2012, and once again with the aid of external consultants, our aim is to perform a new updating essentially targeted at reflecting the current macroeconomic scenario on the model.

The Impairment Model as a management tool and an assessment system

Given the fact that the existing model includes an excellent credit quality indicator, we have chosen to introduce the concept of PD in the day-to-day management of the Bank. Stricly speaking, we can state that PD comprises two fundamental aspects: quality of credit and monitoring the customer throughout the lifespan of the transactions.

Thus, presently, BAPOP regularly analyses the evolution of PDs not only by segment, but also geographically and regarding each branch. During 2011, BAPOP resorted to the recent history of impairment PD to develop an internal model of assigning loan decision powers to the branches.

Customer Rating Policy

The Bank has a surveillance system based on technical warning signals, which allows the Bank to monitor risk in a preventive manner, through pre-defined indicators, thus detecting possible anomalous deviations.

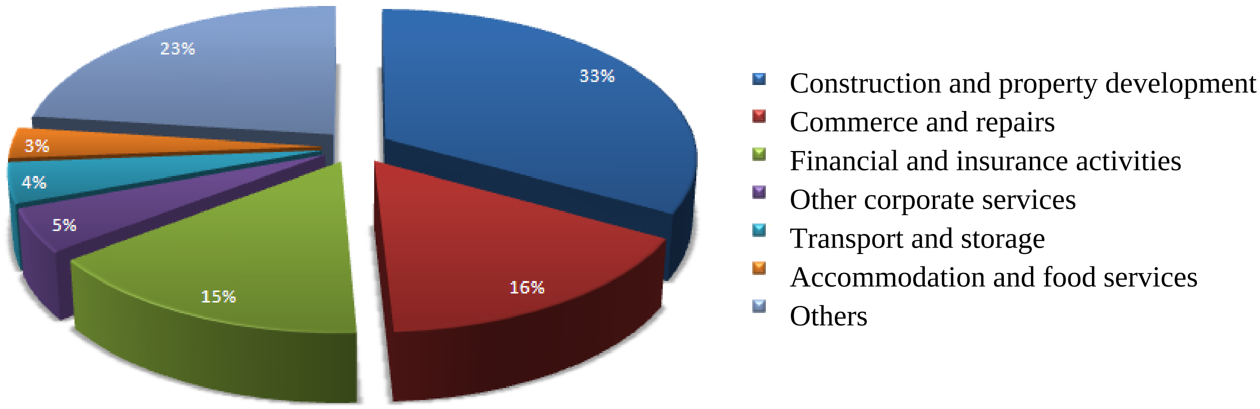
Based on the warning signal system, a function of pre-defined behavioural and/or customer profile indicators (overdrafts, non-performances, tardiness/default, etc.), we obtain a rating for each customer and/or respective transactions (normal, alert, caution), which constitutes a graduation of the detected, from which we can define risk policies that will be implemented by entity or group (do not increase risk, reduce risk, extinguish risk, or non-restrictive policy).

The impairment model *per se* is a significant source to control risk. Every month, with the aim of monitoring the latent losses in the loan portfolio, it is used to identify and define priorities regarding customers with risks that show default signals.

Concentration Risk

In terms of distribution by economic sector, the portfolio of loans to companies by economic sector as at 31 December 2011 was as follows:

Image 12 - Loan portfolio by economic sector



As seen on image 12, around 33.2% of loans to companies (23.7% of total loans and advances granted by BAPOP) comprises the sector of property construction and development. When compared with December 2010, it shows significant decrease in terms of the weight that this sector of activity had in the portfolio (around 39.2% of loans to companies), which was associated with the sale of credit transactions. BAPOP's objective is to give continuity to the process that has lead to the diminished exposure in the sectors of property construction and development up to 25% of loans to companies.

Although this sector still bears significant weight on total loans and advances to customers, we would like to highlight that these exposures have real collaterals that are periodically monitored, since capital is released after an inspection (carried out by specialized external companies and verified internally by specialized engineers) and monitoring the progress of their respective projects.

In order to estimate internal capital requirements to face concentration risk in the credit portfolio and the securities portfolio, the Bank uses the methodology used by the Group which is based on the calculation of the Herfindahl index and in tables that indicate capital amounts to allocate to this risk, based on the aforementioned index. For the year ended 31 December 2011, we have excluded transactions with GBP (Banco Popular Group) since we intend to assess concentration risks that are external do the Group, and we have considered the 1,000 largest exposures.

Concentration to individual exposures

Pursuant to the selected methodology, a concentration index to individual exposures (*SNCI – Single Name Concentration Index*) is calculated for the largest 1,000 direct exposures, based on the following formula:

$$ICI = \frac{\sum x^2}{(\sum y)^2} \times 100$$

Where x represents the exposure to an individual or a set of individuals (group) and y represents total exposure of the credit portfolio. After this, a correspondence between the index obtained and specific capital coefficients was drawn, as specified in the following table:

SNCI	Coefficient
0.1	0.0%
0.15	1.7%
0.3	7.4%
0.6	15.4%
1.2	26.6%
2.4	60.2%
4.8	129.0%
9.6	247.9%
>=42,80	1071.2%

Capital requirements for concentration risk regarding individual exposures is calculated multiplying capital requirements to face credit risk (Tier I) by the specific capital coefficient obtained using a linear interpolation procedure between figures in the preceding table.

Concentration by sectors of activity

The methodology adopted is very similar to the one described for the concentration to individual exposures, now applied to a set of sectors of activity – excluding exposure to the financial sector and to private individuals – based on the following formula:

$$ICS = \frac{\sum x^2}{(\sum x)^2} \times 100$$

Where x represents exposure to each sector of activity. After this, a correspondence between the obtained index and specific capital coefficients was made, as detailed in the table below:

SCI	Coefficient
0 < SCI <= 12	0.0%
12 < SCI <= 15	2.0%
15 < SCI <= 20	4.0%
20 < SCI <= 25	6.0%
25 < SCI <= 100	8.0%

It is worth mentioning that the Bank has showed a downward trend in the concentration index by segment, which culminated in 2011 with the lowest level ever. This decrease derives essentially from the drop in concentration risk for property construction and development.

Operational Risk

The Banco Popular Group has adopted the definition of operational risk contained in the new Basel Accord (Basel II) as *the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events*.

GBP adopted the *Standardised Approach* envisaged in BIS II to calculate capital requirements for operational risk, while Banco Popular Portugal is still using the Basic Indicator Approach.

However, Banco Popular Portugal considers it has been abiding by the requirements needed to use the *Standardised Approach* and therefore presented BdP its application to be allowed to use that approach on 28 November 2011.

This application derives from the following motivations:

- Obtaining in Portugal the necessary authorization to use the same method as the parent house in view of the effort that BAPOP has been conducting for some years to implement methodologies and tools that are very similar to the ones used by the Group.
- Formalization, in terms of day-to-day management, of the efficacy that the active monitoring of Operational Risk has been demonstrating in the mitigation of Risk factors, as practices are

implemented and intervention actions are carried out in terms of training and raising awareness of the whole organization to this reality;

- Perspective that capital requirements may reflect the effect of the predominant role of the retail segment in which the Bank is included which does not happen with the current Basic Indicator Approach.

Moreover, BAPOP has been recording events associated with operational risk as they occur so that they can be subsequently integrated into a sole Group database.

In sum, the operational risk management process – which is similar to the one that exists in the parent house but takes into consideration the specific particularities of Portugal – derived from the implementation of an integral process of operational risk identification and its respective control.

Work on the second cycle of revision of qualitative requirements is at its final stage, involving the several people in charge of operational risk from the various functional areas of the Bank. These people, appointed by the Bank's top management, have essentially the following roles:

- Participating in meetings and supporting qualitative analysis (process, risk, control, evaluation and indicator analysis);
- Following-up on the structure of processes, risks and controls, so that any changes that may become necessary derived from new risks and controls that may arise can be communicated;
- Carrying out self-evaluations;
- Ensuring that every operational risk event occurred or attributable to their organic unit is recorded.

In 2010, the Operational Risk Committee was formally constituted, integrating the regular meetings of the now called Internal Control and Operational Risk Committee, which, accompanied by key management personnel, meets periodically to discuss the main events that have occurred and evaluate the need to establish credit risk mitigating measures or changes to the already existing ones.

Every month, the Risk Management Department presents key management personnel a report on the main activities in the scope of Operational Risk and a quantitative analysis of occurred events, disclosing that information to the permanent members of the Committee.

Additionally, regular workshops are promoted and carried out on suitable topics related to frequency or the relevant impacts, which justify a debate with those in charge of operational risk in the functional areas with the aim of promoting the identification of possible mitigating measures that may be implemented.

It is also worth mentioning that those responsible for operational risk management in Portugal are part of GBP's Operational Risk Committee (which meets quarterly) where all the significant aspects that are relevant to the whole Group are discussed. Similarly to what is already happening in Spain, the topic of Operational Risk will continue to be object of training actions extensible to all the employees of the Bank.

Presently, since the Bank is still using the Basic Indicator Approach, we do not perform stress tests for operational risk.

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. The estimated impact of this type of risk has effects both on net interest income and net assets due to:

1. Reinvestment/refinancing risk owing to the uncertainty associated with the level of interest rates in the future;
2. Yield curve risk, associated with changes in the interest rate curve;
3. Basis risk, associated with an imperfect correlation between the shifts in the several reference curves;
4. Optionality risk, associated with interest rate options, the existence of implicit options in some banking products (e.g. interest rate caps in some contracts) and with instruments with uncertain maturity dates (e.g. demand accounts).

The Bank has been trying to take advantage of the synergies with GBP (Grupo Banco Popular) and has carried out a specific task of preparing information having in view the usage of the structure and methods adopted within the Group and presently already owns an analysis tool in Portugal.

The interest rate risk in the balance is monthly monitored by the Risk Management Department and measured by a repricing gap model applied to assets and liabilities that may be affected by fluctuations in the interest rate. Briefly, this model groups assets and liabilities that are sensitive to changes in fixed time intervals (maturity date or date of the first interest rate revision when indexed) based on which the potential impact on the intermediation margin is calculated.

However, since we intend to measure the impact of this type of risk on equity, in the scope of this year, we have used the methodology envisaged in Instruction No. 19/2005 of BdP, which, in sum, consists in:

- Applying a weighing factor that reflects: an estimate of modified maturity of the items in the non-trading book with maturity dates that are equal to the average maturity dates for each timeframe, assuming that all assets, liabilities and off-balance sheet items bear interest at a 5% rate and that the discount rate for all the maturity spectrum is equally 5%, and a parallel shift of the yield curve by 200 basis points.
- Calculating a weighted position, in which the weighted position is equal to the position in each timeframe *(- 1);
- Calculating the accumulated impact of a parallel shift in the yield curve by 200 basis points.

As at 31 December 2011, estimated impacts were as follows:

Accumulated impact of instruments sensitive to interest rates	10,222,353
Own funds	668,313,541
Impact on net income / Own funds	2%

Liquidity Risk

Liquidity risk is defined as the probability of negative impacts on results or equity deriving from the incapacity of the Bank to meet its payment obligations as these mature or of ensuring them in reasonable market conditions.

The Bank is exposed to liquidity risk deriving from the usage of current accounts, execution of guarantees, withdrawal of deposits, etc.

Liquidity risk is managed in GBP through its Assets and Liabilities Committee (ALCO) in a centralized manner for all credit entities and consolidated financial societies and is monitored in parallel by BAPOP. GBP's liquidity risk management system includes formal procedures for monitoring liquidity, warning systems associated with specific and systemic crisis situations, liquidity contingency plans, etc.

As at 31 December 2011, the funding needs of the Bank were ensured essentially by customer deposits, GBP, ECB and deposits from other credit institutions.

We would like to highlight the growing importance of customer deposits in the Banks' funding as a result of the effort of fundraising carried out throughout 2011, which has allowed for a significant decrease of the dependence on GBP funding. Nevertheless, Group funds still carry a significant weight, which is why we consider these liabilities as stable. In case there are gaps on the maturity dates of the operations, these shall be renovated. Thus parent-house funding is considered a stable liability, due to the solidity of GBP, with no restriction in terms of funding amounts, maturity dates or interest rates.

In line with GBP's policy, the Bank has been strengthening its portfolio of high liquidity assets (government bonds considered eligible as collateral when borrowing from BCE), which thus constitutes an additional liquidity line.

To conclude with, the necessary mechanisms are established with the aim of complying with legal requirements regarding Minimum Reserve Requirements, which is managed locally, and that further monitors the abidance by these Requirements during the period.

The liquidity management process at BAPOP is based essentially on:

- Monitoring future cash flows (with forecasts for the following day, week and months). This analysis includes the revaluation of funds as they mature or are lent to customers;
- Maintaining a high liquidity asset portfolio so that they can be easily liquidated as protection against any unforeseen interruption in cash flows;
- Monitoring liquidity indicators based on external and internal requirements;
- Managing the concentration and profile of debt maturities resorting to the liquidity gap.

As at 31 December 2011, BAPOP's liquidity gap by residual maturity dates of the operations up to 1 year was as follows:

MISMATCHES (positions on reference date)	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 months	Over 5 months
Mismatches by maturity dates	-2.385,992	-486,106	548,431	482,532	1,997,320
Accumulated mismatches	-2.385,992	-2,872,098	-2,323,667	-1,841,134	156,186

Unit: € thousand

In case there are negative liquidity gaps on the maturity dates of funding operations with the parent company in Spain, these shall be renovated with no restrictions.

When compared with December 2010, we highlight a very positive evolution in terms of mismatches, caused by the significant increase in customer funds as well as the drop in loans and advances granted.

Other Risks

The Bank has additional mechanisms to monitor other risks, namely: foreign exchange rate risk; market risk; reputational risk; and business risk.

Proposal for the appropriation of net income

Pursuant to Article 24 of the Articles of Association and taking into consideration the convenience of maximizing self-financing, the Executive Board of Directors proposes that net income for the 2011 exercise of Banco Popular Portugal, S. A., in the amount of 13,432,065.61 euros, shall have the following appropriation:

- Legal Reserves	1,343,807.33 euros
- Other Reserves	12,088,258.28 euros

Final note

The Executive 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 Council, for their valuable cooperation in monitoring the activity of Banco Popular Portugal.

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

Lisbon, 19 March 2012

The Executive Board of Directors

Annexes (Article s 447 and of the Commercial Companies Code)

Shareholding position of the members of governing and supervisory bodies

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

Nothing to report.

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	451 000 000	100%	100%

ANNUAL ACCOUNTS

BANCO POPULAR PORTUGAL, S.A.

Individual Balance Sheet (AAS) as at 31 DECEMBER 2011

(€ thousand)

	Note/ Table Annex	Year: Amount before provisions impairment & depreciation	Year: Provisions, impairment & depreciation	Year: Net result	Previous year
		1	2	3 = 1 - 2	
Assets					
Cash and balances with central banks	17	138 221		138 221	123 775
Deposits with banks	18	140 324		140 324	91 452
Financial assets held for trading	19	34 942		34 942	21 344
Other financial assets at fair value through profit or loss	20	30 496		30 496	31 400
Available-for-sale financial assets	21	1 503 439		1 503 439	1 392 094
Loans and advances to banks	22	148 835		148 835	167 141
Loans and advances to customers	23	6 530 474	162 610	6 367 864	7 670 864
Held-to-maturity investments	24	545 326		545 326	176 345
Other tangible assets	25	184 577	91 239	93 338	102 578
Intangible assets	26	20 767	19 950	817	1 400
Investment in subsidiaries and associates	27	22 579	0	22 579	26 959
Deferred income tax assets	28	121 839		121 839	67 052
Other assets	29	560 813	74 798	486 015	360 562
Total Assets		**9 982 632**	**348 597**	**9 634 035**	**10 232 966**
Liabilities					
Deposits from central banks		495 137		495 137	500 111
Financial liabilities held for trading	19	29 374		29 374	18 329
Deposits from banks	30	3 648 429		3 648 429	5 210 299
Due to customers	31	4 154 043		4 154 043	3 558 491
Debt securities issued	32	605 816		605 816	214 780
Hedging derivatives	33	82 554		82 554	38 549
Provisions	34	61 134		61 134	59 428
Current income tax liabilities		2 063		2 063	2 825
Deferred income tax liabilities	28	9 530		9 530	9 617
Other liabilities	35	49 628		49 628	41 488
Total Liabilities		**9 137 708**	**0**	**9 137 708**	**9 653 917**
Equity					
Share capital	38	451 000		451 000	376 000
Share premium	38	10 109		10 109	10 109
Fair value reserves	39	- 233 632		- 233 632	- 85 197
Other reserves and retained earnings	40	255 418		255 418	262 244
Profit for the year		13 432		13 432	15 893
Total equity		**496 327**	**0**	**496 327**	**579 049**
Total Liabilities + Equity		**9 634 035**	**0**	**9 634 035**	**10 232 966**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

BANCO POPULAR PORTUGAL, S.A.

Individual Income Statement (AAS) as at 31 DECEMBER 2011

(€ thousand)

	Note/ Table/ Annex	Year	Previous year
Interest and similar income	6	356 663	264 946
Interest expense and similar charges	6	225 576	136 961
Net interest income		**131 087**	**127 985**
Return on equity instruments	7	64	785
Fees and commissions received	8	58 355	53 086
Fees and commission paid	8	9 673	7 298
Net gains from financial assets at fair value through profit or loss	9	- 4 316	- 3 132
Net gains from available-for-sale financial assets	9	205	15 577
Net gains from foreign exchange differences	10	- 413	640
Net gains from the sale of other assets	11	- 1 775	14 574
Other operating income	12	- 6 677	- 896
Operating income		**166 857**	**201 321**
Personnel expenses	13	59 890	55 630
General administrative expenses	14	51 797	48 238
Depreciation and amortization	25/26	8 044	7 827
Provisions net of reversals	34	1 706	3 916
Adjustments to loans and advances to customers (net of reversals)	23	398	48 325
Impairment of other financial assets net of reversals		1 771	-
Impairment of other assets net of reversals	29	18 824	15 686
Net income before tax		**24 427**	**21 699**
Income tax		10 995	5 806
Current tax	15	8 217	3 164
Deferred tax	15	2 778	2 642
Net income after taxes		**13 432**	**15 893**
Of which: Net income from discontinued operations		0	0
Net income for the period		**13 432**	**15 893**
Earnings per share (euro)		**0.03**	**0.04**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

BANCO POPULAR PORTUGAL, S.A.

Individual Statement of Comprehensive Income (AAS)

	31/12/2011	31/12/2010
		(€ thousand
Net income	**13,432**	**15,893**
Available-for-sale financial assets		
Revaluation of available-for-sale financial assets	-201,953	-120,960
Tax impact	53,518	32,609
Income not recognized in the income statement	**-148,435**	**-88,351**
Individual Comprehensive Income	**-135,003**	**-72,458**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

BANCO POPULAR PORTUGAL, S.A.

Statement of individual changes in equity (AAS)

(€ thousand)

	Capital	Share premium	Fair value reserves	Other reserves	Retained earnings	Net income	Total
Opening balance as at 1 January, 2010	**376 000**	**10 109**	**3 154**	**273 697**	**- 29 128**	**17 675**	**651 507**
Transferred to retained earnings					17 675	- 17 675	0
Pension fund liabilities (IFRS Transition)					0		0
Transferred to statutory reserve				1 768	- 1 768		0
Transferred to other reserves				15 907	- 15 907		0
Comprehensive income for the period			- 88 351			15 893	- 72 458
Opening balance as at 31 December 2010	**376 000**	**10 109**	**- 85 197**	**291 372**	**- 29 128**	**15 893**	**579 049**
Transferred to retained earnings					15 893	- 15 893	0
Pension fund liabilities (IFRS Transition)					0		0
Transferred to statutory reserve				1 590	- 1 590		0
Transferred to other reserves				14 303	- 14 303		0
Merger through incorporation of subsidiary				7	- 22 726		- 22 719
Share capital increase	75 000						75 000
Comprehensive income for the period			- 148 435			13 432	- 135 003
Closing balance as at 31 December 2011	**451 000**	**10 109**	**- 233 632**	**307 272**	**- 51 854**	**13 432**	**496 327**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

BANCO POPULAR PORTUGAL, S.A.

Individual cash flow statement (AAS) for the years ended 31 December 2011 and 2010

(€ thousand)

	Notes	2011	2010
Operating activities			
Interest and commission income received		356 865	263 750
Interest and commission expense paid		- 194 710	- 148 474
Recovery of loans and interest in arrears		5 746	8 049
Payments to employees and suppliers		- 101 827	- 94 965
Contributions to the pension fund	36	- 2 911	- 6 909
Operating results before adjustments to operating funds		*63 163*	*21 451*
(Increases)/decreases in operating assets			
Loans and advances to credit institutions		- 9 987	512 562
Deposits with central banks		- 11 451	- 3 763
Loans and advances to customers		1 068 324	-1 712 483
Financial assets		25 240	779
Other operating assets		465	- 17 369
Increases/(decreases) in operating liabilities			
Deposits from credit institutions		-1 564 949	1 445 356
Deposits from customers		575 490	32 105
Financial liabilities		0	0
Other operating liabilities		- 22 106	- 7 526
Net cash flow from operating activities before income taxes		*124 189*	*271 112*
Income taxes		- 8 979	11 342
Net cash flow from operating activities		**115 210**	**282 454**
Investing activities			
Dividends received		64	785
Sale of shares in subsidiaries		0	39 680
Available-for-sale financial assets		- 260 067	- 798 155
Hedging assets/liabilities		30 222	12 724
Purchase/sale of held-to-maturity securities		- 355 201	- 46 498
Proceeds from sale of non-current available for sale		37 848	32 001
Acquisition of fixed assets		- 2 602	- 4 149
Proceeds from sale of fixed assets		5	0
Net cash flow from investing activities		**- 549 731**	**- 763 612**
Financing activities			
Shares issued	38	75 000	130 000
Debt securities issued	32	390 850	130 000
Depreciation and interest from debt securities	32	- 7 484	- 1 929
Net cash flow from financing activities		**458 366**	**258 071**
Effect of exchange rates on cash and cash equivalents		**- 267**	**1 651**
Net increase in cash and cash equivalents		**23 578**	**- 221 436**
Cash and cash equivalents at beginning of year	45	305 816	657 252
Cash and cash equivalents at year end	45	329 394	305 816
		23 578	**- 351 436**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

INDIVIDUAL SCHEDULE OF SECURITIES AS AT 31 DECEMBER 2011 (amounts in euros)

Name and type	Asset category Instruction No. 23/2004	Type of issuer	Issuer's country	Listed / Not listed	Relevant organised market	Market price	Number	Nominal value	Valuation criteria	Balance sheet carrying amount	Realised gains/losses	Value adjustments		% stake	
												Impairment	Other	Capital	Voting rights
Debt instruments															
Public debt instruments - Residents															
OT Junho 2003/2014	Financial assets at fair value through profit or loss	SPA	Portugal	Y	Portugal	5,812,500.00	750,000,000	7,500,000.00	Fair value	5,990,496.57	-1,512,093.95				
OT Junho 2019 - 4,75%	Available-for-sale financial assets	SPA	Portugal	Y	Portugal	263,791,620.20	47,800,000,000	478,000,000.00	Fair value	276,260,759.54	-232,987,109.13				
OT Outubro 2015 - 3,35%	Held-to-maturity investments	SPA	Portugal	Y	Portugal	28,300,000.00	4,000,000,000	40,000,000.00	Amortised cost	39,962,780.16					
OT Outubro 2017 - 4,35%	Held-to-maturity investments	SPA	Portugal	Y	Portugal	23,600,000.00	4,000,000,000	40,000,000.00	Amortised cost	40,957,577.29					
OT Junho 2019 - 4,75%	Held-to-maturity investments	SPA	Portugal	Y	Portugal	22,069,200.00	4,000,000,000	40,000,000.00	Amortised cost	41,725,026.33					
Public debt instruments - Residents															
Tesouro Espanhol	Available-for-sale financial assets	SPA	Spain	Y	Spain	141,673,400.00	142,000	142,000,000.00	Fair value	141,673,400.00	1,945,301.26				
Tesouro Espanhol	Available-for-sale financial assets	SPA	Spain	Y	Spain	258,009,600.00	256,000	256,000,000.00	Fair value	259,707,886.85	-817,750.00				
Tesouro Espanhol	Available-for-sale financial assets	SPA	Spain	Y	Spain	97,368,000.00	100,000	100,000,000.00	Fair value	97,368,000.00	2,083,817.34				
Tesouro Espanhol	Held-to-maturity investments	SPA	Spain	Y	Spain	48,684,000.00	50,000	50,000,000.00	Amortised cost	48,477,767.92					
Tesouro Espanhol	Held-to-maturity investments	SPA	Spain	Y	Spain	148,215,000.00	150,000	150,000,000.00	Amortised cost	148,074,136.64					
SPGB 4.8 - 2024	Held-to-maturity investments	SPA	Spain	Y	Spain	469,790.00	500	500,000.00	Amortised cost	522,520.41					
Other issuers															
Unsubordinated debt															
A.Rodrigues Correia Lopes, Bebidas e Alim., SA-14ª	Lending and other receivables	Other	Portugal	N			35	1,750,000.00	Fair value	1,750,000.00					
Acail Gás, SA - 3ª	Lending and other receivables	Other	Portugal	N			24	1,200,000.00	Fair value	1,200,000.00					
Acail-Industria Comer. Ferro e Aços, SA-3ª	Lending and other receivables	Other	Portugal	N			24	1,200,000.00	Fair value	1,200,000.00					
Amorim Holding II, SGPS, SA-13ª	Lending and other receivables	Other	Portugal	N			150	7,500,000.00	Fair value	7,500,000.00					
Amorim Holding II, SGPS, SA-14ª	Lending and other receivables	Other	Portugal	N			350	17,500,000.00	Fair value	17,500,000.00					
Amorim Holding II, SGPS, SA-51ª	Lending and other receivables	Other	Portugal	N			295	14,750,000.00	Fair value	14,750,000.00					
Amorim Investimentos e Participações, SGPS, SA-19ª	Lending and other receivables	Other	Portugal	N			200	10,000,000.00	Fair value	10,000,000.00					
Amorim Investimentos e Participações, SGPS, SA-23ª	Lending and other receivables	Other	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00					
Amorim Investimentos e Participações, SGPS, SA-24ª	Lending and other receivables	Other	Portugal	N			200	10,000,000.00	Fair value	10,000,000.00					
Amorim Turismo, SGPS, SA-10ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
Amorim Turismo, SGPS, SA-11ª	Lending and other receivables	Other	Portugal	N			40	2,000,000.00	Fair value	2,000,000.00					
Amorim Turismo, SGPS, SA-12ª	Lending and other receivables	Other	Portugal	N			110	5,500,000.00	Fair value	5,500,000.00					
Amorim Turismo, SGPS, SA-13ª	Lending and other receivables	Other	Portugal	N			30	1,500,000.00	Fair value	1,500,000.00					
Amorim Turismo, SGPS, SA-14ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
Amorim Turismo, SGPS, SA-7ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
Amorim Turismo, SGPS, SA-8ª	Lending and other receivables	Other	Portugal	N			10	500,000.00	Fair value	500,000.00					
Amorim Turismo, SGPS, SA-9ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
Auto Sueco, LDA - 5ª	Lending and other receivables	Other	Portugal	N			200	10,000,000.00	Fair value	10,000,000.00					
Aveleda-Soc. Agrícola e Com.Quinta da Aveleda, SA-2ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
Avicasal - Soc. Avícola, SA-4ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					

