Banco Popular Portugal, SA

Annual Report
2012

BANCO POPULAR

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

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General information

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

The financial and statistical data provided herein were prepared according to analytical criteria based on the utmost objectivity, detail, reporting transparency and consistency over time, from the financial information periodically sent to the Bank of Portugal. The financial statements are presented in accordance with the legislation in force in 2012, 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

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., represented by Aurélio Adriano Rangel Amado or José Manuel Henriques Bernardo

Alternate Statutory Auditor

Jorge Manuel Santos Costa, Revisor Oficial de Contas.

Banco Popular Portugal Financial Highlights

(million euros, unless otherwise stated)

	2012	Change (% and p.p.)	2011	2010	2009	2008
Business volume						
Total assets managed	9 564	-6.8%	10 258	10 952	9 467	9 094
On-balance sheet total assets	8 866	-8.0%	9 634	10 233	8 718	8 380
Own funds (a)	648	30.5%	496	579	652	635
Customer funds:	4 605	-3.6%	4 778	4 277	4 275	3 194
on balance sheet	3 907	-5.9%	4 154	3 558	3 526	2 480
other intermediated customer funds	698	11.9%	624	719	749	714
Lending to customers	6 021	-7.8%	6 530	7 855	6 247	6 388
Contingent risks	605	-7.6%	655	444	395	454
Solvency						
Solvency ratio-BP	10.6%	1.2	9.4%	8.6%	9.1%	9.0%
Tier 1	10.6%	1.2	9.4%	8.8%	9.5%	8.8%
Core Tier 1	10.9%	1.3	9.6%	8.9%	-	-
Risk management						
Total risks	6 625	-7.8%	7 185	8 298	6 641	6 842
Non-performing loans	232	36.9%	169	194	300	306
Non-performing loans for more than 90 days	209	44.6%	145	157	247	213
Non-performing loan ratio (%)	3.85%	1.26	2.59%	2.47%	4.80%	4.80%
Non-performing loan coverage ratio	102.0%	-26.9	129.0%	123.4%	80.0%	67.0%
Earnings						
Net interest income	148.9	13.6%	131.1	128.0	103.8	131.0
Banking income	193.5	16.0%	166.9	201.3	248.1	234.4
Operating income	80.0	69.7%	47.1	89.6	142.3	134.3
Income before tax	6.4	-74.0%	24.4	21.7	20.9	35.7
Net income	2.7	-80.0%	13.4	15.9	17.7	26.3
Profitability and efficiency						
Average net assets	9 441	-9.3%	10 411	9 132	8 770	7 657
Average own assets	538	4.5%	515	604	635	438
ROA (%)	0.03%	-0.10	0.13%	0.17%	0.20%	0.34%
ROE (%)	0.50%	-2.11	2.61%	2.63%	2.79%	5.99%
Operating efficiency (Cost to income) (%)	58.7%	-13.09	71.8%	55.5%	42.7%	42.7%
(without depreciation) (%)	54.9%	-12.01	66.9%	51.6%	39.6%	39.3%
Per share data						
Final number of shares (millions)	476	5.5%	451	376	376	376
Average number of shares (millions)	451	19.9%	376	376	376	176
Share book value (€)	1.361	23.6%	1.101	1.540	1.733	1.688
Earnings per share (€)	0.006	-81.0%	0.030	0.042	0.047	0.070
Other data						
Number of employees	1 309	-1.5%	1 329	1 343	1 283	1 276
Number of branches	179	-16.0%	213	232	232	232
Employees per branch	7.3	17.2%	6.2	5.8	5.5	5.5
Number of ATMs	305	-12.4%	348	338	337	326

(a) After appropriation of results for each year

Management Report

At the end of 2012, Banco Popular Portugal, S.A., reported shareholder's equity of 648 million euros, a network of 179 branches and a team of 1,309 staff. At 2012 year-end, the Bank had around 377 thousand customers and managed around 9.6 billion euros of total assets, including customer funds in the amount of 4.6 billion euros. Net assets amounted to 8.9 billion euros. In 2012, Banco Popular Portugal posted net profit of 2.7 million euros, which generated a return on equity of 0.50%.

In December 2012, Banco Popular Portugal increased its share capital from 451,000,000 euros to 476,000,000 euros.

The Bank's activity has been supported by the following financial companies that belong to Banco Popular Group and allow the Bank to provide its customers with a full 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 full 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 2012 witnessed the contraction in domestic demand in the Portuguese economy that continued to absorb the impact of the budgetary and financial adjustment and the slowdown of the global economy. Companies and consumers have become more pessimistic regarding the short term outlook, which seriously impacted domestic demand, and contributed negatively to GDP growth. Mitigating an even larger decrease in GDP were exports, which performed much better when compared with previous years.

According to data provided by the National Institute of Statistics (INE) on the first estimate for GDP in the fourth quarter of 2012, it fell by 1.8% when compared with the third quarter of 2012, the largest fall quarter-on-quarter of the year, resulting in a poor performance of the Portuguese economy, which proved to be worse than expected by the Government, the Troika and even OECD.

Commercial strategy

The year 2012 was marked by a severe adjustment process of the economic and productive structures in Portugal and Spain. This is the third adjustment process in Portugal in the past four decades and the country is currently under a specific economic and financial aid programme.

In this scenario, the Portuguese economy deteriorated and experienced a serious fall in the gross domestic product as well as a significant increase in the unemployment rate, which has led to the depreciation of the unemployed workers' human capital and the increase in the migration of educated young people. Adding to this is the increased media coverage of the recessionary effects of the budgetary austerity and the emergence of social unrest with their consequent impact on economic agents' expectations.

Banco Popular Portugal, as an economic agent operating in the Portuguese market, has naturally followed the market trends and concerns. Fundraising, particularly regarding private customers, was a priority during the year, not only in order to decrease the commercial gap, but also as a way to diversify the Bank's sources of funding and decrease the dependence on the parent company, namely via a set of bond issues.

On the other hand, the focus on a strategy that relies on the proximity and strengthening of customer relations has continued, with strong investment in the improvement of customer loyalty and retention.

Regarding the private customer segment, there has been an increase of around 31 thousand new customers, which represents an increase by almost 30% in terms of attracting new customers when compared with the previous year, which is a reflexion of the Bank's policy of augmenting its customer base. Deposits from customers currently represent a 1.62% market share, reflecting the special emphasis on the diversification of the Bank's offer in terms of resources, which has led to the issuance of bonds in the amount of 445 million euros.

Regarding the volume of transactions, flat fees for private customers posted growth by over 39% in the existing portfolio and the sale of credit cards increased by 9%.

In the corporate segment, 2012 has seen an increase by around 2.4% in its customer base and around 4,700 new monthly fee accounts (integrated solutions), which corresponds to an 18% increase. Lending to corporate customers and making available a wide range of products and services were the two top priorities in 2012. From these, we would like to highlight: Linha PME Crescimento (SME Growth Line), with over 2,000 operations contracted, which totalled 163 million euros; a new Credit Line agreed with EIB in the amount of 50 million euros; and the new offer for Agricultural Producers in rather advantageous conditions.

In terms of International Business operations, we have witnessed an increase both regarding the volume and the number of operations when compared with 2011, particularly financing import and export activities, which grew by 10.7%. Factoring posted an 18% growth year-on-year.

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 regulations issued by the Bank of Portugal.

Table 1 . Individual Income Statement

	(€ thousand)	2012	2011	Change Amount	%
1	Interest and similar income	365 784	356 663	9 121	2.6
2	Interest expense and similar charges	216 926	225 576	- 8 650	-3.8
3	**Net interest income (1-2)**	**148 858**	**131 087**	**17 771**	**13.6**
4	Return on equity instruments	55	64	- 9	-14.1
5	Net fees and commissions	54 281	48 683	5 598	11.5
6	Income from financial transactions (net)	4 046	- 4 525	8 571	189.4
7	Income from the sale of other assets	- 7 347	- 1 775	- 5 572	-313.9
8	Other operating profits/losses	- 6 374	- 6 677	303	4.5
9	**Banking income (3+4+5+6+7+8)**	**193 519**	**166 857**	**26 662**	**16.0**
10	Personnel expenses	55 658	59 890	- 4 232	-7.1
11	Other general administrative expenses	50 643	51 797	- 1 154	-2.2
12	Depreciation	7 234	8 044	- 810	-10.1
13	**Operating income (9-10-11-12)**	**79 984**	**47 126**	**32 858**	**69.7**
14	Provisions net of recoveries and write-offs	- 6 546	1 706	- 8 252	-483.7
15	Value adjustments net of loans and advances to customers	63 077	398	62 679	15748.5
16	Impairment and other net provisions	17 095	20 595	- 3 500	-17.0
17	**Profit before tax** (13-14-15-16)	**6 358**	**24 427**	**- 18 069**	**-74.0**
18	Income tax	3 666	10 995	- 7 329	-66.7
19	**Net income for the period** (17-18)	**2 692**	**13 432**	**- 10 740**	**-80.0**

Net interest income

In 2012, net interest income amounted to 148.9 million euros, reflecting a 17.8 million euro increase, i.e., over 14% when compared with the previous year. According to table 2, this increase in net interest income was mostly due to the positive effect of the fluctuation in interest rates, which, together with the deadline effect – also positive – has enabled the Bank to overcome the negative effect in the average change in the volume of activity.

Table 2 . Annual changes in net interest income - Causal analysis 2012 / 2011				
(€ thousand)				
Changes in:	Due to changes in business volume	Due to changes in interest rates	Due to changes in period	Total change
Loans and advances to customers	- 57 991	52 639	716	- 4 636
Deposits with banks	- 88	389	5	307
Financial assets	13 806	- 533	180	13 453
Other assets	36	- 39	1	- 2
Total net investments	**- 44 237**	**52 456**	**902**	**9 121**
Deposits from customers	30 041	- 1 582	357	28 816
Deposits from banks	- 22 758	- 20 083	254	- 42 587
Own assets	0	0	0	0
Other liabilities	5 892	- 807	36	5 121
Total assets	**13 175**	**- 22 472**	**647**	**- 8 650**
Net interest income	**- 57 412**	**74 928**	**255**	**17 771**

As shown on table 3, the average assets of the Bank in 2012 were backed by customer funds (50%) and deposits from banks (41%) mostly deposits from Banco Popular Group. Loans and advances to customers is still their main component, representing 67% of total assets. This evolution reflects the successful effort of increasing customer funds in the context of improving the commercial gap, since in 2011 the dependence on deposits from banks represented around 56%.

Table 3 . Evolution of equity and average annual rates. Margins								
(€ thousand and %)								
	2012				2011			
	Average Balance	Dist. (%)	Income or expense	Average Rate (%)	Average Balance	Dist. (%)	Income or expense	Average Rate (%)
Loans and advances to customers (a)	6 311 791	66.9%	284 293	4.49	7 727 749	74.2%	288 929	3.74
Deposits with banks	404 872	4.3%	1 836	0.45	418 699	4.0%	1 530	0.37
Financial assets	2 209 380	23.4%	79 430	3.59	1 310 546	12.6%	65 978	5.03
Other assets	514 964	5.5%	225	0.04	954 364	9.2%	227	0.02
Total Assets (b)	**9 441 008**	**100%**	**365 784**	**3.86**	**10 411 358**	**100%**	**356 663**	**3.43**
Deposits from customers (c)	4 724 463	50.0%	160 154	3.38	3 838 646	36.9%	131 338	3.42
Deposits from banks	3 908 927	41.4%	37 855	0.97	5 871 988	56.4%	80 442	1.37
Equity accounts	538 410	5.7%	0	0.00	514 851	4.9%	0	0.00
Other liabilities	269 206	2.9%	18 918	7.01	185 873	1.8%	13 795	7.42
Total Liabilities and Equity (d)	**9 441 008**	**100%**	**216 927**	**2.29**	**10 411 358**	**100%**	**225 576**	**2.17**
Customer spread (a - c)				**1.11**				**0.32**
Net Interest Income (b - d)				**1.57**				**1.26**

Taking into consideration the evolution of the average annual interest rates from loans and deposits, we would like to stress that the average assets, which amounted to 9,441 million euros, posted an overall profitability of 3.86%, i.e., a 43 basis points increase when compared with the previous year. On the other hand, the average cost of total funds allocated to the financing of assets rose by 12 basis points, which was significantly lower than the increase in the average annual rate of loans and advances to customers, reaching 2.29%. This evolution implied an increase in the annual net interest income by 31 basis points, reaching 1.57% at the end of 2012.

The aim of increasing the financing of customer lending with customer funds and thus improve on the commercial gap has led to an increase by around 885 million euros in the average annual balance, to which contributed the diversification of the available products, taking into consideration maturity dates and average cost against other alternative sources of financing. This evolution was accompanied by a reduction by 4 basis points in the average annual rate of customer funds, which stood at 3.38% in 2012 and compares with 3.42% in 2011 (table 3a).

The decrease in the average balance of loans and advances to customers is justified by the reduction in mortgage loans, which still carried a relevant average weight in 2011. This volume effect was offset by a significant increase by 75 basis points in the average annual rate of loans which amounted to 4.49% in 2012 (table 3a). Consequently, we have witnessed a relevant increase by 79 basis points in customer margin, which amounted to 1.11%, and closed the year 2012 with one of the highest amounts in the past few years.

Table 3a . Evolution of annual average rates. Margins

	Average annual rate 2012 (%)	Average annual rate 2011 (%)	Change 2012 / 2011 (p.p.)
Loans and advances to customers (a)	4.49	3.74	0.75
Deposits with banks	0.45	0.37	0.08
Financial assets	3.59	5.02	-1.43
Other assets	0.04	0.02	0.02
Total Assets (b)	**3.86**	**3.43**	**0.43**
Deposits from customers (c)	3.38	3.42	-0.04
Deposits from banks	0.97	1.37	-0.40
Equity accounts	0.00	0.00	0.00
Other liabilities	7.01	7.42	-0.41
Total Liabilities and Equity (d)	**2.29**	**2.17**	**0.12**
Customer spread (a - c)	**1.11**	**0.32**	**0.79**
Net Interest Income (b - d)	**1.57**	**1.26**	**0.31**

From the analysis of images 1 and 2, we can see that 2012 represents a point of inflection in the downward trend shown by customer spread and net interest income in the past few years, particularly regarding the former.

Both images for customer spread and net interest income reflect a larger capacity for raising funds without the consequent increase in the average cost of liabilities, together with the capacity to increase the profitability of lending operations in a context of low reference interest rates and corresponding benchmark rates notwithstanding the important weight of the profitability of financial asset portfolio management.

Image 1 - Customer Spread

(%)

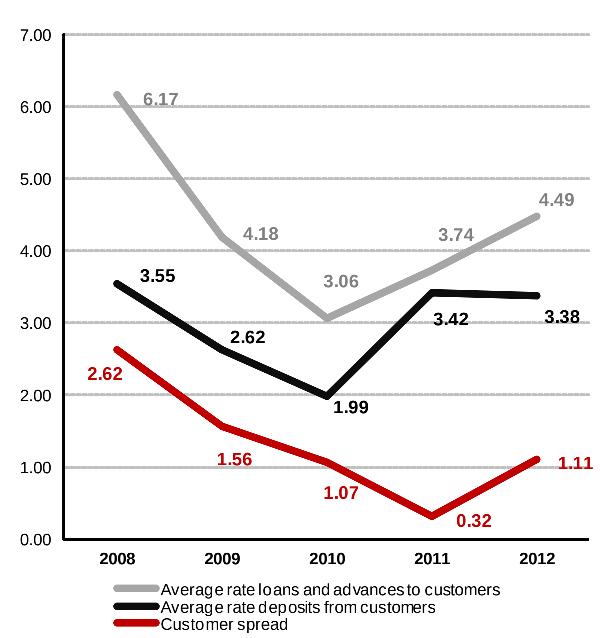
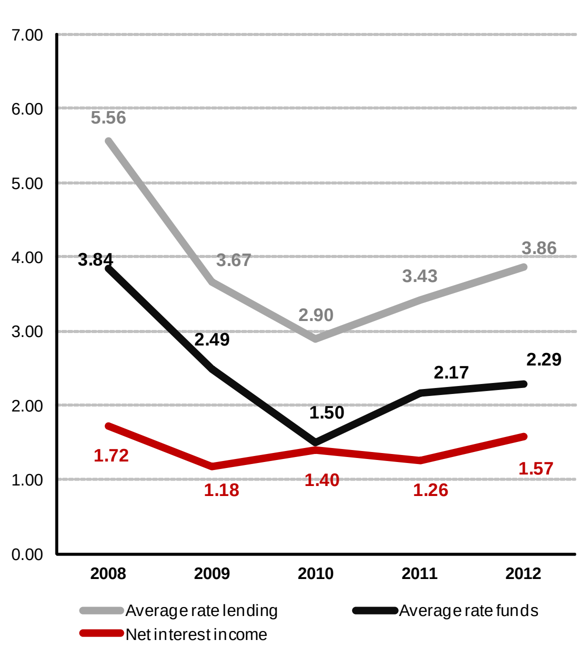


Image 2 - Net interest income

(%)



Banking income

In 2012, net fees and commissions charged to customers for the sale of products and services totalled 54.3 million euros, rising by around 11.5% when compared with the previous year, and corresponding to the highest amount in the past five years (figure 3).

Image 3 - Net Fees and Commissions

(€ million)

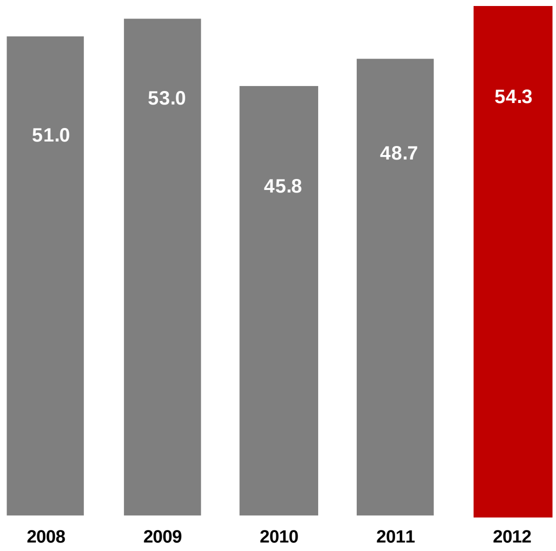


Table 4 shows that the increase in fees and commissions that occurred in 2012 was mostly due to fees and commissions on lending operations (around 6 million euros, or 44.7%) and asset management commissions (around 1.3 million euros, or 106%), both resulting mostly from third party receivables.

Table 4 . Net Fees and Commissions

(€ thousand)

	2012	2011	Change Amount	Change %
Commissions from lending	19 247	13 300	5 947	44.7
Commissions from guarantees	7 269	6 555	714	10.9
Commissions from collection and payment handling (net)	12 223	14 992	- 2 769	-18.5
Commissions from asset management (net)	2 622	1 273	1 349	106.0
Commissions from insurance sales	1 436	1 753	- 317	-18.1
Commissions from account management	4 836	4 403	433	9.8
Commissions from processing services	1 957	2 108	- 151	-7.2
Other commissions (net)	5 081	4 899	182	3.7
Fees paid to promoters and agents	- 390	- 600	210	-35.0
Total	**54 281**	**48 683**	**5 598**	**11.5**

Regarding the remaining items of banking income, there has been a decrease due to the sale of assets (-5.6 million euros) resulting mostly from the policy of real estate disinvestment, visible namely in the capital losses associated with the necessary sale of non-current assets in the portfolio.

We would like to highlight that this loss was fully compensated by the significant increase in terms of income from financial operations due to the better performance of the financial assets in the portfolio. This was achieved mostly due to better market performance throughout 2012 when compared with 2011.

The slight increase in other banking income confirms a more thoughtful management of operating revenues and expenses although it is important to stress the significant weight of the tax burden particularly through the ‘contribution on the banking sector’ that started in the middle of 2011.

The joint effect of all the aforementioned items made Banco Popular Portugal generate banking income over 193.5 million in 2012, which represents an increase by over 26.7 million euro or 16% when compared with 2011.

Operating income

The year 2012 was marked by a strong reduction in operating expenses. In 2012, operating expenses totalled a little over 113.5 million euros, which represents a decrease by 6.1 million euros or 5% when compared with the previous year.

From table 5 we can see that personnel expenses amounted to 55.7 million euros, dropping by 7.1%. This decrease was mostly due to the reduction of expenses with the pension fund when compared with the previous year.

On the other hand, the total general expenses reached 50.6 million euros, which implied a decrease of over one million euros (-2.2%) when compared with the previous year. This drop in terms of expenses was mostly due to a very significant decline in items Consultants, Temporary work, Transports, and Surveillance and cleaning services. This reduction, in most cases, was not attributable to service cuts, but to renegotiating contracts. Preventing a better performance in terms of expenses was the growth in items related to IT and legal expenses, the latter inevitable in face of the increasingly strong efforts in recovering credit due.

Allocations for depreciation of fixed assets amounted to 7.2 million euros, 10% less than in 2011. A very significant amount of this depreciation is due to the closing down of rented branches, which implied the anticipation of depreciation regarding adaptation works.

Table 5 . Operating Expenses

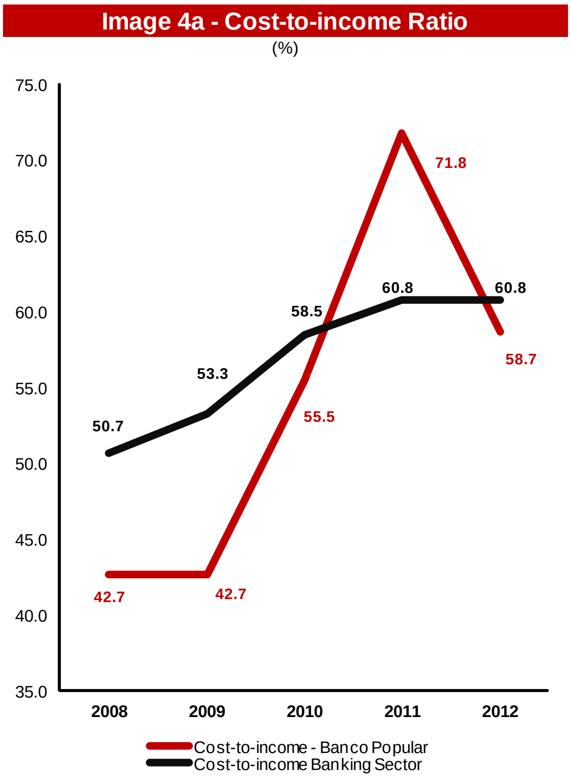
(€ thousand)

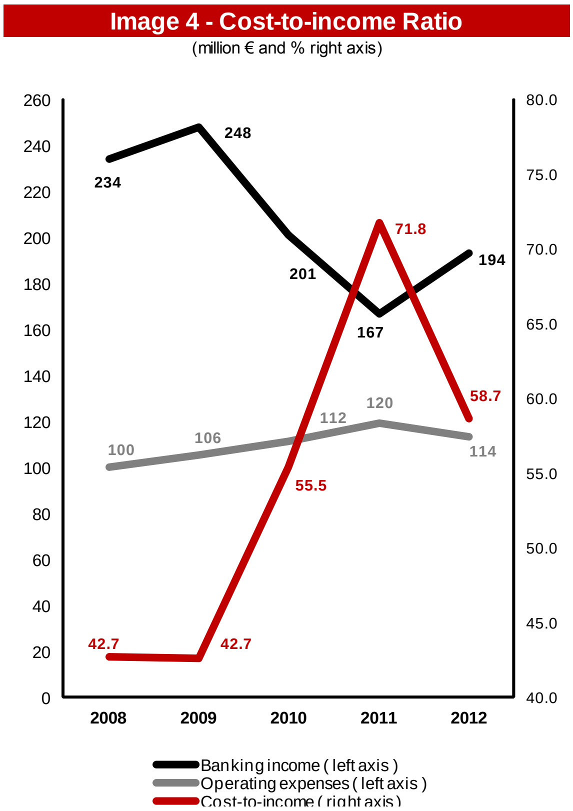
	2012	2011	Change Amount	Change %
Personnel expenses (a)	**55 658**	**59 890**	**- 4 232**	**-7.1**
Wages and salaries	41 890	42 181	- 291	-0.7
Social security charges	11 348	11 336	12	0.1
Pension Fund	1 137	5 418	- 4 281	-79.0
Other personnel expenses	1 283	955	328	34.3
General expenses (b)	**50 643**	**51 797**	**- 1 154**	**-2.2**
External supplies	3 133	3 053	80	2.6
Rents and leasing	4 890	5 347	- 457	-8.5
Communications	4 174	4 048	126	3.1
Travel, hotel and representation	867	1 307	- 440	-33.7
Advertising and publications	2 703	2 586	117	4.5
Maintenance of premises and equipment	5 362	5 586	- 224	-4.0
Transports	1 249	1 194	55	4.6
Advisory services	3 993	3 584	409	11.4
Legal expenses	2 391	1 746	645	36.9
IT services	6 324	4 982	1 342	26.9
Security, surveillance and cleaning	1 317	1 795	- 478	-26.6
Temporary work	4 656	5 401	- 745	-13.8
External consultants and auditors	1 362	2 239	- 877	-39.2
External real estate appraisers	960	1 069	- 109	-10.2
Services rendered by Grupo Banco Popular	3 548	3 696	- 148	-4.0
Other general expenses	3 714	4 164	- 450	-10.8
Operating expenses (c=a+b)	**106 301**	**111 687**	**- 5 386**	**-4.8**
Depreciation (d)	**7 234**	**8 044**	**- 810**	**-10.1**
Total (c+d)	**113 535**	**119 731**	**- 6 196**	**-5.2**

The cost-to-income ratio, which corresponds to the part of banking income consumed by operating expenses, significantly decreased in 2012 to 58.7% down from 71.8% in 2011. Contributing to this substantial improvement were two components. On the one hand, there was an increase in banking income and, on the other, a decrease in operating expenses. This evidence can be seen on image 4.

Image 4 – Cost-to-income ratio

(million € and % right axis)





The weight of personnel expenses in banking income stood at 28.8%, which is significantly lower than the 35.9% in 2011.

Operating income thus amounted to approximately 80 million euros, around 70% higher when compared with the previous year.

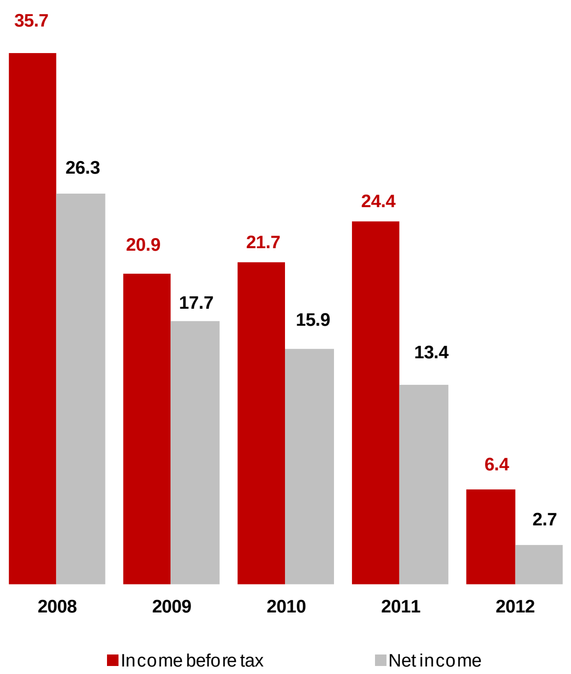
Net income and profitability

Banco Popular Portugal ended 2012 with Net Income of 2.7 million euros, around 80% lower than in the previous year. This income reduction is mostly due to provisions for loans that increased from little over 2 million euros in 2011 to 56.5 million in 2012, causing a drop in the income before tax by 74% to 6.4 million euros. The tax burden went from 11 million euros to 4 million euros.

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

Image 5 - Evolution of Net Income

(million €)



By analysing the income statement and the balance sheet together we can assess the profitability of the Bank's financial activity, comparing profits and costs and their respective margins with the investment and assets that originated them. Table 6 shows income statements for 2012 and 2011 broken down in terms of their percentage of average total assets.

In 2012, operating profitability stood at 0.85%, which was up 39 basis points when compared with 2011. This rise was due to the joint effect of the increase by 13 basis points of fees and commissions and other operating income, the increase by 32 basis points of net interest income and the decrease by 5 basis points in the weight of overheads.

On the other hand, return on assets (ROA), defined as the ratio of annual net income to average total assets, stood at 0.03%, 10 basis points down from 0.13% in 2011.

Table 6 . Total Return on Investment

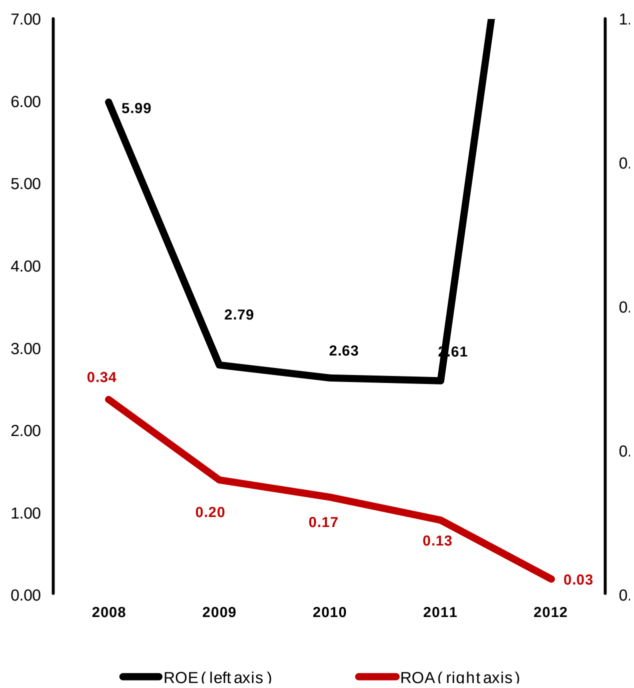
(€ thousand and % of average net assets)

	2012 amount	%	2011 amount	%	Change in amount	%
Investment income	365 784	3.87	356 663	3.43	9 121	0.45
Cost of assets	216 926	2.30	225 576	2.17	- 8 650	0.13
Net interest income	**148 858**	**1.58**	**131 087**	**1.26**	**17 771**	**0.32**
Net fees and commissions	54 281	0.57	48 683	0.47	5 598	0.11
Other operating profits/losses	- 9 620	-0.10	- 12 913	-0.12	3 293	0.02
Banking income	**193 519**	**2.05**	**166 857**	**1.60**	**26 662**	**0.45**
Personnel expenses	55 658	0.59	59 890	0.58	- 4 232	0.01
Other general administrative expenses	50 643	0.54	51 797	0.50	- 1 154	0.04
Depreciation	7 234	0.08	8 044	0.08	- 810	0.00
Operating profitability	**79 984**	**0.85**	**47 126**	**0.45**	**32 858**	**0.39**
Net loan provisions	- 6 546	-0.07	1 706	0.02	- 8 252	-0.09
Impairment and other net provisions	17 095	0.18	20 595	0.20	- 3 500	-0.02
Return before tax	**69 435**	**0.74**	**24 825**	**0.24**	**44 610**	**0.50**
Income tax	3 666	0.04	10 995	0.11	- 7 329	-0.07
Return after tax	**65 769**	**0.70**	**13 830**	**0.13**	**51 939**	**0.56**
Memorandum item:						
Average net assets (€ million)	9 441		10 411		-970	-9.3
Average own funds (€ million)	538		515		23	4.5
Return on equity - ROE (%)	12.22		2.69		9.54	355.2
(net income after tax/average shareholders' equity)						
Gross return on equity (%)	12.91		4.82		8.09	167.7
(income before tax/average shareholders' equity)						
Cost-to-income (%)	54.93		66.94		-12.01	-17.9

Return on equity (ROE), defined as the ratio of annual net income to average shareholders' equity, stood at 0.5%, which compares with 2.61% in 2011. Image 6 shows the evolution of these profitability indicators over the past five years.

Image 6 - Return on Assets and on Equity

(%)



Funds and lending

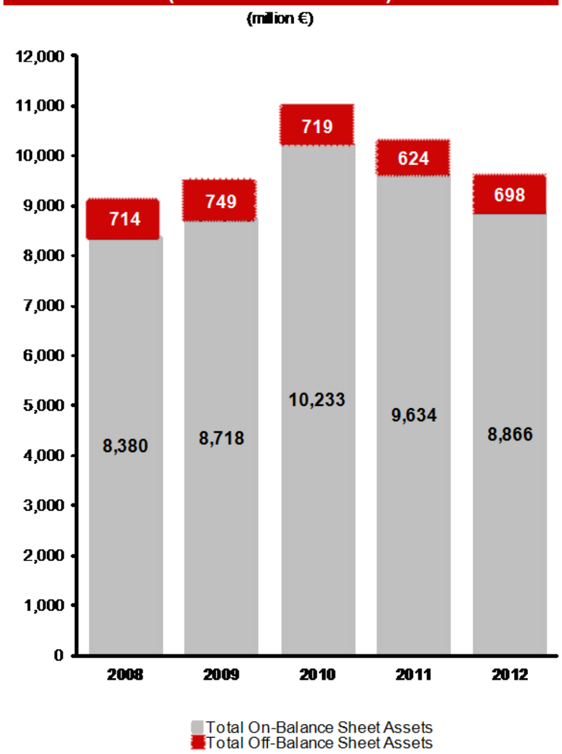
Total assets

The balance sheets as at 31 December 2012 and 2011 are summarised in table 7. In the section Annual Accounts, those same balance sheets are presented in accordance with the model defined by the Bank of Portugal.

As at 31 December 2012, Banco Popular's net assets amounted to 8,866 million euros, 768 million euros less than in 2011, which corresponds to a decrease of around 8%.

The Bank also manages other customer funds applied in investment, saving and retirement instruments, and others, which amounted to 698 million euros at year end, representing a 12% increase when compared with 2011.

Image 7 - Total Managed Assets
(Year-end Amounts)



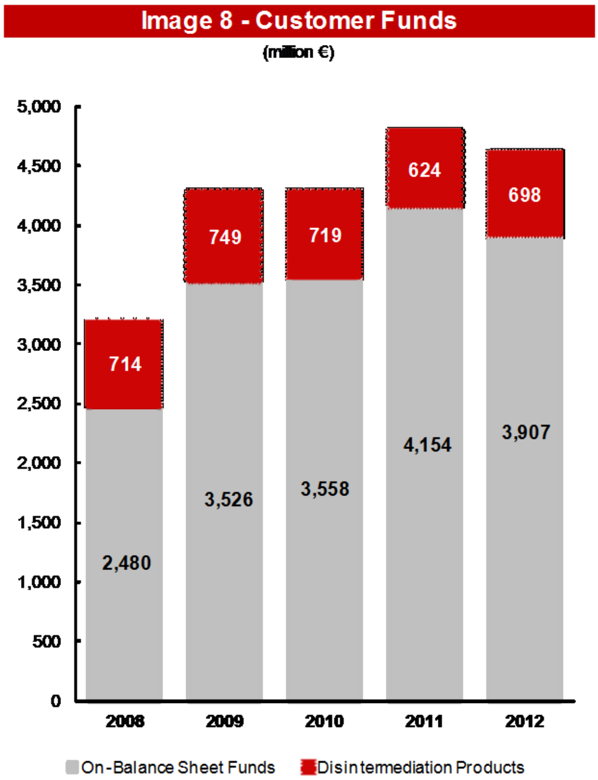
Therefore, total assets managed by the Bank amounted to 9,564 million euros at the end of 2012, which represents a 7% drop when compared with the previous year.

Table 7 . Individual Balance Sheet

(€ thousand)	2012	2011	Amount Change	%
Assets				
Cash and balances with central banks	171 349	138 221	33 128	24.0
Deposits with banks	54 743	140 324	- 85 581	-61.0
Financial assets held for trading	56 738	34 942	21 796	62.4
Other financial assets at fair value through profit or loss	32 954	30 496	2 458	8.1
Available-for-sale financial assets	1 105 359	1 503 439	- 398 080	-26.5
Loans and advances to banks	269 818	148 835	120 983	81.3
Loans and advances to customers	6 020 530	6 530 474	- 509 944	-7.8
(-) Provisions for Non-performing Loans	- 185 144	- 162 610	- 22 534	-13.9
Held-to-maturity investments	723 879	545 326	178 553	32.7
Non-current assets held for sale	22 579	0	22 579	
Other tangible assets	88 004	93 338	- 5 334	-5.7
Intangible assets	171	817	- 646	-79.1
Investment in subsidiaries and associates	0	22 579	- 22 579	-100.0
Deferred income tax assets	82 396	121 839	- 39 443	-32.4
Current income tax assets	1 360	0	1 360	
Other assets	421 341	486 015	- 64 674	-13.3
Total Assets	**8 866 077**	**9 634 035**	**- 767 958**	**-8.0**
Liabilities				
Deposits from central banks	1 605 143	495 137	1 110 006	224.2
Financial liabilities held for trading	40 181	29 374	10 807	36.8
Deposits from banks	1 423 759	3 648 429	-2 224 670	-61.0
Deposits from customers	3 906 941	4 154 043	- 247 102	-5.9
Debt securities issued	1 011 248	605 816	405 432	66.9
Hedging derivatives	128 563	82 554	46 009	55.7
Provisions	54 588	61 134	- 6 546	-10.7
Current income tax liabilities	0	2 063	- 2 063	-100.0
Deferred income tax liabilities	14 191	9 530	4 661	48.9
Other liabilities	33 824	49 628	- 15 804	-31.8
Total Liabilities	**8 218 438**	**9 137 708**	**- 919 270**	**-10.1**
Shareholder's Equity				
Share capital	476 000	451 000	25 000	5.5
Share premium	10 109	10 109	0	0.0
Fair value reserves	- 110 807	- 233 632	122 825	52.6
Other reserves and retained earnings	269 645	255 418	14 227	5.6
Profit for the period	2 692	13 432	- 10 740	-80.0
Total Equity	**647 639**	**496 327**	**151 312**	**30.5**
Total Liabilities + Equity	**8 866 077**	**9 634 035**	**- 767 958**	**-8.0**

Customer funds

At the end of 2012, the total amount of on- and off-balance sheet customer resources amounted to 4,605 million euros, 3.6% less when compared with the previous year. Image 8 shows the performance of total customer funds over the past 5 years.



On-balance sheet funds, comprised mostly of customer deposits, totalled 3,907 million euros, which corresponds to a drop by 5.9% when compared with 2011.

Demand accounts have also seen a decrease, dropping from 645 million euros to 671 million euros.

In the middle of 2012, the Bank started to sell bonds under an EMTN programme. The sales of this product justify the apparent decrease in customer funds.

Table 8 . Customer Funds

(€ thousand)	2012	2011	Change Amount	%
CUSTOMER FUNDS :				
Deposits	**3 855 992**	**4 105 860**	**- 249 868**	**-6.1**
Demand accounts	645 494	671 127	- 25 633	-3.8
Time deposits	3 204 194	3 424 715	- 220 521	-6.4
Savings accounts	6 304	10 018	- 3 714	-37.1
Cheques, payment orders and other funds	**11 025**	**4 985**	**6 040**	**121.2**
Interest payable and other similar charges	**39 924**	**43 198**	**- 3 274**	**-7.6**
ON-BALANCE SHEET FUNDS (a)	**3 906 941**	**4 154 043**	**- 247 102**	**-5.9**
Disintermediation funds				
Investment funds	173 201	175 513	- 2 312	-1.3
Investment and capitalisation insurance	363 852	257 605	106 247	41.2
Retirement insurance plans	96 112	97 804	- 1 692	-1.7
Customer portfolio under management	65 149	93 425	- 28 276	-30.3
OFF-BALANCE SHEET FUNDS (b)	**698 314**	**624 347**	**73 967**	**11.8**
TOTAL CUSTOMER FUNDS (a + b)	**4 605 255**	**4 778 390**	**- 173 135**	**-3.6**

Intermediated off-balance sheet funds – which include investment fund applications, retirement plans, funds raised through investment insurance products, and assets managed through private banking – increased by 11.8%. The positive performance of this item is mostly due to the growth of investment and capitalisation insurance. The evolution of these funds is showed at the bottom of table 8.

Banco Popular Portugal is the depositary of 23 investment funds managed by Popular Gestão de Activos, whose total portfolio amounted to 173.2 million euros at 2012 year-end, 1.3% less than in the previous year. Table 9 shows the evolution of each investment fund managed over the past two years.

Table 9 . Investment Fund Portfolio (asset value)

(milhares de euros)

Funds	2012	2011	Change Amount	%
Popular Valor	2 799	3 521	- 722	-20.5
Popular Acções	1 974	2 320	- 346	-14.9
Popular Euro Obrigações	4 001	5 644	- 1 643	-29.1
Popular Global 25	4 737	7 415	- 2 678	-36.1
Popular Global 50	2 434	3 560	- 1 126	-31.6
Popular Global 75	1 256	1 904	- 648	-34.0
Popular Tesouraria	3 538	3 321	217	6.5
Popular Imobiliário FEI	7 593	11 072	- 3 479	-31.4
Popular Grandes Empresas	0	5 349	- 5 349	-100.0
Popular Economias Emergentes I	8 248	8 155	93	1.1
Popular Economias Emergentes II	9 921	9 698	223	2.3
Popular Multiactivos I	958	1 673	- 715	-42.8
Popular Multiactivos II	1 346	1 229	117	9.6
Popular Multiactivos III	1 198	1 205	- 7	-0.6
Popular obrig. Ind.Emp. Alemanha e EUA	5 587	4 660	927	19.9
Popular obrig.Ind.Ouro (Londres)	3 991	3 743	248	6.6
Fundurbe	10 735	11 567	- 832	-7.2
Imourbe	10 453	13 399	- 2 946	-22.0
ImoPopular	25 944	28 182	- 2 238	-7.9
ImoPortugal	24 193	27 934	- 3 741	-13.4
Popular Predifundo	14 954	19 962	- 5 008	-25.1
Popular Objectivo Rendimento 2015	2 431	0	2 431	>
Popular Arrendamento	24 909	0	24 909	>
Total	**173 201**	**175 513**	**- 2 312**	**-1.3**

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.

Banco Popular Portugal sells Eurovida's retirement plans and investment insurance, holding an equity stake in that company. Customer funds raised via these products increased by 41% in terms of investment insurance and decreased by 2% in terms of retirement plans, as can be seen at the end of table 8. Image 10 shows the performance of these products in the past 5 years.

Image 9 - Investment fund portfolio

(million € and %)

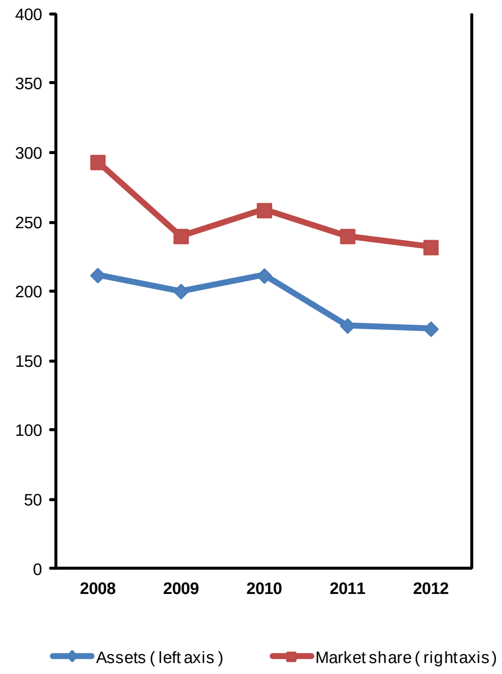
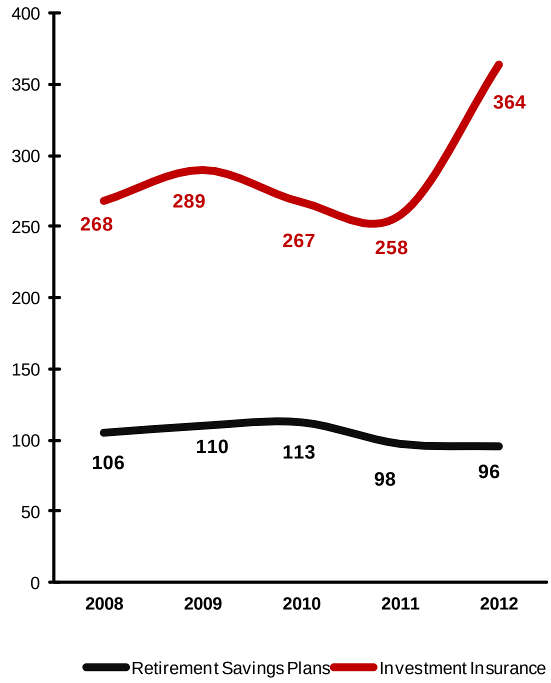


Image 10 - Financial Insurance

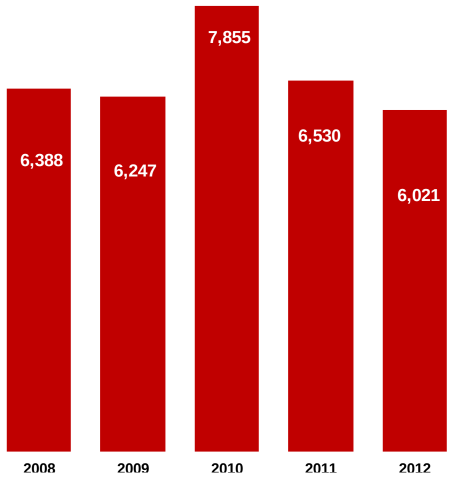
(million €)



Lending operations

Loans and advances to customers totalled around 6,021 million euros at the end of 2012, representing 68% of total assets. This amount corresponds to a decrease by 7.8% when compared with the previous year. Loans and advances to corporate customers and the public sector amounted to 3,566 million euros, which corresponds to 65.2% of total loan transactions.

Image 11 - Loan Transactions
(million €)



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

Table 10 . Loan Transactions

(€ thousand)	2012	2011	Change Amount	%
Loans and advances to customers (a)				
Public sector	3 566 488	3 863 861	- 297 373	-7.7
Private customers	1 897 481	1 928 765	- 31 284	-1.6
Residential mortgage loans	1 470 833	1 442 411	28 422	2.0
Personal and consumer loans	54 565	69 899	- 15 334	-21.9
Other personal lending	372 083	416 455	- 44 372	-10.7
Total	**5 463 969**	**5 792 626**	**- 328 657**	**-5.7**
Other loans (represented by securities) (b)	**302 700**	**555 850**	**- 253 150**	**-45.5**
Interest and commissions receivable (c)	**22 077**	**12 715**	**9 362**	**73.6**
Past-due loans and interest (d)				
Due within 90 days	22 651	24 664	- 2 013	-8.2
Over 90 days	209 133	144 619	64 514	44.6
Total	**231 784**	**169 283**	**62 501**	**36.9**
Total Gross Lending (a + b + c + d)	**6 020 530**	**6 530 474**	**- 509 944**	**-7.8**
Specific Loan Provisions	185 144	162 610	22 534	13.9
Total Net Lending	**5 835 386**	**6 367 864**	**- 532 478**	**-8.4**

The decrease in the amount of loans and advances to customers was due to a drop by around 45% in securitised lending operations and a decline by 5.7% in lending operations in general. In terms of retail, loans to corporate customers and the public sector dropped by 297 million euros, 7.7% less when compared with 2011, which corresponds to 65.3% of total loan operations. Loans to private customers represented 34.7%, showing a slight decrease by 1.6%. This fall had the contribution of a two-figure drop in the items of loans and advances to private customers, except residential mortgage loans, which increased by 2% when compared with 2011. A significant part of the growth in residential mortgage loans was destined to the acquisition of real estate in the Bank's or the clients' portfolio.

Image 11 shows the evolution of total loan transactions in the past five years.

The amount of past-due loans and interest totalled almost 232 million euros at the end of 2012, which represents an increase by over 36.9% when compared with the previous year. As seen on table 11, this item represented 3.85% of total lending operations. Taking into consideration only loans that have been non-performing for more than 90 days this indicator stands at 3.47%.

Total non-performing loans amounted to 345 million euros at the end of 2012, which represents 5.74% of total lending operations.

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

(€ thousand)

	2012	2011	Change Amount	Change % / p.p.
Past-due loans and interest	231 784	169 284	62 500	36.92
Past-due loans by more than 90 days **(a)**	209 133	144 620	64 513	44.61
Doubtful loans reclassified as past-due loans **(b)**	136 173	90 257	45 916	50.87
Non-performing loans **(a+b)**	345 306	234 877	110 429	47.02
Past-due loans / total loans (%)	3.85	2.59		1.26
Past-due loans over 90 days / total lending (%)	3.47	2.21		1.26
Non-performing loans / total lending (%)	5.74	3.60		2.14
Net non-performing loans, net / total net lending (%)	2.79	1.30		1.49
Provisions for Credit risks	236 499	218 289	18 210	8.34
Hedging Ratio (%)	102.0	128.9		-26.91
memorandum item:				
Total lending	**6 020 530**	**6 530 474**	**- 509 944**	**-7.81**

At the end of 2012, provisions for credit risks amounted to 236.5 million euros, ensuring a hedging ratio of 102%.

The annual evolution of customer deposits and profitable lending has enabled substantial improvement in the transformation ratio when compared with the previous year.

Consequently, this ratio was 5 percentage points lower than in 2011, which corresponds to a 325 million euro improvement. In December 2012, this ratio stood at 148.2%, which corresponds to an absolute gap of 1,881 million euros.

Outlook for 2013

In 2013, Portugal is expected to maintain the same budget policy with a contractionary and procyclical stance that was enforced in 2012 as a strategy to guarantee and regulate the financing of the economy.

On the other hand, the high uncertainty regarding the future path of the global economy and the resolution of the euro zone sovereignty crisis implies a rising risk for the Portuguese adjustment process.

Unfavourable expectations regarding the economic activity and the drop in consumption, via the reduction of available income for families, point towards the maintenance of a downturn in the economy.

In spite of the economic outlook for 2013, Banco Popular Portugal will follow its aims of augmenting its customer base and its lending share, promoting company growth and supporting their internationalization.

Risk management

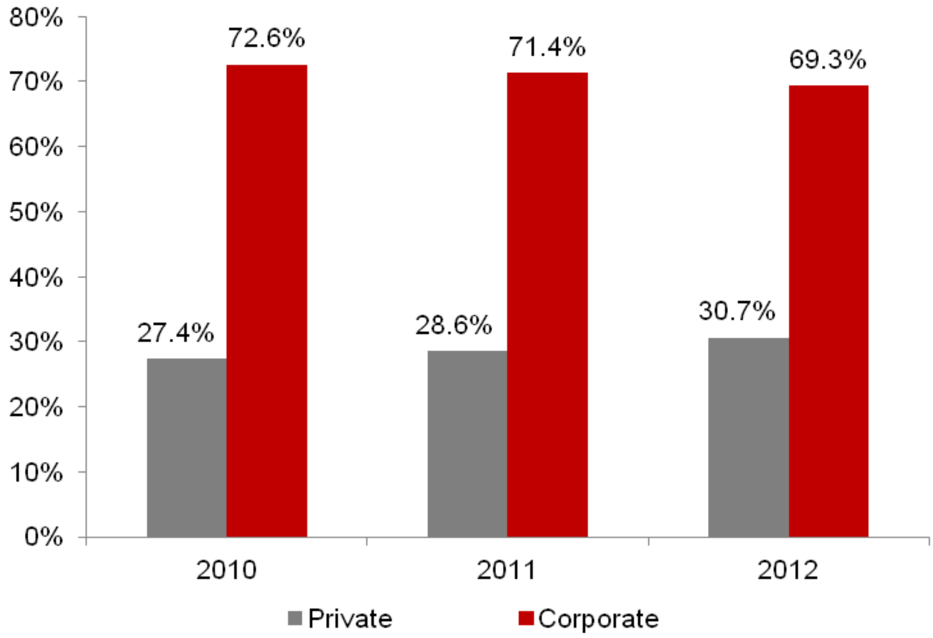
Credit and Concentration risk

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 the Bank is exposed to results mainly from its commercial banking activity, which is its core business. Total lending operations amounted to around 5,835 million euros at the end of December 2012, with a year-on-year drop of around 8.4%. We would like to highlight that this decrease resulted mostly from the repricing policy applied to the credit portfolio and the sale of loans to Banco Popular Group (Consulteam company).