Avicasal-Sociedade Avícola, SA-5ª	Lending and other receivables	Other	Portugal	N			5	250,000.00	Fair value	250,000.00				
BA Vidro, SA- 14ª	Lending and other receivables	Other	Portugal	N			40	2,000,000.00	Fair value	2,000,000.00				
BA Vidro, SA- 15ª	Lending and other receivables	Other	Portugal	N			30	1,500,000.00	Fair value	1,500,000.00				
Barraqueiro SGPS	Lending and other receivables	Other	Portugal	N			10	500,000.00	Fair value	500,000.00				
Barraqueiro Transportes	Lending and other receivables	Other	Portugal	N			25	1,250,000.00	Fair value	1,250,000.00				
BI-Silque-Produtos Com. Visual, SA-5ª	Lending and other receivables	Other	Portugal	N			32	1,600,000.00	Fair value	1,600,000.00				
Brisa -Concessão Rodoviária, SA-12ª	Lending and other receivables	Other	Portugal	N			380	19,000,000.00	Fair value	19,000,000.00				
Brisa -Concessão Rodoviária, SA-13ª	Lending and other receivables	Other	Portugal	N			120	6,000,000.00	Fair value	6,000,000.00				
Cerealis-Produtos Alimentares, SA-1ª	Lending and other receivables	Other	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00				
Chamartín Imobiliária, SGPS, SA-11ª	Lending and other receivables	Other	Portugal	N			300	15,000,000.00	Fair value	15,000,000.00				
Ciclo Fapril - Indústrias Metalúrgicas, SA - 4ª	Lending and other receivables	Other	Portugal	N			10	500,000.00	Fair value	500,000.00				
Ciclo Fapril - Indústrias Metalúrgicas, SA - 5ª	Lending and other receivables	Other	Portugal	N			5	250,000.00	Fair value	250,000.00				
Colquímica-Ind. Nacional de Colas, SA-3ª	Lending and other receivables	Other	Portugal	N			15	750,000.00	Fair value	750,000.00				
EFACEC CAPITAL, SGPS, SA-2ª	Lending and other receivables	Other	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00				
EP-Estradas de Portugal, SA-4ª	Lending and other receivables	Other	Portugal	N			500	25,000,000.00	Fair value	25,000,000.00				
Eurocabos-SGPS, SA-2ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00				
EVA Transportes	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00				
F Ramada- Aços e Industria, SA-103ª	Lending and other receivables	Other	Portugal	N			80	4,000,000.00	Fair value	4,000,000.00				
F Ramada-Prod. Com. Est. Metalicas Arm., SA-104ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00				
FAF -PRODUTOS Sider+urgicos, SA-11ª	Lending and other receivables	Other	Portugal	N			19	950,000.00	Fair value	950,000.00				
FAF -PRODUTOS Siderúrgicos, SA-12ª	Lending and other receivables	Other	Portugal	N			7	350,000.00	Fair value	350,000.00				
FAF-Produtos Siderúrgicos, sa-10ª	Lending and other receivables	Other	Portugal	N			14	700,000.00	Fair value	700,000.00				
Ferneto-Máquinas e Art. para Ind. Alimentar, SA - 4ª	Lending and other receivables	Other	Portugal	N			10	500,000.00	Fair value	500,000.00				
Frulact-Indústria AGRO-Alimentar, SA-16ª	Lending and other receivables	Other	Portugal	N			10	500,000.00	Fair value	500,000.00				
Frulact-Indústria Agro-Alimentar, SA-17ª	Lending and other receivables	Other	Portugal	N			10	500,000.00	Fair value	500,000.00				
Galp Energia, SGPS, SA -17ª	Lending and other receivables	Other	Portugal	N			200	10,000,000.00	Fair value	10,000,000.00				
Galp Energia, SGPS, SA-77ª	Lending and other receivables	Other	Portugal	N			1,000	50,000,000.00	Fair value	50,000,000.00				
GRUPO SALVADOR CAETANO, SGPS, SA-1ª	Lending and other receivables	Other	Portugal	N			120	6,000,000.00	Fair value	6,000,000.00				
Grupo Visabeira, SGPS, SA-2ª	Lending and other receivables	Other	Portugal	N			150	7,500,000.00	Fair value	7,500,000.00				
Gupo Valouro, SGPS, SA-5ª	Lending and other receivables	Other	Portugal	N			150	7,500,000.00	Fair value	7,500,000.00				
Jerónimo Martins, SGPS, SA-6ª	Lending and other receivables	Other	Portugal	N			200	10,000,000.00	Fair value	10,000,000.00				
José de Mello - Investimentos, SGPS, SA	Lending and other receivables	Other	Portugal	N			200	10,000,000.00	Fair value	10,000,000.00				
Lanidor-Comércio de Pronto a Vestir, SA-11ª	Lending and other receivables	Other	Portugal	N			40	2,000,000.00	Fair value	2,000,000.00				
Logoplaste-TECHNICAL Consultans BV-4ª	Lending and other receivables	Other	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00				
Lusaveiro - Imp. & Exp. Máquinas e Acessórios Industrias- 4ª	Lending and other receivables	Other	Portugal	N			23	1,150,000.00	Fair value	1,150,000.00				
Lusavouga-Máquinas e Acessorios Industrias, SA - 4ª	Lending and other receivables	Other	Portugal	N			23	1,150,000.00	Fair value	1,150,000.00				
Martifer Energy Systems, SGPS, SA-4ª	Lending and other receivables	Other	Portugal	N			58	2,900,000.00	Fair value	2,900,000.00				
Martifer Metallic Constructions, SGPS, SA-3ª	Lending and other receivables	Other	Portugal	N			92	4,600,000.00	Fair value	4,600,000.00				
Martins Ferreira-Comer. Produtos Siderúrg., SA-1ª	Lending and other receivables	Other	Portugal	N			10	500,000.00	Fair value	500,000.00				
Meglo Media Global, SGPS, SA-1ª	Lending and other receivables	Other	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00				
Mundotêxtil-Indústrias Têxteis, SA-30ª	Lending and other receivables	Other	Portugal	N			43	2,150,000.00	Fair value	2,150,000.00				
Nabeirogest-Soc. Gestora de Part. Sociais, SA-4ª	Lending and other receivables	Other	Portugal	N			200	10,000,000.00	Fair value	10,000,000.00				
Nordesfer -Armazéns de Ferro, SA-58ª	Lending and other receivables	Other	Portugal	N			7	350,000.00	Fair value	350,000.00				
Oliveira & Irmão, SA-1ª	Lending and other receivables	Other	Portugal	N			40	2,000,000.00	Fair value	2,000,000.00				
Opway-Engenharia, SA-5ª	Lending and other receivables	Other	Portugal	N			40	2,000,000.00	Fair value	2,000,000.00				
Oscacer-César Rola, Lda-87ª	Lending and other receivables	Other	Portugal	N			55	2,750,000.00	Fair value	2,750,000.00				
Pecol-Sistemas de Fixação, SA-42ª	Lending and other receivables	Other	Portugal	N			51	2,550,000.00	Fair value	2,550,000.00				
Probar-Indústria Alimentar, SA-6ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00				
Procme-Gestão Global de Projectos, SA-34ª	Lending and other receivables	Other	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00				
Ramos Catarino, SA-9ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00				
RAR Imobiliária, SA-20ª	Lending and other receivables	Other	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00				

Relvas II-Rolhas de Champanhe, SA-35ª	Lending and other receivables	Other	Portugal	N			10	500,000.00	Fair value	500,000.00					
Relvas II-Rolhas de Champanhe, SA-37ª	Lending and other receivables	Other	Portugal	N			5	250,000.00	Fair value	250,000.00					
REN-Redes Energéticas Nacionais, SGPS, SA-13ª	Lending and other receivables	Other	Portugal	N			2,000	100,000,000.00	Fair value	100,000,000.00					
Revigrés-Indústria Cerâmica de Grés, Lda-29ª	Lending and other receivables	Other	Portugal	N			60	3,000,000.00	Fair value	3,000,000.00					
Riberalves, SGPS, SA-48ª	Lending and other receivables	Other	Portugal	N			140	7,000,000.00	Fair value	7,000,000.00					
Rodoviária Alentejo-3ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
Rodoviária Lisboa-3ª	Lending and other receivables	Other	Portugal	N			25	1,250,000.00	Fair value	1,250,000.00					
Rodrigues de Amorim & Irmão, Lda-19ª	Lending and other receivables	Other	Portugal	N			15	750,000.00	Fair value	750,000.00					
Santogal-SGPS, SA-15ª	Lending and other receivables	Other	Portugal	N			40	2,000,000.00	Fair value	2,000,000.00					
Santogal-SGPS, SA-16ª	Lending and other receivables	Other	Portugal	N			60	3,000,000.00	Fair value	3,000,000.00					
Savinor-Soc.Avícola do Norte, SA-5ª	Lending and other receivables	Other	Portugal	N			10	500,000.00	Fair value	500,000.00					
Semapa-Sociedade Inv. E Gestão, SGPS, SA-91ª	Lending and other receivables	Other	Portugal	N			72	3,600,000.00	Fair value	3,600,000.00					
Semapa-Sociedade Inv. E Gestão, SGPS, SA-92ª	Lending and other receivables	Other	Portugal	N			29	1,450,000.00	Fair value	1,450,000.00					
Sociedade Comercial do Vouga, Lda-12ª	Lending and other receivables	Other	Portugal	N			14	700,000.00	Fair value	700,000.00					
Sociedade de Construções Soares da Costa, SA-2ª	Lending and other receivables	Other	Portugal	N			150	7,500,000.00	Fair value	7,500,000.00					
Sogevinus Fine Wines, SA-6ª	Lending and other receivables	Other	Portugal	N			55	2,750,000.00	Fair value	2,750,000.00					
Solverde-Soc. De Invest.Tur. da Costa Verde, Sa.-15ª	Lending and other receivables	Other	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00					
Sonae Capital, SGPS, SA, 2ª	Lending and other receivables	Other	Portugal	N			245	12,250,000.00	Fair value	12,250,000.00					
Sorgal-Soc. De Óleos e Rações, SA-8ª	Lending and other receivables	Other	Portugal	N			35	1,750,000.00	Fair value	1,750,000.00					
Sovena Oilseeds Portugal, SA-59ª	Lending and other receivables	Other	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00					
Sovena Portugal-Consumer Goods, SA-60ª	Lending and other receivables	Other	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00					
Suigranja-Sociedade Agrícola, SA-7ª	Lending and other receivables	Other	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
Unicer -Bebidas de Portugal, SGPS, SA-10ª	Lending and other receivables	Other	Portugal	N			300	15,000,000.00	Fair value	15,000,000.00					
Zon Multimédia, SGPS, SA-4ª	Lending and other receivables	Other	Portugal	N			600	30,000,000.00	Fair value	30,000,000.00					
Kaupthing 6,25% C 10	Financial assets held for trading	IC	Iceland	Y	Iceland	1.00	582	582,000.00	Fair value	1.00					
Kaupthing 6,75% C 12	Financial assets held for trading	IC	Iceland	Y	Iceland	1.00	3,445	3,445,000.00	Fair value	1.00					
Landsbanki C 24.2.11	Financial assets held for trading	IC	Iceland	Y	Iceland	1.00	310	310,000.00	Fair value	1.00					
BTA IM Cédulas G.B.P. 4,25 02/14	Financial assets at fair value through profit or loss	OIF	Spain	Y	Spain	23,605,920.00	240	24,000,000.00	Fair value	24,505,755.65	-394,080.00				
Banco BPI	Available-for-sale financial assets	IC	Portugal	Y	Portugal	7,955,680.00	160	8,000,000.00	Fair value	7,991,190.00	-36,320.00				
Banco BPI - 2012	Available-for-sale financial assets	IC	Portugal	Y	Portugal	14,540,550.00	300	15,000,000.00	Fair value	14,746,440.41	-413,700.00				
Banco Espirito Santo	Available-for-sale financial assets	IC	Portugal	Y	Portugal	7,705,350.00	180	9,000,000.00	Fair value	7,727,589.00	-1,280,250.00				
Banco Espirito Santo - 3,875	Available-for-sale financial assets	IC	Portugal	Y	Portugal	4,343,400.00	120	6,000,000.00	Fair value	4,562,523.32	-1,641,060.00				
Banco Espirito Santo 5,625 06/2014	Available-for-sale financial assets	IC	Portugal	Y	Portugal	3,978,000.00	100	5,000,000.00	Fair value	4,139,044.54	-998,650.00				
Banco Popular	Available-for-sale financial assets	IC	Spain	Y	Spain	17,700,400.00	380	19,000,000.00	Fair value	18,273,718.51	-615,600.00				
Banco Popular	Available-for-sale financial assets	IC	Spain	Y	Spain	20,138,342.00	400	20,450,000.00	Fair value	20,352,086.53	-280,258.00				
BARCLAYS BK PLC	Available-for-sale financial assets	IC	United Kingdom	Y	United Kingdom	17,874,180.00	18,000	18,000,000.00	Fair value	18,594,179.96	-47,160.00				
BARCLAYS BK PLC	Available-for-sale financial assets	IC	United Kingdom	Y	United Kingdom	16,848,020.00	17,000	17,000,000.00	Fair value	17,319,129.64	-125,120.00				
BARCLAYS BK PLC 4,75% PERPETUAL	Available-for-sale financial assets	IC	United Kingdom	Y	United Kingdom	246,707.40	51	510,000.00	Fair value	266,021.03	-42,972.60				
BCP-Banco Comercial Português	Available-for-sale financial assets	IC	Portugal	Y	Portugal	2,989,280.00	80	4,000,000.00	Fair value	2,998,776.00	-1,001,800.00				
BCP-Banco Comercial Português - 3,75	Available-for-sale financial assets	IC	Portugal	Y	Portugal	13,699,600.00	400	20,000,000.00	Fair value	13,874,258.14	-6,200,200.00				
BCP-Banco Comercial Português - 5,625	Available-for-sale financial assets	IC	Portugal	Y	Portugal	11,059,452.50	305	15,250,000.00	Fair value	11,651,695.67	-5,205,897.50				
BESI -Obrig. Indexadas Ouro	Available-for-sale financial assets	IC	Portugal	N	Portugal	841,596.00	860	860,000.00	Fair value	846,747.66					
BNP PARIBAS - - MEDITEIS II	Available-for-sale financial assets	IC	Netherlands	Y	Netherlands	31,593.12	200	200,000.00	Fair value	31,593.12	-131,341.38				

CAIXA GERAL DEPOSITOS 3,625% 07-2014	Available-for-sale financial assets	IC	Portugal	Y	Portugal	4,079,500.00	100	5,000,000.00	Fair value	4,161,565.98	-910,600.00				
Caixa Geral Depositos-2013 - 4,375%	Available-for-sale financial assets	IC	Portugal	Y	Portugal	9,351,300.00	200	10,000,000.00	Fair value	9,629,382.16	-610,200.00				
Certificados Deposito Bpopular	Available-for-sale financial assets	IC	Spain	N	Spain		150,000,000	150,000,000.00	Fair value	149,979,195.70					
Certificados Deposito Bpopular	Available-for-sale financial assets	IC	Spain	N	Spain		100,000,000	100,000,000.00	Fair value	99,830,770.00					
Certificados Deposito Bpopular	Available-for-sale financial assets	IC	Spain	N	Spain		150,000,000	150,000,000.00	Fair value	149,920,029.00					
Citibank-Obrig. Indexadas Ouro CFI	Available-for-sale financial assets	IC	United Kingdom	N	United Kingdom		860	860,000.00	Fair value	873,328.95					
Class D Note Purchase Agreement	Available-for-sale financial assets	OIF	Ireland	N	Ireland		1	4,630,000.00	Historical cost	4,380,000.00					
COMMERZBANK AG	Available-for-sale financial assets	IC	Germany	Y	Germany	39,542,400.00	40,000	40,000,000.00	Fair value	40,752,674.48	-176,400.00				
Fortis Nederland	Available-for-sale financial assets	IC	Netherlands	Y	Netherlands	35,255,500.00	35,000	35,000,000.00	Fair value	36,536,595.88	325,500.00				
IM GRUPO BANCO POPULAR EMP 1	Available-for-sale financial assets	OIF	Spain	Y	Spain	2,632,550.10	69	6,900,000.00	Fair value	2,636,699.61	1,116,050.10				
IM GRUPO BANCO POPULAR EMPRESAS	Available-for-sale financial assets	OIF	Spain	Y	Spain	556,591.70	7,000	700,000.00	Fair value	556,871.35	140,091.70				
Ing Bank, BV	Available-for-sale financial assets	IC	Netherlands	Y	Netherlands	30,117,300.00	30,000	30,000,000.00	Fair value	31,051,204.12	279,000.00				
KBC-obrig. Indexadas Ouro KBC 1,4	Available-for-sale financial assets	IC	United Kingdom	N	United Kingdom		688	688,000.00	Fair value	686,119.41					
KBC-obrig. Indexadas Ouro KBC 1,5	Available-for-sale financial assets	IC	United Kingdom	N	United Kingdom		172	172,000.00	Fair value	172,108.09					
LLOYDS TSB Bank	Available-for-sale financial assets	IC	United Kingdom	Y	United Kingdom	15,223,200.00	15,000	15,000,000.00	Fair value	15,625,425.05	240,900.00				
Lloyds-Obrig. Indexadas Ouro Lloyds	Available-for-sale financial assets	IC	United Kingdom	N	United Kingdom		860	860,000.00	Fair value	873,842.21					
NAVIGATOR MORTAGE FINANCE EUR FL.R 02-2035	Available-for-sale financial assets	OIF	Ireland	N	Ireland	149,735.48	18	164,454.12	Fair value	150,130.96	18,855.43				
UBI BANCA, SPCA	Available-for-sale financial assets	IC	Italy	Y	Italy	25,181,570.00	29,000	29,000,000.00	Fair value	25,229,241.23	-3,579,760.00				
Banco Popular	Held-to-maturity investments	IC	Spain	Y	Spain	18,759,678.00	381	19,050,000.00	Amortised cost	18,785,806.02					
BBVA	Held-to-maturity investments	IC	Spain	Y	Spain	34,968,150.00	700	35,000,000.00	Amortised cost	35,054,534.03					
IM GBP Empresas 4FT	Held-to-maturity investments	IC	Spain	Y	Spain	109,452,359.43	2,500	168,386,950.00	Amortised cost	168,386,950.00					
Subordinated debt															
Banco Finantia 2001/2012 - Obrig. Subordinadas	Available-for-sale financial assets	IC	Portugal	N	Portugal		200,000	10,000,000.00	Fair value	10,047,540.36	-78,040.00				
Total										**2,629,771,118.48**					
Equity instruments															
ACT-C-Indústria de Cortiças, SA	Available-for-sale financial assets	Other	Portugal	N			354,153	1,770,765.00	Historical cost	0.00	0.00	1,770,765.00		9.88%	9.88%
Fernando Oliveira - Cortiças, SA	Available-for-sale financial assets	Other	Portugal	N			116,066	580,330.00	Historical cost	580,330.00	0.00			6.42%	6.42%
Finangeste - Emp. Fin. Gestão e Desenv., SA	Available-for-sale financial assets	OIF	Portugal	N	Portugal		100	500.00	Fair value	372.00	-1,623.19			0.002%	0.002%
Prebesan-Pré Fabricados de Betão de Santarém, Lda	Available-for-sale financial assets	Other	Portugal	N					Historical cost	12,500.00	0.00	90,833.00		2.01%	2.01%
Sibs - Soc. interb. de Serviços, SA	Available-for-sale financial assets	OIF	Portugal	N	Portugal		25,680	128,400.00	Fair value	829,207.20	-391,930.31			0.521%	0.521%
SpPM- Soc. Portuguesa	Available-for-sale financial assets	Other	Portugal	N	Portugal		18,007	18,007.00	Historical cost	18,007.00	0.00			9.01%	9.01%
TAEM-PROCESSAMENTO ALIMENTAR, SGPS, SA	Available-for-sale financial assets	Other	Portugal	N			125	125.0000	Historical cost	125.00	0.00			0.25%	0.25%
Unicre - Cartão Intern. de Crédito, SA	Available-for-sale financial assets	OIF	Portugal	N	Portugal		7,207	36,035.00	Fair value	468,455.00	8,231.58			0.36%	0.36%
Visa Europe Limited	Available-for-sale financial assets	OIF	United Kingdom	N	United Kingdom		1	10.0000	Fair value	10.00	0.00			0%	0%
Visa Inc. Class C series I Commom Stock	Available-for-sale financial assets	OIF	EUA	N	EUA		1,854	USD 0,1854	Fair value	51,745.80	0.00			0%	0%
Eurovida - Comp. de Seguros de Vida, S.A.	Investments in subsidiaries	S	Portugal	N	Portugal		239,022	1,195,110.00	Fair value	22,578,974.21	20,427,776.21			15.9348%	15.9348%
Total										**24,539,726.21**					
Other															
DEGI Internacional	Financial assets held for trading	OIF	Germany	Y	Germany	215,991.82	4,985	1.00	Fair value	215,991.82	-3,888.15				
Imopular FEI Fechado	Financial assets held for trading	OIF	Portugal	Y	Portugal	2,819,405.61	269,759	10.00	Fair value	2,819,405.61	-2,187.73				
KanAm Grundinvest	Financial assets held for trading	OIF	Germany	Y	Germany	42,737.01	982	1.00	Fair value	42,737.01	-11,956.5				

											4				
OPC Preff Class D	Financial assets held for trading	OIF	Ireland	Y	Ireland	9,948.00	120	100.00	Fair value	9,948.00	100.80				
Popular Acções - Fundo de Investimento Mobiliário	Financial assets held for trading	OIF	Portugal	Y	Portugal	76,068.15	30,597	5.00	Fair value	76,068.15	-53,732.92				
Popular Euro Obrigações-Fundo Invest. Mobiliário	Financial assets held for trading	OIF	Portugal	Y	Portugal	79,422.48	14,056	5.00	Fair value	79,422.48	-636.20				
Popular Global 25 - Fundo de Fundos	Financial assets held for trading	OIF	Portugal	Y	Portugal	910,162.23	180,563	5.00	Fair value	910,162.23	11,225.42				
Popular Global 50 - Fundo de Fundos	Financial assets held for trading	OIF	Portugal	Y	Portugal	289,157.65	72,124	5.00	Fair value	289,157.65	-62,337.63				
Popular Global 75 - Fundo de Fundos	Financial assets held for trading	OIF	Portugal	Y	Portugal	294,271.60	92,544	5.00	Fair value	294,271.60	-113,247.39				
Popular Grandes Empresas - FEI Fechado	Financial assets held for trading	OIF	Portugal	Y	Portugal	6,857.00	705	10.00	Fair value	6,857.00	-205.69				
Popular Imobiliário-FEI	Financial assets held for trading	OIF	Portugal	Y	Portugal	55,788.54	10,156	5.00	Fair value	55,788.54	-1,714.49				
Popular obrigações indexadas a empresas Alemanha/EUA	Financial assets held for trading	OIF	Portugal	Y	Portugal	23,535.11	2,525	10.00	Fair value	23,535.11	-1,466.41				
Popular obrigações indexadas ao Ouro (Londres) FEI	Financial assets held for trading	OIF	Portugal	Y	Portugal	123,701.74	13,418	10.00	Fair value	123,701.74	-10,473.54				
Popular Predifundo	Financial assets held for trading	OIF	Portugal	Y	Portugal	2,709,441.08	225,704	4.99	Fair value	2,709,441.08	361,499.52				
Popular Valor-FIMAM	Financial assets held for trading	OIF	Portugal	Y	Portugal	17,049.54	6,389	5.00	Fair value	17,049.54	-3,403.47				
SEB iMMOiNVEST	Financial assets held for trading	OIF	Germany	Y	Germany	75,071.56	1,382	1.00	Fair value	75,071.56	-2,459.55				
Total										**7,748,609.11**					

(€ 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 26th 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 other banking services in the country and abroad.

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

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

The Bank is not a listed company.

1.2 Bank structure

As a result of the restructuring process initiated in previous years, the Bank has merged its subsidiary Populargest, Gestão de Imóveis, Lda ("Populargest") at the end of December 2011, which was recorded in the books with reference to 1 January 2011. This merger was approved of at the Annual General Meeting of the Bank which was held on 26 December 2011 and registered at the Lisbon Commercial Registry Office on 30 December 2011. Populargest financial statements object of the merger are presented as follows:

Populargest Balance Sheet at the date of the merger - 28 December 2011

Cash and balances with central banks	759	Deposits from banks	107,320
Financial assets held for trading	27,952	Other liabilities	58
Other tangible assets	11	TOTAL LIABILITIES	107,378
Current income tax assets	66		
Other assets - Property acquired in payment of debt	94,759	Share capital	12,000
Provisions for property acquired in payment of debt	-18,509	Supplementary obligations and similar	33,194
Other debtors	130	Legal reserve	7
		Retained earnings	-40,054
		Net income	-7,357
		TOTAL EQUITY	-2,210
TOTAL NET ASSETS	105,168	TOTAL LIABILITIES + EQUITY	105,168

Following the aforementioned merger, the Bank no longer holds any equity stake in any subsidiary.

The Bank has decided to reclassify Class D Notes issued by Navigator Mortgage Finance No. 1 Plc ('Navigator') into the available-for-sale financial assets portfolio.

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

The most significant financial data extracted from non-audited financial statements of Navigator are as follows:

	31/12/11	31/12/10
Net assets	73 882	82 942
Liabilities	76 734	84 544
Equity	-2 852	-1 602
Loss for the period	-1 250	- 386

As at 31 December 2011, the Bank detains only one equity stake in the associated company – Companhia de Seguros de Vida, S.A. (see Note 27).

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 Basis of preparation

Individual financial statements

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

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

- Valuation of loans to customers and other receivables – On the date of their first recognition they are booked by their nominal value, being the component of interest, commissions and external expenses attributable to their respective underlying transactions recognised according to the *pro rata temporis* rule, when dealing with operations that produce revenue flows over a period of more than one month;

- Provisions for loans to customers and other receivables – Provisions for this class of financial assets are subject to a minimum framework for the constitution of specific provisions, general and country risk, pursuant to Notice No. 3/95 of the Bank of Portugal;

- Tangible assets – On the date of initial recognition they are booked at acquisition cost, and subsequently the historical cost is maintained, except when there are legally authorized revaluations; and, IFRS are the standards and interpretations adopted by the International Accounting Standards Board (IASB) that comprise the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the Interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) or by the previous Standard Interpretation Committee (SIC).

Accounting standards, amendments and interpretations compulsorily applied in 2011 but thar are not relevant for the Bank:

The following standards, ammendments and interpretations are compulsory for accounting periods starting on 1 January 2011 but are not relevant for the Bank's activity:

IAS 24 (amended) – Related party disclosures;
IAS 32 (amended) – Financial instruments: Presentation – classification of rights issues;
IFRS 1 (amended) – First-time adoption of IFRS;
IFRIC 14 – (amended) – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction;
IFRIC 19 – Extinguishing financial liabilities with equity instruments.
Annual improvement of the standards in 2010, to apply mostly to the exercises initiated on or after 1 January 2011. The annual improvement process in 2010 affected the following standards: IFRS1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 e IFRIC 13.

The application of these new standards and interpretations will not have a material impact on the Bank's financial statements.

Accounting standards, amendments to existing standards and interpretations, whose application is only compulsory for annual periods starting on 1 July 2011 or subsequently in spite of having been published before.

The Bank chose not to apply in advance the accounting standards, amendments to existing standards and interpretations recently issued but with no compulsory application for the exercise of 2011:

IAS 1 (amended) – Presentation of financial statements;
IAS 12 (amended) – Financial instruments: Disclosure and presentation;
IAS 19 (revised in 2011) – Employee benefits;
IAS 27 (revised in 2011) – Consolidated and separate financial statements;
IAS 28 (revised in 2011) – Investments in associates and joint ventures;
IAS 32 (amended) – Asset and liability offsetting;
IFRS 1 (amended) – First-time adoption of IFRS;
IFRS 7 (amended) – Financial Instruments: Disclosures – Transfer of financial assets;
IFRS 9 (new) – Financial instruments: Classification and measurement;
IFRS 10 (new) – Consolidated financial statements;
IFRS 11 (new) – Joint arrangements;
IFRS 12 (new) – Disclosure of interests in other entities;
IFRS 13 (new) – Fair value: Measurement and disclosure;

The application of these new standards and interpretations shall not have a material impact on the Bank's financial statements.

Comparability of information

Due to the merger with Populargest recorded in December 2011, the Bank's individual accounts for 2011 include balances in the assets, liabilities and equity of this company at the date of the merger (see Note 1.2).

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

The Bank determines and presents 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 over 20% of the voting rights of the associate. Even when voting rights are lower than 20%, the Bank may have significant influence through the participation in managing bodies or the composition of the Executive Boards of Directors.

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

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

2.4 Transactions in foreign currency

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 at 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 exercise, are recognised in the income statement, except when they are part of cash flows hedges or net investment in foreign currency, which are deferred in equity.

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

2.5 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value at 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 related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

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

2.6 Interest income and expenses

Interest income and expenses 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 a group of financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.7 Fees and commissions

Fees and commissions are generally recognised using the accrual method when the service has been provided. Revenue from credit line fees, which are expected to originate a loan, is differed (together with any cost directly related) and recognised as an adjustment at the effective interest rate. Fees and commissions on trades, or participation in third party trades – such as purchasing stock or purchasing or selling a business – are recognised as earned when the service has been provided. Portfolio and other management advisory and service 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 transferred substantially all risks and rewards of ownership, or (iii) notwithstanding the fact that the Bank may have retained part, but not substantially all, of the risks and benefits associated with holding them, control over the assets was transferred.

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

The Bank classifies its financial assets into the following categories: financial assets 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 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 assessed 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 amortized cost based on the effective interest rate method and subjected to impairment tests.

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

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

Factoring

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

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

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

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

Guarantees granted and irrevocable commitments

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

c) Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments 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 subjected to impairment tests. If during a subsequent period the amount of the loss of impairment decreases, and that decrease may be objectively tied to an event that happened after the impairment was recognised, this is reversed through the income statement.

d) Available-for-sale financial assets

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

This item includes:

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

Available-for-sale assets are recognised at fair value, except for equity instruments that are not listed on an 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 registered 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 changes of non-monetary assets (equity instruments) classified in the available-for-sale portfolio are registered in fair-value reserves. Exchange rate changes of the other securities are registered in the income statement.

2.9 Impairment of financial assets

a) Assets carried at amortised cost

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

(i) significant financial stress of the borrower;

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

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

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

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

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

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

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

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

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

When analysing impairment in a portfolio, the Bank estimates the probability of an operation or a customer to default during the estimated period between impairment occurring and the loss being identified. Usually, the timeframe used by the Bank is of around 12 months.

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 counterparty’s ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

Loans to customers whose terms have been renegotiated are no longer considered past due and are treated as new loan contracts. Restructuring 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) Assets carried at fair value

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

Impairment losses on equity instruments that have been recognised in the income statement are not reversable. 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

- Computer software

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

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

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

2.11 Tangible assets

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

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

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

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

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

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

2.12 Non-current assets held for sale

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

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

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

Potential realized gains on non-current assets held for sale are not recognised in the Balance Sheet.