Loans and advances to customers is the Bank's main asset, representing around 66% of net assets. As at 31 December 2012, around 69% of the portfolio had to do with advances and loans to corporate customers (mostly SMEs). The decline in loans and advances to companies over the past few years results from residential mortgage loans and the effect of credit assignments to Consulteam, particularly regarding companies operating in the construction business.

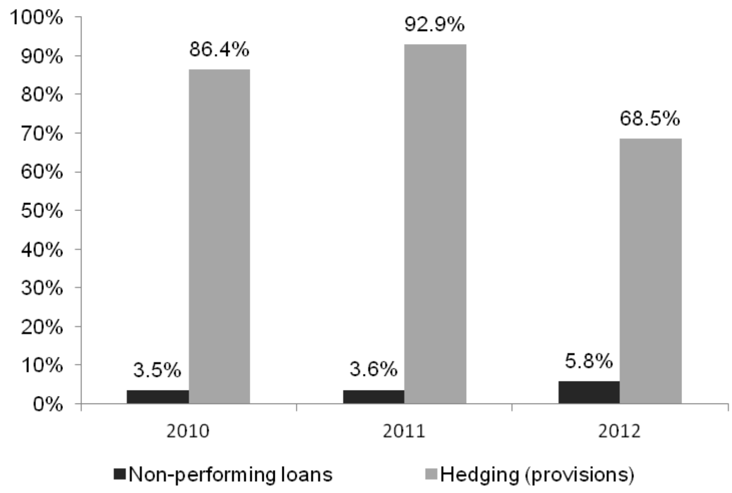
Portfolio broken down by type of counterparty



The evolution of the default ratio, as seen below, is mostly attributable to the current macroeconomic scenario. In spite of the joint effect of the focus given by management to credit recovering and the credit assignments to Consulteam, this evolution was negative.

Noteworthy in terms of credit recovery is the creation of a Specialized Business Network (RNE – 'Rede de Negócio Especializado') whose aim is to monitor customers that are considered to have a higher credit risk profile.

Evolution of non-performing loans

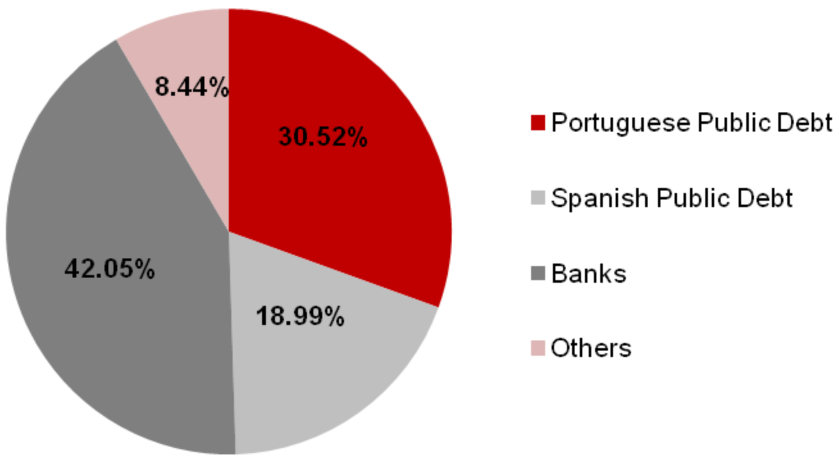


In 2012, the Bank developed a new impairment model which now considers impaired loans (default) and non-performing loans (early warning signs).

Securities portfolio

The Bank's securities portfolio (including available-for-sale financial assets, held-to-maturity investments, trading portfolio and other financial assets at fair value through profit or loss) amounted to around 1.9 billion euros at the end of 2012, which represents 22% of Banco Popular's total net assets. The chart below shows these assets broken down by type.

Securities Portfolio



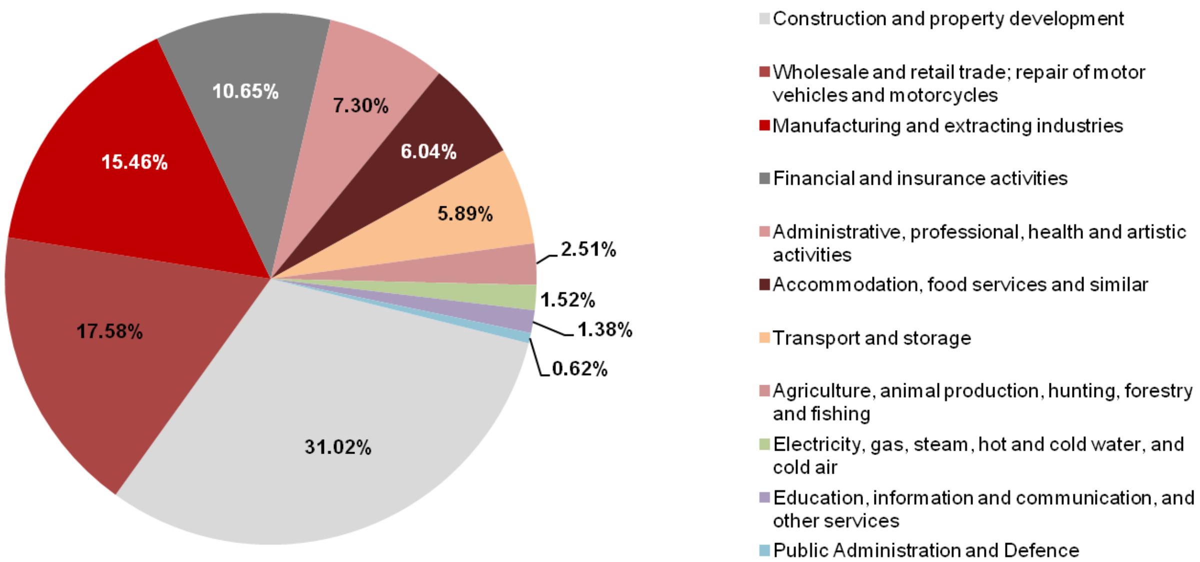
The continued macroeconomic downturn in 2012 has led to an upsurge in the number of insolvent businesses, which, in the case of Banco Popular's customers, totalled around 1,549 companies up from 1,035 in 2011.

During 2012, in Portugal, 7,763 companies filed for bankruptcy, an increase by 1,686 companies when compared with 2011 (+27.7%), much higher than the increase witnessed in 2011 when compared with 2010 (18.1%).

It is also important to stress that during 2012 the Bank continued to make credit assignments which allowed for a decrease in terms of delinquent debts. After the credit assignments, the past-due loan ratio (3.85%) posted slight growth compared with the previous year (2011: 2.59%).

The loan portfolio broken down by economic sector as at 31 December 2012 was as follows:

Loan Portfolio by Economic Sector



As seen above, around 31.02% of loans to companies (22.6% of total loans and advances granted by Banco Popular) comprise the sector of property construction and development. When compared with December 2011, it shows a slight decrease in terms of the weight that this sector of activity had in the portfolio, which was the highest when we consider the decrease in the Bank's total lending. The aim of Banco Popular is to give continuity to the process that has lead to the diminished exposure in the sectors of property construction and development.

Although this sector still bears significant weight on total loans and advances to customers, 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 the assessment of the progress of their respective projects.

Market risk

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

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

As at 31 December 2012, the Bank’s portfolio amounted to around 1,918 million euros, of which only around 51 million were classified as financial assets held for trading and other financial assets at fair value through profit or loss (around 2.6% of the securities portfolio, i.e., with direct impact on the Bank’s income account).

Due to the small size of this portfolio, this risk and its respective impact is not considered material for the Bank’s management.

Foreign Exchange Rate Risk

Foreign exchange rate risk is the probability of negative impact on 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.

The activity in foreign currency consists in making transactions with the parent company deriving from customer operations. In this context, the global currency position is almost null and therefore any impact on the Bank’s earnings as a result in fluctuations in exchange rates (mostly the American dollar) is immaterial. We would like to highlight that the foreign exchange rate risk management is carried out jointly with Banco Popular Group.

Operational Risk

Banco Popular Group (GBP) has adopted the definition of operational risk contained in the new Basel Accord (Basel II) as the risk of loss resulting 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 filed an application with Banco de Portugal to be allowed to use that approach.

This application derives from the following motivations:

• Obtaining in Portugal the necessary authorization to use the same method as the parent company in view of the efforts that Banco Popular has been conducting for some years to implement methodologies and tools that are very similar to the ones used by the Group;

• Formalizing, in terms of day-to-day management, 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;

• Anticipating that capital requirements may reflect the effect of the predominant role of the retail segment where the Bank operates which does not happen with the current Basic Indicator Approach.

Moreover, since 2004, Banco Popular 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 company but takes into consideration the specific characteristics of Portugal – derived from the implementation of an overall process of operational risk identification and its respective control. This process consists in the maintenance of a network of people in charge of operational risk management. 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 functional areas with the aim of promoting the identification of possible mitigating measures that may be implemented.

In 2012, some initiatives were carried out in the scope of this type of risk, from which we would like to highlight:
- considering the principles set forward by the Basel Committee on Banking Supervision of the Bank for International Settlements on its publication 'Sound Practices for the Management and Supervision of Operational Risk', the Board of Directors – resorting to the statistical analysis of the data that has been recorded for several years and that thus reflects the historical experience of the Bank in this scope – approved an Operational Risk Tolerance by type of exposure and, from that indicator, a Risk Appetite Level within Banco Popular's Risk Capacity considering the maximum amount allocated to Operational Risk (provisions for Operational Risk hedging) each year;
- The Bank has identified key risk indicators (KRI) in sensitive areas and manages them aided by a specific module of the qualitative management tool (GIRO).
On the first stage, indicators were implemented in the following functional areas:
Risk Analysis Department (DAR)
Customer Ombudsman (PCL)
Operations Department – Securities (DOP – Securities)
Property Department (DIM)

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 for all the employees of the Bank.

Structural interest rate risk

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

Banco Popular Portugal measures its structural interest rate risk by using the repricing gap model. This model, used to measure the interest rate risk, consists in measuring exposures by different maturity and repricing dates in asset and liability cash flows. Briefly, this model groups assets and liabilities in fixed time intervals (maturity date or date of the next interest rate revision when indexed) based on which the potential impact in net interest income is calculated.

In this framework, this model considers a scenario in which there is an immediate impact on interest rates and at the date the interest rates are revised (both asset and liability transactions) the new rates incorporate that effect. The model additionally allows for the calculation of the impact of parallel gap curve shifts in Net Interest Income:

Interest Rate Trend	GAP > 0	GAP < 0	GAP = 0
Increase	Gain	Loss	Balance Sheet Immunisation
Decrease	Loss	Gain	

Liquidity Risk

Liquidity risk is defined as the probability of negative impact 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, adverse conditions in money or debt markets, etc.

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

As at 31 December 2012, Banco Popular's funding needs were ensured mainly by deposits from customers (3,907 million euros, around 44% of total assets (Dec/2011: 43%)), by ECB funding (around 1.6 billion euros, representing around 17.9% of total assets (Dec/2011: 5%)), by deposits from banks, mostly BPE (1.4 billion euros, around 16.2% (Dec/2011: 37%)), and by the bonds issued (1,011 million euros, around 11.4% (Dec/2011: 6%)).

It is worth mentioning that the Bank has made a significant effort to obtain funding independent from the Group, and we would like to highlight the significant increase in debt issued, the increased funding by the ECB and the growing importance of deposits from customers.

Currently the activity of Banco Popular already shows a significant autonomy level vis-à-vis the Group, and it is worth mentioning that only 16% of assets is financed by BPE's funding.

When compared with 2011, the Bank has diversified its funding sources and confirmed the reduction of the weight of Banco Popular Español funds.

However, in a perspective of liquidity risk and as seen in the past few years, in the event of gaps on the date of an operation's maturity, it shall be renewed and provided by GBP's funds. Thus the parent company's funding is considered a stable liability due to the solidity of GBP, and there is no restriction in terms of funding amounts, maturity dates or interest rates.

Additionally, 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 ECB), which thus constitutes an additional liquidity line

Reputational risk

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

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

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

• Laws and regulations;

• Codes of conduct and standards of good practice, namely regarding its business activities, prevention of money laundering and financing of terrorism;

• Conduct in the securities markets;

• Privacy and data protection.

In addition, the Bank promotes regular staff training actions on these topics.

Property risk

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

The Bank is exposed to property risk that arises from its property portfolio whose net amount as at 31 December 2012 stood at around 322 million euros, representing around 3.6% of the Bank's net assets. These were assets whose ownership was transferred to the Bank following legal actions or in lieu of payment to settle loan debts (mostly loans for construction/property development). These assets include urban and rural lands, land plots, buildings or parts of buildings, finished or under construction.

The Property Department is in charge of managing these assets and has employees who are trained in engineering.

At the time of transfer in lieu of payment, acquisition or legal award to settle the debt, for the materially relevant transactions external appraisals are always required. After that, every three years or in-between periods new appraisals are carried out if there is any indication of any property loss of value. Periodically, sensitivity analyses are carried out to assess the amount of the assets, taking into consideration the market evolution as felt by the Group. Thus, the Group considers that these assets are adequately appraised and registered in its income statements.

The aim of the Group is to ensure the assets are sold at the best price possible, and may promote joint projects with construction companies to support those projects and therefore ensure better selling conditions.

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 2012 exercise of Banco Popular Portugal, S. A., in the amount of 2,691,991.94 euros, shall have the following appropriation:

- Legal Reserves	Euros	270,000.00
- Other Reserves	Euros	2,421,991.94

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, 18 March 2013

The Executive Board of Directors

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

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

Nothing to report.

Annex 2 - Qualifying holdings

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

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

Annual Accounts

Balance Sheet

Individual Balance Sheet as at 31 December 2012

(€ thousand)

	Note/ Table Annex	Year: Amount before provisions impairment & depreciation (1)	Year: Provisions, impairment & depreciation (2)	Year: Net result (3 = 1 - 2)	Previous year
Assets					
Cash and balances w ith central banks	17	171 349		171 349	138 221
Deposits w ith banks	18	54 743		54 743	140 324
Financial assets held for trading	19	56 738		56 738	34 942
Other financial assets at fair value through profit or loss	20	32 954		32 954	30 496
Available-for-sale financial assets	21	1 105 359		1 105 359	1 503 439
Loans and advances to banks	22	269 818		269 818	148 835
Loans and advances to customers	23	6 020 530	185 144	5 835 386	6 367 864
Held-to-maturity investments	24	723 879		723 879	545 326
Non-current assets held for sale	25	22 579		22 579	-
Other tangible assets	26	181 393	93 389	88 004	93 338
Intangible assets	27	20 707	20 536	171	817
Investment in subsidiaries and associates	25	-		-	22 579
Current income tax assets		1 360		1 360	-
Deferred income tax assets	28	82 396		82 396	121 839
Other assets	29	479 601	58 260	421 341	486 015
Total Assets		**9 223 406**	**357 329**	**8 866 077**	**9 634 035**
Liabilities					
Deposits from central banks	30	1 605 143		1 605 143	495 137
Financial liabilities held for trading	19	40 181		40 181	29 374
Deposits from banks	31	1 423 759		1 423 759	3 648 429
Due to customers	32	3 906 941		3 906 941	4 154 043
Debt securities issued	33	1 011 248		1 011 248	605 816
Hedging derivatives	34	128 563		128 563	82 554
Provisions	35	54 588		54 588	61 134
Current income tax liabilities		-		-	2 063
Deferred income tax liabilities	28	14 191		14 191	9 530
Other liabilities	36	33 824		33 824	49 628
Total Liabilities		**8 218 438**	**0**	**8 218 438**	**9 137 708**
Equity					
Share capital	39	476 000		476 000	451 000
Share premium	39	10 109		10 109	10 109
Fair value reserves	40	- 110 807		- 110 807	- 233 632
Other reserves and retained earnings	41	269 645		269 645	255 418
Profit for the year		2 692		2 692	13 432
Total Equity		**647 639**	**0**	**647 639**	**496 327**
Total Liabilities + Equity		**8 866 077**	**0**	**8 866 077**	**9 634 035**

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Income Statement

Individual Income Statement as at 31 December 2012

(€ thousand)

	Note/ Table/ Annex	Year	Previous Year
Interest and similar income	6	365 784	356 663
Interest expense and similar charges	6	216 926	225 576
Net interest income		**148 858**	**131 087**
Return on equity instruments	7	55	64
Fees and commissions received	8	75 400	58 355
Fees and commission paid	8	21 119	9 673
Net gains from financial assets at fair value through profit or loss	9	3 821	- 4 316
Net gains from available-for-sale financial assets	9	- 1 192	205
Net gains from foreign exchange differences	10	1 417	- 413
Net gains from the sale of other assets	11	- 7 347	- 1 775
Other operating income	12	- 6 374	- 6 677
Operating income		**193 519**	**166 857**
Personnel expenses	13	55 658	59 890
General administrative expenses	14	50 643	51 797
Depreciation and amortization	26/27	7 234	8 044
Provisions net of reversals	35	- 6 546	1 706
Adjustments to loans and advances to customers (net of reversals)	23	63 077	398
Impairment of other financial assets net of reversals		611	1 771
Impairment of other assets net of reversals	29	16 484	18 824
Net income before tax		**6 358**	**24 427**
Income tax		3 666	10 995
Current tax	15	4 132	8 217
Deferred tax	15	- 466	2 778
Net income after taxes		**2 692**	**13 432**
Of which: Net income from discontinued operations		0	0
Net income for the period		**2 692**	**13 432**
Earnings per share (euro)		**0.01**	**0.03**

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Statement of Comprehensive Income

BANCO POPULAR PORTUGAL, SA

Individual Statement of Comprehensive Income

(€ thousand)

	31/12/2012	31/12/2011
Net income	**2 692**	**13 432**
Available-for-sale financial assets		
Revaluation of available-for-sale financial assets	168 190	- 201 953
Tax burden	- 44 570	53 518
Income not recognized in the income statement	**123 620**	**- 148 435**
Individual comprehensive income	**126 312**	**- 135 003**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

Statement of Changes in Equity

Individual Statement of Changes in Equity

(€ thousand)

	Share Capital	Share premium	Fair value reserves	Other reserves and retained	Net income	Total
Balance as at 1 January 2011	**376 000**	**10 109**	**- 85 197**	**262 244**	**15 893**	**579 049**
Transferred to reserves				15 893	- 15 893	0
Share capital increase	75 000					75 000
Merger through incorporation of subsidiary				- 22 719		- 22 719
Comprehensive income for the period			- 148 435		13 432	- 135 003
Balance as at 31 December 2011	**451 000**	**10 109**	**- 233 632**	**255 418**	**13 432**	**496 327**
Transferred to reserves				13 432	- 13 432	0
Share capital increase	25 000					25 000
Others			- 795	795		0
Comprehensive income for the period			123 620		2 692	126 312
Balance as at 31 December 2012	**476 000**	**10 109**	**- 110 807**	**269 645**	**2 692**	**647 639**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

Cash Flow Statements

Individual Cash Flow Statements for the years ended 31 December 2012 and 2011

(€ thousand)

	Notes	31/12/2012	31/12/2011
Cash flow from operating activities			
Interest and income received		280 621	296 101
Interest and expenses paid		- 176 442	- 185 211
Fees and commissions received		72 118	60 764
Fees and commissions paid		- 21 119	- 9 499
Loan recoveries		917	5 746
Contributions to the pension fund	37	2 826	- 2 911
Cash paid to suppliers and employees		- 107 805	- 101 827
Sub-total		**51 116**	**63 163**
Changes in operating assets and liabilities			
Minimum cash requirements and deposits with central banks		- 35 976	- 11 451
Financial assets and liabilities at fair value through profit or loss		- 8 268	25 240
Loans and advances to banks		- 133 998	- 9 987
Deposits from banks		-1 123 169	-1 564 949
Loans and advances to customers		99 727	1 643 814
Hedging derivatives		27 114	30 222
Other operating assets and liabilities		- 17 532	- 21 641
Net cash flow from operating activities before income taxes		**-1 140 986**	**154 411**
Income taxes		- 7 555	- 8 979
Net cash flow from operating activities		**-1 148 541**	**145 432**
Cash flow from investing activities			
Dividends received		55	64
Purchase and sale of available for sale financial assets		623 211	- 260 067
Held-to-maturity investments		- 158 869	- 355 201
Non-current tangible assets held for sale		174 360	37 848
Purchase and sale of assets		- 7 244	- 2 597
Net cash flow from investing activities		**631 513**	**- 579 953**
Cash flow from financing activities			
Share capital increase	39	25 000	75 000
Issue of own equity instruments	33	743 907	435 000
Redemption of own equity instruments		- 354 824	- 51 634
Net cash flow from financing activities		**414 083**	**458 366**
Net changes in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	46	329 393	305 816
Effect of exchange rate fluctuations on cash and cash equivalents		1 324	- 268
Net changes in cash and cash equivalents		**- 102 945**	**23 845**
Cash and cash equivalents at year end	**46**	**227 772**	**329 393**

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Schedule of Securities

INDIVIDUAL SCHEDULE OF SECURITIES AS AT 31 DECEMBER 2012 (euros)

Name and type	Asset cateory Instruction No. 23/2004	Type of issuer	Issuer's country	Listed / Unlisted	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	ancial assets at fair value through profit or lo	SPA	Portugal	Y	Portugal	7,611,975.00	750,000,000	7,500,000.00	Fair value	7,790,870.55	287,381.05				
OT Junho 2019 - 4,75%	Available-for-sale financial assets	SPA	Portugal	Y	Portugal	437,362,997.32	47,800,000,000	478,000,000.00	Fair value	449,866,298.69	-56,849,289.52				
OT Outubro 2017 - 4,35%	Held-to-maturity investments	SPA	Portugal	Y	Portugal	38,878,800.00	4,000,000,000	40,000,000.00	Amortised cost	40,791,947.19					
OT Outubro 2015 - 3,35%	Held-to-maturity investments	SPA	Portugal	Y	Portugal	39,461,200.00	4,000,000,000	40,000,000.00	Amortised cost	39,972,622.98					
OT Junho 2019 - 4,75%	Held-to-maturity investments	SPA	Portugal	Y	Portugal	36,534,000.00	4,000,000,000	40,000,000.00	Amortised cost	41,493,079.36					
Public debt instruments - Residents															
SPGB 4.8 - 2024	Available-for-sale financial assets	SPA	Spain	Y	Spain	473,515.00	500	500,000.00	Amortised cost	520,653.06					
Tesouro Espanhol	Available-for-sale financial assets	SPA	Spain	Y	Spain	149,197,500.00	150,000	150,000,000.00	Amortised cost	148,337,916.53					
Tesouro Espanhol	Available-for-sale financial assets	SPA	Spain	Y	Spain	151,830,000.00	210,000	150,000,000.00	Amortised cost	211,957,785.67					
Other issuers															
Unsubordinated debt															
A. Rodrigues Correia Lopes, Bebidas e Alimentação, S.A. - 2ª	Lending and other receivables	Outras	Portugal	N			30	1,500,000.00	Fair value	1,500,000.00					
Alliance Healthcare, S.A. - 13ª	Lending and other receivables	Outras	Portugal	N			80	4,000,000.00	Fair value	4,000,000.00					
Amorim Holding II, SGPS, S.A. - 31ª	Lending and other receivables	Outras	Portugal	N			312	15,600,000.00	Fair value	15,600,000.00					
Amorim Holding II, SGPS, S.A. (2012) - 10ª	Lending and other receivables	Outras	Portugal	N			139	6,950,000.00	Fair value	6,950,000.00					
Amorim Holding II, SGPS, S.A. (2012) - 9ª	Lending and other receivables	Outras	Portugal	N			210	10,500,000.00	Fair value	10,500,000.00					
Amorim Investimentos e Participações, SGPS, S.A. - 60ª	Lending and other receivables	Outras	Portugal	N			500	25,000,000.00	Fair value	25,000,000.00					
Amorim Turismo, SGPS, S.A. - 22ª	Lending and other receivables	Outras	Portugal	N			330	16,500,000.00	Fair value	16,500,000.00					
Auto Sueco, Lda - 13ª	Lending and other receivables	Outras	Portugal	N			200	10,000,000.00	Fair value	10,000,000.00					
Avicasal – Sociedade Avícola, S.A. - 17ª	Lending and other receivables	Outras	Portugal	N			25	1,250,000.00	Fair value	1,250,000.00					
Barraqueiro SGPS - 15ª	Lending and other receivables	Outras	Portugal	N			10	500,000.00	Fair value	500,000.00					
Barraqueiro Transportes - 15ª	Lending and other receivables	Outras	Portugal	N			25	1,250,000.00	Fair value	1,250,000.00					
Bi-Silque-Produtos Com. Visual, SA-1ª	Lending and other receivables	Outras	Portugal	N			22	1,100,000.00	Fair value	1,100,000.00					
Cerealis – Produtos Alimentares, S.A. - 10ª	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00					
Chamartin Imobiliária, SGPS, S.A. - 14ª	Lending and other receivables	Outras	Portugal	N			300	15,000,000.00	Fair value	15,000,000.00					
Ciclo Fabril – Indústrias Metalúrgicas, S.A. - 6ª	Lending and other receivables	Outras	Portugal	N			10	500,000.00	Fair value	500,000.00					
Ciclo Fabril – Indústrias Metalúrgicas, S.A. - 7ª	Lending and other receivables	Outras	Portugal	N			5	250,000.00	Fair value	250,000.00					
Colquímica – Indústria Nacional de Colas, S.A. - 30ª	Lending and other receivables	Outras	Portugal	N			15	750,000.00	Fair value	750,000.00					
Efacec Capital, SGPS, S.A. - 4ª	Lending and other receivables	Outras	Portugal	N			95	4,750,000.00	Fair value	4,750,000.00					
EP – Estradas de Portugal, S.A. - 5ª	Lending and other receivables	Outras	Portugal	N			500	25,000,000.00	Fair value	25,000,000.00					
Eurocabos – SGPS, S.A. - 3ª	Lending and other receivables	Outras	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
Eva Transportes - 15ª	Lending and other receivables	Outras	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
F Ramada – Aços e Indústrias, S.A. - 1ª	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00					
FAF – Produtos Siderúrgicos, S.A. - 17ª	Lending and other receivables	Outras	Portugal	N			11	550,000.00	Fair value	550,000.00					
FAF – Produtos Siderúrgicos, S.A. - 18ª	Lending and other receivables	Outras	Portugal	N			19	950,000.00	Fair value	950,000.00					
Ferneto – Máquinas e Artigos para Indústria Alimentar, S.A. - 1	Lending and other receivables	Outras	Portugal	N			5	250,000.00	Fair value	250,000.00					
Frulact – Indústria Agro-Alimentar, S.A. - 25ª	Lending and other receivables	Outras	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
Grupo Salvador Caetano, SGPS, S.A. - 12ª	Lending and other receivables	Outras	Portugal	N			120	6,000,000.00	Fair value	6,000,000.00					
Grupo Valouro, SGPS, S.A. - 16ª	Lending and other receivables	Outras	Portugal	N			150	7,500,000.00	Fair value	7,500,000.00					
Grupo Visabeira, SGPS, S.A. - 4ª	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00					
José de Mello – Investimentos, SGPS, S.A. - 7ª	Lending and other receivables	Outras	Portugal	N			200	10,000,000.00	Fair value	10,000,000.00					
Logoplaste – Technical Consultans B.V. - 8ª	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00					
Lusaveiro – Imp. & Exp. Máquinas e Acessórios Industriais, S.A	Lending and other receivables	Outras	Portugal	N			15	750,000.00	Fair value	750,000.00					
Lusavouga – Máquinas e Acessórios Industriais, S.A. - 5ª	Lending and other receivables	Outras	Portugal	N			15	750,000.00	Fair value	750,000.00					
Martifer Metallic Constructions, SGPS, S.A. - 7ª	Lending and other receivables	Outras	Portugal	N			150	7,500,000.00	Fair value	7,500,000.00					
Martins Ferreira-Comer. Produtos Siderúrg., SA-2ª	Lending and other receivables	Outras	Portugal	N			10	500,000.00	Fair value	500,000.00					
Meglo Media Global, SGPS, S.A. - 13ª	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00					
Mundotêxtil – Industrias Têxteis, S.A. - 42ª	Lending and other receivables	Outras	Portugal	N			37	1,850,000.00	Fair value	1,850,000.00					
Nabeirogest – SGPS, S.A. - 15ª	Lending and other receivables	Outras	Portugal	N			200	10,000,000.00	Fair value	10,000,000.00					
Nevag, SGPS,SA - 16ª	Lending and other receivables	Outras	Portugal	N			40	2,000,000.00	Fair value	2,000,000.00					
Oliveira & Irmão, S.A. - 13ª	Lending and other receivables	Outras	Portugal	N			10	500,000.00	Fair value	500,000.00					
Oscacer – César Rola, LDA - 101ª	Lending and other receivables	Outras	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
Pecol – Sistemas de Fixação, S.A. - 54ª	Lending and other receivables	Outras	Portugal	N			45	2,250,000.00	Fair value	2,250,000.00					
Probar – Indústria Alimentar, S.A. - 30ª	Lending and other receivables	Outras	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
Procme - Gestão Global de Projectos S.A. - 1ª	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00					
Ramos Catarino, S.A. - 12ª	Lending and other receivables	Outras	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00					
RAR Imobiliária, S.A. - 32ª	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00					
Relvas II – Rolhas de Champanhe, S.A. - 47ª	Lending and other receivables	Outras	Portugal	N			15	750,000.00	Fair value	750,000.00					
Riberalves, SGPS, S.A. - 10ª	Lending and other receivables	Outras	Portugal	N			160	8,000,000.00	Fair value	8,000,000.00					
Ricon Serviços - 17ª	Lending and other receivables	Outras	Portugal	N			10	500,000.00	Fair value	500,000.00					

Rodoviária Alentejo - 15ª	Lending and other receivables	Outras	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00	
Rodoviária Lisboa - 15ª	Lending and other receivables	Outras	Portugal	N			25	1,250,000.00	Fair value	1,250,000.00	
Rodrigues de Amorim & Irmão, Lda - 24ª	Lending and other receivables	Outras	Portugal	N			15	750,000.00	Fair value	750,000.00	
Santogal– SGPS, S.A. - 27ª	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00	
Savinor – Sociedade Avícola do Norte, S.A. - 17ª	Lending and other receivables	Outras	Portugal	N			10	500,000.00	Fair value	500,000.00	
Semapa – Sociedade de Investimento e Gestão, SGPS, S.A - 1	Lending and other receivables	Outras	Portugal	N			109	5,450,000.00	Fair value	5,450,000.00	
Semapa – Sociedade de Investimento e Gestão, SGPS, S.A. - 1	Lending and other receivables	Outras	Portugal	N			16	800,000.00	Fair value	800,000.00	
Semapa – Sociedade de Investimento e Gestão, SGPS, S.A. - 1	Lending and other receivables	Outras	Portugal	N			74	3,700,000.00	Fair value	3,700,000.00	
Sociedade Comercial do Vouga, Lda - 24ª	Lending and other receivables	Outras	Portugal	N			12	600,000.00	Fair value	600,000.00	
Sociedade de Construções Soares da Costa, S.A. - 6ª	Lending and other receivables	Outras	Portugal	N			150	7,500,000.00	Fair value	7,500,000.00	
Sogevinus Fine Wines, S.A. - 10ª	Lending and other receivables	Outras	Portugal	N			53	2,650,000.00	Fair value	2,650,000.00	
Solverde – Soc. de Investimentos Turísticos da Costa Verde, S	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00	
Sonae Capital, SGPS, S.A. - 4ª	Lending and other receivables	Outras	Portugal	N			165	8,250,000.00	Fair value	8,250,000.00	
Sonae Indústria, SGPS, S.A. - 945ª	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00	
Sorgal – Sociedade de Óleos e Rações, S.A. - 20ª	Lending and other receivables	Outras	Portugal	N			35	1,750,000.00	Fair value	1,750,000.00	
Sovena Oilseeds Portugal, S.A. - 84ª	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00	
Sovena Portugal – Consumer Goods, S.A. - 85ª	Lending and other receivables	Outras	Portugal	N			100	5,000,000.00	Fair value	5,000,000.00	
Suigranja – Sociedade Agrícola, S.A. - 31ª	Lending and other receivables	Outras	Portugal	N			20	1,000,000.00	Fair value	1,000,000.00	
XRS Motor - 18ª	Lending and other receivables	Outras	Portugal	N			10	500,000.00	Fair value	500,000.00	
BTA IM Cédulas G.B.P. 4,25 02/14	ancial assets at fair value through profit or lo	OIF	Spain	Y	Spain	24,260,640.00	240	24,000,000.00	Fair value	25,163,270.21	260,640.00
Kaupthing 6,25% C 10	Financial assets held for trading	IC	Iceland	Y	Iceland	1.00	582	582,000.00	Fair value	1.00	0.00
Kaupthing 6,75% C 12	Financial assets held for trading	IC	Iceland	Y	Iceland	1.00	3,595	3,595,000.00	Fair value	2.50	0.00
Landsbanki C 24.2.11	Financial assets held for trading	IC	Iceland	Y	Iceland	1.00	310	310,000.00	Fair value	1.00	0.00
Lehman Brothers5.125	Financial assets held for trading	IC	USA	Y	USA	0.01	66	66,000.00	Fair value	0.66	0.00
Banco CAM Em Garant del Estado	Available-for-sale financial assets	IC	Spain	Y	Spain	147,808,500.00	3,000	150,000,000.00	Fair value	153,377,250.00	-1,888,798.19
Banco Espirito Santo	Available-for-sale financial assets	IC	Portugal	Y	Portugal	3,967,680.00	80	4,000,000.00	Fair value	3,969,606.00	44,492.64
Banco Espirito Santo	Available-for-sale financial assets	IC	Portugal	Y	Portugal	8,981,820.00	180	9,000,000.00	Fair value	8,992,232.50	-17,501.21
Banco Espirito Santo -3,875	Available-for-sale financial assets	IC	Portugal	Y	Portugal	5,884,020.00	120	6,000,000.00	Fair value	6,103,780.33	-109,588.69
Banco Espirito Santo 5,625 06/2014	Available-for-sale financial assets	IC	Portugal	Y	Portugal	5,069,350.00	100	5,000,000.00	Fair value	5,231,165.09	76,104.78
Banco Sabadell	Available-for-sale financial assets	IC	Spain	Y	Spain	11,766,105.00	117	11,700,000.00	Fair value	12,141,111.78	132,692.43
Bankinter	Available-for-sale financial assets	IC	Spain	Y	Spain	56,040,050.00	1,100	55,000,000.00	Fair value	57,829,841.65	1,169,633.73
Barclays BK PLC	Available-for-sale financial assets	IC	UK	Y	UK	20,036,880.00	18,000	18,000,000.00	Fair value	20,719,399.67	2,082,439.43
Barclays BK PLC	Available-for-sale financial assets	IC	UK	Y	UK	17,987,020.00	17,000	17,000,000.00	Fair value	18,459,759.74	998,890.77
Barclays BK PLC 4,75% Perpetual	Available-for-sale financial assets	IC	UK	Y	UK	184,807.20	24	240,000.00	Fair value	193,895.99	-23,619.64
BCP-Banco Comercial Português	Available-for-sale financial assets	IC	Portugal	Y	Portugal	3,987,120.00	80	4,000,000.00	Fair value	3,991,355.00	-12,435.13
BCP-Banco Comercial Português - 3,75	Available-for-sale financial assets	IC	Portugal	Y	Portugal	19,350,000.00	400	20,000,000.00	Fair value	19,526,712.33	-596,040.13
BCP-Banco Comercial Português - 5,625	Available-for-sale financial assets	IC	Portugal	Y	Portugal	15,379,015.00	305	15,250,000.00	Fair value	15,973,608.37	-163,180.85
BESI -Obrig. Indexadas Ouro	Available-for-sale financial assets	IC	Portugal	N	Portugal	810,034.00	860	860,000.00	Fair value	813,904.00	-39,395.94
BNP 4,875% Perpetua	Available-for-sale financial assets	IC	France	Y	France	30,841.30	35	35,000.00	Fair value	28,041.30	-6,958.70
BSCH	Available-for-sale financial assets	IC	Spain	Y	Spain	8,128,320.00	80	8,000,000.00	Fair value	8,357,986.69	131,500.15
Caixa Geral de Depósitos 3,625% 07-2014	Available-for-sale financial assets	IC	Portugal	Y	Portugal	5,005,250.00	100	5,000,000.00	Fair value	5,090,336.83	8,289.14
Caixa Geral Depositos-2013 - 4,375%	Available-for-sale financial assets	IC	Portugal	Y	Portugal	10,049,700.00	200	10,000,000.00	Fair value	10,328,980.79	53,323.85
CaixaBank	Available-for-sale financial assets	IC	Spain	Y	Spain	70,795,900.00	700	70,000,000.00	Fair value	73,277,011.09	1,067,455.56
Citibank-Obrig. Indexadas Ouro CFI	Available-for-sale financial assets	OIF	USA	N	USA		860	860,000.00	Fair value	863,887.97	-5,279.25
Class D Note Purchase Agreement	Available-for-sale financial assets	OIF	Ireland	N	Ireland		1	4,630,000.00	Historical cost	2,614,765.52	-1,765,234.49
Commerzbank AG	Available-for-sale financial assets	IC	Germany	Y	Germany	44,175,600.00	40,000	40,000,000.00	Fair value	45,390,120.57	4,345,177.79
Fortis Nederland	Available-for-sale financial assets	IC	Netherlands	Y	Netherlands	37,229,150.00	35,000	35,000,000.00	Fair value	38,514,081.49	2,258,438.06
Ing Bank, BV	Available-for-sale financial assets	IC	Netherlands	Y	Netherlands	31,563,000.00	30,000	30,000,000.00	Fair value	32,434,489.73	1,633,134.94
KBC-obrig. Indexadas Ouro KBC 1,4	Available-for-sale financial assets	OIF	Netherlands	N	Netherlands		688	688,000.00	Fair value	678,918.40	-8,842.14
KBC-obrig. Indexadas Ouro KBC 1,5	Available-for-sale financial assets	OIF	Netherlands	N	Netherlands		172	172,000.00	Fair value	170,142.16	-2,168.01
KutxaBank	Available-for-sale financial assets	IC	Spain	Y	Spain	30,460,200.00	600	30,000,000.00	Fair value	30,679,549.31	230,923.54
Lloyds TSB Bank	Available-for-sale financial assets	IC	UK	Y	UK	15,953,100.00	15,000	15,000,000.00	Fair value	16,356,713.04	960,912.81
Lloyds-Obrig. Indexadas Ouro Lloyds	Available-for-sale financial assets	IC	UK	N	UK		860	860,000.00	Fair value	864,522.66	-4,996.27
Muencher Hypo C 6/06	Available-for-sale financial assets	IC	Germany	Y	Germany	22,900.20	30	30,000.00	Fair value	22,900.20	-7,099.80
Navigator Mortage Finance EUR FL.R 02-2035	Available-for-sale financial assets	OIF	Ireland	N	Ireland	106,960.08	18	136,882.62	Fair value	107,067.13	-896.07
Red Electrica FIN BV	Available-for-sale financial assets	Outras	Spain	Y	Spain	4,329,240.00	40	4,000,000.00	Fair value	4,463,595.54	243,916.18
Royal Bk Scotl.10/49	Available-for-sale financial assets	IC	UK	Y	UK	640,657.50	15	750,000.00	Fair value	640,657.50	-109,342.50
Telefonica	Available-for-sale financial assets	Outras	Spain	Y	Spain	25,177,410.00	230	23,000,000.00	Fair value	26,179,574.66	2,177,410.00
UBI Banca, SPCA	Available-for-sale financial assets	IC	Italy	Y	Italy	30,378,950.00	29,000	29,000,000.00	Fair value	30,429,799.32	1,544,932.95
Banco Popular	Held-to-maturity investments	IC	Spain	Y	Spain	19,130,962.50	381	19,050,000.00	Amortised cost	18,941,264.21	0.00
Banesto	Held-to-maturity investments	IC	Spain	Y	Spain	30,729,300.00	300	30,000,000.00	Amortised cost	29,942,472.82	0.00
BBVA	Held-to-maturity investments	IC	Spain	Y	Spain	35,623,350.00	700	35,000,000.00	Amortised cost	35,027,706.81	0.00
Fondo Amort. Def Elect.	Held-to-maturity investments	Outras	Spain	Y	Spain	56,852,950.00	550	55,000,000.00	Amortised cost	56,681,679.10	0.00
IM GBP Empresas 4FT	Held-to-maturity investments	IC	Spain	N	Spain		2,500	67,749,900.00	Amortised cost	67,749,900.00	0.00
Instituto de Crédito Oficial	Held-to-maturity investments	OIF	Spain	Y	Spain	25,136,250.00	25,000	25,000,000.00	Amortised cost	25,059,875.79	0.00
Total										**2,156,814,112.48**	

Equity instruments															
ACT-C-Indústria de Cortiças, SA	Available-for-sale financial assets	Outras	Portugal	N			354,153	1,770,765.00	Historical cost	0.00	0.00	1,770,765.00		9.88%	9.88%
CorkFoc- Cortiças, SA	Available-for-sale financial assets	Outras	Portugal	N			116,066	580,330.00	Fair value	0.00	0.00	580,330.00		6.418%	6.418%
Eurovida - Comp. de Seguros de Vida, S.A.	Non-current assets held for sale	S	Portugal	N	Portugal		239,022	1,195,110.00	Fair value	22,578,974.21	0.00			15.9348%	15.9348%
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			0.00%	0.00%
Prebesan-Pré Fabricados de Betão de Santarém, Lda	Available-for-sale financial assets	Outras	Portugal	N					Historical cost	0.00	0.00	103,333.00		2%	2%
Sibs - Soc. interb. de Serviços, SA	Available-for-sale financial assets	OIF	Portugal	N	Portugal		25,680	128,400.00	Fair value	345,703.20	-875,434.30			0.52%	0.52%
SWIFT	Available-for-sale financial assets	OIF	Belgium	N	Belgica		6	750.0000	Historical cost	16,500.00					
TAEM-Processamento Alimentar, SGPS, SA	Available-for-sale financial assets	Outras	Portugal	N			125	125.00	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	264,406.81	-195,816.61			0.360%	0.360%
Visa Europe Limited	Available-for-sale financial assets	OIF	UK	N	UK		1	10.0000	Fair value	10.00	0.00			0.00%	0.00%
Visa Inc. Class C series I Commom Stock	Available-for-sale financial assets	OIF	USA	N	USA		1,854	USD 0,1854	Fair value	48,472.06	0.00			0.00%	0.00%
Total										**23,254,563.28**					
Other															
DEGI Internacional	Financial assets held for trading	OIF	Germany	Y	Germany	177,010.60	4,985	1.00	Fair value	177,010.60	-42,869.38				
Imopular FEI Fechado	Financial assets held for trading	OIF	Portugal	Y	Portugal	2,595,890.86	269,759	10.00	Fair value	2,595,890.86	-225,702.48				
KanAm Grundinvest	Financial assets held for trading	OIF	Germany	Y	Germany	45,930.01	982	1.00	Fair value	45,930.01	-8,763.54				
OPC Preff Class D	Financial assets held for trading	OIF	Ireland	Y	Ireland	9,447.60	120	100.00	Fair value	9,447.60	-399.60				
Popular Arrendamento - FIIFAH	Financial assets held for trading	OIF	Portugal	Y	Portugal	3,789,394.38	38,032	100.00	Fair value	3,789,394.38	-13,805.62				
Popular Economias Emergentes	Financial assets held for trading	OIF	Portugal	Y	Portugal	1,455.45	150	10.00	Fair value	1,455.45	-44.55				
Popular Economias Emergentes II	Financial assets held for trading	OIF	Portugal	Y	Portugal	4,334.40	450	10.00	Fair value	4,334.40	19.80				
Popular Global 50 - Fundo de Fundos	Financial assets held for trading	OIF	Portugal	Y	Portugal	113,620.48	25,424	5.00	Fair value	113,620.48	-36,232.23				
Popular Global 75 - Fundo de Fundos	Financial assets held for trading	OIF	Portugal	Y	Portugal	191,394.02	53,929	5.00	Fair value	191,394.02	-84,397.16				
Popular Imobiliário-FEI	Financial assets held for trading	OIF	Portugal	Y	Portugal	1,401,838.89	274,064	5.00	Fair value	1,401,838.89	-38,563.84				
Popular obrigações indexadas a empresas Germany/EUA	Financial assets held for trading	OIF	Portugal	Y	Portugal	28,211.83	2,525	10.00	Fair value	28,211.83	3,210.29				
Popular obrigações indexadas ao Ouro (Londres) FEI	Financial assets held for trading	OIF	Portugal	Y	Portugal	131,912.36	13,418	10.00	Fair value	131,912.36	-2,262.93				
Popular Predifundo	Financial assets held for trading	OIF	Portugal	Y	Portugal	2,968,462.76	242,106	4.99	Fair value	2,968,462.76	420,521.24				
SEB Immoinvest	Financial assets held for trading	OIF	Germany	Y	Germany	54,925.36	1,382	1.00	Fair value	54,925.36	-20,450.21				
Solução Arrendamento-FIIAH	Financial assets held for trading	OIF	Portugal	Y	Portugal	6,414,943.33	1,298,046	5.00	Fair value	6,414,943.33	-66,904.96				
Total										**17,928,772.33**					

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED

31 DECEMBER 2012 and 2011

(€ thousand)

1. INTRODUCTION

1.1 Activity

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

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

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

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

The Bank is not a listed company.

1.2 Bank structure

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

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

Thus, as at 31 December 2011, the Bank detains only one equity stake in the associated company – Companhia de Seguros de Vida, S.A. (see note 25).

2. Summary of the Main Accounting Principles

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

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

IFRS 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 2012 but that are not relevant for the Bank:

The following standards, amendments and interpretations are compulsory for accounting periods starting on 1 January 2012 but are not relevant for the Bank's activity:

IFRS 7 (amended) – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

The application of this standard will have no 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 2012 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 2012:

IAS 1 (amended) – Presentation of financial statements;

IAS 12 (amended) – Income taxes;

IAS 19 (revised in 2011) – Employee benefits;
IAS 27 (revised in 2011) – Separate financial statements;
IAS 28 (revised in 2011) – Investments in associates and joint ventures;
IAS 32 (amended) – Asset and liability offsetting;
2009-2011 Annual improvements. These amendments are effective for annual periods beginning on or after 1 January 2013. This change is currently undergoing the adoption process by the European Union. The annual improvement process for 2009-2011 affects IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34;
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

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

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

2.5 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on trade date and subsequently remeasured at fair value. Fair values are based on quoted market prices, including recent market transactions and evaluation models, namely: discounted cash flow 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 – gains and losses arising from changes in their fair value are immediately included in the income statement, and (ii) fair value derivatives accounted for in conformity with note 3.1 a).

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

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

Once a financial asset or group of financial assets has been written down as a result of an impairment loss, interest income 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 fees are recognised based on the applicable service contracts – usually recognised proportionally to the time elapsed. Asset management fees related to investment funds are recognised rateably over the period the service is provided.

2.8 Financial assets

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

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

The Bank classifies its financial assets into the following categories: 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 unpaid accrued interest.

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

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

c) Held-to-maturity investments

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

These assets are initially recognised at fair value, minus possible commissions included in the effective rate, plus all direct incremental costs. They are subsequently valued at amortised cost, using the effective interest rate method and 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 asset funds and supplementary funds.

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

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

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

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

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

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

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

2.9 Impairment of financial assets

a) Assets carried at amortised cost

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

(i) significant financial stress of the borrower;

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

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

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

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

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

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

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

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

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

When analysing impairment in a portfolio, the Bank estimates the probability of an operation or a customer to default during the estimated period between impairment occurring and the loss being identified. Usually, the timeframe used by the Bank is of around 6 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 reversible. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and growth can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

2.10 Intangible assets

- 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 Tangible assets held for sale

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

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

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

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

2.13 Leases

a) As lessee

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

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

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

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

b) As lessor

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

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

2.14 Provisions

Provisions for other risks and charges

Provisions for restructuring costs and legal 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 the compulsory fully financing pension liabilities and a minimum level of 95% financing of past service liabilities for staff in active employment.

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

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

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

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

b) Seniority bonuses

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

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

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

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

- cost of current service (cost of one year);
- interest expenses;
- 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 can be used.

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

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

2.17 Financial liabilities

The Bank classifies its financial liabilities 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.

2.18 Non-current assets held for sale

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

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.

The Bank's portfolio – including financial assets held for sale, held-to-maturity investments, trading portfolio and other financial assets at fair value through profit or loss – amounted to around 1.9 billion euros at the end of 2012, representing around 22% of total net assets. The typology of these assets was broken down as follows: public Portuguese debt (30.5%), public Spanish debt (19%), banks (42.1%) and others (8.4%).

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

a) Fair value hedge accounting

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

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

b) Cash flow hedge accounting

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

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

3.2 Financial assets and liabilities at fair value

The Board of Directors considered that as at 31 December 2012, the fair value of assets and liabilities at amortised cost did not differ significantly from its book value.

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

The net income of financial assets and liabilities at fair value that have not been classified as hedging includes an amount of 1 125 thousand euros (2011: -2 254 thousand euros).

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

	31/12/2012		31/12/2011	
	Fair value	Change	Fair value	Change
Financial assets at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	38 429	39 706	27 071	10 700
Market price swaps	-	-	-	860
Futures	154	-	79	313
Options	226	1 990	43	300
Available-for-sale financial assets				
Debt instruments issued by residents	529 888	-	368 638	-
Equity instruments issued by residents	611	-	1 909	-
Debt instruments issued by non-residents	574 795	- 1 192	1 132 840	205
Equity instruments issued by non-residents	65	-	52	-
Financial liabilities at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	39 817	- 39 602	29 033	- 14 293
Market price swaps	-	-	-	-
Futures	138	-	68	- 175
Options	226	223	273	- 164
		1 125		**- 2 254**

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

- Level 1: 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).

	31/12/2012				31/12/2011			
Assets and Liabilities at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Held-for-trading financial assets								
Variable income securities	17 929			17 929	7 749			7 749
Derivatives		38 809		38 809		27 193		27 193
Other financial assets at fair value through profit or loss								
Fixed income securities	32 954			32 954	30 496			30 496
Available-for-sale financial assets								
Debt securities	1 102 068	2 615		1 104 683	1 080 643	420 835		1 501 478
Equity securities			676	676			1 350	1 350
Total Assets at fair value	**1 152 951**	**41 424**	**676**	**1 195 051**	**1 118 888**	**448 028**	**1 350**	**1 568 266**
Held-for-trading financial liabilities (Derivatives)		40 181		40 181		29 374		29 374
Hedging derivatives		128 563		128 563		82 554		82 554
Total Liabilities at fair value	**0**	**168 744**	**0**	**168 744**	**0**	**111 928**	**0**	**111 928**

3.3 Credit risk

The Bank is exposed to credit risk, which is the possible loss that arises when the Bank's counterparties fail to fulfil their obligations. In the case of lending, it implies the loss of principal, interest and commissions, in the terms regarding amount, period and other conditions set forth in the contracts. Regarding off-balance sheet risks, it is triggered when the Bank's counterparties fail to fulfil their obligations with third parties, which implies that the Bank has to assume as their own in view of the contract.