2.13 Leases

a) As lessee

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

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

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

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

b) As lessor

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

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

2.14 Provisions

Provisions for other risks and charges

Provisions for restructuring costs and legal expenses are recognised 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; the amount can be reliably estimated.

Provisions for specific and general credit risks

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

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

These provisions include:

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

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

(iii) a general provision for credit risks, presented as a liability in item Provisions for risks and charges, corresponding to a minimum of 1% of total outstanding credit, including guarantees and other instruments, except for consumer loans, where the provisioning rate was at least 1.5% of such loans, and for mortgage loans whenever the real estate asset (collateral) was for the borrower’s own use, in which case the minimum rate of 0.5% is applied (see note 34); and

(iv) a provision for country risk, constituted to face the risk attached to financial assets and off-balance sheet elements on residents from high risk countries according to Instruction No. 94/96 issued by the Bank of Portugal (see notes 23 and 34).

2.15 Employee benefits

a) Pension obligations 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.

The Bank recognizes 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 deviations.

Accumulated actuarial gains and losses are deferred in an account on the assets or liabilities side ('corridor'), up to a limit of 10% of the highest of the current value of liabilities for past services or the value of the pension funds. Accrued actuarial gains and losses in excess of the corridor are recognised against results over the average remaining period of service of the employees covered by the plan.

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:

- compulsory fully financing pension liabilities and a minimum level of 95% financing of past service liabilities for staff in active employment;
- establishing a transition period for the financing of the increase in liabilities resulting from the application of IAS 19 on 31 December 2004. This increase in liabilities may be achieved through the application of a plan for straight line depreciation up to 31 December 2009, except for the part relating to post-employment health care liabilities and to changes in the actuarial assumptions based on the mortality table, for which the financing plan may be extended until 31 December 2011.

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

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

- current service cost;
- interest expense on the total outstanding liabilities;
- expected revenue of the pension fund;
- expenses with increases in early retirement liabilities;
- depreciation of actuarial deviations or assumption changes outside the corridor;
- expenses (or depreciation) deriving from changes in the condition of the Pension Plan.

At 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 – [t] January 2004.

b) Seniority bonuses

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

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

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

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

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

2.16 Deferred taxes

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

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

2.17 Financial liabilities

The Bank classifies its financial liabilities in 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 investments at their 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.

3. Financial risk management

3.1 Strategy used for financial instruments

In face of its activity, the Bank raises funds essentially through customer deposits and monetary market operations indexed to Euribor.

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.

As at 31 December 2011, the Bank's portfolio was comprised essentially of floating rate bonds and fixed rate bonds, as well as mortgage bonds. To hedge its investment against interest rate risk, the Bank carried out interest rate swap operations and monetary market operations, thus trying to control the variability of interest rate risk and the flows generated by these assets.

a) Fair value hedge accounting

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

Efficacy tests for hedges are dully 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 are recognised in reserves, and transferred to the income statement in the periods when the respective hedged item affect 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 has a certain cash flow risk that related to open position in foreign currency.However, due to the little materiality to the normally existing overall position, no hedge operations are made for it.

3.2 Financial assets and liabilities at fair value

The Board of Directors considered that as at 31 December 2011, the fair value of assets and liabilities at amortised cost did not differ significantly from its book value.

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

The item Net financial income – financial instruments at fair value not classified as hedging – includes an amount of - 2,459 thousand euros (2010: -1,387 thousand euros).

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

	2011		2010	
	Fair value	Variation	Fair value	Variation
Financial assets at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	27 071	10 700	15 696	10 017
Market price swaps	-	860	714	481
Futures	79	313	-	-
Options	43	300	-	-
Available-for-sale financial assets				
Debt instruments issued by residents	368 638	-	539 587	813
Equity instruments issued by residents	1 909	-	849 357	14 765
Debt instruments issued by non-residents	1 132 840	205	3 099	-
Equity instruments issued by non-residents	52	-	50	-
Financial liabilities at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	29 033	- 14 293	17 446	- 11 478
Market price swaps	-	-	642	- 407
Futures	68	- 175	-	-
Options	273	- 164	-	-
		- 2 254		**14 191**

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

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

	2011				2010			
Assets and Liabilities at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Held-for-trading assets								
Fixed income securities	-	-	-	0	-	-	-	0
Variable income securities	7 749	-	-	7 749	4 683	-	-	4 683
Derivatives	-	27 193		27 193	-	16 661		16 661
Other financial assets at fair value through profit or loss								
Fixed income securities	30 496	-	-	30 496	31 400	-	-	31 400
Available-for-sale financial assets								
Debt securities	1 080 643	420 835	-	1 501 478	803 180	585 765	-	1 388 945
Equity securities	-	-	1 350	1 350	-	-	3 149	3 149
Total Assets at fair value	**1 118 888**	**448 028**	**1 350**	**1 568 266**	**839 263**	**602 426**	**3 149**	**1 444 838**
Held-for-trading financial liabilities (Derivatives)	-	29 374	-	29 374	-	18 329	-	18 329
Hedging derivatives	-	82 554	-	82 554	-	38 549	-	38 549
Total Liabilities at fair value	**0**	**111 928**	**0**	**111 928**	**0**	**56 878**	**0**	**56 878**

3.3 Credit risk

The Bank is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it is exposed to by establishing pre-defined acceptable risk amounts regarding the borrower or group of borrowers and geographical or business activity segments.

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

- Collaterals

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

- Property mortgages;
- Pledges of operations made within the Bank;
- Pledges on assets such as facilities, 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 counterparties.

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 collateralized.

- 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 2011 and 2010, maximum exposure to credit risk was as follows:

	2011	2010
On-balance sheet		
Deposits with banks	140 324	91 452
Financial assets held for trading	27 193	16 661
Other financial assets at fair value through profit or loss	30 496	31 400
Available-for-sale financial assets	1 501 478	1 388 944
Loans and advances to banks	148 835	167 141
Loans and advances to customers	6 367 864	7 670 864
Held-to-maturity investments	545 326	176 345
Other assets	89 143	74 713
	8 850 659	**9 617 520**
Off-balance sheet		
Financial guarantees	528 333	370 783
Other guarantees	92 017	45 664
Lending commitments	861 883	832 660
Documentary loans	34 177	27 119
	1 516 410	**1 276 226**
Total	**10 367 069**	**10 893 746**

The table above shows the worst case scenario in terms of the level of exposure to credit risk the Bank faced as at 31st December 2011 and 2010, 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 in the table above, 69.7% of total maximum exposure results from loans and advances to customers (2010: 78.1%).

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:

- 36.05 % of the amount of loans and advances to customers have eligible collaterals (2010: 49.7%);
- 97.4 % of customer credit portfolio is not past due (2010: 97.1%).

- Concentration by activity segment of financial assets with credit risk

The tables below shows the exposure of the Bank according to the assets' carrying amount broken down by activity segment.

31/12/2011	Financial Institutions	Public Sector	Property constr. & development	Other industries	Services	Private individuals Home loans	Private individuals Other loans
Deposits with banks	140 324						
Financial assets held for trading	10 936		7 910	5 180	10 916		
Other financial assets at fair value through profit or loss	24 506	5 990					
Available-for-sale financial assets	727 818	775 010		611			
Loans and advances to banks	148 835						
Loans and advances to customers		29 095	1 542 937	772 755	2 307 193	1 450 851	414 929
Held-to-maturity investments	223 897	321 429					
Other assets	1 165	69 314	78	1 722			3 517
	1 277 481	**1 200 838**	**1 550 925**	**780 268**	**2 318 109**	**1 450 851**	**418 446**

31/12/2010	Financial Institutions	Public Sector	Property constr. & development	Other industries	Services	Private individuals Home loans	Private individuals Other loans
Deposits with banks	91 452						
Financial assets held for trading	7 779		168	45	13 352		
Other financial assets at fair value through profit or loss	24 380	7 020					
Available-for-sale financial assets	954 217	436 076		1 801			
Loans and advances to banks	167 141						
Loans and advances to customers	1 140 000	26 680	1 964 211	767 697	2 202 733	1 270 392	464 491
Held-to-maturity investments		176 345					
Other assets	836	46 731		1 244	608		2 448
	2 385 805	**692 852**	**1 964 379**	**770 787**	**2 216 693**	**1 270 392**	**466 939**

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 impacts in 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 2011, the Bank's security portfolio amounted to 2,662 million euros, of which only around 38.2 million euros were classified as financial assets held for trading and other financial assets at fair value through profit or loss (around 0.4% of total assets).

- Risk-sensitivity analysis

The Bank does not have shares in its trading book, having only a reduced amount of equity stakes in investment funds that are more exposed to the stock markets, which at the end of 2011 amounted to around 1.5 million euros. Therefore the impact of market risk on the Bank's income statement is low.

However, 2011 was a year marked by significant liquidity difficulties in international markets, with the consequent increase of risk premiums demanded by investors for sovereign debt and senior debt issuances. For that reason, Banco Popular Portugal has also been affected by this scenario and, despite the fact that a large part of these securities are accounted for as available-for-sale financial assets and held-to-maturity investments (and consequently with no impact on the Bank's income statement), revaluation reserves have performed poorly, although with no impact on solvency indicators.

3.6 Foreign exchange rate risk

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

31 December 2011	USD	GBP	CHF	CAD	Others
Assets					
Cash and cash equivalents	473	130	110	61	60
Deposits with banks	30 078	3 312	329	14 642	930
Available-for-sale financial assets	52	-	-	-	-
Loans and advances to customers	2 712	-	23	-	59
Other assets	5 938	22	151	9	1
	39 253	3 464	613	14 712	1 050
Liabilities					
Deposits from banks	461	-	-	-	145
Deposits from customers	46 713	3 480	469	781	948
Other liabilities	5 653	20	110	3	-
	52 827	3 500	579	784	1 093
Foreign exchange forward transactions	- 37	-	-	-	-
Net balance sheet position	- 13 611	- 36	34	13 928	- 43

31-Dec-10	USD	GBP	CHF	CAD	Others
Total assets	30 810	3 287	333	171	169
Total liabilities	30 925	3 230	205	121	105
Net balance sheet position	- 115	57	128	50	64

- *Risk-sensitivity analysis*

The activity of the 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.

3.7 Interest rate risk

The interest rate risk associated with cash flows reflects the risk of changes in the future cash flows of the financial instruments due to changes in the fair value of a financial instrument arising from fluctuations in market interest rates. The Bank is exposed to the risk of fluctuation of the market interest rates for the risks of cash flows and fair value.

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. 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 2011

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Not sensitive	Total
Cash and balances with central & other banks	-	-	-	-	142 352	142 352
Monetary market	285 028	-	-	-	-	285 028
Loans and advances to customers	1 591 702	2 603 094	1 818 027	281 055	73 986	6 367 864
Securities market	220 803	1 006 651	594 717	247 370	67 241	2 136 782
Other assets	-	-	-	-	327 289	327 289
Total Assets	**2 097 533**	**3 609 745**	**2 412 744**	**528 425**	**610 868**	**9 259 315**
Monetary market	2 958 150	270 935	415 000	495 000	4 482	4 143 567
Deposit market	1 078 655	1 265 709	1 147 866	612 507	49 305	4 154 042
Securities market	533 797	21 050	-	50 000	969	605 816
Other liabilities	-	-	-	-	234 283	234 283
Total Liabilities	**4 570 602**	**1 557 694**	**1 562 866**	**1 157 507**	**289 039**	**9 137 708**
Gap	**-2 473 069**	**2 052 051**	**849 878**	**- 629 082**	**321 829**	
Accumulated gap	**-2 473 069**	**- 421 018**	**428 860**	**- 200 222**	**121 607**	

Maturity and repricing gap for the Bank's activity as at 31 December 2010

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Not sensitive	Total
Gap	**-2 265 926**	**1 066 417**	**1209 497**	**112 896**	**501 633**	
Accumulated gap	**-2 265 926**	**-1 199 509**	**9 988**	**122 884**	**624 517**	

- Risk-sensitivity analysis

The Bank measures the interest rate risk of the balance sheet with a model that analyses assets and liabilities that are susceptible to interest rate fluctuations. Briefly, this model groups assets and liabilities at fixed time brackets (maturity dates or the first interest rate revision in case of indexation), from which one calculates the potential impact on net interest income.

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

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	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Not sensitive	Total
Cash and balances with central & other banks	-	-	-	-	142 352	142 352
Monetary market	285 028	-	-	-	-	285 028
Loans and advances to customers	1 591 702	2 603 094	1 818 027	281 055	73 986	6 367 864
Securities market	220 803	1 006 651	594 717	247 370	67 241	2 136 782
Other assets	-	-	-	-	327 289	327 289
Total Assets	**2 097 533**	**3 609 745**	**2 412 744**	**528 425**	**610 868**	**9 259 315**
Monetary market	2 958 150	270 935	415 000	495 000	4 482	4 143 567
Deposit market	1 078 655	1 265 709	1 147 866	612 507	49 305	4 154 042
Securities market	533 797	21 050	-	50 000	969	605 816
Other liabilities	-	-	-	-	234 283	234 283
Total Liabilities	**4 570 602**	**1 557 694**	**1 562 866**	**1 157 507**	**289 039**	**9 137 708**
Gap	-2 473 069	2 052 051	849 878	- 629 082	321 829	
Accumulated gap	-2 473 069	- 421 018	428 860	- 200 222	121 607	
Impact of a 1% increase	- 1 030	- 2 778	125			
Accumulated impact	- 1 030	- 3 808	- 3 683			

Accumulated effect	-3,683
Net interest income	131 087
Accumulated gap	-2.81%

3.8 Liquidity risk

This concept assumes that a credit institution will have liquid funds to meet its payment obligations at all times. The Bank is exposed to daily requests of cash available in current accounts, loans and guarantees, margin account needs and other needs related to cash equivalents. The Group does not have cash to meet all these needs, since its experience reveals that the proportion of funds that will be reinvested on the maturity date may be forecasted with a high degree of certainty. Management policy defines limits for the minimum proportion of available funds to meet requests and for the minimum level of interbank facilities and other loans that have to be available to cover withdrawals and unexpected demand levels.

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. 19/2005, the Bank also resorts to the concept of liquidity gap, i.e., from the balance sheet of the Bank as at 31 December 2011, 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 table below presents the Bank’s balance sheet at the end of December 2011 with the main classes grouped by maturity date:

Liquidity gap of the balance sheet as at 31 December 2011

	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	138 221	-	-	-	-
Deposits with banks	85 856	-	-	-	-
Financial assets held for trading	121	62	9 535	15 565	15 787
Other financial assets at fair value through profit or loss	-	-	1 367	30 496	-
Available-for-sale financial assets	319 363	247 079	411 107	187 461	382 720
Loans and advances to banks	3 459	134 355	10 788	-	1 100
Loans and advances to customers	978 449	659 068	1 437 509	1 972 442	1 424 331
Held-to-maturity investments	1 488	1 021	205 339	18 786	326 609
Other assets	57 191	286	26 026	47 827	214
Total Assets	**1 584 148**	**1 041 871**	**2 101 671**	**2 272 577**	**2 150 761**
Financial liabilities held for trading	118	618	1 915	17 176	15 456
Deposits from banks	2 881 728	221 626	371 131	552 772	131 250
Deposits from customers	1 073 170	1 278 954	1 142 902	654 021	-
Debt securities issued	1 386	23 182	31 489	565 000	-
Other liabilities	13 737	3 597	5 803	1 076	6 735
Total Liabilities	**3 970 139**	**1 527 977**	**1 553 240**	**1 790 045**	**153 441**
Gap	**-2 385 991**	**- 486 106**	**548 431**	**482 532**	**1 997 320**
Accumulated gap	**-2 385 991**	**-2 872 097**	**-2 323 666**	**-1 841 134**	**156 186**
Liquidity gap as at 31 December 2010					
Gap	**-3 668 046**	**-1 420 675**	**971 323**	**1 717 179**	**2 711 523**
Accumulated gap	**-3 668 046**	**-5 088 721**	**-4 117 398**	**-2 400 219**	**311 304**

- Off-balance sheet exposures (Liquidity risk)

As at 31st December 2011, 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:

Individual	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Contingent liabilities:					
Guarantees and Sureties	54 056	6 757	9 439	167 012	44 985
Commitments:					
Revocable loans	33 908	214 455	235 887	26 514	146 899
Total	**87 964**	**221 212**	**245 326**	**193 526**	**191 884**

3.9 Operational risk

The Bank has been implementing the integrated operational risk management model that, among other objectives, intends to ensure the future usage of the standardised approach. Presently, every stage of the implementation plan of that model to assess operational risk is concluded, and it is only pending the approval by the Bank of Portugal of the application made on 28 November 2011 to use the standardised approach for effects of computation of capital requirements.

The parent house in Spain has defined operational risk management policies and procedures (which have been adopted by the Bank in Portugal) and has developed qualitative tools that allow for the preparation of risk maps with the aim of measuring the impact and frequency of each of the risks identified, as well as analyse the mitigation capacity of related controls, etc.

In fact, since 2004, the Bank has been implementing in its IT system a database for operational risk events, which is automatically or manually fed according to their typology or frequency. The events captured are integrated in the single database of the parent company in Spain. This information is available in Portugal to be analysed and aid in the decision making process.

To calculate capital requirements for operational risk, we have used the basic indicator approach (BIA), considering business activity income for the past 3 years. It is worth noting that compliance and information systems risk is included in the definition of operational risk and as such considered covered by capital requirements for operational risk.

As at 31 December 2011, the Bank's capital requirements for operational risk amounted to 27,850 million euros, which corresponds to around 4.8% of total own funds requirements.

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 2011, the Bank held investment accounts in the amount of 6,181,308 thousand euros (2010: 7,917,156 thousand euros) and managed estimated financial assets in the amount of 161,654 thousand euros (2010: 213,028 thousand euros).

3.11 Capital management and disclosures

The main objective of capital management at the Bank is meeting by 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 Executive Board of Directors.

In prudential terms, the Bank is subject to the supervision of the Bank of Portugal, which issues 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.

The following table presents the composition of the Bank's regulatory capital and the ratios for the periods as at 31 December. During these two periods, the Bank was able to meet all the capital requirements to comply with the law.

	31/12/11	**31/12/10**
Tier 1 Capital		
Share capital	451,000	376,000
General banking reserves	231,920	240,343
Statutory reserve	33,607	32,010
Profit for the year	13,432	15,893
Minus: Intangible assets	-1,264	-2,525
Eligible revaluation differences	-23,924	-12,264
Deductions pursuant to Instruction 28/2011	-1,642	0
Deferred taxes and non-accepted assets	-5,217	-10,401
Deductions from insurance shareholdings	-2,000	-2,000
Deductions pursuant to regulation 120/96	-15,312	-6,902
Total Tier 1 Capital	***680,600***	***630,154***
Tier 2 Capital		
Unrealized gains in available-for-sale investments	3	3
Reserves from revaluation of tangible assets	3,143	3,143
Deductions from insurance shareholdings	-2,000	-2,000
Total Tier 2 Capital	**1,146**	**1,146**
Eligible own funds	681,746	631,300
Risk weighted assets	7,267,078	7,183,730
Own funds requirement ratio	9.4%	8.8%
Core tier I	9.6%	8.9%
Tier I	9.4%	8.8%
Tier II	0.0%	0.0%

4. Estimates and assumptions in the application of accounting policies

The Bank makes estimates and assumptions with impact in 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. The management uses estimates based on historical data available for assets with similar credit risk and possible impairment losses. The methodology and assumptions used to calculate these estimates are revised regularly aiming at reducing any differences between estimated and actual losses.

b) Fair value of derivatives and unlisted financial assets

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

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

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

d) Retirement and survivor’s pensions

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

e) Deferred taxes

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

5. Segmental reporting

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

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

Banco Popular operates in the following segments:

(1) Retail banking, which includes the sub-segments: Private Individuals, Self-employed people, Small and Medium-sized Enterprises, and Private Social Solidarity Institutions;

(2) *Commercial banking*, which includes Large Corporations, Financial Institutions, and Public Administration Sector;

(3) *Other Segments*, which group all the operations 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:

31/12/2010	Retail Banking	Commercial Banking	Other Segments	Total
Interest and similar revenue	105 936	87 103	71 907	264 946
Interest and similar charges	40 420	34 878	61 663	136 961
Revenue from equity instruments	-	-	785	785
Fees and commissions revenue	26 535	10 252	16 299	53 086
Fees and commissions charges	1 272	404	5 622	7 298
Income from financial operations (net)	1 654	-	11 431	13 085
Gains from the sale of other assets	-	-	14 574	14 574
Other operating income (net)	394	241	- 1 531	- 896
Net assets	3 288 094	3 187 640	3 757 232	10 232 966
Liabilities	2 173 943	1 540 756	5 939 217	9 653 916

6. Net interest income

This item is broken down as follows:

	31/12/11	**31/12/10**
Interest and similar income from :		
Cash and cash equivalents	1 088	845
Deposits with banks	442	5 346
Loans and advances to customers	287 006	207 727
Assets held for trading	2 203	1 237
Other financial assets at fair value	1 348	1 336
Other available-for-sale financial assets	48 646	39 170
Held-to-maturity investments	13 780	4 740
Others	2 150	4 545
	356 663	264 946
Interest and similar charges from:		
Deposits from banks	80 442	49 105
Deposits from customers	123 669	73 702
Debt securities issued	7 670	1 719
Others	13 795	12 435
	225 576	136 961
Net financial income	**131 087**	**127 985**

7. Dividend income

Balance for this item is as follows:

	31/12/11	31/12/10
Available-for-sale financial assets	64	72
Investment in subsidiaries	-	713
	64	785

8. Revenue and expense with fees and commissions

These items are broken down as follows:

	31/12/11	31/12/10
Revenue from fees and commissions from:		
Loans	13 300	14 190
Guarantees and sureties	6 555	5 089
Fees from means of collection and payment	21 589	18 727
Asset management	3 323	3 501
Fees from insurance brokerage	1 753	2 019
Account maintenance	4 403	3 743
Processing fees	2 108	2 197
Others	5 324	3 620
	58 355	**53 086**
Charges with fees and commissions from:		
Fees from means of collection and payment	6 597	3 656
Asset management	2 050	1 903
Fees from insurance brokerage	601	1 208
Others	425	531
	9 673	**7 298**

9. Net income from financial operations

This item is broken down as follows:

	31/12/2011		31/12/2010	
	Gains	Losses	Gains	Losses
Financial assets and liabilities held for trading				
Fixed-income securities	-	185	-	361
Variable-income securities	259	542	270	138
Derivative financial instruments	40 492	42 951	41 589	42 975
	40 751	**43 678**	**41 859**	**43 474**
Assets and liabilities at fair value through profit or loss				
Fixed-income securities	1 503	2 892	1 665	3 182
	1 503	**2 892**	**1 665**	**3 182**
Hedge derivatives at fair value	**129 670**	**129 670**	**114 129**	**114 129**
Available-for-sale assets and liabilities				

Fixed-income securities	205	-	15 577	-
	205	**0**	**15 577**	**0**
Income from financial assets and liabilities held for trading and at fair value through profit or loss	**172 129**	**176 240**	**173 230**	**160 785**

In 2011, the Bank received 7.7 thousand euros in dividends from financial assets held for trading (2010: 0 thousand euros). In 2011 and 2010 the Bank did not earn any income from financial assets at fair value through profit or loss.

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 hedge 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. Income from foreign exchange revaluation

These items are broken down as follows:

	31/12/11	**31/12/10**
Exchange gains		
Spot	98	177
Forward	-	5 637
	98	5 814
Exchange losses		
Forward	511	5 174
	511	5 174
Income from exchange differences (net)	**- 413**	**640**

11. Income from the sale of other assets

This item is broken down as follows:

	31/12/11	**31/12/10**
Gains from the sale of held-for-sale tangible assets	435	1 081
Gains from the disposal of investment in branches	-	14 827
	435	15 908
Losses from the sale of held-for-sale tangible assets	2 202	1 334
Losses from other tangible assets	8	-
	2 210	1 334
	- 1 775	**14 574**

Gains obtained from the disposal of investment in branches in 2010 resulted from the sale of the two below described subsidiaries:

- On 31 March 2010, the Bank sold 1,251,615 ordinary shares with voting rights, representative of 50.06% of the share capital of Popular Factoring and sold 62,497 non-voting preference shares from that same company to Banco Popular Español, which resulted in realized gains in the amount of 5.1 million euros.
- On 28 December 2010, the Bank sold 135,000 shares that represented 100% of the share capital of the company Popular Gestão de Activos to Banco Popular Español, with realized gains in the amount of 9.7 million euros.

12. Other operating results

This item is broken down as follows:

	31/12/11	31/12/10
Contributions to the DGF	- 906	- 786
Contributions to the SII	- 1 576	0
Other operating expenses	- 1 463	- 1 064
Other taxes	- 2 738	- 1 394
Contribution on the banking sector	- 3 423	0
Income from staff transfer	1 168	962
Income from property	576	552
Other income and operating revenue	1 685	834
	- 6 677	**- 896**

13. Personnel expenses

This item is broken down as follows:

	31/12/11	31/12/10
Wages and salaries	42 181	41 812
Obligatory social security charges:		
- Wages and salaries	11 336	6 374
- Pension Fund	5 418	6 169
- Other obligatory social security charges	286	286
Other expenses	669	989
	59 890	**55 630**

14. General expenses

This item is broken down as follows:

	31/12/11	31/12/10
With supplies		
Water, energy and fuel	1 861	1 693
Items of regular consumption	458	477
Other third party supplies	734	549
With services		
Rents and leasing	5 347	4 756
Communications	4 048	3 711
Travel, hotel and representation	1 307	1 555
Advertising and publicity	2 586	2 887
Maintenance of premises and equipment	5 586	4 249
Transports	1 194	2 104
Fees and regular payment agreements	3 584	4 266
Legal expenses	1 746	1 211
IT Services	4 982	4 650
Security and surveillance	919	1 189
Cleaning	876	933
Temporary work	5 401	5 045
Consultants and external auditors	2 239	1 274
SIBS	1 915	1 303
External real estate appraisers	1 069	1 806
Other third party services	5 945	4 580
	51 797	**48 238**

15. Taxes

Income tax calculation for the years 2011 and 2010 was made based on a nominal tax rate of 25% calculated over the tax base, to which a municipal surcharge of 1.5% was applied (this surcharge is levied on taxable income) and a state surcharge of 2.5% levied on a tax base in excess of 2 million euros.

As at 31 December 2011 and 2010, tax expenses on net profit, as well as the tax burden, measured by the relation between income taxes and the profit of the year before those taxes may be summed up as follows:

	31/12/11	31/12/10
Current tax on profits		
For the year	5 423	2 921
Adjustments in respect of prior years	2 794	243
	8 217	3 164
Deferred tax		
Origination and reversal of temporary differences	2 778	2 642
Total tax in the income statement	10 995	5 806
Profit before tax	24 427	21 699
Tax burden	45.0%	26.8%

The reconciliation between the nominal tax rate and the tax burden for the years 2011 and 2010, 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:

	31/12/11		31/12/10	
	Tax rate	**Amount**	**Tax rate**	**Amount**
Profit before tax		24 427		21 699
Tax at nominal rate	25.0%	6 107	25.0%	5 425
Municipal surcharge after deferred tax	2.6%	643	3.5%	756
Autonomous taxation	1.4%	340	0.7%	154
Negative equity variations	13.5%	3 298	0.0%	0
Tax benefits	-1.0%	- 249	-1.2%	- 262
Dividends	0.0%	0	-0.9%	- 187
Effect of provisions not acceptable as costs	3.9%	946	2.5%	532
Realized gains / realized losses	0.0%	0	-1.5%	- 330
Net value adjustments	-5.3%	- 1 285	-2.4%	- 525
Contribution on the banking sector	3.5%	855	0.0%	0
Tax from previous years	1.4%	340	1.1%	243
	45.0%	**10 995**	**26.8%**	**5 806**

For additional information on deferred tax assets and liabilities see note 27.