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 2012 and 2011, maximum exposure to credit risk was as follows:

	31/12/2012	31/12/2011
On-balance sheet		
Deposits with banks	54 743	140 324
Financial assets held for trading	38 809	27 193
Other financial assets at fair value through profit or loss	32 954	30 496
Available-for-sale financial assets	1 104 683	1 501 478
Loans and advances to banks	269 818	148 835
Loans and advances to customers	5 835 386	6 367 864
Held-to-maturity investments	723 879	545 326
Other assets	82 343	89 143
	8 142 615	**8 850 659**
Off-balance sheet		
Financial guarantees	458 426	528 333
Other guarantees	104 828	92 017
Lending commitments	694 372	861 883
Documentary credits	41 453	34 177
	1 299 079	**1 516 410**
Total	**9 441 694**	**10 367 069**

The table above shows the worst case scenario in terms of the level of exposure to credit risk the Bank faced as at 31 December 2012 and 2011, 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 on the table above, 69.2% of total maximum exposure results from loans and advances to customers (2011: 69.7%).

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

- 60% of the amount of loans and advances to customers has eligible collaterals;
- 96% of customer credit portfolio is not past due.

- Concentration by activity segment of financial assets with credit risk

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

31/12/2012	Financial Institutions	Public Sector	Property constr. & development	Other industries	Services	Private individuals Home loans	Private individuals Other loans
Deposits with banks	54 743						
Financial assets held for trading	20 972		11 696	6 490	17 355		225
Other financial assets at fair value through	25 163	7 791					
Available-for-sale financial assets	655 492	449 867					
Loans and advances to banks	269 525						
Loans and advances to customers		29 188	1 250 106	777 756	1 959 758	1 487 020	494 625
Held-to-maturity investments	233 403	483 074					
Other assets	1 044	150 087		631			3 815
	1 260 342	1 120 007	1 261 802	784 877	1 977 113	1 487 020	498 665

31/12/2011	Financial Institutions	Public Sector	Property constr. & development	Other industries	Services	Private individuals	
						Home loans	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	24 506	5 990					
Available-for-sale financial assets	727 818	775 010		611			
Loans and advances to banks	148 720						
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
	1 277 366	1 200 838	1 550 925	780 268	2 318 109	1 450 851	418 446

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

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

3.5 Market risk

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

As at 31 December 2012, the Bank's portfolio amounted to around 1,9 billion euros, of which only around 51 million were classified as financial assets held for trading and other financial assets at fair value through profit or loss (around 2.7% of the securities portfolio), i.e., with direct impact on the Bank's income account.

- Risk-sensitivity analysis

Due to the small size of this portfolio, this risk and its respective impact is not considered material for the Bank's management. Therefore we have not performed specific analyses to the trading portfolio.

We would like to add that on that date, market risk (debt instruments) represented around 0.2% of capital requirements, calculated pursuant to Instruction No. 23/2007 issued by the Bank of Portugal.

3.6 Risco de taxa de câmbio

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

31 December 2012	USD	GBP	CHF	CAD	AUD	NOK	Other
Assets							
Cash and cash equivalents	586	91	118	38	63	2	52
Deposits with banks	9 167	8 492	247	1 264	1 936	77	221
Available-for-sale financial assets	48	-	-	-			-
Loans and advances to banks	168 673	5	-	-	7 882	3 130	-
Loans and advances to customers	2 362	5	8	-	-	-	-
Other assets	2 458	23	167	6	-	-	-
	183 294	8 616	540	1 308	9 881	3 209	273
Liabilities							
Deposits from banks	9 441	-	2	-	-	-	29
Deposits from customers	176 765	8 564	272	1 314	9 986	3 226	171
Other liabilities	1 855	8	81	-	-	-	-
	188 061	8 572	355	1 314	9 986	3 226	200
Net balance sheet position	- 4 767	44	185	- 6	- 105	- 17	73
31 December 2011							
Total assets	39 253	3 464	613	14 712	555	287	208
Total liabilities	52 827	3 500	579	784	631	315	147
Net balance sheet position	- 13 574	- 36	34	13 928	- 76	- 28	61

- Risk-sensitivity analysis

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

Thus, as can be seen, whatever the impact of foreign currency prices on foreign exchange terms, it is financially immaterial for the Bank's income.

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 2012

	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	122 685	-	-	-	48 664	171 349
Monetary market	116 186	4 271	144 005	-	60 099	324 561
Loans and advances to customers	1 419 089	2 364 703	1 577 045	371 002	103 547	5 835 386
Securities market	67 934	1 060 872	204 791	544 149	2 374	1 880 120
Other assets	-	-	-	-	654 661	654 661
Total Assets	**1 725 894**	**3 429 846**	**1 925 841**	**915 151**	**869 345**	**8 866 077**
Monetary market	1 469 672	289 007	75 223	1 195 000	-	3 028 902
Deposit market	834 244	583 188	1 742 924	746 584	-	3 906 940
Securities market	529 056	-	-	482 192	-	1 011 248
Other liabilities	-	-	-	-	271 348	271 348
Total Liabilities	**2 832 972**	**872 195**	**1 818 147**	**2 423 776**	**271 348**	**8 218 438**
Gap	**-1 107 078**	**2 557 651**	**107 694**	**-1 508 625**	**597 997**	
Accumulated gap	**-1 107 078**	**1 450 573**	**1 558 267**	**49 642**	**647 639**	

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
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**

- Risk-sensitivity analysis

The Bank measures the interest rate risk of the balance sheet with a model that analyses assets and liabilities that are vulnerable 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.

	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	122 685	-	-	-	48 664	171 349
Monetary market	116 186	4 271	144 005	-	60 099	324 561
Loans and advances to customers	1 419 089	2 364 703	1 577 045	371 002	103 547	5 835 386
Securities market	67 934	1 060 872	204 791	544 149	2 374	1 880 120
Other assets	-	-	-	-	654 661	654 661
Total Assets	**1 725 894**	**3 429 846**	**1 925 841**	**915 151**	**869 345**	**8 866 077**
Monetary market	1 469 672	289 007	75 223	1 195 000	-	3 028 902
Deposit market	834 244	583 188	1 742 924	746 584	-	3 906 940
Securities market	529 056	-	-	482 192	-	1 011 248
Other liabilities	-	-	-	-	271 348	271 348
Total Liabilities	**2 832 972**	**872 195**	**1 818 147**	**2 423 776**	**271 348**	**8 218 438**
Gap	-1 107 078	2 557 651	107 694	-1 508 625	597 997	
Accumulated gap	-1 107 078	1 450 573	1 558 267	49 642	647 639	
Impact of a 1% increase	- 461	- 332	12 780			
Accumulated impact	- 461	- 793	11 987			

Accumulated effect	11,987
Net interest income	148 858
Accumulated gap	8.05%

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 2012, 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 (without accrued interest) at the end of December 2012 with the main classes grouped by maturity date:

Liquidity gap of the balance sheet as at 31 December 2012

	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	171 349				
Deposits with banks	54 743				
Financial assets held for trading			17 929		
Other financial assets at fair value				32 954	
Available-for-sale financial assets		12 984	14 299	565 469	512 607
Loans and advances to banks	43 490	80 930	144 005		1 100
Loans and advances to customers	538 692	340 229	837 767	1 234 704	2 815 277
Held-to-maturity investments			192 339	523 999	139
Other assets	1 974	287	19 225	51 218	548
Total Assets	**810 248**	**434 430**	**1 225 564**	**2 408 344**	**3 329 671**
Deposits from central banks	400 000			1 195 000	
Deposits from banks	981 117	212 716	73 440	30 000	125 000
Deposits from customers	1 459 202	632 288	1 679 341	96 186	
Debt securities issued			130 000	878 907	
Other liabilities	10 891	2 437	3 496	64	7 020
Total Liabilities	**2 851 210**	**847 441**	**1 886 277**	**2 200 157**	**132 020**
Gap	**-2 040 962**	**- 413 011**	**- 660 713**	**208 187**	**3 197 651**
Accumulated gap	**-2 040 962**	**-2 453 973**	**-3 114 686**	**-2 906 499**	**291 152**
Liquidity gap as at 31 December 2011					
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**

- Off-balance sheet exposures (Liquidity risk)

As at 31 December 2012, maturities for the contracted amounts of off-balance sheet financial instruments that may commit the Bank to lending and other facilities to customers were as follows:

31/12/2012	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated
Contingent liabilities:						
Documentary credit	-	-	-	-	-	41 453
Guarantees and Sureties	12 561	5 227	7 128	157 613	45 315	335 411
Commitments:						
Irrevocable loans	-	-	-	-	-	28
Revocable loans	21 818	84 206	207 658	21 814	117 415	241 433
Total	**34 379**	**89 433**	**214 786**	**179 427**	**162 730**	**618 325**

3.9 Operational risk

Banco Popular Group (GBP) has adopted the definition of operational risk contained in the new Basel Accord (Basel II) as the *risk of loss resulting 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 filed an application with Banco de Portugal to be allowed to use that approach.

We would like to stress that operational risk consumed around 5.7% of Tier I capital requirements as at 31 December 2012.

In 2012, some initiatives were carried out in the scope of this type of risk, from which we would like to highlight:

- Resorting to the statistical analysis of the data that has been recorded for several years and that thus reflects the historical experience of the Bank in this scope, the Bank's top management approved an Operational Risk Tolerance by type of exposure and, from that indicator, a Risk Appetite Level within Banco Popular's Risk Capacity considering the maximum amount allocated to Operational Risk (provisions for Operational Risk hedging) each year;

- The Bank has identified key risk indicators (KRI) in sensitive areas and manages them aided by a specific module of the qualitative management tool (GIRO).

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 2012, the Bank held investment accounts in the amount of 5 940 400 thousand euros (2011: 6 181 308 thousand euros) and managed estimated financial assets in the amount of 134 642 thousand euros (2011: 161 654 thousand euros).

3.11 Capital management and disclosures

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

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

	31/12/12	31/12/11
Tier 1 Capital		
Share capital	476 000	451 000
Share premium	10 109	10 109
Statutory reserve	34 951	33 607
General banking reserves	234 694	221 811
Profit for the year	2 692	13 432
Minus: Intangible assets	- 1 573	- 1 264
Eligible revaluation differences	- 12 161	- 23 924
Deductions pursuant to Instruction 28/2011	- 22 729	- 1 642
Deferred taxes and non-accepted assets	- 6 507	- 5 217
Deductions from insurance shareholdings	- 2 000	- 2 000
Deductions pursuant to Instruction 120/96	- 19 528	- 15 312
Tier 1 Capital total	***693 948***	***680 600***
Tier 2 Capital		
Unrealized gains in available-for-sale investments	0	3
Reserves from revaluation of tangible assets	2 348	3 143
Deductions from insurance shareholdings	- 2 000	- 2 000
Tier 2 Capital total	**348**	**1 146**
Eligible own funds	**694 296**	**681 746**
Risk weighted assets	6 571 846	7 267 078
Own funds requirement ratio	10.6%	9.4%
Core tier I	10.9%	9.6%
Tier I	10.6%	9.4%

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:

31/12/2012	Retail Banking	Commercial Banking	Other Segments	Total
Interest and similar revenue	152 487	132 030	81 267	365 784
Interest and similar charges	- 101 229	- 56 259	- 59 438	- 216 926
Revenue from equity instruments	-	-	55	55
Fees and commissions revenue	25 042	20 693	29 665	75 400
Fees and commissions charges	- 483	- 380	- 20 256	- 21 119
Income from Financial Operations (net)	1 720	116	2 210	4 046
Gains from the sale of other assets	-	-	- 7 347	- 7 347
Other Operating Income (net)	41	263	- 6 678	- 6 374
Net assets	3 346 184	2 580 192	2 939 701	8 866 077
Liabilities	2 394 391	1 635 816	4 188 231	8 218 438

31/12/2011	Retail Banking	Commercial Banking	Other Segments	Total
Interest and similar revenue	126 239	131 256	99 168	356 663
Interest and similar charges	- 78 991	- 55 406	- 91 179	- 225 576
Revenue from equity instruments	-	-	64	64
Fees and commissions revenue	25 104	13 589	19 662	58 355
Fees and commissions charges	- 784	- 162	- 8 727	- 9 673
Income from Financial Operations (net)	2 054	-	- 6 578	- 4 524
Gains from the sale of other assets	-	-	- 1 775	- 1 775
Other Operating Income (net)	541	665	- 7 883	- 6 677
Net assets	3 338 166	3 179 122	3 116 747	9 634 035
Liabilities	2 468 621	1 905 571	4 763 516	9 137 708

6. Net interest income

This item is broken down as follows:

	31/12/12	31/12/11
Interest and similar income from :		
Cash and cash equivalents	601	1 088
Deposits w ith banks	1 235	442
Loans and advances to customers	284 293	288 929
Assets held for trading	-	2 203
Other financial assets at fair value	1 352	1 348
Other available-for-sale financial assets	58 744	48 646
Held-to-maturity investments	19 335	13 780
Others	224	227
	365 784	356 663
Interest and similar charges from:		
Deposits from Central Banks	10 005	6 145
Deposits from banks	27 850	74 297
Deposits from customers	143 805	123 669
Debt securities issued	16 349	7 670
Hedging derivatives	18 894	13 784
Others	23	11
	216 926	225 576
Net Financial Income	**148 858**	**131 087**

7. Dividend income

Balance for this item is as follows:

	31/12/12	31/12/11
Available-for-sale financial assets	55	64
	55	64

8. Revenue and expense with fees and commissions

These items are broken down as follows:

	31/12/12	31/12/11
Revenue from Fees and Commissions from:		
Loans	19 247	13 300
Guarantees and sureties	7 269	6 555
Means of collection and payment	30 467	21 589
Asset management	4 620	3 323
Fees from insurance brokerage	1 436	1 753
Account maintenance	4 836	4 403
Processing fees	1 957	2 108
Structured operations	2 357	3 398
Others	3 211	1 926
	75 400	**58 355**
Expenses with Fees and Commissions from:		
Means of collection and payment	18 244	6 597
Asset management	1 998	2 050
Insurance brokerage	390	601
Others	487	425
	21 119	**9 673**

9. Net income from financial operations

This item is broken down as follows:

	31/12/2012		31/12/2011	
	Gains	Losses	Gains	Losses
Financial assets and liabilities held for trading				
Fixed-income securities	-	327	-	185
Variable-income securities	350	526	259	542
Derivative financial instruments	41 696	39 826	40 492	42 951
	42 046	**40 679**	**40 751**	**43 678**
Assets and liabilities at fair value through profit or loss				
Fixed-income securities	3 861	1 407	-	-
Variable-income securities	-	-	1 503	2 892
	3 861	**1 407**	**1 503**	**2 892**
Hedging derivatives at fair value	**146 959**	**146 959**	**129 670**	**129 670**
Available-for-sale assets and liabilities				
Fixed-income securities	317	1 509	**205**	-
	317	**1 509**	**205**	**0**
	193 183	**190 554**	**172 129**	**176 240**

In 2012, the Bank received 24.4 thousand euros in dividends from financial assets held for trading (2011: 7.7 thousand euros). In 2012 and 2011 the Bank did not earn any income from financial assets at fair value through profit or loss.

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

10. Income from foreign exchange revaluation

These items are broken down as follows:

	31/12/12	31/12/11
Exchange gains		
Spot	207	98
Forw ard	1 214	-
	1 421	98
Exchange losses		
Spot	-	-
Forw ard	4	511
	4	511
Income from exchange differences (net)	**1 417**	**- 413**

11. Income from the sale of other assets

This item is broken down as follows:

	31/12/12	31/12/11
Gains from the sale of held-for-sale tangible assets	1 343	435
Gains from other tangible assets	112	-
Gains from held-to-maturity investments	348	-
	1 803	435
Losses from the sale of held-for-sale tangible assets	9 150	2 202
Losses from other tangible assets	-	8
	9 150	2 210
	- 7 347	**- 1 775**

12. Other operating results

This item is broken down as follows:

	31/12/12	31/12/11
Contributions to the DGF	- 1 044	- 906
Contributions to the SII	-	- 1 576
Other operating expenses	- 1 982	- 1 463
Other taxes	- 2 819	- 2 738
Contribution on the banking sector	- 3 999	- 3 423
Income from staff transfer	1 543	1 168
Income from property	545	576
Other income and operating revenue	1 382	1 685
	- 6 374	**- 6 677**

13. Personnel expenses

This item is broken down as follows:

	31/12/12	31/12/11
Wages and salaries	41 890	42 181
Obligatory social security charges from:		
- Wages and salaries	11 348	11 336
- Pension Fund	1 137	5 418
- Other obligatory social security charges	300	286
Other expenses	983	669
	55 658	**59 890**

14. General expenses

This item is broken down as follows:

	31/12/12	31/12/11
With supplies		
Water, energy and fuel	1 991	1 861
Items of regular consumption	546	458
Software licences	145	396
Other third party supplies	451	338
With services		
Rents and leasing	4 890	5 347
Communications	4 174	4 048
Travel, hotel and representation	867	1 307
Advertising and publicity	2 703	2 586
Maintenance of premises and equipment	5 362	5 586
Transports	1 249	1 194
Fees and regular payment agreements	3 993	3 584
Legal expenses	2 391	1 746
IT Services	6 324	4 982
Security, surveillance and cleaning	1 317	1 795
Temporary work	4 656	5 401
External consultants and auditors	1 362	2 239
SIBS	1 218	1 915
External real estate appraisers	960	1 069
Services rendered by the parent company	3 548	3 696
Other third party services	2 496	2 249
	50 643	**51 797**

15. Taxes

Income tax calculation for 2012 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 – levied on taxable income – and a state surcharge of 3% also levied on taxable income from 1.5 to 10 million euros, and of 5% on the remaining amount. In 2011, the state surcharge was 2.5% and levied on taxable income in excess of 2 million euros.

As at 31 December 2012 and 2011, 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:

	31/12/12	31/12/11
Current tax on profits		
For the year	3 834	5 423
Adjustments in respect of prior years	298	2 794
	4 132	8 217
Deferred tax		
Origination and reversal of temporary difference	- 466	2 778
Total tax in the income statement	3 666	10 995
Profit before tax	6 358	24 427
Tax burden	57.7%	45.0%

The reconciliation between the nominal tax rate and the tax burden for the years 2012 and 2011, 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:

	31/12/12		31/12/11	
	Tax rate	Amount	Tax rate	Amount
Profit before tax		6 358		24 427
Tax at nominal rate	25.0%	1 590	25.0%	6 107
Municipal surcharge after deferred tax	7.2%	457	2.6%	643
Autonomous taxation	5.6%	354	1.4%	340
Negative equity variations	0.0%	0	13.5%	3 298
Tax benefits	-4.2%	- 267	-1.0%	- 249
Dividends	0.0%	0	0.0%	0
Effect of provisions not acceptable as costs	-40.2%	- 2 555	3.9%	946
Realized gains / realized losses	-0.4%	- 26	0.0%	0
Other net value adjustments	22.0%	1 399	-5.3%	- 1 285
Contribution on the banking sector	15.7%	1 000	3.5%	855
Tax from previous years	27.0%	1 714	1.4%	340
	57.7%	**3 666**	**45.0%**	**10 995**

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

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

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

31/12/2012	Booked at fair value		Accounts	Available-for-sale	Held-to-maturity	Non-fin.	
	Traded	Fair value	receivable	Financial Assets	Investments	Assets	Total
Assets							
Cash and balances with central banks			171 349				171 349
Deposits with other banks			54 743				54 743
Financial assets held for trading	56 738						56 738
Other fin. assets at fair value thr. prof./loss		32 954					32 954
Available-for-sale financial assets				1 105 359			1 105 359
Loans and advances to banks			269 818				269 818
Loans and advances to customers			5 835 386				5 835 386
Held-to-maturity investments					723,879		723 879
Other assets			72 178			349,163	421 341
	56 738	**32 954**	**6 403 474**	**1 105 359**	**723 879**	**349 163**	**8 671 567**

31/12/2012	Booked at fair value	Other Financial	Hedging	Non-financial	
	Traded	Liabilities	Derivatives	Liabilities	Total
Liabilities					
Deposits from central banks		1 605 143			1 605 143
Deposits from banks		1 423 759			1 423 759
Financial liabilities held for trading	40 181				40 181
Deposits from customers		3 906 941			3 906 941
Debt securities issued		1 011 248			1 011 248
Hedging derivatives			128 563		128 563
Other liabilities		23 908		9 916	33 824
	40 181	**7 970 999**	**128 563**	**9 916**	**8 149 659**

31/12/2011	Booked at fair value		Accounts	Available-for-sale	Held-to-maturity	Non-fin.	
	Traded	Fair value	receivable	Financial 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 fin. assets at fair value thr. prof./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-financial	
	Traded	Liabilities	Derivatives	Liabilities	Total
Liabilities					
Deposits from central banks		495 138			495 138
Deposits from banks	29 374	3 648 429			3 677 803
Financial liabilities held for trading					0
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**

17. Cash and balances with central banks

The balance of this item is broken down as follows:

	31/12/12	31/12/11
Cash	48 664	51 512
Demand accounts with the Bank of Portugal	122 685	86 709
	171 349	**138 221**

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

18. Deposits with banks

The balance of this item is as follows:

	31/12/12	31/12/11
Deposits with banks in Portugal		
Demand accounts	349	714
Cheques payable	12 199	52 709
Other deposits	2 323	1 222
	14 871	54 645
Deposits with banks abroad		
Demand accounts	37 583	83 919
Cheques payable	2 289	1 760
	39 872	85 679
	54 743	**140 324**

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/Dec/2012

	Contract value (Notional amount)	Fair value Assets	Fair value Liabilities
Derivatives held for trading			
a) Foreign currency derivatives			
Currency forwards	22 064	154	138
b) Interest rate derivatives			
Interest rate swaps	476 751	38 429	39 817
c) Derivatives - others			
Options	47 449	226	226
Total derivatives held for trading (assets/liabilities)		38 809	40 181

31/Dec/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			
Options	19 602	43	273
Total derivatives held for trading (assets/liabilities)		27 193	29 374

As at 31 December 2012, the fair value of other financial assets and liabilities held for trading was as follows:

	31/12/12	31/12/11
Other financial assets		
Variable-yield securities		
Equity stakes	17 929	7 749
	17 929	7 749
Total	**17 929**	**7 749**
Total financial assets held for trading	**56 738**	**34 942**
Total financial liabilities held for trading	**40 181**	**29 374**

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

Set out below is a breakdown of these items:

Assets	**31/12/12**	**31/12/11**
Fixed-income securities		
Portuguese government bonds	7 791	5 990
Other foreign debt securities	25 163	24 506
	32 954	**30 496**

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 2012, the Bank had no unlisted equity instruments classified as available-for-sale financial assets, which, since their fair value cannot be reliably measured, were recognised as costs (2011: 611 thousand euros).

A breakdown of this item is as follows

	31/12/12	31/12/11
Securities issued by residents		
Government bonds - at fair value	449 866	276 261
Other debt securities - at fair value	80 022	92 377
Equity securities - at fair value	611	1 298
Equity securities - at historical cost	-	611
	530 499	370 547
Securities issued by non-residents		
Government bonds - at fair value	-	498 749
Other debt securities - at fair value	574 795	629 711
Equity securities - at historical cost	-	4 380
Other securities	65	52
	574 860	1 132 892
Total	**1 105 359**	**1 503 439**

The Bank has in its available-for-sale financial assets portfolio an investment of 2 615 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 amount	Rating		Interest rate
	thousand euros	Standard & Poors	Moody's	(until May 2035)
Class A Notes (Senior)	230 000	AAA	Aaa	3-month Euribor + 0.21%
Class B Notes (Senior)	10 000	AA	Aa2	3-month Euribor + 0.38%
Class C Notes (Senior)	10 000	A	A2	3-month Euribor + 0.55%
Class D Notes (Subordinate)	4 630	n.a.	n.a.	n.a.

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

Intervening entities:

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

The most relevant financial data extracted from Navigator's unaudited financial statements are as follows:

	31/12/12	31/12/11
Net assets	67 256	73 882
Liabilities	71 269	76 734
Equity	-4 013	-2 852
Profit/loss for the period	-1 161	-1 250

22. Loans and advances to banks

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

	31/12/12	31/12/11
Loans and advances to banks in Portugal		
Time deposits	3 171	3 162
Loans	5 000	10 000
Other	80 933	134 370
Interest receivable	95	91
	89 199	147 623
Loans and advances to banks abroad		
Time deposits	180 354	1 100
Other	67	88
Interest receivable	198	24
	180 619	1 212
	269 818	**148 835**

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

	31/12/12	31/12/11
Up to 3 months	124 365	137 558
From 3 months to 1 year	144 005	10 000
Over 5 years	1 155	1 162
Interest receivable	293	115
	269 818	**148 835**

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:

	31/12/12	31/12/11
Internal credit operations		
Public sector	**3 428 400**	**3 717 295**
Private customers	**1 879 063**	**1 909 471**
Residential mortgage loans	1 455 824	1 427 632
Personal and consumer loans	54 502	69 784
Other personal lending	368 737	412 055
	5 307 463	**5 626 766**
External credit operations		
Public sector	**138 088**	**146 566**
Private customers	**18 418**	**19 294**
Residential mortgage loans	15 009	14 779
Personal and consumer loans	63	115
Other personal lending	3 346	4 400
	156 506	**165 860**
Other loans (represented by securities)	**302 700**	**555 850**
Interest and commissions receivable	**22 077**	**12 715**
Past-due loans and interest		
Due within 90 days	22 651	24 664
Over 90 days	209 133	144 619
	231 784	**169 283**
Gross Total	**6 020 530**	**6 530 474**
Minus:		
Provision for doubtful loans	59 221	52 662
Provision for past-due loans and interest	125 922	106 539
Provision for country risk	1	88
Provision for securitised loans	-	3 321
	185 144	162 610
Net total	**5 835 386**	**6 367 864**

As at 31 December 2012, credit operations included 896 653 thousand euros in mortgage loans assigned to the issuance of mortgage bonds (2011: 807 585 thousand de euros) (note 33).

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

	31/12/12	31/12/11
Up to 3 months	1 221 161	1 563 085
From 3 months to 1 year	1 031 834	1 187 253
From 1 to 5 years	1 539 147	2 173 807
Over 5 years	1 974 527	1 424 331
Undetermined maturity (past due)	231 784	169 283
Interest and commissions receivable	22 077	12 715
	6 020 530	**6 530 474**

During 2011, 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 34 million euros for the total amount of 28.5 million euros. This operation had a positive income in the amount of 8.7 million euros due to the cancelling of already constituted provisions.

On 30 March 2012, the Bank assigned written-off 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 31 May 2012, the Bank assigned written-off loans to Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 1.8 million euros for the amount of 36.6 thousand euros..

On 29 June 2012, the Bank assigned loans to Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 45.6 million euros for the amount of 32.4 million euros. This operation had a positive income of 6.8 million euros due the cancelling of already constituted provisions.

On 28 December 2012, the Bank assigned loans to Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 50.4 million euros for the amount of 38.3 million euros. This operation had a positive income of 8.6 million euros due the cancelling of already constituted provisions.

Provisions for customer loan losses

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

	31/12/2012	31/12/2011
Balance as at 1 January	162 610	183 723
Appropriations	252 880	201 411
Used	42 423	27 257
Cancelled	187 923	195 267
Balance as at 31 December	185 144	162 610
Appropriations for provisions	252 880	201 411
Write-offs	- 187 923	- 195 267
Recoveries of bad debts	- 1 880	- 5 746
Provisions net of write-offs and recoveries of bad debts	63 077	398

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	
	31/12/12	**31/12/11**	**31/12/12**	**31/12/11**
Private customers				
Residential mortgage loai	1 478 913	1 488 960	125 875	107 825
Personal and consumer l	55 640	71 550	22 291	19 844
Other personal lending	123 946	140 980	46 126	36 062
	1 658 499	1 701 490	194 292	163 731
Corporate customers				
Loans	1 906 204	2 159 842	592 120	343 880
Current account	612 890	847 118	72 244	55 353
Others	851 890	1 164 421	132 391	94 639
	3 370 984	4 171 381	796 755	493 872
	5 029 483	**5 872 871**	**991 047**	**657 603**

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.

	31/12/12				31/12/11
	Up to 30 days	31 to 60 days	61 to 90 days	Total	Total
Private customers					
Residential mortgage loans	76 683	19 938	12 403	109 024	99 180
Personal and consumer loans	3 504	1 585	725	5 814	6 616
Other personal lending	12 057	4 580	2 222	18 859	16 947
	92 244	**26 103**	**15 350**	**133 697**	**122 743**
Corporate customers					
Loans	79 120	20 899	31 348	131 367	183 323
Current account	103	175	240	518	2 599
Others	6 969	12 170	2 383	21 522	15 084
	86 192	**33 244**	**33 971**	**153 407**	**201 006**
Total	**178 436**	**59 347**	**49 321**	**287 104**	**323 749**

Individually impaired loans

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

	31/12/12	31/12/11
Private customers		
Residential mortgage loans	6 276	4 548
Personal and consumer loans	6	1
Other personal lending	870	42
	7 152	**4 591**
Corporate customers		
Loans	403 799	217 252
Current account	40 620	27 908
Others	63 036	35 728
	507 455	**280 888**
Total	**514 607**	**285 479**

As a result of changes made to the credit impairment model, the Bank considers signs of non-performance the fact that a customer has an outstanding loan for over 90 days, if they have filed for bankruptcy, or if they have chosen a Special Revitalization Plan (PER). Impaired operations are now subject to individual analysis when the customer has an exposure of over 750 thousand euros.

24. Held-to-maturity investments

This item is broken down as follows:

	31/12/12	31/12/11
Debt instruments - Residents		
Listed securities		
Portuguese government bonds	122 258	122 645
Interest receivable	1 686	1 687
	123 944	124 332
Debt instruments - Non-residents		
Listed securities		
Foreign government bonds	360 816	197 075
Other non-resident bonds	233 403	222 227
Interest receivable	5 716	1 692
	599 935	420 994
TOTAL	**723 879**	**545 326**

The following table details this item as at 31 December 2012:

Nature and type of securities	Quantity	Carrying amount
TB October 2015 - 3.35%	4,000,000,000	40 256
TB October 2017 - 4,35%	4,000,000,000	41 154
TB October 2019 - 4,75%	4,000,000,000	42 534
		123 944
SPGB 4.8% 2024	500	543
Spanish Treasury	150,000	148 338
Spanish Treasury	210,000	213 300
Banco Popular Espanhol	381	19 142
IM GBP Empresas 4 FT	2,500	67 761
BBVA	700	36 424
Instituto de Crédito Oficial	25,000	25 675
Fondo Amort. Def. Elect.	550	58 194
Banesto	300	30 558
		599 935
		723 879

25. Non-current assets held for sale

As at 31 December 2012, the Bank only held an equity stake in the associate company Eurovida – Companhia de Seguros de Vida, S.A., booked for 22 579 thousand euros.

As at 31 December 2011, that equity stake was accounted for in investments in associates. However, based on a public decision announced by BPE Group to sell it, the Bank reclassified that equity stake as non-current assets held for sale.

The most important financial data extracted from the consolidated financial statements of Eurovida, prepared according to the IFRS, as well as the impact of the equity method of accounting, were as follows, as at 31 December 2012.

Effective stake (%)	Financial consolidated results for Eurovida as at 31-12-2012			Impact of the application of the equity method	
	Net Assets	Owner's equity	Net profit	In consolidation reserves	In net income
15.9348%	756 811	62 029	10 089	-14 302	1 608

26. Other tangible assets

This item is broken down as follows:

	31/12/2012					31/12/2011
	Real estate	Equipment	Art and antiques	Tang. Assets in progress	Total	Total
Balance as at 1 January						
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
Acquisitions	4 832	1 991		36	6 859	2,327
Transfers						
Acquisition costs	- 9 219	11		- 539	- 9 747	- 6 628
Accumulated depreciation	4 114				4 114	2 308
Disposals / Write-offs						
Acquisition costs		- 296			- 296	- 33
Accumulated depreciation		296			296	20
Depreciation for the year	- 3 552	- 3 008			- 6 560	-7,234
Balance as at 31 December						
Acquisition costs	130 000	51 244	149	0	181 393	184,577
Accumulated depreciation	- 40 099	- 46 695		0	- 86 794	-84,644
Accumulated impairment	- 6 595				- 6 595	-6,595
Net amount	**83 306**	**4 549**	**149**	**0**	**88 004**	**93,338**

27. Intangible assets

This item is broken down as follows:

	31/12/2012			31/12/2011
	Software	Diversos	Total	Total
Balance as at 1 January				
Acquisition costs	18 670	2 097	20 767	20 540
Accumulated depreciation	- 17 893	- 2 057	- 19 950	- 19 140
Acquisitions	496		496	227
Transfers				
Acquisition costs	- 556		- 556	0
Accumulated depreciation	88		88	
Depreciation for the year	- 660	- 14	- 674	- 810
Balance as at 31 December				
Acquisition costs	18 610	2 097	20 707	20 767
Accumulated depreciation	- 18 465	- 2 071	- 20 536	- 19 950
Net amount	**145**	**26**	**171**	**817**

28. Deferred taxes

Deferred taxes are calculated in respect of all the temporary differences using an effective tax rate of 26.5% (2011: 26.5%).

Balances for these items are as follows:

	Balance as at	Equity		Reserves		Balance as at
	31/12/11	Costs	Revenues	Increase	Decrease	31/12/12
Deferred Tax Assets						
Available-for-sale securities	85 777			32 418	72 320	45 875
Tangible assets	6 273	1 604	765			5 434
Taxable provisions	12 704	11 973	15 184			15 915
Fees and commissions	195	11				184
Seniority bonus	957		75			1 032
RGC provisions	6 507		39			6 546
Other assets/liabilities	7 542	308	176			7 410
Tax loss	1 884	1 884				0
	121 839	15 780	16 239	32 418	72 320	82 396
Deferred Tax Liabilities						
Available-for-sale securities	410			1 183	5 850	5 077
Retirement pensions	3 515					3 515
Property revaluation	192		6			186
Shareholdings	5 413					5 413
	9 530	0	6	1 183	5 850	14 191

29. Other assets

This item is detailed as follows:

	31/12/12	31/12/11
Recoverable government subsidies	720	1 928
Taxes recoverable	14 368	19 474
Other debtors	56 733	54 395
Other income receivable	1 092	1 565
Expenses w ith deferred charges	6 027	5 167
Asset operations pending settlement - Diverse	8 804	11 652
Tangible assets held for sale	375 306	448 950
Other tangible assets	3 865	280
Pension liabilities	12 100	16 063
Other transactions pending settlement	586	1 339
	479 601	**560 813**
Impairment of tangible assets held for sale	- 57 401	**- 74 510**
Provisions for other assets	- 859	- 288
	421 341	**486 015**

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

Provisions for other assets	31/12/12	31/12/11
Balance as at 1 January	288	105
Appropriations	1 825	260
Used	1 254	70
Cancelled		7
Balance as at 31 December	**859**	**288**

Movements in the account Non-current tangible assets held for sale in 2012 and 2011 were as follows:

	31/12/2012				31/12/2011
	Properties from recovered loans	Own use property disposed	Equipment	Total	Total
Balance as at 1 January					
Gross amount	443 400	5 210	340	448 950	306 216
Accumulated impairment	- 74 137	- 367	- 6	- 74 510	- 43 957
Net amount	369 263	4 843	334	374 440	262 259
Additions					
Acquisitions	125 301			125 301	83 264
Others	4 524	5 306	1 878	11 708	10 221
Disposals					
Gross amount	- 209 295	- 444	- 913	- 210 652	- 45 511
Populargest Merger					94 760
Impairment losses	- 19 847	- 3 712	- 389	- 23 948	- 21 529
Used	31 327	274	168	31 769	4 851
Populargest Merger Impairment					- 16 833
Reversed	9 267	2	19	9 288	2 958
Balance as at 31 December					
Gross amount	363 930	10 072	1 305	375 307	448 950
Accumulated impairment	- 53 390	- 3 803	- 208	- 57 401	- 74 510
Net amount	310 540	6 269	1 097	317 906	374 440

30. Deposits from central banks

This item is broken down as follows:

	31/12/12	31/12/11
Central banks		
Deposits	1 595 000	495 000
Interest payable	10 143	137
	1 605 143	**495 137**

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

	31/12/12	31/12/11
Forward		
Up to 3 months	400 000	-
1 to 5 years	1 195 000	495 000
Interest payable	10 143	137
	1 605 143	**495 137**

31. Deposits from banks

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

	31/12/12	31/12/11
Domestic credit institutions		
Deposits	189 550	162 956
Interest payable	904	1 131
	190 454	164 087
International credit institutions		
Loans	125 000	131 250
Deposits	699 294	2 665 921
Repurchase agreement	407 874	685 252
Other funds	554	62
Interest payable	583	1 857
	1 233 305	3 484 342
	1 423 759	**3 648 429**

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:

	31/12/12	31/12/11
Spot	13 345	38 072
Forw ard		
Up to 3 months	1 200 488	3 443 119
3 months to 1 year	53 440	3 000
1 to 5 years	30 000	30 000
Over 5 years	125 000	131 250
Interest payable	1 486	2 988
	1 410 414	3 610 357
	1 423 759	**3 648 429**

32. Customer funds

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

	31/12/12	31/12/11
Resident funds		
Demand accounts	626 877	652 471
Time accounts	2 992 500	3 134 458
Savings accounts	6 304	10 018
Cheques payable	10 919	4 770
Other deposits	44	11
	3 636 644	3 801 728
Non-resident funds		
Demand accounts	18 617	18 656
Time accounts	211 694	290 257
Cheques payable	62	215
	230 373	**309 128**
Interest payable	39 924	43 187
	3 906 941	**4 154 043**

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

	31/12/12	31/12/11
Spot	645 494	671 127
Forw ard		
Up to 3 months	1 445 996	2 245 536
From 3 months to 1 year	1 679 341	1 128 567
From 1 to 5 years	96 186	65 626
Interest payable	39 924	43 187
	3 261 447	3 482 916
	3 906 941	**4 154 043**

33. Securitised liabilities

The balance of this item is broken down as follows:

	31/12/12	31/12/11
Cash bonds	-	39 855
Mortgage bonds	515 000	515 000
Euro Medium Term Note	493 907	50 000
Interest payable	2 341	961
	1 011 248	605 816

On 5 March 2012, the Bank made the total redemption of the 1st issuance of Popular Aforro 2009 cash bonds issued on 3 March 2009 in the amount of 21 058 thousand euros.

On 3 July 2012, the Bank made the total redemption of the 2nd issuance of Popular Aforro 2009 cash bonds issued on 3 July 2009 in the amount of 18 796.5 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. This last issuance was fully repurchased by the Bank.

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

On 31 December 2012, 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	130 046	20/12/2010	20/12/2013	Monthly	1M Euribor+120%	BBB-
BAPOP Obrgs hipotecárias 30/06/2014	225 000	225 254	30/06/2011	30/06/2014	Monthly	1M Euribor+120%	BBB-
BAPOP Obrgs hipotecárias 30/12/2014	160 000	160 180	30/12/2011	30/12/2014	Monthly	1M Euribor+120%	BBB-
BAPOP Obrgs hipotecárias 26/09/2015	300 000	0	26/09/2012	26/09/2015	Monthly	1M Euribor+120%	BBB-

On 31 December 2012, autonomous equity assigned to these issuances amounted to 901 584 thousand euros (see note 23).

In 2011, Banco Popular Portugal issued the Euro Medium Term Notes Programme in the maximum amount of 2.5 billion euros. In the scope of this programme, the Bank has already issued the following securities:

Issue date	Serial number	Amount	Number	Nominal unit value	Reimbursement date
29/12/2011	1ª	50 000	500	100 000	29/12/2014
20/04/2012	2ª	10 000	100	100 000	20/04/2015
17/09/2012	3ª	91 980	9 198	10 000	17/09/2015
17/09/2012	4ª	4 148	4 148	1 000	17/09/2014
02/10/2012	6ª	27 630	2 763	10 000	02/10/2014
02/10/2012	7ª	20 000	20 000	1 000	02/10/2015
15/10/2012	5ª	73 248	73 248	1 000	15/10/2015
25/10/2012	9ª	80 000	800	100 000	25/10/2015
26/10/2012	10ª	20 000	200	100 000	26/10/2015
13/11/2012	8ª	38 033	38 033	1 000	13/05/2014
26/11/2012	12ª	9 319	9 319	1 000	26/02/2014
11/12/2012	11ª	30 583	30 583	1 000	11/06/2014
20/12/2012	15ª	15 000	15 000	1 000	20/01/2014
21/12/2012	13ª	11 715	11 715	1 000	21/03/2014
21/12/2012	14ª	11 037	11 037	1 000	21/06/2014
21/12/2012	16ª	1 214	1 214	1 000	21/01/2014
		493 907			

34. Hedging derivatives

The item derivatives is composed as follows:

	31/12/2012		31/12/2011	
	Notional amount	**Liabilities**	**Notional amount**	**Liabilities**
Interest rate contracts				
Swaps	706 250	128 563	706 250	82 554
		128 563		82 554

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 2012, the net fair value of hedging and trading interest rate swaps (see above) was negative (see note 19) in the amount of -129 951 thousand euros (2011: -84 516 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).

35. Other provisions

Balances and movements for the Provisions account were as follows:

Other Provisions (Liabilities) - Movements	31/12/12	31/12/11
Balance as at 1 January	61 134	59 428
Appropriations	1 850	5 763
Cancelled	8 396	4 057
Balance as at 31 December	**54 588**	**61 134**

Other Provisions (Liabilities) - Balances	31/12/12	31/12/11
Other provisions	114	17
Provisions for general credit risks	51 355	59 087
Other provisions	3 119	2 030
	54 588	**61 134**

36. Other liabilities

This item can be broken down as follows:

	31/12/12	31/12/11
Suppliers of goods	1 276	3 454
Tax w ithheld at source	5 743	4 494
Personnel expenses	11 842	11 607
Other expenses	5 047	7 203
Other revenues w ith deferred income	2 203	2 334
Debit instructions charged	-	5 802
Funding operations pending payment	7 508	7 320
Other accruals and deferred income	205	7 414
	33 824	49 628

37. Retirement pensions

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

The fund assumes the liabilities with past services of former employees in the proportion of their time of service. As a counterpart 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 have already been fully paid (55% in December 2011 and 45% in March 2012).

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 deductible for effects of determining taxable profit, in equal parts, from the fiscal year started on 1 January 2012, regarding the average of the number of years of life expectancy of the pensioners whose responsibilities have been transferred having been registered in 2011 as deferred taxes.

On 31 December 2012, the number of participants in the fund was 1 158 (2011: 1 176). On this date there were 32 retired people and 11 pensioners.

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

Past Services	31/12/12	31/12/11
Defined benefit obligation at the beginning of the year	**94 708**	**102 746**
Service expenses:		
Bank	655	4 528
Employees	739	733
Interest expense	4 549	5 107
Pensions paid	- 706	- 1 113
Pensions transferred to SS	-	- 3 505
Obligations transferred to SS	-	- 10 070
Actuarial deviations	9 016	- 3 718
Defined benefit obligation as at 31 December	**108 961**	**94 708**

Current amount of benefit obligations	31/12/12	31/12/11
Past services		
- Old age	96 232	83 951
- Disability	-	-
- Payable pensions	12 729	10 292
- Ex -participants	-	465
	108 961	**94 708**
Future services		
- Old age	46 291	35 370
- Disability	-	-
- Survivor's	-	-
	46 291	**35 370**

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	31/12/12	31/12/11
Amount at the beginning of the year	**113 703**	**118 246**
Contributions paid		
Employer	-	-
Employees	739	733
Return on Fund assets	12 271	131
Pensions paid	- 3 574	- 4 618
Other net differences	- 1 343	- 789
Amount of the Fund as at 31 December	**121 796**	**113 703**
Current obligations for past services	108 961	94 708
Coverage level	111.8%	120.1%

As at 31 December 2012, the Fund had 50 Euro Medium Term Notes issued on 29 December 2011 by Banco Popular Portugal in the amount of 5 010 thousand euros

On 31 December 2012, the amount of off-balance actuarial gains and losses was as follows:

Actuarial gains and losses	31/12/12	31/12/11
Off-balance actuarial losses on 1 January	2 931	- 3 070
Corridor limit on 1 January	11 370	- 11 825
Excess	- 8 439	- 8 755
Average expected remaining years for employees in service	25	29
Off-balance actuarial losses as at 1 January	2 931	- 3 070
Actuarial gains for the year - obligations	- 9 016	3 718
Actuarial gains / losses for the year - Fund	6 820	- 5 713
Actuarial losses for the year	-	795
Transfer of obligations to SS	-	7 201
Off-balance actuarial gains/losses as at 31 December	735	2 931

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

Cost for the year	31/12/12	31/12/11
Service Cost	1 394	5 261
Interest cost	4 549	5 107
Expected return on Fund assets	- 5 452	- 5 844
Depreciation of actuarial losses	-	795
Others	604	56
Total	**1 095**	**5 375**

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

	Assump.	Real	Assump.	Real
Discount rate	4.50%	4.50%	4.75%	4.75%
Expected return of Fund assets	4.50%	11.04%	4.75%	0.13%
Salaries and other benefits increase rate	2.0%	0.0%	2.0%	0.0%
Pensions increase rate	1.0%	0.0%	1.0%	0.0%
Mortality table	TV 88/90		TV 88/90	
Disability table	ERC Frankona		ERC Frankona	
Turnover	0.0%	0.0%	0.0%	0.0%

On 31 December 2012, The Pension Fund's portfolio broken down by asset type was as follows:

Type of assets	31/12/2012
Fixed income securities	68.57%
Variable income securities	18.59%
Real estate	7.70%
Liquidity	5.14%
	100.00%

38. Contingent commitments and liabilities

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

	31/12/12	31/12/11
Contingent liabilities		
Guarantees and Sureties	563 255	620 350
Documentary loans	41 453	34 177
Commitments		
Irrevocable loans	645 792	217 635
Revocable loans	694 344	861 855
	1 944 844	1 734 017

On 31 December 2012, the item Irrevocable loans included the amount of 5 314 thousand euros (2011: 9 244 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.

	31/12/12	31/12/11
Assets pledged as collateral		
Loans	1 582 816	-
Securities	1 652 475	1 145 637
	3 235 291	1 145 637

The amount of the item Assets pledged as collateral includes 1 582.8 thousand euros in loans pledged as collateral to the European Central Bank and 1 652.5 thousand euros 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)

Additionally, as at 31 December 2012 and 2011, the balances regarding off-balance sheet accounts were as follows:

	31/12/12	31/12/11
Deposit and custody of securities	5 940 400	6 181 308
Amounts received for collection	88 992	109 558
	6 029 392	6 290 866

39. Share capital and share premium

Pursuant to the decision made by the General Meeting on 20 December 2012, the Bank did a capital increase from 451 million euros to 476 million euros.

This increase, in the amount of 25 million euros, corresponded to the issuance of 25 000 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 476 000 thousand shares with the nominal value of 1 euro each, which was subscribed and fully paid by Banco Popular Español, SA.

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

40. Revaluation reserves

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

	31/12/12	31/12/11
Revaluation reserves and Fair Value		
Available-for-sale investments		
Net balance as at 1 January	- 236 775	- 88 340
Revaluation at fair value	168 190	- 201 953
Deferred taxes	- 44 570	53 518
Balance as at 31 December	- 113 155	- 236 775
Revaluation reserves (Legal provisions)	2 348	3 143
Balance as at 31 December	- 110 807	- 233 632

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

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

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

(i) To correct any excess found on the date of the revaluation between the net book value of the elements being 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.

41. Other reserves and retained earnings

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

	31/12/12	31/12/11
Legal reserve	34 951	33 607
Other reserves	286 548	273 665
Retained earnings	- 51 854	- 51 854
	269 645	255 418

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

	31/12/12	31/12/11
Legal reserve		
Balance as at 1 January	33 607	32 010
Transf. Retained Earnings	1 344	1 590
Subsidiary merger		7
Balance as at 31 December	34 951	33 607
Other reserves		
Balance as at 1 January	273 665	259 362
Transf. Retained Earnings	12 088	14 303
Trasnf. Revaluation Reserves	795	-
Balance as at 31 December	286 548	273 665
Retained earnings		
Balance as at 1 January	- 51 854	- 29 128
Net income for the previous year	13 432	15 893
Subsidiary merger	-	- 22 726
Transf. Legal Reserve	- 1 344	- 1 590
Transf. Other Reserves	- 12 088	- 14 303
	- 51 854	- 51 854
	269 645	255 418

- 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.

42. Personnel expenses

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

	31/12/12	31/12/11
Directors	95	95
Management	450	429
Technical personnel	494	487
Clerical staff	270	318
	1 309	1 329

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

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

	Fixed Remun.	Variable Remun. - Cash	Total Remun.
Board of Directors			
Rui Manuel Morganho Semedo - Chairman	380	100	480
	380	**100**	**480**
Supervisory Board			
Rui Manuel Ferreira de Oliveira - Chairman	10		10
António José Marques Centúrio Monzelo - Member	6		6
Telmo Francisco Salvador Vieira - Member	6		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 Cash Remun.	Total Remun.
Executive Committee	7	1 090	171	1 261
Risk Management	1	62	6	68
Compliance	1	64	4	68
Asset Management	1	106	14	120
Auditing	1	58	10	68
	11	1 380	205	1 585

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

44. Remuneration of the Statutory Auditor

The amounts paid to the Audit Firm PricewaterhouseCoopers in 2012 and 2011 were:

	31/12/12	31/12/11
Statutory audit	134	140
Other guarantee and reliability services	234	194
	368	334

45. Relationship with related companies

As at 31 December 2012 and 2011, the amounts payable and receivable regarding related companies was as follows:

	Credit		Debit		Income		Expense	
	31/12/12	31/12/11	31/12/12	31/12/11	31/12/12	31/12/11	31/12/12	31/12/11
Eurovida, SA	4 006	4 014	90 186	78 245	1 835	2 106	4 953	2 177
Popular Gestão de Activos, SA	-	-	1 982	2 492	812	1 418	9	36
Popular Factoring, SA	89 917	138 411	15	-	4 203	3 801	341	341
Imopopular Fundo Especial I.I.	1 485	1 105	-	36	45	37	1	-
Popular Arrendamento	2	-	1 229	-	3	-	11	-
Popular Seguros, SA	-	-	1 604	2 791	511	544	51	108
SPE-Special Pourpuse Entities	2 722	4 530	-	-	422	1 121	-	-
	98 132	148 060	95 016	83 564	7 831	9 027	5 366	2 662
Banco Popular Español, SA	316 111	725 345	1 792 511	3 980 899	170 544	190 066	233 810	254 040

As at 31 December 2012, the guarantees pledged by the Bank to related companies amounted to 8 066 thousand euros (2011: 11 030 thousand euros).

As at 31 December 2012, the Bank received deposits from BPE to guarantee the risk associated with loans granted by the Bank in the amount of 157 153 thousand euros (2011: 41 435 thousand euros).

Transactions with related companies are based on common market conditions.

As at 31 December 2012, the members of the Bank's Board of Directors only held deposits in the amount of 9 thousand euros.