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:

31/12/2011	Booked at fair value		Accounts	Available-for-sale	Held-to-maturity	Non-fin.	
	Traded	Fair value	receivable	fin. Assets	Investments	assets	Total
Assets							
Cash and balances with central banks			138 221				138 221
Deposits with other banks			140 324				140 324
Financial assets held for trading	34 942						34 942
Other financial assets at fair value through profit or loss		30 496					30 496
Available-for-sale financial assets				1 503 439			1 503 439
Loans and advances to banks			148 835				148 835
Loans and advances to customers			6 367 864				6 367 864
Held-to-maturity investments					545,326		545 326
Other assets			77 204			483,322	560 526
	34 942	**30 496**	**6 872 448**	**1 503 439**	**545 326**	**483 322**	**9 469 973**

31/12/2011	Booked at fair value	Other financial	Hedging	Non-fin.	
	Traded	liabilities	derivatives	liabilities	Total
Liabilities					
Deposits from central banks		495 138			495 138
Deposits from banks		3 648 429			3 648 429
Financial liabilities held for trading	29 374				29 374
Deposits from customers		4 154 043			4 154 043
Debt securities issued		605 816			605 816

Hedging derivatives			82 554		82 554
Other liabilities		26 757		22 870	49 627
	29 374	**8 930 183**	**82 554**	**22 870**	**9 064 981**

31/12/2010	Booked at fair value		Accounts	Available-for-sale	Held-to-maturity	Non-fin.	
	Traded	Fair value	receivable	fin. Assets	Investments	assets	Total
Assets							
Cash and balances with central banks			123 775				123 775
Deposits with other banks			91 452				91 452
Financial assets held for trading	21 344						21 344
Other financial assets at fair value through profit or loss		31 400					31 400
Available-for-sale financial assets				1 392 094			1 392 094
Loans and advances to banks			167 141				167 141
Loans and advances to customers			7 670 864				7 670 864
Held-to-maturity investments					176,345		176 345
Other assets			52 353			308,209	360 562
	21 344	**31 400**	**8 105 585**	**1 392 094**	**176 345**	**308 209**	**10 034 977**

31/12/2010	Booked at fair value	Other financial	Hedging	Non-fin.	
	Traded	liabilities	derivatives	liabilities	Total
Liabilities					
Deposits from central banks		500 111			500 111
Deposits from banks		5 210 299			5 210 299
Financial liabilities held for trading	18 329				18 329
Deposits from customers		3 558 491			3 558 491
Debt securities issued		214 780			214 780
Hedging derivatives			38 549		38 549
Other liabilities		22 946		18 541	41 487
	18 329	**9 506 627**	**38 549**	**18 541**	**9 582 046**

17. Cash and balances with central banks

The balance of this item is broken down as follows:

	31/12/11	**31/12/10**
Cash	51 512	48 517
Demand accounts with the Bank of Portugal	86 709	75 258
	138 221	**123 775**

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

18. Deposits with banks

The balance of this item is as follows:

	31/12/11	31/12/10
Deposits with banks in Portugal		
Demand accounts	714	612
Cheques payable	52 709	47 651
Other deposits	1 222	1 725
	54 645	49 988
Deposits with banks abroad		
Demand accounts	83 919	39 215
Cheques payable	1 760	2 249
	85 679	41 464
	140 324	**91 452**

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

19. Financial assets and liabilities held for trading

The Bank uses the following derivatives:

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

Interest rate swap, which in conceptual terms can be percept as an agreement between two parties who compromise to exchange (swap) between them, for a specified amount and period of time, periodic payments of fixed rate for floating rate payments. Involving only one currency, this kind of instrument is mainly directed at the hedging and management of the interest rate risk related with the income of a financial asset or a loan or advance's costs that one part is intended to take in a determined future moment.

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

31 December 2011	Contract value (Notional amount)	Fair value Assets	Fair value Liabilities
Derivatives held for trading			
a) Foreign currency derivatives			
Currency forwards	7 117	79	68
b) Interest rate derivatives			
Interest rate swaps	572 159	27 071	29 033
c) Derivatives - others			
Swaps price quotes	-	-	-
Options	19 602	43	273
Total held-for-trading derivatives (assets/liabilities)		27 193	29 374

31 December 2010

	Contract value (Notional amount)	Fair value Assets	Fair value Liabilities
Derivatives held for trading			
a) Foreign currency derivatives			
Currency forwards	12 801	250	241
b) Interest rate derivatives			
Interest rate swaps	495 838	15 697	17 446
c) Derivatives - others			
Swaps quotations	19 150	714	642
	20	-	-
Total held-for-trading derivatives (assets/liabilities)		16 661	18 329

As at 31 December 2011, the fair value of other financial assets and liabilities held for trading was as follows:

	31/12/11	31/12/10
Other financial assets		
Variable-yield securities		
Equity stakes	7 749	4 683
	7 749	4 683
Total	**7 749**	**4 683**
Total financial assets held for trading	**34 942**	**21 344**
Total financial liabilities held for trading	**29 374**	**18 329**

20. Financial assets and liabilities at fair value through profit or loss

Set out below is a breakdown of these items:

Assets	31/12/11	31/12/10
Fixed-income securities		
Portuguese government bonds	5 990	7 019
Other foreign debt securities	24 506	24 381
	30 496	**31 400**

The item Other foreign debt securities refers to mortgage bonds issued by the Grupo Popular Español.

Public debt securities, as well as mortgage bonds, are managed, and their performance is assessed, taking into consideration their fair value and in accordance with risk strategies and policies, and the information on those items is reported to the Board on that basis.

The Bank does not hold financial liabilities at fair value through profit or loss.

21. Available-for-sale financial assets

As at 31 December 2011, the Bank had 611 thousand euros in non-listed equity instruments classified as available-for-sale financial assets which, since their fair value cannot be reliably measured, are recognised as costs (2010: 13 thousand euros).

A breakdown of this item is as follows:

	31/12/11	31/12/10
Securities issued by residents		
Government bonds - at fair value	276 261	436 076
Other debt securities - at fair value	92 377	103 511
Equity securities - at fair value	1 298	3 087
Equity securities - at historical cost	611	13
	370 547	542 687
Securities issued by non-residents		
Government bonds - at fair value	498 749	-
Other debt securities - at fair value	629 711	849 357
Equity securities - at historical cost	4 380	-
Other securities	52	50
	1 132 892	849 407
Total	**1 503 439**	**1 392 094**

The Bank has in its available-for-sale financial assets portfolio an investment of 4,380 thousand euros regarding subordinate bonds (Class D Notes) purchase in June 2002 associated with the securitization of housing loans, in the amount of 250 million euros named Navigator Mortgage Finance No. 1.

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

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

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

As at 31 December 2011 the Bank had provisions in the amount of 3,321 thousand euros (2010: 3,321 thousand euros) (see Note 23), pursuant to Instruction No. 27/2000 issued by the Bank of Portugal. This Instruction has since been revoked by Instruction No. 2/2008 issued on 17 March 2008.

Intervening entities:

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

22. Loans and advances to banks

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

	31/12/11	31/12/10
Loans and advances to banks in Portugal		
Time deposits	3 162	75
Loans	10 000	10 000
Other	134 370	148 046
Interest receivable	91	91
	147 623	158 212
Loans and advances to banks abroad		
Time deposits	1 100	2 030
Other	88	6 871
Interest receivable	24	28
	1 212	8 929
	148 835	**167 141**

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

	31/12/11	31/12/10
Up to 3 months	137 558	165 847
From 3 months to 1 year	10 000	-
Over 5 years	1 162	1 175
Interest receivable	115	119
	148 835	**167 141**

23. Loans and advances to customers

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, is as follows:

	31/12/11	31/12/10
Internal credit operations		
Public sector	**3 717 295**	**3 933 176**
Private customers	**1 909 471**	**1 762 878**
Residential mortgage loans	1 427 632	1 237 755
Personal and consumer loans	69 784	87 185
Other personal lending	412 055	437 938

	5 626 766	**5 696 054**
External credit operations		
Public sector	**146 566**	**191 824**
Private customers	**19 294**	**27 861**
Residential mortgage loans	14 779	22 709
Personal and consumer loans	115	164
Other personal lending	4 400	4 988
	165 860	**219 685**
Other loans (represented by securities)	**555 850**	**1 726 209**
Interest and commissions receivable	**12 715**	**18 382**
Past due loans and interest		
Due within 90 days	24 664	37 502
Over 90 days	144 619	156 755
	169 283	**194 257**
Gross Total	**6 530 474**	**7 854 587**
Minus:		
Provision for doubtful loans	52 662	81 732
Provision for past due loans and interest	106 539	98 582
Provision for country risk	88	88
Provision for securitised loans	3 321	3 321
Provision for impairment of loans and advances to customers	-	-
	162 610	183 723
Net total	**6 367 864**	**7 670 864**

As at 31 December 2011, credit operations included 807,585 thousand euros in mortgage loans assigned to the issuance of mortgage bonds.

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

	31/12/11	**31/12/10**
Up to 3 months	1 563 085	1 592 254
From 3 months to 1 year	1 187 253	1 434 699
From 1 to 5 years	2 173 807	2 455 126
Over 5 years	1 424 331	2 159 869
Undetermined maturity (past due)	169 283	194 257
Interest and commissions receivable	12 715	18 382
	6 530 474	**7 854 587**

During 2010, the Bank carried out four credit assignments to the company Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 234.6 million euros for the total amount of 182.2 million euros. These operations had a positive result in the amount of 94.1 million euros due to the cancelling of already constituted provisions.

On 30 March 2011, the Bank assigned loans to Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 35.6 million euros for the amount of 30.1 million euros. This operation had a positive result of 12.3 million euros due the cancelling of already constituted provisions.

On 24 June 2011, the Bank assigned loans to Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 35.9 million euros for the amount of 28.7 million euros. This operation had a positive result of 13.8 million euros due the cancelling of already constituted provisions.

On 30 September 2011, the Bank assigned loans to Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 19.6 million euros for the amount of 16.3 million euros. This operation had a positive result of 7.4 million euros due the cancelling of already constituted provisions.

On 28 December 2011, the Bank assigned loans to Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 15.8 million euros for the amount of 13.9 million euros. This operation had a positive result of 7.1 million euros due the cancelling of already constituted provisions.

Provisions for customer loans

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

	2011	2010
Balance as at 1 January	183 723	187 678
Appropriations	201 411	308 464
Used	27 257	60 328
Cancelled	195 267	252 091
Balance as at 31 December	162 610	183 723
Appropriations for provisions	201 411	308 464
Write-offs	- 195 267	- 252 091
Recoveries of bad debts	- 5 746	- 8 048
Provisions net of write-offs and recoveries of bad debts	398	48 325

Credit quality

The table below was prepared based on the following assumptions:

- We have considered a default signal the fact that the customer presented ‘impairment signals’;
- We have considered the past due and outstanding balance of default operations on reference dates.

	Customers with no default history		Customers in default	
	31/12/11	31/12/10	31/12/11	31/12/10
Private customers				
Residential mortgage loans	1 448 392	1 350 145	140 636	121 159
Personal and consumer loans	69 838	79 188	21 553	19 827
Other personal lending	122 284	133 007	50 049	33 991
	1 640 514	1 562 340	212 238	174 977
Corporate customers				
Loans	1 903 178	2 055 239	609 202	471 341
Current account	810 008	1 198 526	92 150	115 757
Others	1 146 102	2 166 308	117 082	110 099

	3 859 288	5 420 073	818 434	697 197
	5 499 802	**6 982 413**	**1 030 672**	**872 174**

Past due but not impaired loans

For the following table we have considered past due and outstanding balance of default operations on the maturity dates stated.

	31/12/11				31/12/10
	Up to 30 days	31 to 60 days	61 to 90 days	Total	Total
Private customers					
Residential mortgage loans	61 534	7 599	2 337	71 470	51 202
Personal and consumer loans	4 171	830	369	5 370	5 105
Other personal lending	7 750	880	173	8 803	9 517
	73 455	**9 309**	**2 879**	**85 643**	**65 824**
Corporate customers					
Loans	68 814	4 068	1 310	74 192	101 303
Current account	865	791	100	1 756	3 306
Others	5 988	716	141	6 845	4 355
	75 667	**5 575**	**1 551**	**82 793**	**108 964**
Total	**149 122**	**14 884**	**4 430**	**168 436**	**174 788**

Individually impaired loans

The breakdown of the total gross amount of loans to customers individually considered impaired is as follows:

	31/12/11	31/12/10
Private customers		
Residential mortgage loans	9 434	4 636
Personal and consumer loans	27	76
Other personal lending	4 463	3 618
	13 924	**8 330**
Corporate customers		
Loans	463 382	366 389
Current account	64 449	76 500
Others	61 660	59 602
	589 491	**502 491**
Total	**603 415**	**510 821**

24. Held-to-maturity investment portfolio

This item is broken down as follows:

	31/12/11	31/12/10
Debt instruments - Residents		
Listed securities		
Portuguese government bonds	122 645	123 032
Interest receivable	1 687	1 686
	124 332	124 718
Debt instruments - Non-residents		
Listed securities		
Foreign government bonds	197 075	51 148
Other non-resident bonds	222 227	-
Interest receivable	1 692	479
	420 994	51 627
TOTAL	**545 326**	**176 345**

The following table details this item as at 31 December 2011:

Nature and type of securities	Quantity	Carrying amount
TB October 2015 - 3.35%	4,000,000,000	41,324
TB October 2017 - 4,35%	4,000,000,000	40,242
TB October 2019 - 4,75%	4,000,000,000	42,766
		124 332
SPGB 4.8% 2024	500	544
Spanish Treasury	50,000	48,478
Spanish Treasury	150,000	148,074
Banco Popular Espanhol	381	18,985
IM GBP Empresas 4 FT	2,500	168,466
BBVA	700	36,447
		420,994
		545,326

25. Other tangible assets

This item is broken down as follows:

	2011					2010
	Real estate	Equipment	Art and antiques	Tang. Assets in progress	Total	Total
Balance as at 1 January						
Acquisition costs	140 497	47 538	149	727	188 911	185,455
Accumulated depreciation	- 39 191	- 40 547			- 79 738	-72,887
Accumulated impairment	- 6 595	-			- 6 595	-6,595
Acquisitions		1 826		501	2 327	3,738
Transfers						
Acquisition costs	- 6 077	174		- 725	- 6 628	-109
Accumulated depreciation	2 308				2 308	10
Disposals / Write-offs						
Acquisition costs	- 33				- 33	-173
Accumulated depreciation	20				20	173
Depreciation for the year	- 3 798	- 3 436			- 7 234	-7,034
Balance as at 31 December						
Acquisition costs	134 387	49 538	149	503	184 577	188,911
Accumulated depreciation	- 40 661	- 43 983			- 84 644	-79,738
Accumulated impairment	- 6 595				- 6 595	-6,595
Net amount	**87 131**	**5 555**	**149**	**503**	**93 338**	**102,578**

26. Intangible assets

This item is broken down as follows:

	2011			2010
	Software	Other	Total	Total
Balance as at 1 January				
Acquisition costs	18 395	2 145	20 540	20 333
Accumulated depreciation	- 17 112	- 2 028	- 19 140	- 18 348
Acquisitions	275	- 48	227	411
Transfers				
Acquisition costs			0	- 204
Depreciation for the year	- 781	- 29	- 810	- 792
Balance as at 31 December				
Acquisition costs	18 670	2 097	20 767	20 540
Accumulated depreciation	- 17 893	- 2 057	- 19 950	- 19 140
Net amount	**777**	**40**	**817**	**1 400**

27. Investment in subsidiaries and associates

	31/12/10	31/12/09
Investment in subsidiaries		
Navigator Mortgage Finance (SPE)	-	4 380
Populargest-Gestão de Imóveis, Lda	-	13 194
Investment in associates		
Eurovida-Comp. Seguros de Vida, SA	22 579	22 579
	22 579	40 153
Provisions for accumulated impairment	-	13 194
	22 579	26 959

During 2009, the Bank sold 675,000 shares that represented 45% of the share capital of Eurovida – Companhia de Seguros de Vida, S.A., to BPE with realized gains of 64.8 million euros.

As a result of this sale, the Bank now owns only around 15.94% of the share capital of that insurance company. Therefore on 31.12.2009 the company was reclassified from subsidiary to associate and consequently the remaining share capital was revalued at fair value on the date control was lost (30-06-2009).

The most significant data extracted from the consolidated financial statements of Eurovida, prepared according to IFRS, as well as the impact of the equity method on 31 December 2011 are detailed as follows:

		Financial consolidated results for Eurovida as at 31-12-2011			Impact of the application of the equity method	
	Effective stake (%)	Net Assets	Owner's equity	Net profit	In consolidation reserves	In net income
2011	15.9348%	606 342	43 745	9 101	-17 059	1 450

28. Deferred taxes

Deferred taxes are calculated in respect of all the temporary differences using an effective tax rate of 26.5% (2010: 26.5%).

Balances for these items are as follows:

	Assets		Liabilities	
	31/12/11	31/12/10	31/12/11	31/12/10
Available-for-sale securities	85 777	32 341	410	491
Tangible assets	6 273	1 396	-	-
Provisions - Art. 35 Corporate Tax	12 087	20 790	-	-
Fees and commissions	195	202	-	-
Retirement pensions	-	-	3 515	3 515
RGC provisions	6 507	5 217	-	-
Property revaluation	-	-	192	198
Shareholdings	-	-	5 413	5 413
Other assets/liabilities	9 116	7 106	-	-
Tax loss	1 884	-	-	-
	121 839	67 052	9 530	9 617

The deadline for reporting tax losses is 2015. All the remaining temporal differences have no deadline.

29. Other assets

This item is detailed as follows:

	31/12/11	31/12/10
Recoverable government subsidies	1 928	1 813
Taxes recoverable	19 474	4 674
Time deposits	1 129	836
Shareholder loans	815	481
Other debtors	52 451	44 062
Other income receivable	1 565	459
Expenses with deferred charges	5 167	4 706
Asset operations pending settlement - Diverse	11 652	22 388
Tangible assets held for sale	448 950	306 216
Pension liabilities	16 063	18 570
Stock exchange transactions pending settlement	996	-
Other transactions pending settlement	623	419
	560 813	**404 624**
Impairment of assets acquired in exchange for loans	- 74 510	- 43 957
Provisions for other assets	- 288	- 105
	486 015	**360 562**

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

Provisions for other assets	**31/12/11**	**31/12/10**
Balance as at 1 January	105	105
Appropriations	260	-
Used	70	-
Cancelled	7	-
Balance as at 31 December	**288**	**105**

Movement in the account Assets acquired in exchange for loans in 2011 and 2010 is detailed in the following table:

	2011			2010
	Property	Equip.	Total	Total
Balance as at 1 January				
Gross amount	305 876	340	306 216	289 235
Accumulated impairment	- 43 957	0	- 43 957	- 37 835
Net amount	261 919	340	262 259	251 400
Additions				
Acquisitions	83 264	-	83 264	53 742
Others	5 444	-	5 444	4 835
Disposals				
Gross amount	- 45 511	-	- 45 511	- 41 806
Populargest Merger	94 760	-	94 760	210
Own property disposal	5 117	-	5 117	-
Impairment losses	- 21 529	-	- 21 529	- 17 891
Used	4 851	-	4 851	9 551
Populargest Merger Impairment	- 16 833	-	- 16 833	-
Reversed	2 958	-	2 958	2 218
Balance as at 31 December				
Gross amount	448 950	340	449 290	306 216
Accumulated impairment	- 74 510	0	- 74 510	- 43 957
Net amout	374 440	340	374 780	262 259

30. Due to banks

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

	31/12/11	31/12/10
Spot	38 072	38 072
Forward		
Up to 3 months	3 443 119	5 020 987
3 months to 1 year	3 000	25 832
1 to 5 years	30 000	33 000
Over 5 years	131 250	87 500
Interest payable	2 988	4 908
	3 610 357	5 172 227
	3 648 429	**5 210 299**

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

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

	31/12/11	31/12/10
Spot	38 072	38 072
Forward		
Up to 3 months	3 443 119	5 020 987
3 months to 1 year	3 000	25 832
1 to 5 years	30 000	33 000
Over 5 years	131 250	87 500
Interest payable	2 988	4 908
	3 610 357	5 172 227
	3 648 429	**5 210 299**

31. Customer funds

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

	31/12/11	31/12/10
Customer funds		
Demand accounts	652 471	579 916
Time accounts	3 134 458	2 834 703
Savings accounts	10 018	26 153
Cheques payable	4 770	4 737
Other deposits	11	78
	3 801 728	3 445 587
Non-resident funds		
Demand accounts	18 656	21 788
Time accounts	290 257	67 179
Cheques payable	215	1 572
	309 128	**90 539**
Interest payable	43 187	22 365
	4 154 043	**3 558 491**

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

	31/12/11	31/12/10
Spot	671 127	601 704
Forward		
Up to 3 months	2 245 536	1 966 932
From 3 months to 1 year	1 128 567	925 627
From 1 to 5 years	65 626	41 863
Interest payable	43 187	22 365
	3 482 916	2 956 787
	4 154 043	**3 558 491**

32. Securitised liabilities

The balance of this item is broken down as follows:

	31/12/11	31/12/10
Cash bonds	39 855	84 005
Mortgage bonds	515 000	130 000
Euro Medium Term Note	50 000	-
Interest payable	961	775
	605 816	214 780

On 3 March 2009, the Bank issued Cash bonds called Popular Aforro 2009 – 1ª Emissão, in the amount of 21,058,050 euros, represented by 421,161 units with the nominal value of 50 euros each.

These loans will be repaid on 5 March 2012.

The interest rate for the 1st coupon is 6% (gross annual nominal rate), applied from 03/03/2009 to 03/09/2009. The rate for the 2nd coupon is 6% (gross annual nominal rate), applied from 03/09/2009 to 03/03/2010. From the 3rd to the last coupon the nominal annual interest rate applied to each period of calculation of interest is variable and similar to 6-month Euribor rate of the second 'target working day' before the beginning of each interest counting period, plus 0.5%.

Interest is payable six-monthly in arrears o 3 September and 3 March each year, except for the last coupon which will be paid on 5 March 2012.

On 3 July 2009, the Bank issued Cash bonds called Popular Aforro 2009 – 2ª Emissão, in the amount of 18,796,650 euros, represented by 375,933 units with the nominal value of 50 euros each.

These loans will be repaid on 5 July 2012.

The interest rate for the 1st coupon is 4% (gross annual nominal rate), applied from 03/07/2009 to 03/01/2010. The rate for the 2nd coupon is 4% (gross annual nominal rate), applied from 03/01/2010 to 03/07/2010. From the 3rd to the last coupon the nominal annual interest rate applied for each period of calculation of interest is variable and similar to 6-month Euribor rate of the second 'target working day' before the beginning of each interest counting period, plus 0.5%.

Interest is payable six-monthly in arrears o 3 January and 3 July each year, except for the last coupon which will be paid on 5 July 2012.

On 2 January 2011, the Bank made the total redemption of the issuance of Cash bond Popular Aforro 2008, issued on 30 December 2008, in the amount of 25,000 thousand euros.

On 29 August 2011, the Bank made the total redemption of the 5 issuances of Cash bonds Popular Oportunidades Globais II issued on 29 August 2008, in the amount of 11,650 thousand euros.

On 7 December 2011, the Bank made the total redemption of the 5 issuances of Cash bonds Popular AquaAgrícola issued on 28 May 2008, in the amount of 7,500 thousand euros.

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 made the first issuance of mortgage bonds in the amount of 130 million euros on 20 December 2010, the second issuance of mortgage bonds in the amount of 225 million euros on 30 June 2011, and the third issuance of mortgage bonds in the amount of 160 million euros on 30 December 2011.

These bonds are covered by a group of home loans and other assets that have been segregated as autonomous equity in the Bank's accounts, therefore grating special credit privileges to the holders of these securities over any other creditors. The conditions of the aforementioned issuance 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 2011, the characteristics of these issuances were the following:

Name	Nominal value	Carrying value	Issuance date	Reimbursement date	Interest frequency	Interest rate	Rating
BAPOP Obrgs hipotecárias 20/12/2013	130 000	130 087	20/12/2010	20/12/2013	Monthly	Euribor 1M+1.20%	A-
BAPOP Obrgs hipotecárias 30/06/2014	225 000	225 449	30/06/2011	30/06/2014	Monthly	Euribor 1M+1.20%	A-
BAPOP Obrgs hipotecárias 30/12/2014	160 000	160 020	30/12/2011	30/12/2014	Monthly	Euribor 1M+1.20%	A-

On 31 December 2011, autonomous equity assigned to these issuances amounted to 813,367 thousand euros (see Note 23).

On 29 December 2011, the Bank issued the 1st Euro Medium Term Notes programme in the amount of 50 million euros, represented by 500 units with the nominal value of 100,000 euros each. This loan will be paid on 29 December 2014.

33. Hedging derivatives

The item derivatives is composed as follows:

	31/12/2011		31/12/2010	
	Notional amount	Liabilities	Notional amount	Liabilities
Interest rate contracts				
Swaps	706 250	82 554	512 250	38 549
		82 554		38 549

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 2011, the net fair value of hedging and trading interest rate swaps (see above) was negative (see Note 29) in the amount of -84,516 thousand euros (2010: -40,298 thousand euros).

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

34. Other provisions

Balances and movements for the Provisions account were as follows:

Other Provisions (Liabilities) - Movements	**31/12/11**	**31/12/10**
Balance as at 1 January	59 428	55 511
Appropriations	5 763	4 224
Transfers	-	-
Used	-	-
Cancelled	4 057	307
Balance as at 31 December	**61 134**	**59 428**

Other Provisions (Liabilities) - Balances	**31/12/11**	**31/12/10**
Other provisions	17	17
Provisions for general credit risks	59 087	59 411
Other provisions	2 030	-
	61 134	**59 428**

35. Other liabilities

This item can be broken down as follows:

	31/12/11	**31/12/10**
Suppliers of goods	3 454	5 096
Tax withheld at source	4 494	3 282
Personnel expenses	11 607	11 244
Other expenses	7 203	3 324
Other revenues with deferred income	2 334	2 042
Foreign exchange transactions	99	2
Stock exchange operations pending settlement	-	595
Debit instructions charged	5 802	1 840
Funding operations pending payment	7 320	8 700
Other accruals and deferred income	7 315	5 363
	49 628	41 488

36. 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 it 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.

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.

The liabilities transferred amounted to 6.3 million euros and 55% of that amount has already been paid. The remaining 45% shall have to be paid until the end of the first semester of 2012, after the amount of the transferred liabilities is certified by an independent body.

This transference was recorded in the income statement in the amount of 795 thousand euros due to the allocation of the proportional part of accumulated actuarial deviations and the actuarial deviations originated by the difference in actuarial assumptions used for the calculation of the transferred liabilities.

This amount shall be deductable 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 having been registered in 2011 as deferred taxes.

On 31 December 2011, the number of participants in the fund was 1,176 (2010: 1,194). On this date there were 25 retired people and 11 pensioners.

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

Past Services	31/12/11	31/12/10
Defined benefit obligation at the beginning of the year	**102 746**	**105 838**
Service expenses:		
Bank	4 528	5 456
Employees	733	721
Interest expense	5 107	5 857
Pensions paid	- 1 113	- 941
Pensions transferred to SS	- 3 505	0
Obligations transferred to SS	- 10 070	0
Actuarial deviations	- 3 718	- 14 185
Defined benefit obligation at the end of the year	**94 708**	**102 746**

Current amount of benefit obligations	31/12/11	31/12/10
Past services		
- Old age	83 951	86 442
- Disability	0	832
- Payable pensions	10 292	13 949
- Ex -participants	465	1 523
	94 708	**102 746**
Future services		
- Old age	35 370	114 482
- Disability	0	0
- Survivor's	0	0
	35 370	**114 482**

Obligations for past services were determined for the assets in the old age coverage by the projected unit credit method.

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.

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

Equity amount of the Fund	**31/12/11**	**31/12/10**
Amount at the beginning of the year	**118 246**	**110 346**
Contributions paid		
Employer	0	6 878
Employees	733	721
Return on Fund assets	131	2 078
Pensions paid	- 4 618	- 941
Other net differences	- 789	- 836
Amount at the end of the fiscal year	**113 703**	**118 246**
Current obligations for past services	94 708	102 746
Coverage level	120.1%	115.1%

n 31 December 2011, the Fund had 50 Euro Medium Term Notes issued on 29 December 2011 by Banco Popular Portugal in the amount of 5,002 thousand euros.

On 31 December 2011, the amount of off-balance actuarial gains and losses was as follows:

Actuarial gains and losses	**31/12/11**	**31/12/10**
Off-balance actuarial losses on 1 January	- 3 070	- 13 323
Corridor limit on 1 January	- 11 825	- 11 035
Excess	8 755	- 2 288
Average expected remaining years for employees in service	29	29
Off-balance actuarial losses on 1 January	- 3 070	- 13 323
Actuarial gains for the year - obligations	3 718	14 185
Actuarial gains / losses for the year - Fund	- 5 713	- 4 015
Actuarial losses for the year	795	83
Transfer of obligations to SS	7 201	0
Off-balance actuarial gains / losses on 31 December	2 931	- 3 070

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

Cost for the year	**31/12/11**	**31/12/10**
Service Cost	5 261	6 176
Interest cost	5 107	5 857
Expected return on Fund assets	- 5 844	- 6 093

Depreciation of actuarial losses	795	83
Others	56	115
Total	**5 375**	**6 138**

The main actuarial and financial assumptions used as well as the actual amounts for the year were as follows:

Actuarial gains and losses	**31/12/11**	**31/12/10**
Off-balance actuarial losses on 1 January	- 3 070	- 13 323
Corridor limit on 1 January	- 11 825	- 11 035
Excess	8 755	- 2 288
Average expected remaining years for employees in service	29	29
Off-balance actuarial losses on 1 January	- 3 070	- 13 323
Actuarial gains for the year - obligations	3 718	14 185
Actuarial gains / losses for the year - Fund	- 5 713	- 4 015
Actuarial losses for the year	795	83
Transfer of obligations to SS	7 201	0
Off-balance actuarial gains / losses on 31 December	2 931	- 3 070

37. Contingent commitments and liabilities

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

	31/12/11	**31/12/10**
Contingent liabilities		
Guarantees and Sureties	620 350	416 447
Documentary loans	34 177	27 119
Commitments		
Irrevocable loans	217 635	203 938
Revocable loans	861 855	832 632
	1 734 017	1 480 136

On 31 December 2011, the item Irrevocable loans included the amount of 9,244 thousand euros (2010: 8,244 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.

The amount of the item Assets pledged as collateral is fully comprised of securities from the Bank’s own portfolio aimed, almost entirely, at collateralizing 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).

	31/12/11	31/12/10
Assets pledged as collateral	1 145 637	1 163 614

Additionally there were the following balances regarding off-balance sheet accounts as at 31 December 2011 and 2010.

	31/12/11	31/12/10
Deposit and custody of securities	6 181 308	7 917 156
Amounts received for collection	109 558	95 857
	6 290 866	8 013 013

38. Share capital and share premium

Pursuant to the decision made by the General Meeting on 12 December 2011, the Bank did a capital increase from 376 million euros to 451 million euros.

This increase, in the amount of 75 million euros, corresponded to the issuance of 75,000 thousand new shares with the nominal value of 1 euro each and was entirely subscribed by Banco Popular Español.

Consequently, as at 31 December 2011, the Bank’s share capital was represented by 451,000 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.

39. Revaluation reserves

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

	31/12/11	31/12/10
Revaluation reserves and fair value		
Available-for-sale investments		
Net balance on 1 January	- 88 340	11
Revaluation at fair value	- 201 953	- 120 205
Deferred taxes	53 518	31 854
Balance on 31 December	- 236 775	- 88 340
Revaluation reserves (Legal provisions)	3 143	3 143
Balance on 31 December	- 233 632	- 85 197

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

The revaluation reserve regarding the adequacy to fair value of tangible assets for own use is related to the property on Rua Ramalho Ortigão (Note 25).

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

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

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

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

40. Other reserves and retained earnings

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

	31/12/11	31/12/10
Legal reserve	33 607	32 010
Other reserves	273 665	259 362
Retained earnings	- 51 854	- 29 128
	255 418	262 244

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

	31/12/11	31/12/10
Legal reserve		
Balance as at 1 January	32 010	30 242
Transf. of retained earnings	1 590	1 768
Subsidiary merger	7	-
Balance as at 31 December	33 607	32 010
Other reserves		
Balance as at 1 January	259 362	243 455
Transf. of retained earnings	14 303	15 907
Balance as at 31 December	273 665	259 362
Resultados transitados		
Balance on 1 January	- 29 128	- 29 128
Net income for the previous year	15 893	17 675
Subsidiary merger	- 22 726	-
Transf. to legal reserve	- 1 590	- 1 768
Transf. to other reserves	- 14 303	- 15 907
	- 51 854	- 29 128
	255 418	262 244

- Legal Reserve

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

41. Personnel expenses

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

	31/12/11	31/12/10
Directors	95	90
Management	429	449
Technical personnel	487	444
Clerical staff	318	360
	1 329	1 343

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

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

	Fixed Remun.	Variable Remun. - Cash	Total Remun.
Board of Directors			
Rui Manuel Morganho Semedo - Chairman	380	100	480
Jesús Santiago Martín Juárez - Vice-chairman	90	50	140
Carlos Miguel de Paula Martins Roballo - Member	135	25	160
	605	**175**	**780**
Supervisory Board			
Rui Manuel Ferreira de Oliveira - Chairman	10	0	10
António José Marques Centúrio Monzelo - Member	6	0	6
Telmo Francisco Salvador Vieira - Member	6	0	6
	22	**0**	**22**

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

	No. of Benef.	Fixed Remun.	Variable Remun. Cash	Total Remun.
Executive Committee	6	771	88	859
Risk Management	1	61	5	66
Compliance	1	70	11	81
Asset Management	1	106	9	115
Auditing	1	58	11	69
	10	1 066	124	1 190

In 2001, one employee was admitted to these functions (Executive Committee) and there was no early termination of the employment contract of any employee.

43. Remuneration of the Statutory Auditor

The amounts paid to the Audit Firm PricewaterhouseCoopers in 2011 and 2010 were:

	31/12/11	31/12/10
Statutory audit	140	138
Other guarantee and reliability services	194	363
	334	501

44. Relationship with related companies

As at 31 December 2011 and 2010, the amounts payable and receivable regarding related companies was as follows:

	Credit		Debit		Income		Expense	
	31/12/11	31/12/10	31/12/11	31/12/10	31/12/11	31/12/10	31/12/11	31/12/10
Eurovida, SA	4 014	4 011	78 245	61 881	2 106	2 291	2 177	993
Popular Gestão de Activos, SA	-	-	2 492	2 896	1 418	426	36	16
Popular Factoring, SA	138 411	148 048	-	-	3 801	1 956	341	-
Imopopular Fundo Especial I.I.	1 105	1 101	36	197	37	-	-	-
Populargest-Gestão Imóveis, Lda	-	134 657	-	10	-	2 108	-	-
Popular Seguros, SA	-	-	2 791	4 017	544	565	108	42
SPE-Special Pourpuse Entities	4 530	4 559	-	-	1 121	77	-	-
	148 060	292 376	83 564	69 001	9 027	7 423	2 662	1 051
Banco Popular Español, SA	725 345	1 834 720	3 980 899	5 451 315	190 066	183 436	254 040	202 910

On 31 December 2011, the guarantees pledged by the Bank to related companies amounted to 11,030 thousand euros (2010: 10,563 thousand euros).

On 31 December 2011, the Bank received deposits from BPE to guarantee the risk associated with loans granted by the Bank in the amount of 41,435 thousand euros.

Transactions with related companies are based on common market conditions.

45. Cash and cash equivalents

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

	31/12/11	31/12/10
Cash and balances with central banks (Note 17)	51 512	48 517
Cash and balances with banks (Nota 18)	140 324	91 452
Deposits with banks with maturities of less than 3 months	137 558	165 847
	329 394	305 816

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

Statutory Audit and Auditor's Report

Introduction

1. In accordance with the applicable legislation, we present our Statutory Audit and Auditor's Report on the financial information included in the Management Report and in the accompanying financial statements of Banco Popular Portugal, S. A. as at and for the year ended 31 December 2011, which comprise the balance sheet as at 31 December 2011 (showing total assets of 9,634,035 thousand euros and total equity of 496,327 thousand euros, including a net profit of 13,432 thousand euros), the statements of income, of comprehensive income, of changes in equity, and of cash flows for the year then ended, and the corresponding notes. These financial statements were prepared in accordance with the Adjusted Accounting Standards introduced by Notice No. 1/2005 issued by the Bank of Portugal, which are based on the International Financial Reporting Standards (IFRS) as adopted by the European Union, with the exceptions referred to in Notices Nos. 1/2005, 4/2005 and 7/2008 issued by the Bank of Portugal.

Responsibilities

2. The Board of Directors is responsible for (i) preparing the Management Report and the financial statements that present fairly and adequately the financial position of the Bank, the results of its operations, its comprehensive income, its changes in equity and its cash flows; (ii) maintaining historical financial information, prepared in accordance with the Adjusted Accounting Standards issued by the Bank of Portugal, which is complete, true, current, clear, objective and lawful as required by the Portuguese Securities Code ('Código dos Valores Mobiliários'); (iii) adopting adequate accounting policies and criteria; (iv) maintaining an appropriate internal control system; and (v) disclosing any relevant fact that may have influenced the activity of the Bank, its financial position or its results.

3. Our responsibility is to verify the financial information included in the above referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the Portuguese Securities Code, in order to issue a professional and independent report based on our audit.

Scope

4. We conducted our audit in accordance with the Technical Standards and Audit Guidelines issued by the Portuguese Institute of Statutory Auditors ('Ordem dos Revisores Oficiais de Contas'), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. Accordingly our audit included: (i) verifying, on a test basis, the information underlying the figures and its disclosures contained in the financial statements, and assessing the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements; (ii)

evaluating the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances; (iii) assessing the applicability of the going concern basis of accounting; (iv) assessing the appropriateness of the overall presentation of the financial statements; and (v) assessing whether the financial information is complete, true, current, clear, objective and lawful.

5. Our audit also included the verification that the financial information included in the Management Report is consistent with the financial statements, as well as the verification of the disclosures required by Nos. 4 and 5 of Article 451 of the Portuguese Companies Act ('Código das Sociedades Comerciais').

6. We believe that our audit provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the financial statements referred to above present fairly in all material respects the financial position of Banco Popular Portugal, S.A., as at 31 December 2011, the results of its operations, comprehensive income, changes in equity, and cash flows for the year then ended in accordance with the Adjusted Accounting Standards issued by the Bank of Portugal, and the information contained therein is complete, true, current, clear, objective and lawful.

Report on other legal requirements

8. It is also our opinion that the financial information included in the Management Report is consistent with the financial statements and that the Corporate Governance Report includes the information required by Article 245-A of the Portuguese Securities Code.

Lisbon, 23 March 2012

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by
Aurélio Adriano Rangel Amado, Statutory Auditor

Report and Opinion of the Supervisory Board

To the Shareholders of
Banco Popular Portugal, S.A.,

1. In accordance with the law and our mandate, we present our report on our supervisory activity and our opinion on the Management Report and the Financial Statements presented by the Board of Directors of Banco Popular Portugal, S.A., for the year ended 31 December 2011.

2. In the course of our activities, we have monitored the Bank's activity, with the frequency and to the extent that we deemed appropriate. 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 auditing. 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, of 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 Management Report includes the information required by Article 245-A of the Portuguese Securities Market Code;

(v) the proposal for the appropriation of profits 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:

a) the Management Report is approved;

b) the Financial Statements are approved;

c) the proposal for the appropriation of profit 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 we had contact, for their precious collaboration.

Lisbon, 23 March 2012.

The Chairman of the Supervisory Board
Rui Manuel Ferreira de Oliveira

Member
António José Marques Centúrio Monzelo

Member
Telmo Francisco Salvador Vieira

MARKET DISCIPLINE

Public disclosure of information

Notice No. 10/2007 issued by the Bank of Portugal

Introductory Note

This document is referred to the 2011 exercise and was prepared in accordance with Notice No. 10/2007 issued by the Bank of Portugal. Its content is essentially prudential in nature.

The notes respect the order established in Notice No. 10/2007. Therefore any numbers not mentioned in this document have no application since they refer to situations on which there is nothing to report or because that information was not considered materially relevant.

Annex I – Declaration of Responsibility

1. The Executive Board of Directors of Banco Popular Portugal certifies that every procedure deemed necessary to ensure the quality of all the information disclosed herein, including information related to entities consolidated in the Group, and that, to the best of their knowledge, all the information disclosed is truthful and reliable.

   The Executive Board of Directors undertakes to timely disclose any significant changes that occur during the following financial year.

Annex II – Scope and Risk Management Policies

1. Identification and structure

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, providing other 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 as on its webpage (www.bancopopular.es).

The Bank is not a listed company.

As a result of the restructuring process initiated in previous exercises, the Bank has merged its subsidiary Populargest, Gestão de Imóveis, Lda (“Populargest”) at the end of December 2011, which was recorded in the books with reference to 1 January 2011. This merger was approved of at the Annual General Meeting of the Bank which was held on 26 December 2011 and registered at the Lisbon Commercial Registry Office on 30 December 2011.

Following the aforementioned merger, the Bank no longer holds any equity stake in any subsidiary.

The Bank has decided to reclassify Class D Notes issued by Navigator Mortgage Finance No. 1 Plc (‘Navigator’) into the available-for-sale financial assets portfolio.

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

As at 31 December 2011, the Bank detains only one equity stake in the associated company – Companhia de Seguros de Vida, S.A

2. Financial conglomerate.

Not applicable.

3. Risk management objectives and policies

3.1 Risk management strategies and procedures

Banco Popular Portugal and the Grupo Popular have in place adequate management and control systems to monitor the different types of risk based on measuring methodologies, management processes and procedures, and monitoring the different types of risk the Bank is exposed to.

The main objectives of the risk management effort are:

- Identifying risks;
- Qualitatively and quantitatively assessing risks and their subsequent prioritization;
- Determining management action plans for the main risk groups identified;
- Defining guidelines and policies for each risk category;
- Involving senior management in the implementation of the new international capital regulations (Basel II) and in the definition of an adequate risk policy ensuring its constant adaptation;
- Implementing a formal system of attributions for the extension of credit, under which the various hierarchical levels in the organisation have been assigned delegated powers for the authorisation of transactions;
- Defining risk priority policies intended to guarantee the Group's stability, its short- medium- and long-term viability, and to maximise the risk-return ratio;
- Scrupulously complying with all aspects of the applicable legislation, paying particular attention to following the instructions for the Prevention of Money Laundering and the Financing of Terrorism;
- ‘Bespoke tailoring’. Terms and conditions are negotiated with the customer depending on their connection to the Bank, the risk being assumed and the return thereon;

- Swift response in deciding on proposed transactions, as a basic competitive instrument, without detriment to the thoroughness of the analysis;
- Pursuit of maximum equilibrium between lending and funds;
- Diversifying risks;
- Promoting profitable, quality lending, opting for profitable, balanced and sustained growth overall and for risk adjusted return;
- Flexibility of the target-oriented organisational structure;
- Evaluating and rigorously documenting risk and guarantees;
- Ongoing development of in-house automatic rating or scoring systems;
- Monitoring risk from analysis to termination.

These objectives are aligned with the risk management principles defined for the Bank, such as:

- The strategy defined by the organization determines its risk exposure degree. Consequently, risk management is closely tied to the Bank's strategy and vision;
- The risk management effort shall make part of the day-to-day operation of the organization and shall be shared by all its collaborators;
- Internal and external communication of the risks is in itself a success factor for the overall risk management process implemented by the Bank.

The aim of implementing risk management processes is to allow the Bank to perform its mission successfully by controlling the risks that are inherent to the banking activity. Efficient risk management practices permit well-grounded decision making based on enhanced information levels.

The current organizational structure of the Bank allows for an adequate segregation of its different functions (concession, information and control, overall management, auditing, etc.). Additionally, the Bank has a formal attribution system, based on which all proposals are analysed at the most adequate level regarding their risk status.

The risk management structure is organized as follows:

Executive Board of Directors

- Each year approves of and reviews the activity, strategy and risk profile plan;
- Ensures the alignment of the business strategy with risk management policies;
- Reviews and approves of the half-yearly report on stress tests that has to be submitted to the Bank of Portugal, as well as the ICAAP and other risk reports to be sent to supervisory bodies.

Risk Management Department (DGR)

- Identifies and evaluates the materiality of the risks to which BAPOP is exposed;
- Quantifies capital requirements for immaterial risks, taking into consideration qualitative and quantitative factors (e. g. implemented risk management system);

- Suggests policies and risk management systems, particularly the integration of scoring and rating models;
- Develops analyses for recession or crisis scenarios on the base business plan, with the aim of estimating the respective capital requirements and solvency levels, reporting the respective results to the Board of Directions and control functions;
- Prepares risk reports for delivery to supervisory bodies.

Risk Analysis Department (DAR)

- Collaborates in the definition, transmission and monitoring of risk-taking policies established by the Executive Board of Directors;
- Decides on lending operations that fall within the scope of its delegated powers, while informing, disseminating and presenting those that have to be decided higher up in the chain of delegated powers.

Risk Monitoring Department (DAC)

- Takes preventive action over the Bank's credit portfolio, which is not attributed to the Specialized Business Network (RNE – 'Rede de Negócio Especializado') aiming at mitigating credit default risk, based on warning signals generated by the IT system and/or other internal or external indication or information;
- Analyses and monitors customers or economic groups under its scope that show any default, regardless of maturity date or amount, and from the moment it was due;
- Finds solutions to settle default situations together with the commercial network, collaborating in the negotiation of debt restructuring or guarantee reinforcement solutions under conditions to be agreed directly with the customer or through an agency, undertaking to comply with the action plans that are to be determined.

Specialized Business Network (RNE – 'Rede de Negócio Especializado')

Network created to monitor customers that need special attention in terms of risk.

The following are the most relevant risks monitored:

Credit and Concentration Risk

Credit 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, it derives from the non-compliance of the counterparties regarding their obligations with third parties, which implies that the Bank has to assume as its own certain obligations depending on the contracts. The credit risk of the Bank results mainly from its commercial banking activity, which is its core business.

In coordination with the Group Banco Popular, the Bank is currently implementing scoring and rating methods to classify customer and operation risks.

By monitoring lending transactions that have been authorized, the Bank gathers information on the evolution of the customer’s reimbursement capacity that will enable it to take action so as to avoid any default situation. In this regard, the Bank has implemented a surveillance system based on ‘technical warning signals’ which allows the Bank to anticipate possible strained situations through measures targeted at preventing ongoing risks. This system is fundamentally based on the analysis of a group of variables related to operations and customers, which detects possible anomalous deviations from their behaviour and alerts to situations such as:

- Past due loans;
- Credit lines that are exceeded;
- Overdrafts;
- Discount conditions that are not met;
- Loan instalments that are not paid.

The Risk Management Department of Banco Popular Portugal is in charge of monitoring technical warning signals.

This warning system generates a policy for classifying customers that will condition the performance of commercial agents towards those customers.

The Bank also develops methods to monitor concentration risk pursuant to Instruction No. 2/2010, based on the calculation of the Herfindahl index. This calculation has two aspects:

- Concentration to individual exposures;
- Concentration by activity sector.

Additionally, the Bank has implemented a credit risk measuring system (impairment), through which it assesses the exposure to credit risk with an expected loss model for a group of homogenous segments, using it to calculate the Institution’s economic provisions.

Market risk

Market Risk is the probability of negative impacts in 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 in the Bank’s balance sheet is done separately, through the Structural Interest Rate Risk, 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.

Foreign exchange rate risk

Foreign Exchange Risk is the probability of negative impacts in the Bank’s earnings or capital 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.

Operational risk

The Banco Popular Group has adopted the definition of operational risk in the new Basel Accord (Basel II) as ‘the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events.’

GBP adopted the Standardised Approach envisaged in BIS II to calculate the capital for operational risk, and foresees the future approach of the Advanced Approach. Banco Popular Portugal is still using the Basic Indicator Approach, although it is worth mentioning that Banco Popular Portugal will present its application to the Bank of Portugal for the adoption of the Standardised Approach.

In 2010, the Operational Risk Committee was formally constituted, integrating the regular meetings of the Internal Control and Operational Risk Committee, which, accompanied by key management personnel, meets periodically to discuss the main events that have occurred and evaluate the need to establish credit risk mitigating measures or changes to the already existing ones.

Those responsible for operational risk management in Portugal are part of GBP's Operational Risk Committee, where all the significant aspects that are relevant to the whole Group are discussed.

In November 2011, the Bank submitted to the Bank of Portugal its application to use the Standardised Approach to operational risk.

Structural interest rate risk

This risk is defined as the risk originated by the fluctuation in interest rates and is estimated through the analysis made to maturity and repricing of transactions involving on-balance sheet assets and liabilities. The estimated impact has effects both on net interest income and net assets due to:

1. Reinvestment/refinancing risk due to the uncertainty associated with the level of interest rates in the future;
2. Yield curve risk, associated with changes in the interest rates curve;
3. Basis risk, associated with an imperfect correlation between the changes of the several reference curves;
4. Optionality risk, associated with interest rate options, the existence of implicit options in some banking products (e.g. interest rate caps in some contracts) and to instruments with uncertain maturity dates (e.g. demand accounts).

For the adequate management of this type of risk, GBP has the following instruments: running both static and dynamic simulations on the balance sheet and the income statement using different scenarios, interest rate curve simulations in the different currencies that are relevant for the Group's activity, and analysis of maturity and repricing gap.

The Bank has been trying to take advantage of the synergies with GBP (Grupo Banco Popular) and has carried out a specific task of preparing information having in view the usage of the structure and methods adopted within the Group and presently already owns an analysis tool in Portugal.

Liquidity risk

Liquidity risk is defined as the probability of negative impacts on results or equity deriving from the incapacity of the Bank to meet its payment obligations as these mature or of ensuring them in reasonable market conditions. In Portugal, the Group, particularly the Bank (its most significant element) is exposed to liquidity risk deriving from the usage of current accounts, execution of guarantees, withdrawal of deposits, etc.

Liquidity risk is managed in GBP through its Assets and Liabilities Committee (ALCO) in a centralized manner for all credit entities and consolidated financial societies and monitored simultaneously by BAPOP.

GBP’s liquidity risk management system includes formal procedures for monitoring liquidity, warning systems associated with specific and systemic crisis situations, liquidity contingency plans, etc.

Reputational risk

Reputational risk is defined as the probability of negative impacts on results or equity deriving from a negative perception of the public image of the institution, either grounded or not, on the part of customers, suppliers, financial analysts, collaborators, investors or the public opinion in general.

GBP controls overall reputational risk, including all the entities that comprise the Group. Reputational risk is analysed and managed in a qualitative perspective, given the difficulties in reliably quantifying potential reputational risk losses.

Potential negative impacts on the Group’s reputation may arise from failures in the aforementioned risk management and control mechanisms. In this scope, the Group considers that the internal governance system, as well as the policies and procedures in use are adequate and allow for the prevention and mitigation of reputational risk in its various dimensions.

The main and more easily identifiable source of this type of risk is legal risk. In this regard, the Legal Department of Banco Popular Portugal, together with the Internal Control Department, ensures all legal requirements in force are met, assessing and trying to prevent possible relevant risks of material breaches from the economic or reputational standpoint. Moreover regular staff training is provided on these topics.

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.

The following techniques are used to monitor strategic risk:

- Scenario generation – for growth in the different balance sheet items, considering several possibilities:
- Calculating balance sheet items – calculating net interest income for each growth scenario, generating scenarios for the rate of return and gross operating income when compared with fixed costs;
- Building the income statement – by estimating gross operating revenue and determining its adequacy to cover fixed costs;
- Stress tests.

Strategic risk is measured on a regular basis, namely:

- every month, the Strategic Plan is monitored and the deviation from the proposed objectives is analysed;
- every six months, the Board of Directors monitors stress testing;
- from time to time, periodical reports are written whenever the deviation from the strategy is higher than the previously conceded deviation in order to correct a possible error or develop procedures targeted at redirecting towards the defined strategy.

3.2 Structure and organization of the relevant risk management function or other adequate mechanisms

The Bank has implemented a formal system of attributions for the extension of credit, according to which the various hierarchical levels have been assigned delegated powers for the authorization of transactions, based on factors such as:

- Amount of the transaction;
- Interest rate of the transaction;
- Maturity of the transaction;
- Customer;
- Activity sector;
- Probability of default;
- Warning signals.

Regarding the decision making process on credit operations, the Bank has implemented a risk analysis and assessment circuit, in agreement with the powers held by each level in the organization.

Accordingly the areas that have been assigned delegated powers to authorise lending are the following:

- Branch;
- Risk Analysis Department;
- Executive Board of Directors.

Operations that might exceed assigned powers of attribution are ultimately presented to the Credit Committee of the Banco Popular Group Español in Madrid.

Any new transaction must originate in a branch, where a final – collective – decision is made in case the operation fits within the attributions of the branch or, if not, the branch shall report it and submit it to the next higher level. This same rule applies to subsequent levels so that the biggest transactions are assessed throughout the chain of attributions.

Depending on the level of delegated powers, these can be reduced or annulled for customers under restrictive policies.

The Head of the Risk Analysis Department presents the transactions to the Executive Board of Directors, who meet every week, although, if necessary, can meet more often.

In sum, the Bank has implemented a formal system of attributions for the extension of credit, according to which the various hierarchical levels have been assigned delegated powers for the authorization of transactions, based on customer creditworthiness, as well as the nature and amount of the risk. Submitting a proposal to a higher hierarchical level is compulsory when the operations do not fall within the scope of those delegated powers of attribution.

An adequate power delegation policy enables the Bank to provide a swift and adequate response according to the complexity or risk of the transaction. Limits are designed to control exposure to credit risk at each decision-making level, while the organization simultaneously employs the necessary human and material resources.

The attribution of credit limits and case-by-case analysis of credit operations, as well as their renewal, the extension of their maturity date, their restricting, and the application of interest rates and commissions at a lower rate than those foreseen in the approved price lists, can only be done by decision of the bodies or competence levels regulatory established and by means of the powers expressly delegated by the Executive Board of Directors.

The renewal of any credit operation always implies a decision as if it were a new operation. This aspect together with other rules are stated in the General Credit Regulations.

The Risk Management Department, that answers directly to the Executive Board of Directors, is autonomously responsible for risk management. Its main objectives are obtaining an overall view of the risk management system, supervising the risk management process, coordinating the several departments involved, collecting information, and introducing changes to the system according to the business evolution, the environment and the strategy determined by the Group. Its main attributions are:

- Modelling and implementing analysis models and processes pursuant to Basel II.
- Adequately documenting, supervising handbooks and procedures for an overall appreciation, constituting a single process and the control basis that comprises the work of the Auditing sector regarding this matter.
- Regularly checking the validity of models and processes. The risk policy comprises all aspects of its management, from assessing the reliability of analysis models and their correct interpretation and usage, implementing a follow-up policy that allows to anticipate difficult situations as well as to contrast the analyses undertaken, constituting a dynamic process that allows to validate results provided by the models and introduce the changes that the comparison with the day-to-day reality advises.
- Preparing detailed information on the nature and composition of risk, as well as quality measures, coverage and trends, information that will permit to define measures targeted at steering the activity towards the intended direction.
- Complying with the Group's policy and guidelines in terms of risks, implementing models and processes, and offering initiatives and suggestions that may be suggested by the management experience.

3.3 Scope and nature of risk information and measurement systems

Credit risk

The Bank is currently at the implementation stage in Portugal of in-house credit scoring and rating models, but these instruments are already used to aid credit risk management in the Bank.

However, this process requires some adjustments in terms of information, and therefore the quantification of internal capital to hedge credit risk is made according to the standardised approach.

Additionally, the Bank has had an impairment model since 2005, which is used to assess economic provisions. This model is monitored by the Risk Management Department and its methodology is briefly described in item 1.1 of Annex V-A.

Concentration risk

In terms of concentration risk, in order to estimate internal capital requirements to face the concentration risks of the credit portfolio and the security portfolio, the Bank applies the method used by the Group which is based on the calculation of the Herfindahl index and on tables that indicate capital amounts to allocate to this risk, based on the aforementioned index. For 2011, we have excluded operations with GBP (Banco Popular Group) since we intend to assess concentration risks that are external to the Group, and we have considered the 1,000 largest exposures.

Regarding previous years, we have also considered data on the composition of economic groups (only first level participation) with reference to the position at year-end 2010.

Concentration to individual exposures

Pursuant to the selected methodology, a concentration index to individual exposures (*SNCI – Single Name Concentration Index*) is calculated for the largest 1,000 direct exposures, based on the following formula:

$$ICI = \frac{\sum x^2}{(\sum y)^2} \times 100$$

Where x represents the exposure to an individual or a set of individuals (group) and y represents total exposure of the credit portfolio. After this, a correspondence between the index obtained and specific capital coefficients was carried out, as specified in the following table:

SNCI	Coefficient
0.1	0.0%
0.15	1.7%
0.3	7.4%
0.6	15.4%
1.2	26.6%
2.4	60.2%
4.8	129.0%
9.6	247.9%
>=42,80	1071.2%

Capital requirements to hedge concentration risk regarding individual exposures are calculated multiplying capital requirements to hedge credit risk (Tier I) by the coefficient of specific capital obtained using a linear interpolation procedure between figures in the preceding table.

Concentration by activity sectors

The methodology adopted is very similar to the one described for the concentration to individual exposures, now applied to a set of activity sectors, excluding exposure to the financial sector and to private individuals, based on the following formula:

$$ICS = \frac{\sum x^2}{(\sum x)^2} \times 100$$

Where x represents exposure to each sector of activity. After this, a correspondence between the obtained index and specific capital coefficients was made, as detailed in the table below:

SCI	Coefficient
0 < SCI <= 12	0.0%
12 < SCI <= 15	2.0%
15 < SCI <= 20	4.0%
20 < SCI <= 25	6.0%
25 < SCI <= 100	8.0%

Operational Risk

Banco Popular Portugal has adopted the basic indicator approach to measure operational risk, although in November 2011 it submitted an application to the Bank of Portugal to be allowed to use the standardised approach to operational risk.

The Bank already has a qualitative management tool (GIRO) with four modules that supports the development of the several stages: identification, monitoring, mitigation/control, as well as implementing key risk indicators. In order to perform the tasks related with capturing, making an historical record and managing events, the Bank as a software which is integrated with the overall IT platform.

For the measuring stage, the Group has developed an automatic process that allows obtaining the segmentation of the relevant income by business sector as defined by Basel II.

In brief, the information gathered by this software (GIRO) and the aspects that are still being included are the following:

- Risk and self-evaluation map: it enables the preparation of a risk and control map, as well as to carry out self-evaluations within the departments involved in the process.
- Key risk indicators: these support the tools related with historical records and the management of key risk indicators previously defined for the different departments.
- Reports: it allows for a visualization of the different types of reports, taking into consideration the information intended and its audience.

Operational risk events are recorded by means of the banking software TPNet in an event database shared by the whole Grupo BPE.

Interest rate risk

For the adequate management of this type of risk, the Bank employs several mechanisms that support both management and capital assessments:

- Static and dynamic simulations on the balance sheet and the income statement using different scenarios
- Interest rate curve simulations in the different currencies that are relevant for the Group's activity.
- Analysis of maturity and repricing gap.