46. Cash and cash equivalents

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

	31/12/12	31/12/11
Cash (note 17)	48 664	51 512
Cash and balances with banks (note 18)	54 743	140 324
Deposits with banks with maturities of less than 3 months	124 365	137 558
	227 772	329 394

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

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

1) Description of changes in accounting policies

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

a) Loans and advances to customers

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

In compliance with the conceptual model on which impairment calculations are based, every month an analysis is carried out to the overall credit portfolio divided into three main groups: default portfolio, non-performing portfolio and performing loans.

The segmentation of the portfolio for subsequent analysis is based on grouping credit operations into six different groups according to the counterparty's classification: significant default exposures (of customers with total liabilities of above 750 thousand euros); homogenous default exposures (regarding the remaining default customers); significant non-performing exposures (of entities with total liabilities of above 750 thousand euros); homogenous non-performing exposures (regarding the remaining customers that show default signals); significant performing exposures (regarding customers with total liabilities above 2,500 thousand euros); and homogeneous performing exposures.

The analysis of each of these groups is carried out as follows:

i) 'Homogenous' groups

In the case of the homogenous exposures group, we carry out a historical analysis of the relative default frequencies or an estimate of PD (probability of default), of PI (probability of non-performing signals), PID (probability of future default of operations that show non-performing signals) and, in the universe of default operations, of LGD (loss given default). We build a random sample for each sub-segment to perform a case-by-case analysis and to validate their respective historical LGD.

The probability of default and of non-performing loans to default, calculated based on monthly portfolios for 5 years between the first historical month and the reference date (exclusive), result from the ratio of performing operations in a given moment to those that show default or default signals in the subsequent period, taking into consideration the observations in between periods. Subsequent periods vary according to the specific characteristics of the homogenous segment where they are included.

The LGDs that will be applied to each homogenous segment are obtained after analysing a random sample, based on the weight of the portfolio on the date of the analysis with a 95% confidence interval. Afterwards, every historical cash flow for those operations is obtained. In the case of operations that haven't been settle we also consider estimates of loan recovery based essentially on collaterals that guarantee them and apply haircuts according to the date these were assessed.

For losses associated with off-balance sheet exposures (revocable commitments, guarantees granted and documentary credit) a conversion factor (CCF) is applied in order to assess the percentage of these exposures that may have been converted into balance sheet exposures in the subsequent year.

This conversion factor is reviewed every year and results from the analysis of the execution of guarantees granted and the usage of available credit lines.

ii) Significant default group and non-performing signals group

These exposures are subjected to an individual analysis regarding the estimate of recovery for each of the operations with Banco Popular taking into consideration the actual situation of each customer and the characteristics of those operations, namely their collaterals.

iii) Significant performing group

The analysis that is performed on these customers is mostly based on the current situation of credit operations (non-default/default) and the current state of the collaterals associated with those same operations. For the entire universe of customers that do not show any default signs and have been granted credit above 2 500 thousand euros an individual analysis is carried out.

Whenever no impairment losses were identified during the individual analysis, these operations have been included in the respective non-default homogenous segments with the application of its respective PD, PI, PID, and LGD.

b) Other tangible assets

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

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

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

Reconciliation of the Balance Sheet as at 31 December 2012 and 2011

(€ thousand)

	31/12/2012			31/12/2011		
	AAS Net amount	Adjust.	IFRS Net amount	AAS Net amount	Adjust.	IFRS Net amount
Assets						
Cash and balances with central banks	171 349		171 349	138 221		138 221
Deposits with banks	54 743		54 743	140 324		140 324
Financial assets held for trading	56 738		56 738	34 942		34 942
Other financial assets at fair value through profit or loss	32 954		32 954	30 496		30 496
Available-for-sale financial assets	1 105 359		1 105 359	1 503 439		1 503 439
Loans and advances to banks	269 818		269 818	148 835		148 835
Loans and advances to customers	5 835 386	- 46 229	5 789 157	6 367 864	- 55 031	6 312 833
Held-to-maturity investments	723 879		723 879	545 326		545 326
Non-current assets held for sale	22 579		22 579	-		-
Other tangible assets	88 004	9 791	97 795	93 338	9 791	103 129
Intangible assets	171		171	817		817
Investment in subsidiaries and associates	-		-	22 579		22 579
Current income tax assets	1 360		1 360	-		-
Deferred income tax assets	82 396	- 1 067	81 329	121 839	- 564	121 275
Other assets	421 341		421 341	486 015		486 015
Total Assets	**8 866 077**	**- 37 505**	**8 828 572**	**9 634 035**	**- 45 804**	**9 588 231**
Liabilities						
Deposits from central banks	1 605 143		1 605 143	495 137		495 137
Financial liabilities held for trading	40 181		40 181	29 374		29 374
Deposits from banks	1 423 759		1 423 759	3 648 429		3 648 429
Due to customers	3 906 941		3 906 941	4 154 043		4 154 043
Debt securities issued	1 011 248		1 011 248	605 816		605 816
Hedging derivatives	128 563		128 563	82 554		82 554
Provisions	54 588	- 50 254	4 334	61 134	- 57 160	3 974
Current income tax liabilities	0		0	2 063		2 063
Deferred income tax liabilities	14 191	2 595	16 786	9 530	2 595	12 125
Other liabilities	33 824		33 824	49 628		49 628
Total Liabilities	**8 218 438**	**- 47 659**	**8 170 779**	**9 137 708**	**- 54 565**	**9 083 143**
Equity						
Share capital	476 000		476 000	451 000		451 000
Share premium	10 109		10 109	10 109		10 109
Fair value reserves	- 110 807	4 848	- 105 959	- 233 632	4 053	- 229 579
Other reserves and retained earnings	269 645	3 912	273 557	255 418	48 455	303 873
Profit for the year	2 692	1 394	4 086	13 432	- 43 747	- 30 315
Total Equity	**647 639**	**10 154**	**657 793**	**496 327**	**8 761**	**505 088**
Total Liabilities + Equity	**8 866 077**	**- 37 505**	**8 828 572**	**9 634 035**	**- 45 804**	**9 588 231**

Reconciliation of the Income Statement as at 31 December 2012 and 2011

(€ thousand)

	31/12/2012			31/12/2011		
	AAS	Adjust.	IFRS	AAS	Adjust.	IFRS
Interest and similar income	365 784		365 784	356 663		356 663
Interest expense and similar charges	216 926		216 926	225 576		225 576
Net interest income	**148 858**	**0**	**148 858**	**131 087**	**0**	**131 087**
Return on equity instruments	55		55	64		64
Fees and commissions received	75 400		75 400	58 355		58 355
Fees and commission paid	21 119		21 119	9 673		9 673
Net gains from financial assets at fair value						0
through profit or loss	3 821		3 821	- 4 316		- 4 316
Net gains from available-for-sale financial assets	- 1 192		- 1 192	205		205
Net gains from foreign exchange differences	1 417		1 417	- 413		- 413
Net gains from the sale of other assets	- 7 347		- 7 347	- 1 775		- 1 775
Other operating income	- 6 374		- 6 374	- 6 677		- 6 677
Operating income	**193 519**	**0**	**193 519**	**166 857**	**0**	**166 857**
Personnel expenses	55 658		55 658	59 890		59 890
General administrative expenses	50 643		50 643	51 797		51 797
Depreciation and amortization	7 234		7 234	8 044		8 044
Provisions net of reversals	- 6 546		- 6 546	1 706		1 706
Adjustments to loans and advances to customers						
(net of reversals)	63 077	- 1 896	61 181	398	59 520	59 918
Impairment of other financial assets net of reversals	611		611	1 771		1 771
Impairment of other assets net of reversals	16 484		16 484	18 824		18 824
Net income before tax	**6 358**	**1 896**	**8 254**	**24 427**	**- 59 520**	**- 35 093**
Income tax	3 666	502	4 168	10 995	- 15 773	- 4 778
Current tax	4 132		4 132	8 217		8 217
Deferred tax	- 466	502	36	2 778	- 15 773	- 12 995
Net income for the period	**2 692**	**1 394**	**4 086**	**13 432**	**- 43 747**	**- 30 315**

Reconciliation of changes in equity as at 31 DECEMBER 2012 and 2011

(€ thousand)

	Share Capital	Share premium	Fair value reserves	Other reserves and retained earnings	Net income	Total
Balances as at 31/12/2012 - AAS	**476 000**	**10 109**	**- 110 807**	**269 645**	**2 692**	**647 639**
Credit impairment						
- Adjustments - regulatory provisions				2 128	1 896	4 024
- Deferred tax				- 564	- 502	- 1 066
Valuation of own property						
- Fair value			7 443	2 348		9 791
- Deferred tax			- 2 595			- 2 595
Balances as at 31/12/2012 - IFRS	**476 000**	**10 109**	**- 105 959**	**273 557**	**4 086**	**657 793**

	Share Capital	Share premium	Fair value reserves	Other reserves and retained	Net income	Total
Balances as at 31/12/2011 - AAS	**451 000**	**10 109**	**- 233 632**	**255 418**	**13 432**	**496 327**
Credit impairment						
- Adjustments - regulatory provisions				61 649	- 59 520	2 129
- Deferred tax				- 16 337	15 773	- 564
Valuation of own property						
- Fair value			7 443	3 143		10 586
- Deferred tax			- 2 595			- 2 595
Balances as at 31/12/2011 - IFRS	**451 000**	**10 109**	**- 228 784**	**303 873**	**- 30 315**	**505 883**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

Statutory Audit and Auditor's Report

PWC – PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda.

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., which comprise the Balance Sheet as at 31 December 2012 (showing total assets of 8,866,077 thousand euros and total equity of 647,639 thousand euros, including net profit of 2,692 thousand euros), the Statements of income, of comprehensive income, of changes in equity, and of cash flows for the year then ended, and the corresponding Notes. These financial statements were prepared in accordance with the Adjusted Accounting Standards introduced by Notice No. 1/2005 issued by the Bank of Portugal, which are based on the International Financial Reporting Standards (IFRS) as adopted by the European Union, with the exceptions referred to in Notices Nos. 1/2005, 4/2005 and 7/2008 issued by the Bank of Portugal.

Responsibilities

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

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

Scope

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

and assessing the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements; (ii) evaluating the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances; (iii) assessing the applicability of the going concern basis of accounting; (iv) assessing the appropriateness of the overall presentation of the financial statements; and (v) assessing whether the financial information is complete, true, current, clear, objective and lawful.

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

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

Opinion

7. In our opinion, the financial statements referred to above present fairly in all material respects the financial position of Banco Popular Portugal, S.A. as at 31 December 2012, the results of its operations, comprehensive income, changes in equity, and cash flows for the year then ended in accordance with the Adjusted Accounting Standards issued by the Bank of Portugal, and the information contained therein is complete, true, current, clear, objective and lawful.

Report on other legal requirements

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

Lisbon, 20 March 2013

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 2012.

2. In the course of our activities, we monitored, with the frequency and to the extent that we deemed appropriate, the Bank's activity. We have verified the timeliness and adequacy of the accounting records and supporting documentation, as well as the adequacy and efficiency of the systems of internal control, risk management, and internal audit. We have also monitored compliance with the law and the articles of association.

3. We have also monitored the work conducted by PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. and we assessed the attached Statutory Audit and the Auditor's Report issued by that company with which we are in agreement.

4. As part of our duties, we have verified that:

(i) the Balance Sheet and the Statements of income, of comprehensive income, of changes in equity, of cash flows, and the corresponding Notes, allow for an adequate understanding of the financial position of the Bank, the results and comprehensive income of its operations, of changes in equity, and of cash flows;

(ii) the accounting policies and the valuation criteria adopted are adequate;

(iii) the Management report is sufficiently illustrative of the evolution of the Bank's operation and its situation highlighting the most significant aspects;

(iv) the Corporate governance report includes the information required by Article 245-A of the Portuguese Securities Market Code;

(v) the proposal for the appropriation of net income is in accordance with the applicable legal and statutory provisions.

5. All considered, and taking into consideration the information provided by the Board of Directors and the Services of the Bank, as well as the conclusions stated in the Statutory Audit and Auditor's Report, we are of the opinion that:

i) the Management report is approved;
ii) the Corporate governance report is approved;
iii) the financial statements are approved;
iv) the proposal for the appropriation of net income is approved.

6. In conclusion, we would like to express our gratitude to the Board of Directors and all the employees of the Bank with whom who had contact, for their precious collaboration.

Lisbon, 20 March 2013.

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 2012 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 2012, the Bank detains only one minority equity stake of 15.93% in the associated company Eurovida – 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 has 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.

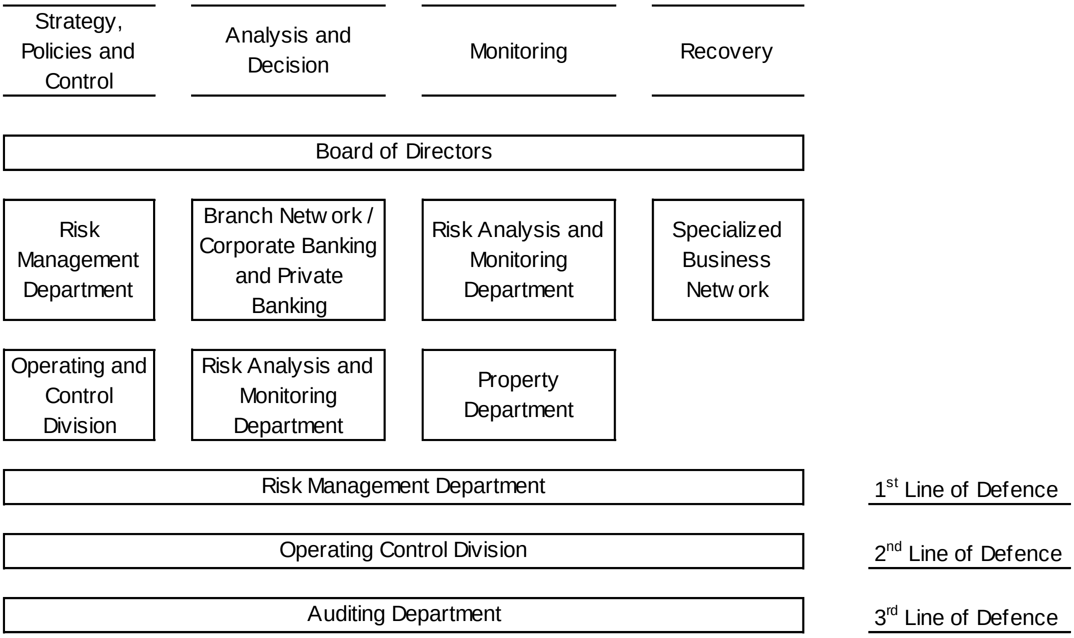
The current organizational structure of the Bank allows for an adequate segregation of its different functions (concession, information and control, overall management, auditing, etc.). Additionally, the Bank has a formal attribution system, based on which all proposals are analysed at the most adequate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

In terms of the risks that are monitored, we would like to highlight the following:

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 organizational structure created to manage and monitor credit risk at Banco Popular Portugal from a macro perspective can be summarized as follows:



The Bank has implemented a risk analysis and assessment circuit based on a formal system of attributions for the authorization of transactions, which depend, among others, from the following factors:

- Nature, amount, maturity and interest rate of the transaction;
- Customer;
- Activity sector;
- Current and historical position of the relationship with the Bank and the financial system;
- Existing collaterals and their quality; and
- Warning signals.

The areas that have been assigned delegated powers to authorise transactions are the following:

- Branches/Corporate and Private Banking;
- Risk Analysis and Monitoring Department;
- Board of Directors.

Monitoring risk is a fundamental task when it comes to managing credit risk since it allows the Bank to be aware of the evolution of its customers' repayment capacity and take corrective action on time in order to avoid situations of non-performance. The methodology employed to monitor risks is mostly based on the analysis of a set of variables associated with transactions and customers that allow the Bank to measure the influence these variables might have on the Bank's exposures and accordingly determining the convenience of maintaining, augmenting, reducing or extinguishing risks. In this scope, the performance of the loan portfolio is regularly analysed in order to set in motion monitoring mechanisms according to the evolution of the overall risk of certain customers and their respective transactions, thus anticipating eventual situations of difficulties by applying preventing measures to current risks.

In 2012, The Bank decided to strengthen its credit recovery actions, and for that purpose nearly all customers with defaulted transactions migrated to an informally called recovery portfolio and the Specialized Business Network (RNE – 'Rede de Negócio Especializado') was created to monitor those customers. Some of the customers included in the so called recovery portfolio do not have any past-due loan, but were identified by the Bank as having a high probability of defaulting in the future.

Pursuant to the credit risk control activities, several reports are produced and made available to the Executive Committee/Board of Directors:

- Monitoring past-due loans (evolution of past-due loans by geographical area);
- Loan portfolio impairment (monthly report);
- Information on credit risk (evolution of outstanding and past-due loans by commercial areas, geographical areas, types of product, large customers, etc.);
- Controlling concentration limits (detail on exposures that exceed the limits that have been pre-established by BAPOP Group's policy);
- Monthly monitoring loan transactions by PD levels;
- Stress Testing report (half-yearly).

Concentration Risk

Concentration risk is monitored by the Risk Management Department (DGR).

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

The procedures employed to manage and monitor concentration risk are mostly focused on defining the limits and analysing/reporting periodically. The most important reports produced by the Risk Management Department and reviewed by the Board of Directors can be summarized as follows:

- Every month a report is prepared that accompanies the following concentration limits approved by the Bank's Board, namely:
    - Customers with risk > 10% TIER I;
    - Customers with risk > 5% TIER I, excluding off-balance sheet and transactions guaranteed by deposits;
    - Risks > 100 million euros and above 25% of CRC;
    - Risks > 20 million euros and 50% of CRC;
    - Risks by activity sector;
    - LTV first housing above 75%;
    - LTV other housing above 60%.
- Every year, pursuant to Instruction No. 5/2011, Banco Popular sends the Bank of Portugal information on concentration risk.

Market Risk

Market Risk is the probability of negative 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.

This type of risk is essentially managed from BPE.

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.

This type of risk is essentially managed from BPE.

Operational Risk

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

Through the network of Operational Risk Managers (RRO) of each functional area, the Bank has identified every operational risk that may affect its performance. In this process, each functional area prepared a document describing their functions and a map of the corresponding operational risks, identifying existing control mechanisms employed to mitigate each risk factor.

For updating purposes, periodical revision cycles are carried out for these qualitative requirements, including organizational changes, and RRO mobility, as well as the assessment of the results obtained in previous cycles according to the experience acquired and functional adjustments that have taken place.

Aiming at fully and correctly identifying, classifying and recording operational risk events the Bank faces in its activity and their respective recoveries, events are automatically recorded on a specific database. A small number of those situations is manually collected by the RRO of each area within their functions.

Each record includes a description, dates (of occurrence, discovery and accounting), amounts (of real loss, potential loss, and recoveries) and classification according to Basel II (activity sector and event type).

Operational risk is assessed and preventive and detection procedures are considered.

In order to assess operational risk quantitative and qualitatively, the Bank considers, among others, the following mechanisms:

a. In the Internal Control and Operational Risk Committee's agenda Operational Risk is a compulsory item; high impact events are presented and discusses and, if necessary, measures are taken to mitigate them;

b. Residual risk is periodically assessed through a self-assessment report on risks and controls identified in each area of the Bank. The self-assessment report includes:

   i. **Risks:** assessment of impact and frequency, maximum and most probable (average);

   ii. **Controls**: assessment of efficacy/design and application/execution.

c. The amounts of actual loss, potential loss, potential recovery, direct recovery, and indirect recovery are recorded regarding each Operational Risk event effectively occurred and detected.

In order to quantify operational risk, besides quantitative and/or mixed methods, the Bank uses the quantitative database it shares with Banco Popular Group.

Losses due to operational risk are recorded not only at their financial amount directly measured but also, as far as possible, taking into consideration other costs whenever these are identifiable (for example, trademark loss, reputational loss, re-execution of activities, loss of business opportunities).

The operational risk of the Bank is permanently monitored and reported to the Board of Directors, via the Executive Committee, to the Internal Control and Operational Risk Committee and to GBP's Operational Risk Committee.

When monitoring operational risk the Bank takes into consideration the following elements among others:

a. Analysing the results contained in risk maps and their respective self-assessment;

b. Recording events – maintaining the operational event database;

c. Key operational risk indicators (KRIs).

Meetings are held periodically with those in charge for risk in each department, raising awareness to the importance of monitoring and controlling operational risk in order to mitigate its potential impact on all levels of the organization.

There is a permanent dedication to developing and maintaining the operational risk event database of the Bank, which is integrated with Grupo Banco Popular Español's own database.

The Bank has identified key risk indicators (KRI) in sensitive areas and manages them aided by a specific module of the qualitative management tool (GIRO).

Currently, the following KRIs are identified regarding PCL, DAAR, DOP - Títulos and DIM:

- Customer Ombudsman (PLC):
- Risk Analysis Department (DAAR):
- Operations Department – Securities (DOP – Securities):
- Property Department (DIM):

The characterization, procedures and responsibilities regarding the treatment of key risk indicators are detailed in a specific internal document entitled *'Key Risk Indicators Implementation Plan'*.

Structural Interest Rate Risk

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

Banco Popular Portugal measures its structural interest rate risk by using the repricing gap model. This model, used to measure the interest rate risk, consists in measuring exposures by different maturity and repricing dates in asset and liability cash flows. Briefly, this model groups assets and liabilities in fixed time intervals (maturity date or date of the next interest rate revision when indexed) based on which the potential impact in net interest income is calculated.

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

The model allows for the calculation of the impact of parallel gap curve shifts.

Liquidity Risk

Liquidity risk is defined as the probability of negative impact 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 Banco Popular Group through its Assets and Liabilities Committee (ALCO) in a centralized manner for all credit entities and consolidated financial societies, and is monitored simultaneously by Banco Popular. The liquidity risk management system employed by GBP 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 impact on earnings or capital due to an adverse perception of the public image of the financial institution, grounded or otherwise, held by its different stakeholders, i.e., clients, suppliers, financial analysts, employees, investors or the public opinion in general.

Reputational risk is analysed and measured qualitatively since it is very difficult to provide a trustworthy quantification of potential loss due to reputational risk.

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

The main and more easily identifiable source of this type of risk is legal risk. In this 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.

Property Risk

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

The Bank is exposed to property risk that arises from its property portfolio whose net amount as at 31 December 2012 stood at around 322 million euros, representing around 3.6% of the Bank's net assets. These were assets whose ownership was transferred to the Bank following legal actions or in lieu of payment to settle loan debts (mostly loans for construction/property development). These assets include urban and rural lands, land plots, buildings or parts of buildings, finished or under construction.

The Property Department is in charge of managing these assets and has employees who are trained in engineering.

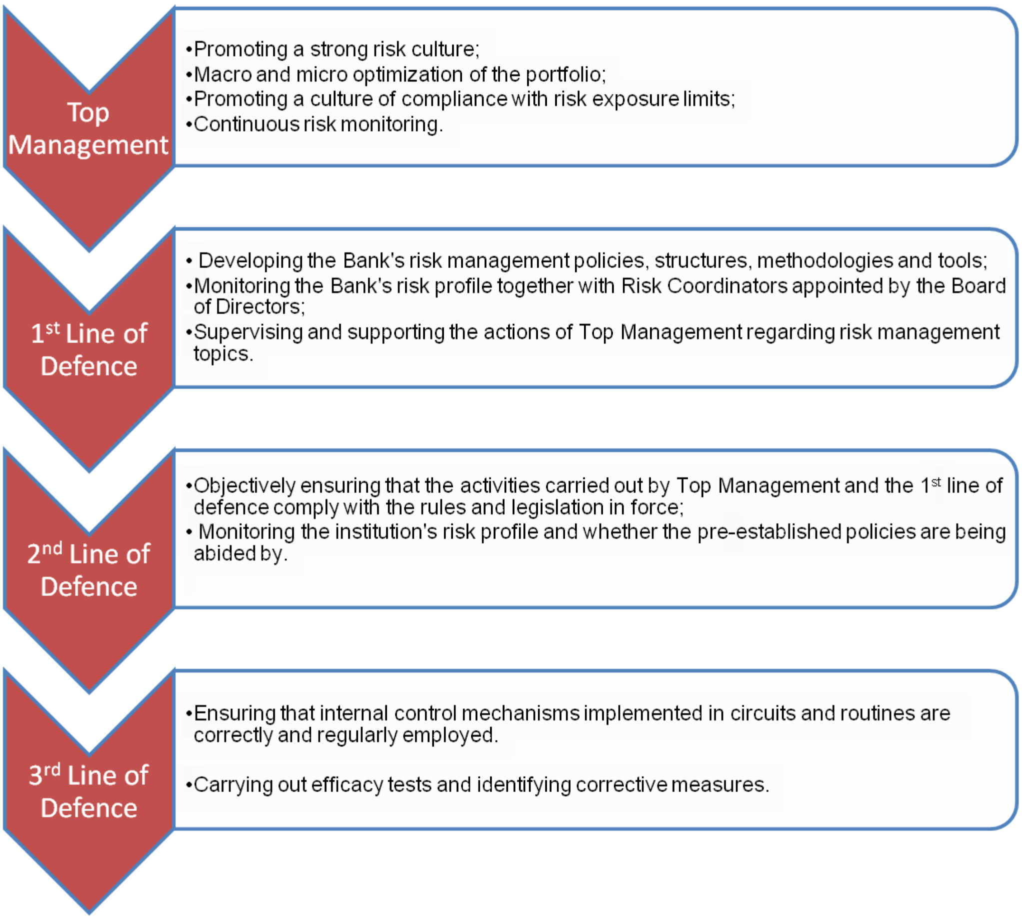
At the time of transfer in lieu of payment, acquisition or legal award to settle the debt, for the materially relevant transactions external appraisals are always required. After that, every three years or in-between periods new appraisals are carried out if there is any indication of any property loss of value. Periodically, sensitivity analyses are carried out to assess the amount of the assets, taking into consideration the market evolution as felt by the Group. Thus, the Group considers that these assets are adequately appraised and registered in its income statements.