To support the methodology in use, the Bank has a tailored tool, called ALCO ('Aplicación Gestión Activos y Pasivos') that, by setting a wide range of parameters adjusted to the necessary tasks, allows us to carry out all the necessary simulations for the balance sheet and the income statement flows, as well as for the several interest rate curves. With this application, reports are produced featuring the results obtained from the simulations made using the balance sheet, the income statement, interest rate yield curves, as well as the analysis of maturity and repricing gap.

For that end, every month the following reports are prepared:

- Balance sheet in euro and foreign currency.
- Balance sheet structure report.
- Exchange rate risk: net position by currency.
- Maturity and repricing gap.
- Simulation on Net Interest Income.

Liquidity risk

Liquidity risk is measured in the Group's perspective, and consequently the measuring system used within the Group combines a series of liquidity parameters together with a system of warning signals associated with both specific and systemic crisis situations with different densities that may culminate in the adoption of measures included in the Liquidity Contingency Plan.

The Bank uses two complementary techniques to manage this type of risk:

- Liquidity profile by maturity dates: the analysis carried out to liquidity profile by maturity dates (gap) consists in the calculation of the time differences between contractual maturity dates of assets, liabilities and suspense accounts, after cash flows are adequately divided by maturity dates;
- Gap analysis via simulations on the Balance Sheet: in the scope of liquidity risk control and monitoring, simulations on the Bank's liquidity situations are carried out with the aim of estimating probable and extreme scenarios, as well as the actions foreseen for these cases.

At Group level, the robustness of the liquidity risk management system is ensured by an adequate Liquidity Contingency Plan that assesses the liquidity of the several assets and suggests clear instructions on organizational and communication aspects, alert signals and measures to adopt.

It is also important to highlight that whenever the day-to-day running of Banco Popular Portugal affords liquidity excesses, this is applied within the Group, which means this risk is not envisaged locally.

Market risk

As at 31st December 2011, the Bank's security portfolio amounted to 2,106 million euros, of which only around 38.2 million euros were classified as financial assets held for trading and other financial assets at fair value through profit or loss (around 0.4% of total assets).

The Bank does not have shares in its trading book, having only a reduced amount of equity stakes in investment funds that are more exposed to the stock markets, which at the end of 2011 amounted to around 1.5 million euros. Therefore the impact of market risk on the Bank's income statement is low.

However, 2011 was a year marked by significant liquidity difficulties in international markets, with the consequent increase of risk premiums demanded by investors for sovereign debt and senior debt issuances. For that reason, Banco Popular Portugal has also been affected by this scenario and, despite the fact that a large part of these securities are accounted for as available-for-sale financial assets and held-to-maturity investments (and consequently with no impact on the Bank's income statement), revaluation reserves have performed poorly, although with no impact on solvency indicators.

3.4. Risk hedging and mitigation policies

The Bank's strategy involves reducing credit risk to an acceptable minimum, trying to gather the best group of possible guarantees for every transaction. Accordingly, and for transactions that involve credit disbursement, the Bank first tries to obtain eligible collaterals which are independently appraised in the case of real estate and, secondly, personal guarantees. Regarding transactions in which the Bank provides a guarantee it tries, as much as possible, to hold an effective counter guarantee.

There are risk taking references, in terms of loan to value ratios in cases of mortgage loans, and effort rates for private customer operations. These references are regularly revised so they can be adapted to the existing economic scenario and the Bank's pre-defined risk policy.

3.5. Strategies and processes employed to monitor the sustained efficacy of hedging transactions and risk mitigation factors

When calculating portfolio impairment, usually the Bank analyses its portfolio by segments with eligible collaterals and segments with no eligible collaterals and thus it is able to measure the effect that eligible collaterals have in determining PD and LGP, which result from the impairment model and, in the future, will be determined by the scoring and rating models.

Annex III – Capital adequacy

Section A – Qualitative information

1.1. Summary of the main characteristics of the different items and components of capital requirements

Total capital requirements for effects of solvency are composed of basic own funds, complementary own funds and deductions from own funds.

The main items that compose basic own funds are share capital, reserves and retained earnings.

Complementary own funds are composed almost entirely of fixed assets revaluation reserves.

As regards the main deductions, these are essentially composed of eligible revaluation reserves and property acquired in exchange for loans not divested in statutory deadlines.

1.2. Summary of the self-evaluation method of capital requirements adequacy in face of the business development strategy

Banco Popular Portugal meets the requirements issued by the Bank of Portugal for the self-evaluation method implied by the Internal Capital Adequacy Assessment Process (ICAAP). Therefore, each year, capital requirements are analysed based on the medium run growth assumptions for the Bank. This analysis is complemented every six months with stress tests in accordance with Instruction No. 4/2011.

For effects of capital requirements assessment, the Bank analyses every risk it is exposed to, taking into consideration the nature and complexity of its business activities. Risks are classified as Low, Moderate, Material or High, corresponding to the risk levels as described in the scope of the Risk Assessment Model.

For risks that are considered material or moderate, the Bank quantifies internal capital requirements by type of risk (in case of quantifiable risks for which capital is considered an adequate mitigating element), as well as performing a qualitative analysis of those risks, namely in terms of their importance and risk management processes employed in order to prevent their occurrence (identification, measurement, control, monitoring and reporting).

Additionally the Bank carries out a prospective analysis of capital requirements planning in the medium and long run for the following three-year period aimed at estimating future capital requirements and taking into consideration the forecasted evolution of its business activity, inclusively in a recession or crisis scenario.

The results from this self-assessment are supported by a three-year projection of the Bank's Balance Sheet and Income Statement, deriving from the approved of strategic plan. On this financial statement projection, the said stress tests have already been carried out, verifying the impact on the main risks to which the Bank is exposed, particularly credit risk, concentration risk, interest rate risk and operational risk.

The Bank uses a credit impairment model to carry out forecasts of future default.

As a result of these tests, in the basic scenario, it was possible for the Bank to self-assess that its capital allocation allows to guarantee a Tier I ratio above the minimum required between 2012 and 2014, taking into consideration capital consumption calculated by the segments defined by the standardised approach (as prescribed by Basel II). Additionally, in terms of Tier II, it will also have own funds in excess to meet the main risks measured by this method in which concentration risks bears more weight.

As at 31 December 2011, Tier I capital requirements for risks considered materially relevant are summarised as follows:

Assessment of internal equity	31/12/2011
Credit risk	551 093
Operational risk	27 850
Market risk	2 423
Capital requirements	581 366
Total own funds for solvency purposes / internal equity	668 313
Excess (+) / Insufficiency (-) of own funds / internal equity	86 947
Solvency ratio	9.20%

Unit: € thousand

1.3. Financial conglomerates

Not applicable

Section B – Quantitative Information / Models

2. 'Capital Adequacy' Model

2.1. For purposes of capital requirements:

CAPITAL ADEQUACY - PART 1

	31-12-2011	31-12-2010
1. Own funds for solvency purposes	668,313	615,407
1.1. Basic own funds	684,479	623,164

1.1.1. Eligible capital	461,109	386,109
1.1.1.1. Paid-up capital	451,000	376,000
1.1.1.2. (-) Own shares	0	0
1.1.1.3. Share premium	10,109	10,109
1.1.2. Reserves and eligible results	231,493	249,980
1.1.2.1. Reserves	231,493	262,244
1.1.2.7. Revaluation differences eligible for basic own funds	0	-12,264
1.1.3. General banking risk funds	0	0
1.1.4. Other elements eligible for basic own funds	0	0
1.1.4.1. Impact on the transition to IAS/AAS (negative impact)	0	0
1.1.4.2. Other elements eligible for basic own funds	0	0
1.1.5. (-) Other elements deductible from basic own funds	-8,124	-12,925
1.1.5.1. (-) Intangible assets/Tangible assets	-1,264	-2,525
1.1.5.3. (-) Other elements deductible from basic own funds	-6,860	-10,401
1.2. Complementary own funds	3,146	3,146
1.2.1. Complementary own funds - Upper Tier 2	3,146	3,146
1.2.2. Complementary own funds - Lower Tier 2	0	0
1.3. (-) Deductions from basic and complementary own funds	-4,000	-4,000
1.3.a. Of which: (-) From basic own funds	-2,000	-2,000
1.3.b.Of which: (-) From complementary own funds	-2,000	-2,000
1.5. (-) Deductions from total own funds	-15,312	-6,903
1.4. Supplementary own funds available for market risk hedging	0	0
1.6. Memorandum item:		
1.6.2. Nominal value of subordinated loans recognized as positive element of OF	0	0
1.6.3. Minimum capital requirements	17,458	17,458
1.6.4. Reference own funds for purposes of high risk limits	668,313	615,407

Unit: € thousand

2.2. For purposes of capital requirements:

CAPITAL ADEQUACY - PART 2

	31-12-2011	31-12-2010
2. Capital requirements	581,366	574,698
2.1. For credit risk, counterparty risk and incomplete transactions	551,093	545,461
2.1.1. Standardised Approach	551,093	545,461
2.1.1.1. Risk classes according to TSA excluding securitization positions	552,906	544,466
2.1.1.1.2. Loans or cond. loans to Public Administration Authorities	4	7
2.1.1.1.3. Loans or con. loans to Adm. Org., or Non-profit Org.	4,627	1,684
2.1.1.1.6. Loans or cond. loans to Institutions	40,919	29,719
2.1.1.1.7. Loans or cond. loans to Companies	176,478	162,673
2.1.1.1.8. Loans or cond. loans to Retail portfolio	84,879	93,820
2.1.1.1.9. Loans or cond. loans on mortgaged positions	189,217	197,872
2.1.1.1.10. Past due items	9,200	11,035
2.1.1.1.12. Loans or cond. loans on mortgaged positions	0	8,000
2.1.1.1.13. Loans or cond. loans on risk positions with other banks	3,420	4,023
2.1.1.1.14. Loans or cond. loans on Other items	44,162	35,634
2.1.1.2. TSA securitisation positions	2,914	5,748
2.1.1.3. (-) Provisions for general credit risks	-4,727	-4,753
2.2. Liquidity risk	0	0
2.3 Capital requirements for position risks, exchange rate risks and commodities risk	2,423	1,367

2.3.1 Positions risks, exchange rate risks and commodities risk - TSA	2,423	1,367
2.3.1.1 Debt instruments	1,301	1,367
2.3.1.2 Exchange rate risks	1,122	
2.4 Capital requirements for operational risk	27,850	27,871
2.4.1 Basic Indicator Approach	27,850	27,871
2.4.1.2 Standardized Approach	0	0
2.5 Capital requirements - Fixed overheads	0	0
2.6 Transitory capital requirements or other capital requirements	0	0

Unit: € thousand

2.3. For purposes of capital adequacy:

CAPITAL ADEQUACY - PART 3

	31/12/2011	31/12/2010
Excess (+) / Insufficient (-) own funds / capital requirements	86,947	40,708
Solvency ratio (%)	9.2%	8.6%

Unit: € thousand

Annex IV – Counterparty credit risk

Section A – Qualitative Information

1.1. Description of how the Bank allocates capital requirements and establishes limits for counterparty credit risk

This type of risk is not managed at the level of Banco Popular Portugal, but within the Group. The Group employs a measuring system for this type of risk that is based on the credit worthiness of the counterparty or issuer and the assessment of risk exposure.

The credit risk control and management system in Treasury operations is based on a system of limits that allows to control risk, as well as to streamline the process of immediate approval of operations, in case those fall within pre-defined limits.

The policy followed by the Treasury of the Bank implies that the counterparties have pre-approved credit lines in an effort to make operations swifter. Thus it will not be possible to operate with any counterparty that has not been previously analysed and for which no credit risk limits have been attributed.

The counterparty limit is determined based on the credit status of the counterparty. With the aim of assessing the creditworthiness of each institution with which it operates or intends to operate, the Bank has a rating model which was acquired from Standard & Poor's.

With the aim of assessing the creditworthiness of each institution with which it operates or intends to operate, the Bank has a rating model which also estimates the probability of default.

Taking into consideration the variables that may influence counterparty risk, the Group employs a method of potential risk to assess counterparty credit risk exposure resulting from the treasury's day-to-day business. This model estimates credit risk exposure through the market-to-market (MtM) value of each position and associates its potential movement of future variation. Estimates of future variations calculated by MtM are based on a hypothetical worst case scenario.

1.2. Description of the policies that ensure collaterals meet legal certainty standards

The policy of the institution implies diminishing credit risk by employing hedging techniques that have legally binding results. The Bank endeavours to ensure that the relation between credit worthiness and the amount of the collateral is the lowest possible. Therefore, contracts are drawn in such a way as to ensure collaterals are binding and meet all legal requirements.

1.3. Measures employed to calculate the risk position amount

The Bank uses the market-to-market assessment method for derivatives, calculating replacement costs for all the contracts with a positive value by determining their respective current market value.

Section B – Quantitative Information

2. 'Counterparty credit risk' Model

2.1. For purposes of the Standardised Approach:

COUNTERPARTY CREDIT RISK (STANDARDISED APPROACH)

	Original exposure	Credit risk mitigation techniques with substitution effects in the exposure	Fully adjusted exposure	Risk-weighted exposure amount	
				31/12/2011	31/12/2010
	1	2	3	4	5
Derivatives	43,781	0	43,781	32,221	20,527

Unit: € thousand — Unit: € thousand

Reference date: 31/12/2011

Annex V-A – Credit risk – Overview

Section A – Qualitative Information

1.1. Accounting definitions of ‘past due loan’, ‘impaired loan’, and ‘non-performing loan’

Past due loans

The concept of past due loan is applied to the individual accounts of the Bank as established in Instruction No. 6/2005 issued by the Bank of Portugal:

> *Every default loan shall be transferred to account ‘15 – Past due loans and interest’, whatever its collateral, when at most thirty days have elapsed since default was incurred, without prejudice to its transfer as soon as all possibilities for immediate payment have been exhausted. Equally treated shall be all contractual future principal instalments that, due to default in one instalment (of principal or interest) may, pursuant to legal terms, be considered past due and in relation to which there are doubts regarding its collectability.*
> *Past due interest shall be transferred to account ‘158 – Past due interest pending settlement’ on the date payment should have been made.*

Impaired loans

The concept of credit impairment is used to calculate the economic provisions to be made by Banco Popular Portugal and its main purpose is to reflect at each moment the fair value of the Bank’s portfolio, regardless of the time that has elapsed since an operation defaulted.

Every month impairment tests are carried out on loans, according to which an asset is considered impaired when its carrying amount exceeds its recoverable amount.

Credit impairment is based on discounted cash-flow (DCF) models and estimates on recoverable amount. Assets that are not individually tested for impairment are collectively analysed based on statistical methods.

Presently, the Bank uses the credit impairment model method to calculate Economic Provisions and subsequent periodical reporting to the Bank of Portugal.

The method followed was based on the analysis of the overall credit portfolio into two main groups: non-default and default customers.

The evidence of default, the factor that separates the two abovementioned groups, derives from the observation of one or more events.

Consequently, we have had to define objective and subjective impairment indicators:

- We have defined as objective default indicators the existence of past due loans with Banco Popular for more than 90 days, customers that have been declared bankrupt following legal proceedings, customers with loans classified as having resulted from loan restructurings or from written-off loans, and customers with written-off loans in the past 12 months.
- We have defined as subjective default situations when customers showed cumulatively the following signals: past due loans within the Group for 30 to 90 days and that showed in the Bank of Portugal’s Central Credit Register past due loans in the amount of over 2,500 euros or written-off loans.

The segmentation of the portfolio for subsequent analysis is based on dividing lending transactions into four different groups, according to the counterparty’s classification: significant default exposures (from entities whose liabilities exceed 500 thousand euros); homogenous default exposures (regarding customers with default signals); significant non-default exposures (from entities whose liabilities exceed 2,500 thousand euros); and homogenous non-default exposures.

<u>Non-performing loans</u>

The Bank uses the concept of non-performing loan as defined by Notice No. 3/95 issued by the Bank of Portugal. A loan is considered non-performing when:

- It has been at most thirty days past due;
- Although less than 30 days have passed since it became past due, all possibilities of immediate payment have been exhausted;
- When contractually established instalments for future periods, due to the default in one instalment (principal or interest), may, pursuant to legal terms, be considered past due and in relation to which doubts arise as to its collectability (doubtful loans).

1.2. Description of the approaches and methods used to determine value adjustments and provisions

Banco Popular uses the calculation methods defined in Notice 3/95 issued by the Bank of Portugal to determine the calculation of provisions for specific credit risk (for past due loans and other doubtful loans) and for general credit risks.

For the purpose of provisioning, past due but not paid instalment from a single contract are included in the risk class into which the longest past due instalment fits.

Other doubtful loans are:

a) Outstanding instalments in a single credit operation in which, regarding the respective past due instalments in terms of principal and interest, at least one of the following conditions occurs:

i) They exceed 25% of principal outstanding plus past due interest;

ii) Default has happened for over six months, in operations with maturity dates of less than five years; twelve months, in operations with maturity dates between 5 and 10 years; or twenty four months, in operations with maturity dates of 10 or more years;

b) To outstanding loans of a single customers if, according to the reclassification foreseen on the previous paragraph, principal and past due interest of all operations, regarding that customer, exceed 25% of the total amount plus past due interest.

When one of the above described situations happens, the outstanding part of the loans being analysed is reclassified for provisioning purposes as an outstanding loan, being that the case of a), provisioning rates defined for past due credit are applied, and in case of b) a provisioning rate of half the provisioning rate applied to past due credit is applied.

Provisions for general credit risk are constituted by the application of a 1% rate to outstanding credit risk that comprises its basis of assessment, except regarding:

a) Loan consumption transactions, regarding which provisions shall correspond to 1.5% of their respective amounts;

b) Property mortgaged loans or property leasing transactions, in both cases when the property is for the borrower's own use, which shall correspond to 0.5% of the corresponding amounts.

1.3. Description of the type of value adjustments and provisions associated to impaired risk exposures

With the already described methodology, every month, the Bank adjusts the value of its credit assets. Therefore, and depending on the impairment of its credit portfolio, it adjusts assets to its fair value, i.e., it corrects the assets' value by the amount of the expected loss as calculated by the impairment model employed.

Presently, Banco Popular Portugal also uses a credit impairment model to calculate Economic Provisions and periodically report them to the Bank of Portugal.

1.4. Indication of recovered value and amounts directly written in the income statement regarding the present year and the previous year

- Appropriations for credit provisions: 201,412 thousand euros (2010: 308,464 thousand euros);
- Recovered amounts: 202,936 thousand euros (2010: 260,140 thousand euros)

1.5. Concentration risk

a) Banco Popular Portugal's concentration risk policy takes assumes the limits defined by Notice No. 6/2007 issued by the Bank of Portugal, i.e., it considers the limit of concentration risk in a single entity or group 25% of its eligible own funds. Additionally, in the cope of stress tests and ICAAP used to estimate capital requirements to meet concentration risk in the credit portfolio and in the securities portfolio, the Bank applies the methodology employed by the Group, which is based o the calculation of the Herfindahl Index and in tables that indicate the amounts of own funds to allocate to this type of risk, based on the aforementioned index. During 2011, the transactions with GBP (Banco Popular Group) were excluded since we intended to measure concentration risks that were external to the Group. For this study, we chose to consider the 1,000 largest exposures.

Additionally, the Bank also meets the requirements of Instruction No. 5/2011 regarding the report of concentration risk.

Deriving from its strategy of risk spreading, reduction of exposure to the real estate sector, and dynamizing of the retail portfolio as strategic policy, the Bank only has a small number of customers that, although exceeding the amount defined as high risk (10% of eligible one funds), are within the limits established by the Bank of Portugal for a single entity.

We carry out regular analysis to concentration risk by segment, with the aim of monitoring and directing commercial efforts towards what are considered strategic sectors.

Geographically, the Bank in Portugal has its commercial network mostly located on the coastal region, particularly in Lisbon and Oporto metropolitan areas, which also applies to its credit portfolio.

b) We have considered the relations and co-relations between individual or collective borrowers, in order to understand whether they constitute a single entity in terms of the risk assumed by the Bank. We take into consideration namely whether there are dominium relations between the entities, whether there are common shareholders or associates, crossed guarantees or any circumstance that may indicate interdependence between the parties.

The Group has also defined an internal limit structure aimed at maintaining an exposure level aligned with the risk profile and a correct diversification of its portfolio. The current limit system can be summarized as follows:

- Concentration risk limits by Group/customer;
- Concentration risk limits by transaction;
- Concentration risk limits by activity segment;
- Concentration risk limits by product.

Section B – Quantitative Information

2. 'Risk exposures' Model

RISK EXPOSURES

Risk classes	Original risk exposure		Original risk exposure (period average)	
	31/12/2011	31/12/2010	2011	2010
CL I - Central governments or central banks	1,334,049	793,237	1,167,382	748,396
CL II - Regional governments or local authorities	256	221	285	151
CL III - Administrative bodies & non-commercial undertakings	63,887	24,901	42,965	16,361
CL VI - Institutions	1,353,328	1,340,615	1,163,730	1,093,348
CL VII - Corporates	2,453,625	2,347,303	2,480,206	2,193,666
CL VIII - Retail	1,925,756	2,054,353	1,918,097	1,740,899
CL IX - Secured by real estate property	3,257,728	3,232,624	3,251,129	3,216,886
CL X - Past due items	259,286	300,853	283,642	210,586
CL XI - Covered bonds	0	1,000,000	916,667	583,333
CL XII - Collective investment undertakings	67,422	87,001	75,852	107,707
CL XIII - Other items	647,454	534,203	561,556	563,910
Total	11,362,791	11,715,311	11,861,510	10,475,242

Unit € thousand

3. 'Geographic distribution of risk exposure' Model

The Bank performs its activity exclusively in Portugal. There are no risk exposures regarding other countries.

Risk classes	Portugal		Other	
	31/12/2011	31/12/2010	31/12/2010	31/12/2009
CL I - Central governments or central banks	11.74%	6.77%		
CL II - Regional governments or local authorities	0.00%	0.00%		
CL III - Administrative bodies & non-commercial undertakings	0.56%	0.21%		
CL VI - Institutions	11.91%	11.44%		
CL VII - Corporates	21.59%	20.04%		
CL VIII - Retail	16.95%	17.54%		
CL IX - Secured by real estate property	28.67%	27.59%		
CL X - Past due items	2.28%	2.57%		
CL XI - Covered bonds	0.00%	8.54%		
CL XII - Collective investment undertakings	0.59%	0.74%		
CL XIII - Other items	5.70%	4.56%		
% of total original risk exposure	100%	100%	0%	0%

GEOGRAPHIC DISTRIBUTION OF RISK EXPOSURES

(in % of original risk exposure)

4. 'Distribution of risk exposure by segment' Model

DISTRIBUTION OF RISK EXPOSURE BY SEGMENT

(in % of original risk exposure) 31/12/11

Risk classes	Monetary financial institutions	Non-monetary financial institutions	Public Admin.	Non-financial segment Companies	Non-financial segment Private	Non-relevant segmentation
CL I - Central governments or central banks	0.76%		10.98%			
CL II - Regional governments or local authorities			0.00%			
CL III - Administrative bodies & non-commercial undertakings			0.22%		0.34%	
CL VI - Institutions	7.88%	4.03%				
CL VII - Corporates		0.01%		21.59%		
CL VIII - Retail				14.06%	2.89%	
CL IX - Secured by real estate property				12.62%	16.05%	
CL X - Past due items				1.60%	0.69%	
CL XII - Collective investment undertakings		0.59%				
CL XIII - Other items	0.93%	0.21%		0.01%		4.55%
% of total original risk exposure	9.57%	4.84%	11.20%	49.87%	19.97%	4.55%

DISTRIBUTION OF RISK EXPOSURE BY SEGMENT (in % of original risk exposure) 31/12/10						
Risk classes	Monetary financial institutions	Non-monetary financial institutions	Public Admin.	Non-financial segment Companies	Non-financial segment Private	Non-relevant segmentation
CL I - Central governments or central banks	0.64%		6.14%			
CL II - Regional governments or local authorities						
CL III - Administrative bodies & non-commercial undertakings					0.21%	
CL VI - Institutions	10.03%	1.43%				
CL VII - Corporates		0.01%		18.89%		
CL VIII - Retail				13.57%	3.98%	
CL IX - Secured by real estate property				14.88%	12.78%	
CL X - Past due items				0.96%	1.61%	
CL XI - Covered bonds	8.54%					
CL XII - Collective investment undertakings	0.21%	0.53%				
CL XIII - Other items	0.84%	0.22%		0.02%		4.50%
% of total original risk exposure	20.27%	2.19%	6.14%	48.31%	18.59%	4.50%

5. 'Past due risk exposures and impaired object' Model

PAST DUE RISK EXPOSURES AND IMPAIRED OBJECT	Past due risk exposures		Exposures impaired object		Value adjustments & Provisions	
	31/12/11	31/12/10	31/12/11	31/12/10	31/12/11	31/12/10
Total exposures:	**169,284**	**194,257**	**1,081,009**	**922,731**	**106,539**	**98,582**
Breakdown by Main Economic Sectors:						
Agriculture, Forestry and Fisheries	1,402	1,483	26,398	4,600	428	427
Food industries	2,050	1,628	9,310	11,592	569	585
Wood and cork industries	3,737	6,092	16,218	14,926	1,905	2,960
Furniture manufacturing	2,844	2,876	10,668	9,323	1,262	1,906
Manufacture of fabricated metal products	2,244	2,772	11,779	10,020	777	1,605
Other processing industries	8,809	7,837	42,957	47,350	2,751	4,970
Construction	42,958	70,571	357,210	331,016	15,290	30,388
Wholesale and retail trade	34,089	35,084	127,758	125,124	11,795	18,804
Transports and storage	3,278	2,861	10,881	5,563	1,124	2,075
Accommodation and food services	4,308	5,394	51,089	27,707	2,699	2,427
Information and communication activity	928	1,090	6,379	6,516	743	642
Financial and insurance activities	1,270	1,040	30,340	11,223	6,116	727
Real estate activities	8,287	19,592	141,214	101,226	3,608	6,286
Professional, scientific and technical activities	2,712	2,634	20,013	13,569	1,089	1,362
Administrative and support service activities	1,972	1,607	10,483	4,243	681	713
Other activities	3,723	2,198	28,027	18,633	812	959
Home loans	8,440	9,153	135,149	101,982	5,048	4,246
Others and private customers	36,233	20,345	45,136	78,118	49,842	17,500

Breakdown by main Geographic Areas:						
Portugal	169,284	194,257	1,081,009	922,731	106,539	98,582

Unit: € thousand

6. 'Value adjustments and provisions' Model

VALUE ADJUSTMENTS AND PROVISIONS

Value adjustments and provisions	31/12/2011	31/12/2010
Initial balance	**183,723**	**187,678**
Appropriations	201,412	308,464
Used	27,257	60,328
Annulled	195,267	252,091
Final balance	**162,610**	**183,723**

Unit: € thousand

7. 'Residual maturity date' Model

RESIDUAL MATURITY DATE
(in % of original risk exposure)

Risk classes	RMD < 1 year		1 year < VR < 5 years		5 years <VR< 10 years		VR > 10 years	
	31/12/11	31/12/10	31/12/11	31/12/10	31/12/11	31/12/10	31/12/11	31/12/10
CL I - Central governments or central banks	7.10%	1.38%	0.40%	0.49%	4.23%	4.68%	0.00%	0.24%
CL II - Regional governments or local authorities	0.00%	0.00%	0.00%	0.00%				
CL III - Administrative bodies & non-commercial undertakings	0.41%	0.11%	0.11%	0.06%	0.04%		0.01%	0.04%
CL VI - Institutions	7.45%	7.13%	2.10%	2.14%	1.00%	1.13%	1.35%	1.06%
CL VII - Corporates	12.37%	10.96%	4.03%	3.32%	2.17%	1.72%	3.02%	2.90%
CL VIII - Retail	10.33%	11.15%	4.04%	3.79%	1.44%	1.44%	1.13%	1.18%
CL IX - Secured by real estate property	4.45%	3.92%	2.97%	3.52%	2.54%	2.59%	18.71%	17.64%
CL X - Past due items	1.56%	1.77%	0.26%	0.35%	0.18%	0.12%	0.28%	0.34%
CL XI - Covered bonds				8.54%				
CL XII - Collective investment undertakings	0.36%	0.52%	0.23%	0.21%		0.01%	0.00%	
CL XIII - Other items	1.05%	0.93%	3.57%	3.39%			1.08%	1.25%
% of total original risk exposure	45.09%	37.87%	17.71%	25.81%	11.61%	11.68%	25.58%	24.64%

Annex V-B – Credit risk – Standardised Approach

Section A – Qualitative Information

1.1. Identification of external rating agencies

The following external rating agencies have been used:

- Fitch
- Moody's
- Standard & Poor's

1.2. Description of the process used to allocate risk assessments of the issuers or the issuances to the elements included in the non-trading book

The determination of the amount of risk exposures regarding on-balance and off-balance sheet elements is established by notice issued by the Bank of Portugal. On-balance assets are classified according to the risk classes and categories included in Decree-law No. 104/2007 as detailed below.

– Class I - Central administrations of central banks
– Class II - Regional administrations or local authorities
– Class III - Administrative Organizations and non-profit companies
– Class VI - Institutions
– Class VII - Companies
– Class VIII - Retail portfolio
– Class IX - Property mortgaged exposures
– Class X – Past due items
– Class XI - Covered bonds
– Class XII - Exposures on collective invest. org.
– Class XIII - Other items

The retail portfolio includes private customers and small and medium-sized enterprises and one of the requirements these have to meet is that the full amount owed by the customer, for any type of loan, or by a group of interconnected customers, excluding mortgaged exposures for the borrower's own use, cannot exceed one million euros

Securities are not included in the retail portfolio.

Subsequently, the risk weight defined by the Bank of Portugal in Notice No. 5/2007 is applied to the amounts established by risk class.

Risk weights are applied not only based on risk class but also on creditworthiness.

Creditworthiness is determined based on credit assessments made by external rating agencies, when available.

In terms of risk exposure regarding Institutions, a risk weight is applied taking into consideration the degree of creditworthiness attributed to exposures regarding the central administration of the country in which the institution is based.

Risk exposures regarding institutions whose initial maturity date was not over three months are weighted at 20%.

In the case of risk exposures regarding companies, when there is credit rating provided by a rating agency, the risk weight that corresponds to that rating is used. In case no rating is provided, the highest of the following risk weights is applied: 100% or the risk weight applied to exposures regarding the central administration of the country where the company is based.

The risk weight applied to retail portfolio risk is 75%, as long as the above-defined criteria are met.

In the case of risk exposures fully securitised by real estate, a weight risk of 100% is applied. However, if those exposures are fully guaranteed by mortgages on properties for the borrower's own use, or rented by the borrower, up to the amount of 75% of the asset's market value, a risk weight of 35% is applied, and the remaining is weighted using the risk weight associated with the respective counterparty.

So that the risk weight of 35% can be applied, the value of the property may not depend significantly on the borrower's creditworthiness; the repayment of the loan may not depend significantly on income flows generated by the property itself or its associated project; and the Bank requires legal certainty that the mortgage is legally binding and lawful, and to appraise the amount of the property at least every three years, among others.

Regarding past due items, the risk weight is applied to risk exposures that are past due for more than 90 days. A risk weight o 150% shall be assigned if value adjustments are below 20 % of the unsecured part of the exposure gross of value adjustments, 100 %, if value adjustments are no less above 20 % of the unsecured part of the exposure gross of value adjustments.

In the risk class 'Other items' tangible assets and accruals and deferrals shall be assigned a 100% risk weight, 20% to cash items in the process of collection, 0% to cash in hand and equivalent cash items. If holdings of equity and other stakes are not deducted from own funds, they shall be assigned a risk weight of 100 %.

Section B - Quantitative Information

STANDARDISED APPROACH

	Risk weights							TOTAL
	0%	20%	50%	75%	100%	150 %	Other	
1. Original risk exposure by risk class								
CL I - Central governments or central banks	1,334,049							
CL II - Regional governments or local authorities		256						
CL III - Administrative bodies & non-commercial undertakings					63,887			
CL VI - Institutions		914,124	25,229		413,975			
CL VII - Corporates					2,453,625			

CL VIII - Retail				1,925,756				
CL IX - Secured by real estate property					2,003,744		1,253,985	
CL X - Past due items					216,982	42,304		
CL XI - Covered bonds								
CL XII - Collective investment undertakings		24,506			42,916			
CL XIII - Other items	51,855	54,469			541,130			
Total original risk exposures	1,385,904	993,354	25,229	1,925,756	5,736,259	42,304	1,253,985	11,362,791
2. Risk exposure by risk class (risk weight base)								
CL I - Central governments or central banks	1,334,049							
CL II - Regional governments or local authorities		252						
CL III - Administrative bodies & non-commercial undertakings					57,837			
CL VI - Institutions		914,124	25,229		316,053			
CL VII - Corporates					2,205,975			
CL VIII - Retail				1,414,647				
CL IX - Secured by real estate property					1,929,173		1,245,837	
CL X - Past due items					61,009	35,997		
CL XI - Covered bonds								
CL XII - Collective investment undertakings		24,506			37,844			
CL XIII - Other items	262,985	54,469			541,130			
Total risk exposures	1,597,034	993,350	25,229	1,414,647	5,149,019	35,997	1,245,837	10,461,114
3. Total weighted risk exposures (deducted from own funds)								
CL I - Central governments or central banks								
CL II - Regional governments or local authorities		50						
CL III - Administrative bodies & non-commercial undertakings					57,837			
CL VI - Institutions		182,825	12,615		316,053			
CL VII - Corporates					2,205,975			
CL VIII - Retail				1,060,986				
CL IX - Secured by real estate property					1,929,173		436,043	
CL X - Past due items					61,009	53,995		

CL XI - Covered bonds								
CL XII - Collective investment undertakings		4,901			37,844			
CL XIII - Other items		10,894			541,130			
Total risk exposures deducted from own funds	0	198,670	12,615	1,060,986	5,149,019	53,995	436,043	6,911,327

Unit: € thousand
Reference date: 31/12/2011

Annex V-C – Credit risk – Internal Ratings based Approach

Non applicable.

Annex VI – Credit risk – Credit risk mitigating techniques

Section A - Qualitative Information

The Bank uses the Financial Collateral Simple Method as defined in Annex VI of Notice No. 5/2007 issued by the Bank of Portugal for credit risk mitigation in the process of calculating capital requirements for credit risk hedging without using in this calculation any compensation between on-balance and off-balance sheet items.

During the loan granting process, the competent body defines the level and type of collateral that shall be adequate to the transaction, which will later be periodically monitored by the competent departments.

The main items used as collaterals are: mortgages on residential real estate property for the borrower's own use, mortgages on other real estate properties, pledge of deposits, title transfer, securities and guarantees.

As at 31 December 2011, 36.05% of loans to customers had eligible collaterals (2010: 49.7%).

Section B - Quantitative Information

CREDIT RISK MITIGATION TECHNIQUES - STANDARDISED APPROACH

	Net risk exposure	Credit risk mitigation techniques with substitution effects in net exposure			Credit risk mitigation techniques with effect in the amount of the exposure: funded credit protection	
		Unfunded credit protection: adjusted values (Ga)	Funded credit protection	Substitution effect in the exposure (net in and outflows)	Volatility adjustment to the amount of the	Financial collateral: amount adjusted by volatility and

			Collaterals	Credit derivatives	Financial collateral simples method	Other funded credit protection		exposure	any other difference between maturity dates (Cvam) (-)
		1	2	3	4	5	6	7	8
Total exposures		**11,200,180**	**135,483**		**75,648**		**0**		
Breakdown of total exposures by risk class	Risk Class I	1,334,049							
	Risk Class II	256							
	Risk Class III	63,886			455		-455		
	Risk Class VI	1,353,328	14				-14		
	Risk Class VII	2,453,490	16,043		6,688		-22,731		
	Risk Class VIII	1,925,563	63,151		68,505		-131,656		
	Risk Class IX	3,257,728	56,275				-56,275		
	Risk Class X	97,005							
	Risk Class XI								
	Risk Class XII	67,421							
	Risk Class XIII	647,454					211,130		

Unit: € thousand

Reference date: 31/12/2011

Annex VII – Securitisations

In June 2002, the Bank carried out a home loans securitisation transaction in the amount of 250 million euros named Navigator Mortgage Finance Number 1.

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

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

Under the terms of the agreements that were signed, the Bank did not assume any commitment regarding cash availabilities of the issuer, as well as liquidity lines, credits, guarantees, rights and residual profits, or any other risks, besides the Class D Notes identified on the table above that are included in the balance of item Variable-income securities.

As at 31 December 2011, the book value of Class D Notes amounted to 4,380 thousand euros.

As at 31 December 2011 the Bank had provisions in the amount of 3,321 thousand euros (2010: 3,321 thousand euros) (see Note 23), pursuant to Instruction No. 27/2000 issued by the Bank of Portugal. This Instruction has since been revoked by Instruction No. 2/2008 issued on 17 March 2008.

Intervening entities:

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

Annex VIII – Credit risk – Position risk, Counterparty credit risk and Trading book liquidity risk

Section A - Qualitative Information

1.2. Description of the methodologies used to assess trading book risks

Banco Popular Portugal owns a small trading book, which represents around 0.4% of total assets, therefore this is considered a residual risk. Given this framework, the Bank does not apply any specific risk assessment method to these assets.

Section B - Quantitative Information

2. 'Capital requirements (Trading book)' model

CAPITAL REQUIREMENTS (TRADING BOOK)

Trading Book Risks	Capital requirements	
	31/12/2011	31/12/2010
TOTAL Trading Book Risks	3,879	3,009
1. Position risk	1,301	1,367
1.1. Standardised Approach to Trading Book Risk	1,301	1,367
1.1.1. Debt instrument	1,301	1,367
1.1.1.1. General risk		
1.1.1.2. Specific risk	1,301	1,367
1.1.2. Equities		
1.1.1.1.		
1.1.1.2.		
1.1.3. Collective investment undertakings		
1.1.4. Exchange-traded futures and options		
1.1.5. Over-the-counter futures and options - OTC		
1.1.6. Others		
1.2. Internal Models method applied to the Trading Book		
2. Counterparty credit risk	2,578	1,642
2.1. Repurchase transactions, reverse repurchase transactions, securities and and commodities lending and borrowing transactions, margin lending transactions and long settlement transactions		
2.2. Derivative instruments	2,578	1,642
2.3 Cross-Product Netting		
3. Liquidity risk	0	0

Unit: € thousand

Annex IX – Foreign exchange risk in the Non-trading and the Trading Books

Section A - Qualitative Information

1.1. Indication of the method adopted by the institution to calculate the minimum capital requirements to hedge its exposure to foreign exchange risk and commodities risk

- The Institution uses the Standardised Approach.

Section B - Quantitative Information

2. 'Capital Requirements – Foreign Exchange and Commodities Risk' model

CAPITAL REQUIREMENTS (TRADING BOOK)

Trading Book Risks	Capital requirements 31/12/2011	Capital requirements 31/12/2010
TOTAL Trading Book Risks	3,879	3,009
1. Position risk	1,301	1,367
1.1. Standardised Approach to Trading Book Risk	1,301	1,367
1.1.1. Debt instrument	1,301	1,367
1.1.1.1. General risk		
1.1.1.2. Specific risk	1,301	1,367
1.1.2. Equities		
1.1.1.1.		
1.1.1.2.		
1.1.3. Collective investment undertakings		
1.1.4. Exchange-traded futures and options		
1.1.5. Over-the-counter futures and options - OTC		
1.1.6. Others		
1.2. Internal Models method applied to the Trading Book		
2. Counterparty credit risk	2,578	1,642
2.1. Repurchase transactions, reverse repurchase transactions, securities and and commodities lending and borrowing transactions, margin lending transactions and long settlement transactions		
2.2. Derivative instruments	2,578	1,642
2.3 Cross-Product Netting		
3. Liquidity risk	0	0

Unit: € thousand

Annex X – Exposures in Equities not included in the Trading Book

Section A - Qualitative Information

1.1. Identification of the objectives associated with exposure in equities

The bank has no equities in its trading book. However, it has some shareholdings that, being minority stakes, are measured at fair value.

1.2. Identification of the accounting techniques and assessment methodologies employed

Regarding assets measured at fair value and referred to in 1.1 we have used the discount cash flow methodology, based on the company's historical information and making some assumptions in terms of future evolution, based on the macroeconomic scenario and market conditions.

Section B - Quantitative Information / Models

2. 'Equity Exposure (Non-trading Book)' model

EQUITY EXPOSURES (NON-TRADING BOOK)

	Non-exchange traded equity				TOTAL	
	Private Equity		Other			
	31/12/11	31/12/10	31/12/11	31/12/10	31/12/11	31/12/10
Cost value / Nominal value			4,206	3,626	4,206	1,660
Fair value			1,961	3,149	1,961	1,360
Market price						
Net income at year-end from sales and settlements						
Total unrealized gains or losses					-385	-385
Total latent revaluation gains or losses					-91	-91

Unit: € thousand

Annex XI – Operational Risk

Section A - Qualitative Information

1.1. Description of the methodology employed to calculate minimum capital requirements

The Bank calculates operational risk based on the Basic Indicator Approach. Under this approach, the capital requirements for operational risk correspond to 15% of the average over the past three years of the relevant positive annual indicator. The relevant indicator is the sum of net interest income and other net income on an annual basis.

1.2. Indication of the accounting items considered for the calculation of the relevant indicator

The accounting items considered for the calculation of the Basic Indicator Approach are:

– Interest receivable and similar income;

– Interest payable and similar charges;

– Income from shares and other securities, except for investments in affiliated or associated undertaking;

– Fees and commissions receivable;

– Fees and commissions payable;

– Net profit or net loss on financial operations, except gains/losses from the sale of loans to customers and gains/losses from other financial assets at fair value through profit or loss;

– Other operating income; and

– Deferred tax income associated with the previous items.

Section B - Quantitative Information

2. ‘Operational Risk’ model

OPERATIONAL RISK

Activities		Relevant indicator			Memorandum item: Advanced Measurement Approach - Decrease in own funds	
		2009	2010	2011	Expected loss captured in the internal business practices	Risk transfer mechanisms
1. Basic Indicator Approach		173,047	198,694	185,255		
2. Standardised Approach	- Corporate finance					
	- Trading and sales					
	- Retail brokerage					
	- Commercial banking					
	- Retail banking					
	- Payment and settlement					
	- Agency services					
	- Asset management					
Advanced Measurement Approach						

Unit: € thousand

Annex XII – Sensitivity Analysis of Capital Requirements

Section A - Qualitative Information

1.1. Identification of the nature of interest rate risk on the non-trading book

Interest rate risk on the trading book arises from the risk of fluctuation of the interest rate in the market and its respective effects on net income.

1.2. Brief description of the internal model employed to measure interest rate risk on the non-trading book

The exposure to interest rate risk of the consolidated balance sheet is measured every month by a repricing gap model applied on assets and liabilities that may be affected by fluctuations in the interest rate. Briefly, this model groups assets and liabilities that are sensitive to fluctuations at fixed time intervals (maturity date or date of the first interest rate revision in case of indexation) based on which the potential impact on the intermediation margin is calculated.

Additionally, we also employ the methodology stated in Instruction No. 19/2055 issued by the Bank of Portugal and targeted at measuring the impact of this type of risk on equity.

1.3. Description of the fundamental assumptions used to calculate interest rate risk

The gap methodology used to measure the interest rate risk consists in measuring risk exposures by different maturity dates and readjustments between asset and liability cash flows. Briefly, this model groups assets and liabilities that are sensitive to fluctuations at fixed time intervals (maturity date or date of the first interest rate revision in case of indexation) based on which the potential impact on the intermediation margin is calculated.

Within this framework, this model considers a scenario whit an immediate impact on interest rates so that, at the time interest rates are revised, the new rates may include this effect for transactions involving assets or liabilities.

This model allows us to calculate the impact of parallel shifts of the yield curve.

To perform this type of analysis, the following steps are followed:

1. Determining the number of intervals by maturity date.
2. Attributing each cash flow to the corresponding interval by maturity date.
3. Grouping on-balance and off-balance sheet items by real maturity dates and/or revisions at each period.
4. Analysing items that are sensitive to the balance sheet.
5. Calculating the simple gap by maturity and revision dates, as the difference between asset and liability cash flows for each time interval.

$$GAP_{\text{SIMPLE}, i} = CF\ (Assets)_i - CF\ (Liabilities)_i$$

Where:

CF = Cash flows

i = Maturity period.

6. Calculating accumulated gap as the difference between asset and liability cash flows.

$$GAP_{AcCUMULAted\ i} = \sum_{t=1} (\backslash FC\ (Assets)_i - FC\ (Liabilities)_t\ )$$

Where:

CF = Cash flows

i = Maturity period.

The sum indicates that we are considering cash flows from the beginning until the period being analysed.

7. Measuring net income changes

Net income changes: GAP * VaInterest Rate Fluctuations

GAP impact on Net Income.

The following assumptions were considered:

- Financial Statements as at 31 December 2011;
- Indexed transactions are considered based on the interest date revision, while non-indexed ones are considered based on their maturity date;
- Deposit account balances are for more than one year-periods, since the average annual balance for deposit accounts has a significant stability, and therefore its concentration was seen in the more than one year period;
- Fixed-rate or structured financial products, but associated with hedging transactions for interest rate or market risk, were considered on the dates of revision of the interest rates or the dates of the exercises of the hedging transactions;
- Differences in carrying amounts were adjusted with the creation of transactions that as a percentage fall under the profile of interest rate revisions as used in the Bank;
- Application of a 200 basis points impact.

Identification of material correlations between the interest rate risk on the non-trading book and other types of risks

The Bank does not perform studies on the identification of material correlations between the interest rate risk on the non-trading book and other types of risks.

2. Stress tests

2.1. Scope and incidence (type of risk)

Banco Popular Portugal performs three-year stress tests every six months in accordance with Instruction No. 4/2011 issued by the Bank of Portugal, which fall upon the risks the Bank is exposed to and tries to measure its capital adequacy to face impacts resulting from substantial changes in market conditions.

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, it derives from the non-compliance of the counterparties regarding their obligations with third parties, which implies that the Bank has to assume as its own certain obligations depending on the contracts.

Market risk

Market risk is the probability of negative impacts in 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 in the Bank's balance sheet is done separately, through the Structural Interest Rate Risk, 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.

Foreign exchange risk

Foreign Exchange Risk is the probability of negative impacts in the Bank's earnings or capital 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.

Operational risk

The Banco Popular Group has adopted the definition of operational risk in the new Basel Accord (Basel II) as 'the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events.'

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 asset and liabilities operations in the balance sheet. The estimated impact has effects both on net interest income and net assets due to:

- Reinvestment/refinancing risk due to the uncertainty associated with the level of interest rates in the future;
- Yield curve risk, associated with changes in the interest rates curve;
- Basis risk, associated with an imperfect correlation between the changes of the several reference curves;
- Optionality risk, associated with interest rate options, the existence of implicit options in some banking products (e.g. interest rate caps in some contracts) and to instruments with uncertain maturity dates (e.g. demand accounts).

Liquidity risk

Liquidity risk is defined as the probability of negative impacts on results or equity deriving from the incapacity of the Bank to meet its payment obligations as these mature or of ensuring them in reasonable market conditions.

Reputational risk

Reputational risk is defined as the probability of negative impacts on results or equity deriving from a negative perception of the public image of the institution, either grounded or not, on the part of customers, suppliers, financial analysts, collaborators, investors or the public opinion in general.

Property risk

Property risk is defined as the probability of negative impacts on results or equity deriving from possible contingencies on real estate properties recorded in the Bank's portfolio and inherent volatility of the real estate market.

2.2. Description, objectives and frequency

Pursuant to Instruction No. 4/2011, Banco Popular Portugal performs stress tests every six months to measure the adequacy of its capital to meet impacts resulting from substantial changes in market conditions. Every year, in December, the Bank analyses stress scenarios, based on the macroeconomic indicators presented by the Bank of Portugal, and every six months the Bank performs sensitivity analysis of its main risks.

The bank has developed a set of statistical regressions that allow forecasting the evolution of the main items that compose the balance sheet, whose explanatory variables are a set of macroeconomic indicators.

2.3 Description of the assumptions, underlying scenarios, risk factors considered and shocks introduced to simulate adverse events

Scenario analysis

As a starting point for the stress tests we have used the Bank's business plan for 2012-2014, which is based essentially on the following growth assumptions:

Assumptions	Dec-12	Dec-13	Dec-14	Sources
Credit growth	0.30%	1.76%	2.04%	Business plan
Fee and commission growth	-2.75%	10.00%	15.00%	Business plan
Average interest rate for loans	5.71%	6.36%	6.84%	Business plan
Average interest rate for deposits	3.24%	3.43%	4.14%	Business plan
Deterioration in the loan portfolio	15.08%	15.76%	17.17%	Regressions - impairment mode

Inflation rate	3.00%	1.50%	1.50%	European Commission
GDP growth rate	-3.00%	1.10%	1.50%	European Commission
Unemployment rate	13.60%	13.70%	13.70%	European Commission
Real estate prices	-9.00%	-9.00%	-9.00%	BAPOP's estimates
1 year Euribor	1.80%	2.00%	2.25%	ALCO Curve
6 month Euribor	1.56%	1.53%	1.94%	ALCO Curve
3 month Euribor	0.93%	1.27%	1.71%	ALCO Curve

For the stress scenario, using the macroeconomic scenario projected in the Circular Letter 235/12/DSPDR issued by the Bank of Portugal on 17 January 2012, we have created a second scenario, considered substantially more adverse, which is essentially based on the following growth and assumptions:

Assumptions	Dec-12	Dec-13	Dec-14	Sources
Credit growth	-3.67%	2.09%	2.77%	Regressions - book growth
Fee and commission growth	-9.71%	2.37%	11.11%	Stressed business plan
Average interest rate for loans	5.74%	6.43%	6.90%	Stressed business plan
Average interest rate for deposits	3.28%	3.51%	4.20%	Stressed business plan
Deterioration in the loan portfolio	16.44%	17.43%	19.21%	Regressions - impairment mode
Inflation rate	0.00%	0.00%	0.00%	BdP's Letter
GDP growth rate	-5.30%	-1.10%	1.70%	BdP's Letter
Unemployment rate	15.10%	16.20%	16.00%	BdP's Letter
Real estate prices	-11.00%	-11.00%	0.00%	BdP's Letter
Real estate prices - Residential	-5.50%	-5.50%	0.00%	BdP's Letter
1 year Euribor	1.53%	1.23%	1.23%	BdP's Letter
6 month Euribor	1.20%	0.90%	0.90%	BdP's Letter
3 month Euribor	1.00%	0.70%	0.70%	BdP's Letter

Sensitivity Analyses

Parallel shifts in the yield curve of 100 basis points.

We have made a parallel shift in the yield curve and projected two types of impact:

- on estimated credit default;
- on estimated net income.

Real estate reduction by 10%.

We have considered an immediate 10% decrease whenever any real estate property in the portfolio acquired in the scope of credit recovery is reappraised, remaining constant the amounts assumed for the sale of properties.

We have decided to perform the sensitivity analysis to the price decrease both since that is the most expectable scenario for the next two years and because it is the most conservative one.

Section B - Quantitative Information

3. ‘Interest Rate Risk (Non-trading book)’ Model

INTEREST RATE RISK (NON-TRADING BOOK)

			Impact	
			31/12/2011	31/12/2010
Effect on net position of a 200 p.b. shock to the interest rate:	Amount	+1	10,222	-35,400
		-2	-10,222	35,400
	% of net position	+1	2%	-5%
		-2	-2%	5%

1"+" = downward shock to the interest rate
2"-" = downward shock to the interest rate

Unit: € thousand

THE BOARD OF DIRECTORS

CORPORATE GOVERNANCE REPORT

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

2011

Banco Popular Portugal, S.A. (also named Banco Popular or BAPOP) is fully owned by a sole shareholder, Banco Popular Español, S.A., whose Head Office is located in Madrid, Spain. Banco Popular’s share 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 Executive Board of Directors, the Supervisory Board and the Statutory Auditor.

I – General Meeting

I.1 – Members of the Board of the General Meeting

Members of the Board of the General Meeting:

Augusto Fernando Correia Aguiar-Branco - Chairman
João Carlos de Albuquerque de Moura Navega - Secretary

I.2 – Terms of office of the members of the Board

The current members of the Board of the General Meeting were first elected on 7th May 2007 and re-elected for the four-year term of 2011-2014 on 30th May 2011 and their term of office is on 31 December 2014.

I.3 – Remuneration of the Chairman

The Chairman of the Board of the General Meeting earned a monthly salary of 500.00 in a total of 6,000.00 euros; the Secretary earned a monthly salary of 300.00 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 timeframe 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 of the Board of Directors and the Supervisory Board 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 Banco Popular are the Executive Board of Directors, the Supervisory Board and the Statutory Auditor, or Audit Firm. These governing bodies were elected for the four-year term of 2011-2014 on 30 May 2011.

Composition:

Executive Board of Directors

Rui Manuel Morganho Semedo - Chairman

Jesús Santiago Martín Juárez - Vice-Chairman

Tomás Pereira Pena – Member

Jaime Jacobo González-Robatto Fernández - Member

Supervisory Board

Rui Manuel Ferreira de Oliveira – Chairman

Telmo Francisco Salvador Vieira – Member

António José Marques Centúrio Monzelo – Member

Ana Cristina Freitas Rebelo Gouveia - Alternate

Statutory Auditor

PricewaterhouseCoopers & Associados, SROC, Lda.

Represented by Aurélio Adriano Rangel Amado

or José Manuel Henriques Bernardo

Alternate Statutory Auditor

Jorge Manuel Santos Costa

II.2 – Delegation of powers and the Bank's organizational structure

The Board of Directors has delegated the day-to-day management of the business of Banco Popular to its Chairman, Rui Manuel Morganho Semedo, and the Director, Jesús Santiago Martin Juárez, with powers to make decisions and to practice all the acts comprehended in the Bank's social object, within legal limits, namely the following:

a) Acquiring, disposing of and encumbering movable and immovable assets, as well as creating or change the horizontal property of real estate owned by the Bank;

b) Opening or closing branches;

c) Important extension or reduction of the Bank's activity;

d) Important changes in the Bank's organization;

e) Entering in or terminating any lasting cooperation with another company;

f) Managing the Bank's stakes in other companies, namely appointing the Bank's representatives in their respective corporate bodies and defining guidelines for their performance;

g) Hiring, signing, changing or terminating employment contracts and exercising the respective directive and disciplinary powers;

h) Approving of the employees appointments or changes in their remuneration except those that regard the last level of the Collective Bargaining Agreement table;

i) Contracting, signing, changing and terminating insurance or building contracts, as well as other service contracts;
j) Contracting, signing, changing and terminating rental and lease contracts for immovable or movable property;
l) Representing the Bank in and out of Court, filing criminal complaints, engaging in arbitrations, start and respond to Court proceedings, with the power to waive, transact and confess in any legal proceedings;
m) Appointing proxies to practice certain acts, or categories of acts, on behalf of the Bank, always defining the extension of their respective powers;
n) Subscribing, acquiring, disposing of or encumbering shareholdings in any companies, as long as the operations are included in the pre-defined business plans;
o) Establishing and organizing working methods, including the elaboration of regulations and determination of instructions they deem necessary.

The above-describe delegated powers shall be enforced by the Chairman of the Board of Directors, Rui Manuel Morganho Semedo, together with the Director Jesus Santiago Martin Juárez. Whevenever deemed necessary or convenient, throughout the year, the Chairman, Rui Manuel Morganho Semedo, shall inform the Board of Directors of the decisions, acts or agreements signed under the delegated powers.

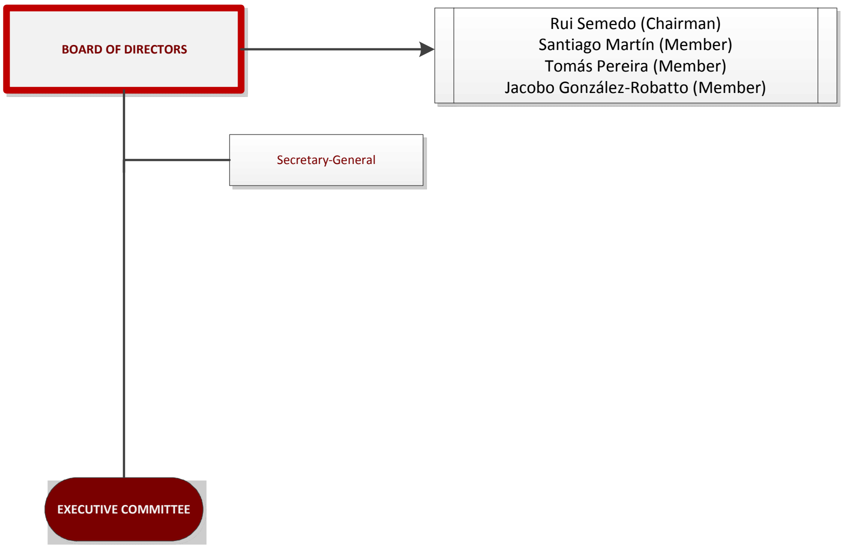
In terms of Corporate Governance of the Banco Popular, the Executive Committee was created on 1st January 2011, under the framework of the continuous improvement process of the management model of the Bank as a unit of Banco Popular Group.

The creation of this Committee, which meets once a week, was aimed at streamlining the decision making process and making its implementation and follow-up more effective in order to face successfully the very demanding circumstances in which the Bank operates.

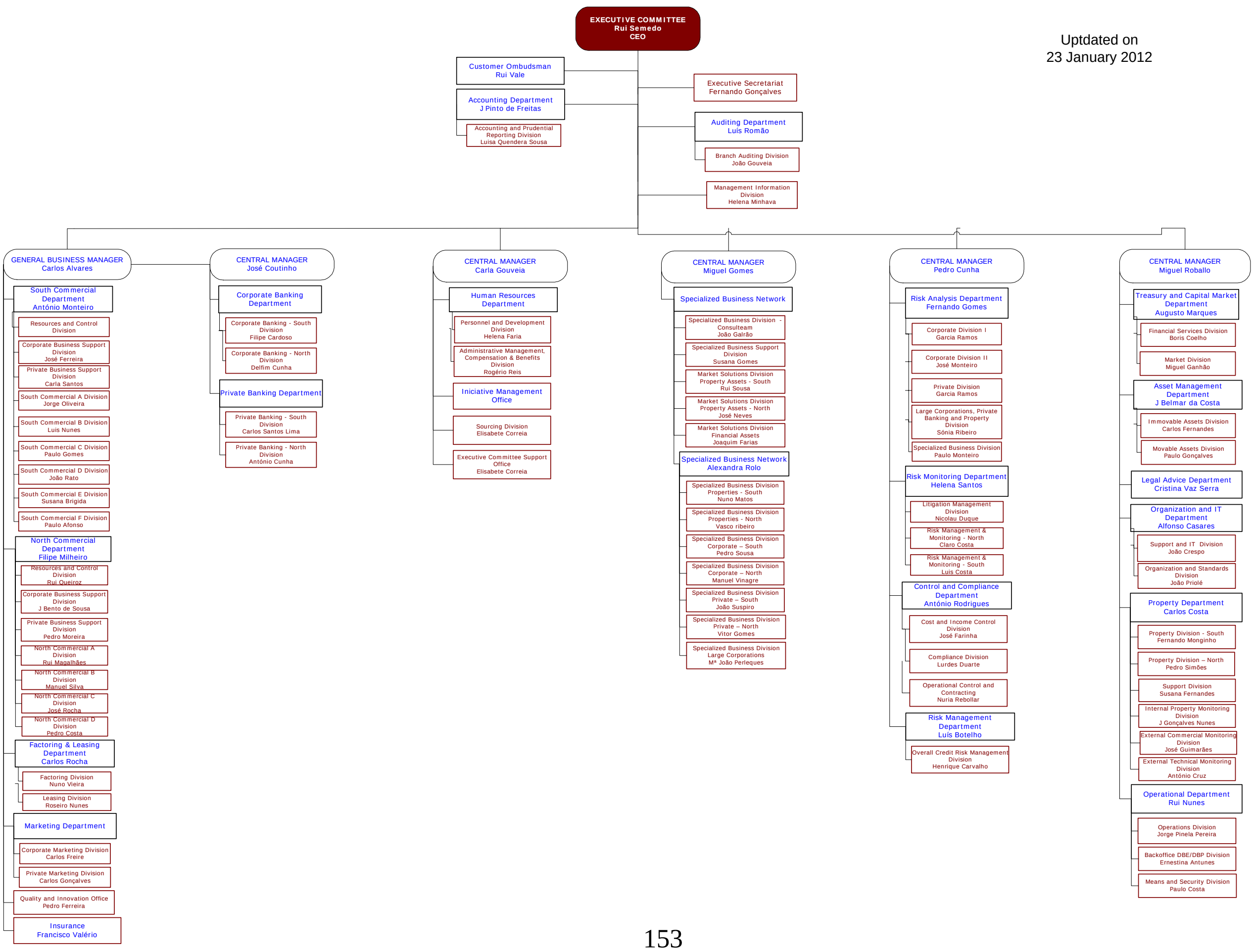
Without prejudice to the role of the Board of Directors as a statutory governing body, the Executive Committee, a non-statutory body, will ensure the day-to-day running of the Bank, within the larger guidelines of the Group and the Board of Directors.

The Executive Committee is composed of Rui Manuel Morganho Semedo, Chairman of the Board of Directors, who coordinates it, Carlos Manuel Sobral Cid da Costa Álvares, General Business Manager, José António Matos dos Santos Coutinho, Carla Maria da Luz Gouveia, Jorge Miguel Santos Roldão Gomes, Pedro Miguel da Gama Cunha e Carlos Miguel de Paula Martins Roballo, all of them Central Managers.

The current attribution of functions within the members of the Executive Committee can be seen in the following company structure:



Uptdated on
23 January 2012



II.3 – Activity Monitoring Committees

Besides the creation of the Executive Committee, which supports the Board of Directors in the day-to-day running of the Bank, several specialized committees were established to monitor the activity of Banco Popular, namely:

Internal Control and Operating Risk Committee

The Internal Control and Operating Risk Committee is a consultant body, constituted by the Heads of several departments: Auditing, Risk Management, Organization and IT, Customer Ombudsman, Legal Advice, Human Resources and Compliance/Internal Control. This Committee is coordinated by the Chairman of the Board of Directors.

This Committee meets at least once a month and its main functions are:
- protecting the Bank's reputation and minimize its respective risk;
- systematically identifying and analysing the relevant legislation applied to the day-to-day activity of the Bank, detecting existing deficiencies and how to overcome them;
- analysing and proposing policies, planning and action strategies in order to scrupulously comply with the regulations and Instructions issued by the Bank of Portugal, CMVM and ISP in order to avoid any type of sanctions;
- submitting and appreciating policies and procedures, that are concrete, efficient and adequate to identify, evaluate, monitor and control every risk the Bank is exposed to;
- identifying, appreciating and validating deficiencies to be included in the annual report (individual and consolidated) to be sent to the Bank of Portugal and CMVM;
- analysing and appreciating the annual reports in terms of Compliance, Internal Auditing and Risk Management, which are legal reporting requirements, as well as the monthly and annual reports on Prevention of Money Laundering and the Financing of Terrorism and on Customer Ombudsman.

Business Continuity Management Committee

This consultant Committee is comprised of the Heads of several departments: Human Resources, Organization and Technology, Operating, Risk Management, and Compliance. This Committee is coordinated by the Chairman of the Board of Directors and meets at least once every quarter but it can meet exceptionally whenever necessary. Its functions are observing a set of generic good practices to be implemented and deepened by the Bank in accordance with the characteristics in terms of risk profile, taking into consideration the nature, dimension, business complexity and organizational model, which are reflected in the 'Prudential Recommendations on Business Continuity Management' approved of by the National Council of Financial Supervisors ('Conselho Nacional de Supervisores Financeiros').

Demand Management Committee

The Demand Management Committee is a consulting body, comprised of the heads of several departments: Organization and IT, Risk Management, Operations, Legal Advice, Commercial, Accounting, and Marketing. This Committee meets at least once a quarter and may meet exceptionally whenever necessary.

The function of this Committee is to manage the demand management model of the Bank's IT Systems regarding commercial needs, internal needs, or legal requirements, monitoring projects, defining priorities and anticipating impacts in their implementation.

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 financial statements. 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. It is for the Board of Directors to 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 Banks 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 abovementioned 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 system, as part of the internal control system, corresponds to an integrated set of permanent processes that ensure the adequate understanding of the nature and dimension of the risks underlying the Bank's business activity.

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. 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.

At the end of 2011, some adjustments were made to the corporate risk management model used by Banco Popular Portugal, which will be organized as follows:

Executive Board of Directors

- Each year approves of and reviews the activity, strategy and risk profile plan;
- Ensures the alignment of the business strategy with risk management policies;
- Reviews and approves of the half-yearly report on stress tests that has to be submitted to the Bank of Portugal

Risk Management Department (DGR)

- Identifies and evaluates the materiality of the risks to which BAPOP is exposed;
- Quantifies capital requirements for immaterial risks, taking into consideration qualitative and quantitative factors (e. g. implemented risk management system);
- Suggests policies and risk management systems, particularly the integration of scoring and rating models;
- Develops analyses for recession or crisis scenarios on the base business plan, with the aim of estimating the respective capital requirements and solvency levels, reporting the respective results to the Board of Directions and control functions;
- Prepares risk reports for delivery to supervisory bodies.

Risk Analysis Department (DAR)

- Collaborates in the definition, transmission and monitoring of risk-taking policies established by the Executive Board of Directors;
- Decides on lending operations that fall within the scope of its delegated powers, while informing, disseminating and presenting those that have to be decided higher up in the chain of delegated powers.

Risk Monitoring Department (DAC)

- • Takes preventive action over the Bank's credit portfolio, which is not attributed to the Specialized Business Network (RNE – 'Rede de Negócio Especializado') aiming at mitigating credit default risk, based on warning signals generated by the IT system and/or other internal or external indication or information;
- • Analyses and monitors customers or economic groups under its scope that show any default, regardless of maturity date or amount, and from the moment it was due;
- • Finds solutions to settle default situations together with the commercial network, collaborating in the negotiation of debt restructuring or guarantee reinforcement solutions under conditions to be agreed directly with the customer or through an agency, undertaking to comply with the action plans that are to be determined.

Specialized Business Network (RNE - Rede de Negócio Especializado)

Network created to monitor customers that need special attention in terms of risk.

II.6 – Identifying 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 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 non-recovery of principal, interest and commissions, in term regarding amount, period and other conditions stipulated in the contracts. Regarding off-balance sheet risks, it derives from the non-compliance of the counterparties regarding its obligations with third parties, which implies that the Bank has to assume as its own obligations in terms of the contracts. The credit risk of the Bank results mainly from its commercial banking activity, which is its main business area.

In coordination with the Group Banco Popular, the Bank is currently implementing scoring and rating methods to classify customer and operation risks.

The Bank also develops methods to monitor concentration risk pursuant to Instruction No. 2/2010, based on the calculation of the Herfindahl index. This calculation has two aspects:
- Concentration to individual exposures;
- Concentration by activity sector.

Additionally, the Bank has implemented a credit risk measuring system (impairment), through which it assesses the exposure to credit risks with an expected loss model for a group of homogenous segments, using it to calculate the Institution's economic provisions.

Market risk

Market Risk is the probability of negative impacts in 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 in the Bank's balance sheet is done separately, through the Structural Interest Rate Risk, 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.

Foreign exchange rate risk

Foreign Exchange Risk is the probability of negative impacts in the Bank's earnings or capital 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.

Operational risk

The Banco Popular Group has adopted the definition of operational risk in the new Basel Accord (Basel II) as 'the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events.'

GBP adopted the Standardised Approach envisaged in BIS II to calculate the capital for operational risk, and foresees the future approach of the Advanced Approach. Banco Popular Portugal is still using the Basic Indicator Approach.

In 2010, the Operational Risk Committee was formally constituted, integrating the regular meetings of the Internal Control and Operational Risk Committee, which, accompanied by key management personnel, meets periodically to discuss the main events that have occurred and evaluate the need to establish credit risk mitigating measures or changes to the already existing ones.

Those responsible for operational risk management in Portugal are part of GBP's Operational Risk Committee, where all the significant aspects that are relevant to the whole Group are discussed.
In November 2011, the Bank submitted to the Bank of Portugal its application to use the Standardised Approach to operational risk.

Structural interest rate risk

This risk is defined as the risk originated by the fluctuation in interest rates and is estimated through the analysis made to maturity and repricing of transactions involving on-balance sheet assets and liabilities. The estimated impact has effects both on net interest income and net assets due to:

1. Reinvestment/refinancing risk due to the uncertainty associated with the level of interest rates in the future;
2. Yield curve risk, associated with changes in the interest rates curve;
3. Basis risk, associated with an imperfect correlation between the changes of the several reference curves;
4. Optionality risk, associated with interest rate options, the existence of implicit options in some banking products (e.g. interest rate caps in some contracts) and to instruments with uncertain maturity dates (e.g. demand accounts).

For the adequate management of this type of risk, GBP has the following instruments: running both static and dynamic simulations on the balance sheet and the income statement using different scenarios, interest rate curve simulations in the different currencies that are relevant for the Group's activity, and analysis of maturity and repricing gap.

The Bank has been trying to take advantage of the synergies with GBP (Grupo Banco Popular) and has carried out a specific task of preparing information having in view the usage of the structure and methods adopted within the Group and presently already owns an analysis tool in Portugal.

Liquidity risk

Liquidity risk is defined as the probability of negative impacts on results or equity deriving from the incapacity of the Bank to meet its payment obligations as these mature or of ensuring them in reasonable market conditions. In Portugal, the Group, particularly the Bank (its most significant element) is exposed to liquidity risk deriving from the usage of current accounts, execution of guarantees, withdrawal of deposits, etc.

Liquidity risk is managed in GBP through its Assets and Liabilities Committee (ALCO) in a centralized manner for all credit entities and consolidated financial societies and monitored simultaneously by BAPOP. GBP's liquidity risk management system includes formal procedures for monitoring liquidity, warning systems associated with specific and systemic crisis situations, liquidity contingency plans, etc.

Reputational risk

Reputational risk is defined as the probability of negative impacts on results or equity deriving from a negative perception of the public image of the institution, either grounded or not, on the part of customers, suppliers, financial analysts, collaborators, investors or the public opinion in general.

GBP controls overall reputational risk, including all the entities that comprise the Group. Reputational risk is analysed and managed in a qualitative perspective, given the difficulties in reliably quantifying potential reputational risk losses.

Potential negative impacts on the Group's reputation may arise from failures in the aforementioned risk management and control mechanisms. In this scope, the Group considers that the internal governance system, as well as the policies and procedures in use are adequate and allow for the prevention and mitigation of reputational risk in its various dimensions.

The main and more easily identifiable source of this type of risk is legal risk. In this regard, the Legal Department of Banco Popular Portugal, together with the Internal Control Department, ensures all legal requirements in force are met, assessing and trying to prevent possible relevant risks of material breaches from the economic or reputational standpoint. Moreover regular staff training is provided on these topics.

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.

The following techniques are used to monitor strategic risk:

- Scenario generation – for growth in the different balance sheet items, considering several possibilities:
- Calculating balance sheet items – calculating net interest income for each growth scenario, generating scenarios for the rate of return and gross operating income when compared with fixed costs;
- Building the income statement – by estimating gross operating revenue and determining its adequacy to cover fixed costs;
- Stress tests.

Strategic risk is measured on a regular basis, namely:

- every month, the Strategic Plan is monitored and the deviation from the proposed objectives is analysed;
- every six months, the Board of Directors monitors stress testing;
- from time to time, periodical reports are written whenever the deviation from the strategy is higher than the previously conceded deviation in order to correct a possible error or develop procedures targeted at redirecting towards the defined strategy.

II.7 – Powers of board members, and in particular the power to issue or buy back shares

The Executive Board of Directors has no powers to issue or buy back shares.

Any share capital increase requires the approval of the General Meeting on proposal of the Executive Board of Directors.

II.8 – Policy on rotation of functions within the Executive Board of Directors

Although not formalized there is, in fact, a policy: functions within the Executive Committee that supports the Executive Board of Directors in terms of the day-to-day management of the Bank are periodically rotated.

II.9 - Rules applicable to appointment and replacement of members of the management and supervisory bodies

The members of the Executive Board of Directors are elected by the General Meeting for four-year terms, with the possibility of being re-elected. Directors will lose their term if, during it, they miss five consecutive meetings of the Board or seven interpolated with no justification accepted by the Board. The replacement of Directors is made by cooptation pursuant to legal terms, and it shall be submitted to ratification on the following General Meeting.

The members of the Supervisory Board are elected by the General Meeting for four-year terms, with the possibility of being re-elected. The Chairman of the Board of the General Meeting shall verify any possible conflicts of interest among its permanent members and make any moves necessary for replacement by a substitute.

The Statutory Auditor, or the Audit Firm, is appointed by the General Meeting for a four-year period and an alternate Statutory Auditor, or Audit Firm, is also appointed.

II.10 – Meetings held by the management and supervisory bodies

The Executive 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 2011, the Board of Directors met 14 times.

The Supervisory Board meets ordinarily at least once every three months and extraordinarily on request of the Chairman or of any other member. The minutes contain all the decisions taken in these meetings. In 2011, the Supervisory Board met 5 times.

II.11 – Professional information on the members of the Executive Board of Directors:

Rui Manuel Morganho Semedo - Chairman

Date of first appointment – 5 November 2007

Term of office – 31 December 2014

Professional qualifications: - Degree in Economy

Professional activities in the past 5 years: - Barclays Bank , Portugal – CEO; Barclays Bank, Spain – CEO.

Does not own any shares in the company.

Functions in other companies from Banco Popular Group: - Chairman of the Executive Board of Directors of Popular Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.; Director Popular Factoring, S.A., Eurovida – Companhia de Seguros de Vida, S.A. and Popular Seguros – Companhia de Seguros, S.A.; Manager of Consulteam – Consultores de Gestão, Lda.

Jesús Santiago Martín Juárez - Member

Date of first appointment – 27 January 2010

Term of office – 31 December 2014

Professional qualifications: - First Degree in Economic Sciences; Degree in Geography; First Degree in Teaching

Professional activities in the past 5 years: - Banco Popular Español, S.A. – Head of IT Systems

Does not own any shares in the company.

Functions in other companies from Banco Popular Group: - Management functions at Banco Popular Español, S.A.

Tomás Pereira Pena - Member

Date of first appointment – 27 May 2009

Term of office – 31 December 2014

Professional qualifications: - Degree in Law

Professional activities in the past 5 years: - Banco Popular Español, S.A. – Head of Legal Services

Does not own any shares in the company.

Functions in other companies from Banco Popular Group: - Head of Legal Services at Banco Popular Español, S.A..

Jaime Jacobo González-Robatto Fernández - Member

Date of first appointment – 27 January 2010

Term of office – 31 December 2014

Professional qualifications: - Degree in Law and Business Management

Professional activities in the past 5 years: - Banco Popular Español, S.A. – Executive Manager;

Corte Fiel – President; Barclays Bank, España – Deputy Director

Does not own any shares in the company.

Functions in other companies from Banco Popular Group: - Executive Director at Banco Popular Español, S.A.; President of Murgados, SICAV

II.12 – Identification of the members of the Supervisory Board

Rui Manuel Ferreira de Oliveira – President

Telmo Francisco Salvador Vieira – Member

António José Marques Centúrio Monzelo – Member

Ana Cristina Freitas Rebelo Gouveia – Alternate

According to their own self-assessments, effective Supervisory Board members meet the requirements of incompatibility rules as foreseen by No. 1 of Article 141; and the independence criteria as defined in No. 5 of Article 414, both from the Portuguese Companies Act (‘Código das Sociedades Comerciais’).

II.13 – Professional information on the members of the Supervisory Board

Rui Manuel Ferreira de Oliveira

Date of first appointment – 7 May 2007

Term of office – 31 December 2014

Professional qualifications: Degree in Business Management

Professional activities in the past 5 years: Freelance consultant

Does not own any shares in the company.

Does not hold any post in other companies of the Banco Popular Group.

Telmo Francisco Salvador Vieira

Date of first appointment – 7 May 2007

Term of office – 31 December 2014

Professional qualifications: Degree in Business Management and MBA; Statutory Auditor; Doctoral Candidate in Business Management at ISEG

Doutorando em Gestão no ISEG

Professional activities in the past 5 years: - Lecturer at Instituto Superior de Economia e Gestão; consultancy as a partner at Premivalor Consulting

Does not own any shares in the company.

Does not hold any post in other companies of the Banco Popular Group.

António José Marques Centúrio Monzelo

Date of first appointment – 7 May 2007

Term of office – 31 December 2014

Professional qualifications: - Degree in Accountancy and Business Management; Statutory Auditor

Professional activities in the past 5 years: - Statutory Auditor for several companies

Does not own any shares in the company.

Does not hold any post in other companies of the Banco Popular Group.

Ana Cristina Freitas Rebelo Gouveia

Date of first appointment – 7 May 2007

Term of office – 31 December 2014

Professional qualifications: - Degree in Auditing; First Degree in Accountancy and Business Administration

Professional activities in the past 5 years: - Assistant Manager in the financial company ENERSIS;

Does not own any shares in the company.

Does not hold any post in other companies of the Banco Popular Group.

II.14 – Remuneration policy of corporate bodies

The remuneration of the members of the Executive Board of Directors and the Supervisory Board is determined by the sole shareholder. Aiming at, on the one hand, abide by Law No. 28/2009, of 19 June, and, on the other, strengthening transparency in the pay structure of Banco Popular Portugal, S.A, governing bodies, the following remuneration policy for 2011 was approved of at the General Meeting held on 30 May 2011.

– Process for setting the remuneration of the members of the corporate 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.

Therefore, the remuneration policy of the members of the Executive Board of Directors and the Supervisory Board is directly defined by its sole shareholder according to uniform, consistent, fair and balanced criteria adopted by the Group. The existence or not of a variable remuneration is directly associated with the degree of fulfilment of the main objectives established each year for Banco Popular Group and Banco Popular Portugal.

2 – Remuneration of the members of the Supervisory Board

The members of the Supervisory Board earn a monthly fixed salary paid twelve times a year. Remunerations are set at the beginning of term and valid until de term of office.

3 – Remuneration of the Statutory Auditor

The remunerations of the Audit Firm are established at the beginning of each term for service contracts pursuant to common remunerative practices and conditions for similar services.

4 – Remuneration of the members of the Executive Board of Directors

4.1 – Non executive members

Non executive members of the Board of Directors do not earn any remuneration from Banco Popular Portugal.

4.2 – Executive members

Remuneration composition

The remuneration of executive members of the Board of Directors is fixed annually by the sole shareholder and depends on the economic performance in the previous year of the Grupo Banco Popular, to which Banco Popular Portugal belongs.

Remuneration is composed of a monthly fixed amount paid on the basis of 14 months/year and a variable amount.

The variable amount is paid in cash and no deferred payment of the variable component is provided for in the statutory regulations.

Remuneration limits

The fixed part of the remuneration shall have the limits established by the sole shareholder.

The variable component will fluctuate each year and for each member being, in any case, determined by the sole shareholder.

Criteria for the definition of the variable component of the remuneration

The variable component is established according to the criteria used for the members of governing bodies of the Banco Popular Group in terms of remuneration, depending on the degree of fulfilment of the Group's main objectives.

Other forms of remuneration

No other forms of remuneration besides the aforementioned fixed and variable components are provided for in the rules and regulations.

Compensation due for directors' dismissal without cause

No agreements are foreseen that determine the amounts to pay in case of dismissal of executive members of the Board of Directors besides the provisions of Law.

The proposal of the remuneration policy for 2012, which will be presented to the Annual General Meeting for the approval of the Accounts can be seen in Annex I to the present Report.

II.15 – Remunerations earned by the governing bodies

The members of the Executive Board of Directors earned a total amount of € 779,708.61 in 2011, which included both fixed and variable components and which was fully paid in cash.

The amounts paid to each member of the Executive Board of Directors are detailed as follows:

Board of Directors	Fixed Remun.	Variable Remun. - Cash	Total Remun.
Rui Manuel Morganho Semedo - Chairman	380	100	480
Jesús Santiago Martín Juárez - Vice-chairman	90	50	140
Carlos Miguel de Paula Martins Roballo - Member	135	25	160
	605	**175**	**780**

The members of the Supervisory Board earned a total amount of € 21,600.00 in 2011, which was fully paid in cash. The amounts paid to each member of the Supervisory Board are detailed as follows:

Supervisory Board			
Rui Manuel Ferreira de Oliveira - Chairman	10	0	10
António José Marques Centúrio Monzelo - Member	6	0	6
Telmo Francisco Salvador Vieira - Member	6	0	6
	22	**0**	**22**

III – Information and Auditing

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

Share capital – € 451,000,000.00, represented by 451,000,000 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

Annual reports and opinions issued by the Supervisory Board on the activity developed are available, together with the annual financial statements, on the Bank's internet website, www.bancopopular.pt.

III.5 – Remunerations paid to the Statutory Auditor

The amounts paid to the Statutory Auditor, PricewaterhouseCoopers, in 2011 were as follows:

	31/12/11	**31/12/10**
Statutory audit	140	138
Other guarantee and reliability services	194	363
	334	501

Lisbon, 20 March 2012

THE BOARD OF DIRECTORS

DECLARATION ON THE REMUNERATION POLICY OF THE MEMBERS OF THE EXECUTIVE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

2012

1 – Process for setting the remuneration of the members of the corporate 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.

Therefore, the remuneration policy of the members of the Executive Board of Directors and the Supervisory Board is directly defined by its sole shareholder according to uniform, consistent, fair and balanced criteria adopted by the Group. The existence or not of a variable remuneration is directly associated with the degree of fulfilment of the main objectives established each year for Banco Popular Group and Banco Popular Portugal.

2 – Remuneration of the members of the Supervisory Board

The members of the Supervisory Board earn a monthly fixed salary paid twelve times a year. Remunerations are set at the beginning of term and valid until de term of office.

3 – Remuneration of the Statutory Auditor

The remunerations of the Audit Firm are established at the beginning of each term for service contracts pursuant to common remunerative practices and conditions for similar services.

4 – Remuneration of the members of the Executive Board of Directors

4.1 – Non executive members

Non executive members of the Board of Directors do not earn any remuneration from Banco Popular Portugal.

4.2 – Executive members

Remuneration composition

The remuneration of executive members of the Board of Directors is fixed annually by the sole shareholder and depends on the economic performance in the previous year of the Grupo Banco Popular, to which Banco Popular Portugal belongs.

Remuneration is composed of a monthly fixed amount paid on the basis of 14 months/year and a variable amount.

The variable remuneration is paid in cash and no deferred payment of the variable component is provided for in the statutory regulations.

Remuneration limits

The fixed part of the remuneration shall have the limits established by the sole shareholder.

The variable component will fluctuate each year and for each member being, in any case, determined by the sole shareholder.

Criteria for the definition of the variable component of the remuneration

The variable component is established according to the criteria used for the members of governing bodies of the Banco Popular Group in terms of remuneration, depending on the degree of fulfilment of the Group's main objectives.

Other forms of remuneration

No other forms of remuneration besides the aforementioned fixed and variable components are provided for in the rules and regulations.

Pension Plan

The executive members of the Board of Directors exercising their functions on an exclusive basis at Banco Popular Portugal are entitled to receive retirement and survivor's pensions according to the following regulations:

1 – Right to a monthly retirement pension on a 14 month/year basis, corresponding to a percentage of their monthly remuneration, in the case of the Chairman of the Board of Directors, or of a percentage of level 18 of the Collective Bargaining Agreement for the banking sector, in the case of all other members, for each year in function;

2 – Right to a monthly survivor pension paid to the surviving spouse, corresponding to 80% of the pension as defined in number 1;

3 – The rights to the retirement pension and the survivor pension will only become effective if and when the member of the Executive Board of Directors is appointed for a second term and has completed at leas four year in the exercise of those functions;

4 – The right to the retirement pension is acquired on the term of office date and it shall be calculated and fixed in relation to that date. However, the effective payment of the pension will only begin in the month after the member of the Boar of Directors completes 65 years of age.

The Pension Plan for the members of the Executive Board of Directors was approved of at the General Meeting.

Compensation due for directors' dismissal without cause

No agreements are foreseen that determine the amounts to pay in case of dismissal of executive members of the Board of Directors besides the provisions of Law.

Lisbon, 20 March 2012

THE BOARD OF DIRECTORS

DISCLOSURE OF THE POLICY OF STAFF REMUNERATION
2012

Pursuant to No. 4 of Article 16 of Notice No. 10/2011 issued by the Bank of Portugal on 29th December, the remuneration policy we hereby disclose the remuneration policy of employees that, not being members of governing bodies of Banco Popular Portugal, S.A., earn a variable remuneration and exercise their professional activity in the scope of the control functions as established by Notice No. 5/2008 issued by the Bank of Portugal on 1st July, or exercise any activity that may carry a material impact on the Bank's risks profile.

Banco Popular Portugal has defined a remuneration policy of all its employees that comprehends, naturally, all those who exercise their professional activity in the scope of compliance, risk management, and internal auditing, or that exercise any other professional activity that may carry a material impact on the Bank's risk profile.

Definition of the remuneration policy of employees

The remuneration policy of employees is defined by the Board of Directors on proposal of the Human Resources Department and follows what is established by the instruments that collectively regulate work agreements, as well on the criteria and practices used by Banco Popular Group. This remuneration is composed, in general, by a fixed component, which is agreed under the terms of the employment contract (individual or collective) agreed with the employees.

There may be a variable component, which will always have a very low relative weight and which is decided annually by the sole shareholder taking into account the meeting of the Group's and Banco Popular Portugal's objectives, as well as the individual performance of each employee.

Criteria for the definition of the fixed and variable remunerations

The overall remuneration policy of the Bank is revised until the end of the first semester by the Board of Directors. As a consequence, the monthly remuneration is revised every year in accordance with the increase rate established by the Collective Bargaining Agreement for the banking sector, and its variable component is also defined based on the performance assessment of the previous year.

The exact amount of the variable component will fluctuate each year taking into consideration the degree of fulfilment of the main annual objectives (quantitative and qualitative) and the collective performance of the respective unit in which the comprised employees are included in accordance with the Bank's performance evaluation model as approved by the Board of Directors.

Besides the fixed and variable remuneration described in the present remuneration policy, managers are entitled to the following benefits:

*Life Insurance in accordance with Article 142 of the Collective Bargaining Agreement for the banking sector (SAMS);

*Health Insurance in accordance with Article 142 of the Collective Bargaining Agreement for the banking sector (SAMS);
*Personal Accident Insurance in accordance with Article 142 of the Collective Bargaining Agreement for the banking sector (SAMS).

Payment of the variable component of the remuneration

If there is a variable component of remuneration it shall be fully paid in cash and no payment deferral is foreseen.

Other forms of remuneration

No other forms of remuneration besides the aforementioned fixed and variable components are provided for in the rules and regulations.

Remuneration of employees who have control functions

The remuneration of employees who have control functions as established by Notice No. 5/2088 issued by the Bank of Portugal are based, mostly, on the fixed component of their remuneration.

In case there is a variable component, it shall have a relative low weight and depend exclusively on the individual performance of the employee taking into consideration the specific objectives of their functions.

Lisbon, 20 March 2012

THE BOARD OF DIRECTORS