The aim of the Group is to ensure the assets are sold at the best price possible, and may promote joint projects with construction companies to support those projects and therefore ensure better selling conditions.

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

The risk management structure is thus organized:

Banco Popular has adopted the 'three lines of defence' model, as illustrated and explained below:



Therefore, the three lines of defence are basically represented by the following internal structures: (i) the first line of defence is represented by the Risk Management Department; (ii) the second line of defence by compliance and the operational control area; and (iii) the third line of defence by auditing.

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

Reporting and communication lines

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

- The Board of Directors is in charge of ensuring that Risk Management and Risk Coordinators address specific risks or structural matters.

Functions and responsibilities

The main functions and responsibilities of the different participants in the risk management process are presented below:

a) Board of Directors – The responsibilities include:

i. Defining and reviewing policies aimed at accomplishing the overall goals and specific objectives of each functional area regarding risk profile and the risk tolerance degree;

ii. Approving of concrete, efficient and adequate policies and procedures to identify, assess, monitor and control the risks the Bank is exposed to ensuring these are implemented and accomplished;

iii. Approving, prior to their introduction, new products and activities, as well as the respective risk management policies;

iv. Regularly verifying that the risk tolerance levels and risk management policies and procedures are abided by, assessing their efficacy and continuous suitability to the Bank's activity in the sense of enabling for the detection and correction of any deficiencies;

v. Requesting the preparation of accurate and timely reports on the main risks the Bank is exposed to and that identify the control procedures that have been implemented to manage those risks;

vi. Ensuring and monitoring the effective implementation of their guidelines and recommendations on the risk management structure in order to introduce amendments and/or improvements to the risk management system;

vii. Ensuring that risk management activities are granted enough independence, status and visibility and that they are subjected to periodical revisions;

viii. Appointing the person in charge of risk management and the person in charge of compliance, and ensuring that those functions have sufficient autonomy to perform their duties objectively and independently, as well as the material and human resources necessary to the performance of their respective tasks;

ix. Supervising and monitoring regulatory compliance;

x. Coordinating the decision making process and the consistency of risk management responses;

xi. Ensuring that the business continuity plan is regularly reviewed and monitored (e.g. every year).

b) Risk Management Function – Is in charge of centralizing risk management, and namely:

i. Defining the Bank's risk policies upon approval of the Board;

ii. Analysing, monitoring and suggesting guidelines for credit risk;

iii. Analysing, monitoring and suggesting guidelines for interest rate risk, liquidity risk, exchange rate risk, market risk, strategic risk, reputational risk and compliance risk, based on the Group's methodology;

iv. Analysing the available data on the risks the Bank is exposed to;

v. Using existing data to suggest improvements in terms of best practices regarding the Bank's credit and financial risk;

vi. Monitoring the process of integration of credit models into management practices;

vii. Controlling the quality of the information that is made available and that serves as the basis for scoring and rating models;

viii. Collaborating with the Group towards the development of common methodologies regarding the implementation of credit risk models;

ix Participating, together with the other areas of the Bank, in Committees and working groups to support Risk Management; - Monitoring and controlling the delegation of powers regarding credit attribution within the Bank's structure.

c) **Compliance Function** – Compliance is in charge of ensuring that all legal requirements are met as well as their respective duties. Thus, their responsibilities are:

i. Possessing a deep knowledge of the Bank's activity, identifying and assessing the applicability and impact of legal rules and regulations together with the other bodies of the Bank and the statutory auditor;

ii. In the context of the Bank's activity, ensuring that legal requirements are met, as well as regulations and best practices, reconciling, on the one hand, the legal compliance perspective and, on the other, the business perspective;

iii. Monitoring the changes and developments in terms of regulations and assessing the adequacy and efficacy of internal standards and procedures in order to prevent the breach of legal obligations and duties that the institution is bound to pursuant to its activity;

iv. Promoting, in the different bodies of the Bank, measures aiming at correcting possible deficiencies that have been detected in terms of legal compliance, and taking preventive actions and verifications to ensure that laws, regulations and best practices are continuously abided by, and aiding in implementing corrective measures;

v. Advising and assisting the governing bodies in terms of the fulfilment of legal obligations and duties to which the institution is bound as well as immediately informing them about any indication of legal breach, violation of rules of conduct, relationship with customers or any other duties that may lead the institution or its employees to commit any legal violation;

vi. Advising and guiding functional areas as regards legal requirements that are relevant in the context of concrete matters that may arise in the common activity of the Bank;

vii. Keeping a record of breaches and measures suggested and adopted to correct them; - Preparing an annual report on the breaches found and the measures adopted to correct possible deficiencies and presenting it to the governing and supervising bodies;

viii. Ensuring, and in terms of internal control promoting, the preparation of reports to be delivered to the supervising entities, together, namely, with the risk management and internal auditing functions; - Acting as the spokesperson in the relationship with regulating entities in order to ensure a good liaison in terms of legal development and evolution, as well as regarding the resolution of detected breaches;

ix. Participating in training actions promoted by the Human Resource Department, thus contributing to raising awareness to the importance of laws, regulations and good practices the Bank is bound to, stressing the performance and behaviour necessary to abide by those legal standards and the consequences of any breach.

d) **Operational Control Division** – Its main activities are:

i. Developing and monitoring operational controls, as well as those related do contracts and revenues tied with the day-to-day running of the Bank;

ii. Ensuring, together with the remaining functional areas of the Bank, the adequacy and continuous improvement of control procedures, trying to mitigate operational risk.

e) **Internal Auditing Function** – It has a key role in the assessment of the effectiveness of risk management and control systems. Internal auditors have the following responsibilities:

i. Analysing the processing of every transaction and assessing the compliance degree with the internal regulations in force within the Group, the regulations issued by the Supervising Bodies, and other applicable legislation;

ii. Verifying the correct and regular exercise of internal control mechanisms implemented in terms of circuits and routines;

iii. Assisting the Board of Directors in the definition of standards and other measures that are adequate to the creation of a better internal control environment;

iv. Collaborating with the other bodies of the Bank and of the Group in the implementation and correct compliance with polices and guidelines established by the Board of Directors;

v. Ensuring, in the scope of its attributions, the relationship of the Bank with Legal and Police Authorities, as well as with the Supervising Bodies, by collecting, analysing, and supplying any documentation/information requested by the aforementioned entities that may be necessary to monitor criminal proceedings initiated by the police or taken to trial against the Bank's customers;

vi. Making the necessary inquiries and investigations to determine individual liability in every circumstance in which the facts point or prove serious occurrences or practices against internal rules and regulations, the legislation in force, good banking practices, ethics of the Institution and the Financial Sector, that negatively affect the interests of the Bank and the Group's Companies and their customers;

vii. Writing reports on the activities implemented and, at least every year, a report that summarizes the main deficiencies detected in auditing actions, indicating and identifying the recommendations issued and followed.

f) **Risk Coordinators** – These are key employees that identify the risks the Bank is exposed to particularly regarding business/unit/department/function. Their functions and responsibilities include:

i. Identifying and assessing risks and risk responses;

ii. Ensuring the consistency of the application of procedures to risk tolerance;

iii. Issuing recommendations for control activities;

iv. Reporting to the Risk Management Department on the results and recommendations regarding the identification and assessment of risk events that have occurred in the Bank.

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 order to estimate the capital requirements necessary to face concentration risk in the Bank's loan portfolio (the most significant entity), pursuant to Tier II, the Bank sought inspiration in the methodology published by the Bank of Portugal in its Instruction No. 5/2011, which is based on the Herfindahl Index calculation.

However, unlike the report on Concentration Risk, and taking into consideration the size of the Bank's loan portfolio, as regards individual exposures, we have opted to consider the 1,000 largest ones in this analysis.

Concerning previous years, we have also considered data on the composition of economic groups.

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 assess operational risk, although it has already applied with the Bank of Portugal for the usage of the standard approach.

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

In order to analyse and control interest rate risk, GBP performs a sensitivity analysis of the balance sheet to variations in interest rate curves in different scenarios (which include balance sheet growth rate, margin behaviour, shifts in interest rate curves, etc.) to assess the potential impact on intermediation margin in a 3-year span.

Locally, the structural interest rate risk is monthly monitored by the Risk Management Department and measured using a repricing gap model applied to assets and liabilities that are susceptible to interest rate fluctuations.

In a few words, 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.

However, as we intend to measure the impact of this risk on equity, pursuant to Tier II, for this analysis we have used the methodology envisaged in Instruction No. 19/2005 issued by the Bank of Portugal, which briefly consists in:

- Applying a weighting factor that reflects: an estimate of the modified duration of the elements that comprise the banking book whose maturity is equal to the average period of each time bracket, assuming that every asset, liability and off-balance item is remunerated at a 5% rate and that the discount rate for the whole range of maturities is also 5% and a parallel shift in the yield curve of 200 bp.
- Calculating a weighted position, in which the weighted position is equal to the position at each time bracket *(- 1);
- Calculating the accumulated impact of a parallel shift in the yield curve of 200 bp.

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.

As said before, liquidity risk is managed by the parent company in Spain. Locally, liquidity is monitored in order to ensure that the Group fulfils every commitment.

The liquidity management process implemented at Banco Popular is essentially based on:

- Monitoring future cash flows (with projections for the following day, week and months). This analysis includes restoring funds as they mature or are lent to customers;
- Meeting the legal requirement regarding the Minimum Reserve Coefficient;
- Maintaining a portfolio of high liquidity assets that may be easily turned into cash as protection against any unforeseen cash flow suspension;
- Monitoring liquidity indicators taking into consideration external and internal requirements;
- Managing concentration and debt maturity profile using the liquidity gap model.

This relationship with the Group in terms of liquidity management has led us to consider that this risk is very low and has no effect in terms of capital consumption.

Market Risk

Taking into consideration the low materiality and complexity of the transactions in the trading book, we have not performed Value-at-Risk (VaR) analysis. Therefore, to quantify internal capital for market risk we have considered the method based on maturity date as foreseen by Notice No. 8/2007 issued by the Bank of Portugal.

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. Moreover, credit risk is the most important risk exposure of the Bank and therefore that is the main focus of risk hedging strategies. 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.

As far as operational risk is concerned, according to the qualitative and quantitative assessment performed, the Bank defined controls for operational risks aimed at mitigating each risk factor, as well as strategies and/or took measures targeted at accepting, sharing, reducing or eliminating that risk.

The Bank has tools to record qualitative (risk and control maps and self-assessment) and quantitative information on Operational Risk, which allow for the identification of the areas that are more exposed and thus enable the Bank to improve on its controls and implement the most suitable mitigating measures. As a rule of thumb, the process of development and implementation of mitigation plans, as well as the responsibilities that have been attributed, are as follows:

Risk Management Department – promotes the discussion and identification of measures/plans (summons the Risk Managers of the implicated areas, describes the matter and promotes the discussion and identification of the measure).
Risk Manager – As experts in their intervention areas suggest measures and action plans to be implemented.
Risk Management Department – Gathers suggestions, manages conflict, writes the final proposal.
Executive Committee – Analyses and decides on the proposals.

As the qualitative and quantitative records show more historical depth, action plans are defined to manage the most relevant risks in each area or department in order to avoid losses and minimize their impact in case these actually occur.

In order to mitigate losses that result from the materialization of an operational risk, the Bank uses techniques to recover losses directly or indirectly (for example, contracting insurance coverage in applicable situations).

In the Internal Control and Operational Risk Committee, the events that have occurred and whose impact was higher are presented and discussed and whenever applicable the necessary measures are taken to mitigate them.

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.

Banco Popular sets objectives for own funds according to its risk profile and respective capital requirements for the risks the activity is exposed to, with special emphasis on levels that allow for greater protection and stability (Core Tier 1 Capital).

Thus, currently the objectives set for own funds are the following and essentially correspond to those imposed by the Bank of Portugal:

- Core Tier 1 Capital Ratio on risk-weighted assets covered by Tier 1 shall not be lower than 10%;
- The solvency ratio must be above 8%;
- The available internal capital must always be equal or higher than the necessary regulatory capital.

Below is the position of the Bank as at 31 December 2012 regarding its capital management objectives.

	Capital Planning	
	Eligible Capital	**691,604**
	Core Tier I Capital	**712,783**
	Share Capital Increase	25,000
	Real Estate Deductions	19,528
	Other Deductions	1,651
	Capital Requirements	**525,748**
	. Credit Risk	*494,897*
Tier I	*. Market Risk*	*1,057*
	. Operational Risk	*29,794*
	Risk-weighted Assets	**6,571,846**
	. Credit Risk	*6,186,208*
	. Market Risk	*13,207*
	. Operational Risk	*372,431*
	Eligible Capital in Excess	**165,856**
	Core Tier I Ratio	**10.85%**
	Solvency Ratio	**10.52%**
	. Concentration Risk	*41,918*
Tier II	*. Interest Rate Risk*	*52,790*
	. Liquidity Risk	*0*

Capital for solvency purposes amounted to 691 604 thousand euros and was almost fully composed of tier 1 funds. The comparison between capital for solvency and tier 1 capital requirements, and tier 2 capital requirements, capital in excess, amounts to 71 148 thousand euros. We have seen that every strategic goal defined in terms of capital management was achieved.

We would also like to highlight that besides the risk assessment and respective capital requirements analysis made with reference to 31 December 2012, the Bank also performed a prospective analysis of capital requirements in the medium and long term for the 2013/2015 period aimed at assessing future solvency, taking into consideration the anticipated evolution of its activity inclusively in a recession or crisis scenario.

1.3. Financial conglomerates

Not applicable.

<u>Section B – Quantitative Information / Models</u>

2. 'Capital Adequacy' Model

2.1. For purposes of capital requirements:

CAPITAL ADEQUACY - PART 1

	31/12/2012	31/12/2011
1. Own funds for solvency purposes	691,604	668,313
1.1. Basic own funds	712,783	684,479
1.1.1. Eligible capita	486,109	461,109
1.1.1.1. Paid-up capital	476,000	451,000
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	257,483	231,493
1.1.2.1. Reserves	257,483	231,493
1.1.2.7. Revaluation differences eligible for basic own funds	0	0
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	-30,809	-8,124
1.1.5.1. (-) Intangible assets/Tangible assets	-1,574	-1,264
1.1.5.3. (-) Other elements deductible from basic own funds	-29,235	-6,860
1.2. Complementary own funds	2,348	3,146
1.2.1. Complementary own funds - Upper Tier 2	2,348	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	-19,528	-15,312
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	691,604	668,313

Unit: € thousand

2.2. For purposes of capital requirements:

CAPITAL ADEQUACY - PART 2

	31/12/2012	31/12/2011
2. Capital requirements	525,748	581,366
2.1. For credit risk, counterparty risk and incomplete transactions	494,897	551,093
2.1.1. Standardised Approach	494,897	551,093
2.1.1.1. Risk classes according to TSA excluding securitization positions	497,921	552,906
2.1.1.1.2. Loans or cond. loans to Public Administration Authorities	3	4
2.1.1.1.3. Loans or con. loans to Adm. Org., or Non-profit Org.	4,748	4,627
2.1.1.1.6. Loans or cond. loans to Institutions	40,515	40,919
2.1.1.1.7. Loans or cond. loans to Companies	137,493	176,478
2.1.1.1.8. Loans or cond. loans to Retail portfolio	80,105	84,879
2.1.1.1.9. Loans or cond. loans on mortgaged positions	169,868	189,217
2.1.1.1.10. Past-due items	8,291	9,200
2.1.1.1.12. Loans or cond. loans on mortgaged positions	12,850	0
2.1.1.1.13. Loans or cond. loans on risk positions with other banks	6,062	3,420
2.1.1.1.14. Loans or cond. loans on Other items	37,985	44,162
2.1.1.2. TSA securitisation positions	1,084	2,914
2.1.1.3. (-) Provisions for general credit risks	-4,108	-4,727
2.2. Liquidity risk	0	0
2.3 Capital requirements for position risks, exchange rate risks and commodities risk	1,057	2,423
2.3.1 Positions risks, exchange rate risks and commodities risk - TSA	1,057	2,423
2.3.1.1 Debt instruments	1,057	1,301
2.3.1.2 Exchange rate risks	0	1,122
2.4 Capital requirements for operational risk	29,794	27,850
2.4.1 Basic Indicator Approach	29,794	27,850
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

	31/12/2012	31/12/2011
Excess (+) / Insufficient (-) own funds / capital requirements	165,856	86,947
Solvency ratio (%)	10.5%	9.2%

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	
				31/12/2012	31/12/2011
	1	2	3	4	5
Derivatives	55,060	0	55,060	43,641	32,221

Unit: € thousand

Reference Date: 31/12/2012

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

As already mentioned, although Banco Popular does not have advanced internal methods for assessing credit risk (BIS II), with the help of external consultants it has developed a loan impairment model that allows it to answer the need to present and write impairment reports, as well as to monthly assess the quality of the loans it grants and monitor them.

This model is monitored by the Risk Management Department and is reported to the Bank of Portugal every six months within the scope of the Impairment Report, where the whole methodology used in this model is detailed.

In 2012, and again with the help of external consultants, BAPOP made a new revision of the model, whose aim was essentially to reflect the current macroeconomic context on that model. Impairment values for December 2012 have already been calculated based on the new model.

Since the existing model includes an excellent loan quality indicator, we have decided to include the PD concept in the day-to-day running of the Bank. Strictly speaking, we can say that PD includes two fundamental aspects: the quality of the loans granted and the quality of customer monitoring throughout the lifespan of the transactions.

With the introduction of the new loan impairment model, we have also introduced a new concept of non-performing signals (PI). This concept aims essentially at anticipating in the model situations that may end in default (PD). Based on BAPOP’s history, we also estimate the probability of future default for transactions that already show non-performing signals.

Pursuant to the new impairment model, the loan portfolio of the Bank is divided into three large groups:

a) Default portfolio;

- Homogenous default portfolio;
- Significant customers default portfolio.

b) Non-performing signal portfolio;

- Homogenous non-performing signal portfolio;
- Significant customers non-performing signal portfolio.

c) Performing portfolio.

- Homogenous performing portfolio;
- Significant customers performing portfolio.

<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: 252 876 thousand euros (2011: 201 412 thousand euros);
- Recovered amounts: 189 183 thousand euros (2011: 202 936 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)	
	31/12/2012	31/12/2011	2012	2011
CL I - Central government or central banks	1,169,662	1,334,049	1,199,178	1,167,382
CL II - Regional government or local authorities	180	256	227	285
CL III - Administrative bodies & non-commercial undertakings	62,952	63,887	65,881	42,965
CL VI - Institutions	1,106,005	1,353,328	1,348,528	1,163,730
CL VII - Corporate	2,246,564	2,453,625	2,248,688	2,480,206
CL VIII - Retail	1,818,888	1,925,756	1,795,332	1,918,097
CL IX - Secured by real estate property	2,928,203	3,257,728	3,127,904	3,251,129
CL X - Past due items	358,391	259,286	355,381	283,642
CL XI - Covered bonds	321,244	0	221,232	916,667
CL XII - Collective investment undertakings	78,736	67,422	79,216	75,852
CL XIII - Other items	535,412	647,454	611,523	561,556
Total	10,626,237	11,362,791	11,053,092	11,861,510

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. .

GEOGRAPHIC DISTRIBUTION OF RISK EXPOSURES

(in % of original risk exposure)

Risk classes	Portugal - Residents		Other- Non-residents	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011
CL I - Central government or central banks	7.56%	5.60%	3.45%	6.14%
CL II - Regional government or local authorities	0.00%	0.00%	0.00%	0.00%
CL III - Administrative bodies & non-commercial undertakings	0.59%	0.56%	0.00%	0.00%
CL VI - Institutions	3.94%	4.55%	6.46%	7.36%
CL VII - Corporate	20.21%	20.60%	0.93%	0.99%
CL VIII - Retail	17.02%	16.86%	0.10%	0.09%
CL IX - Secured by real estate property	27.08%	28.16%	0.48%	0.51%
CL X - Past due items	3.27%	2.25%	0.11%	0.03%
CL XI - Covered bonds	0.23%	0.00%	2.79%	0.00%
CL XII - Collective investment undertakings	0.50%	0.38%	0.24%	0.22%
CL XIII - Other items	5.02%	5.68%	0.02%	0.02%
% of total original risk exposure	85.42%	84.64%	14.58%	15.36%

4. 'Distribution of Risk Exposure by Segment' Model

DISTRIBUTION OF RISK EXPOSURE BY SEGMENT

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

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 government or central banks	1.15%		9.85%			
CL II - Regional government or local authorities			0.00%			
CL III - Administrative bodies & non-commercial undertakings			0.24%		0.36%	
CL VI - Institutions	7.32%	3.09%				
CL VII - Corporate		0.05%		21.10%		
CL VIII - Retail				15.17%	1.94%	
CL IX - Secured by real estate property				11.23%	16.32%	
CL X - Past due items				2.49%	0.88%	
CL XI - Covered bonds	3.02%					
CL XII - Collective investment undertakings		0.74%				
CL XIII - Other items	0.60%	0.22%				4.22%
% of total original risk exposure	12.10%	4.09%	10.09%	50.00%	19.50%	4.22%

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 government or central banks	0.76%		10.98%			
CL II - Regional government 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 - Corporate		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%

5. 'Past Due and Impaired Exposures' Model

PAST-DUE AND IMPAIRED EXPOSURES	Past-due exposures		Impaired exposures		Value adjustments & Provisions	
	31/12/12	31/12/11	31/12/12	31/12/11	31/12/12	31/12/11
Total exposures:	**231,784**	**169,284**	**1,050,816**	**698,053**	**125,923**	**106,539**
Breakdown by Main Economic Sectors:						
Agriculture, Forestry and Fisheries	5,469	1,402	24,523	6,910	1,541	428
Food industries	5,483	2,050	12,820	7,235	2,283	569
Wood and cork industries	4,560	3,737	11,324	10,983	2,795	1,905
Furniture manufacturing	3,355	2,844	9,156	8,108	2,533	1,262
Manufacture of fabricated metal products	3,461	2,244	10,474	7,067	2,142	777
Other processing industries	14,165	8,809	38,503	19,066	9,440	2,751
Construction	52,851	42,958	246,326	178,573	25,352	15,290
Wholesale and retail trade	46,206	34,089	113,752	71,960	28,989	11,795
Transports and storage	5,230	3,278	10,925	6,542	2,927	1,124
Accommodation and food services	7,313	4,308	15,335	13,719	4,815	2,699
Information and communication activity	1,525	928	2,787	1,203	1,164	743
Financial and insurance activities	9,433	1,270	48,355	12,653	2,849	6,116
Real estate activities	20,714	8,287	94,075	76,162	6,532	3,608
Professional, scientific and technical activities	3,903	2,712	18,377	12,165	2,218	1,089
Administrative and support service activities	4,311	1,972	8,901	3,698	2,151	681
Other activities	8,652	3,723	30,924	24,897	3,680	812
Home loans	16,187	8,440	115,406	99,552	9,936	5,048
Others and private customers	18,967	36,233	238,853	137,558	14,575	49,842
Breakdown by main Geographic Areas:						
Portugal - Residents	225,173	167,738	940,508	690,524	123,968	100,516
Non-residents	6,611	1,545	110,309	7,528	1,954	6,023

Unit: € thousand

6. 'Value Adjustments and Provisions' Model

VALUE ADJUSTMENTS AND PROVISIONS		
Value Adjustments and Provisions	31/12/2012	31/12/2011
Initial balance	**162,610**	**183,723**
Appropriations	252,880	201,412
Used	42,424	27,257
Annulled	187,923	195,267
Final balance	**185,144**	**162,610**
	Unit:	€ thousand

7. ‘Residual Maturity Date’ Model

RESIDUAL MATURITY DATE
(% of the original exposure)

Risk Classes	RMD < 1 year		1 year < RMD < 5 years		5 years <RMD< 10 years		RMD > 10 years	
	31/12/12	31/12/11	31/12/12	31/12/11	31/12/12	31/12/11	31/12/12	31/12/11
CL I - Central government or central banks	2.78%	7.10%	3.60%	0.40%	4.62%	4.23%	0.00%	0.00%
CL II - Regional government or local authorities	0.00%	0.00%	0.00%	0.00%				
CL III - Administrative bodies & non-commercial undertakings	0.40%	0.41%	0.16%	0.11%	0.03%	0.04%	0.01%	0.01%
CL VI - Institutions	5.16%	7.45%	3.92%	2.10%	0.30%	1.00%	1.03%	1.35%
CL VII - Corporate	11.30%	12.37%	4.89%	4.03%	1.56%	2.17%	3.39%	3.02%
CL VIII - Retail	8.54%	10.33%	4.94%	4.04%	2.27%	1.44%	1.37%	1.13%
CL IX - Secured by real estate property	3.48%	4.45%	2.41%	2.97%	3.18%	2.54%	18.49%	18.71%
CL X - Past due items	1.28%	1.56%	0.97%	0.26%	0.56%	0.18%	0.56%	0.28%
CL XI - Covered bonds	0.18%		2.56%		0.29%			
CL XII - Collective investment undertakings	0.73%	0.36%	0.01%	0.23%			0.00%	0.00%
CL XIII - Other items	0.42%	1.05%	3.38%	3.57%			1.23%	1.08%
% of total original exposure	34.27%	45.09%	26.84%	17.71%	12.81%	11.61%	26.08%	25.58%

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 government or central banks
- Class II - Regional administration or local authorities
- Class III - Administrative bodies and non-commercial undertakings
- Class VI - Institutions
- Class VII - Corporate
- Class VIII - Retail
- Class IX – Secured by real estate property
- Class X – Past due items
- Class XI - Covered bonds
- Class XII – Collective investment undertakings
- 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							
	0%	20%	50%	75%	100%	150%	Other	TOTAL
1. Original risk exposures by risk class								
CL I - Central government or central banks	1,169,662							
CL II - Regional government or local authorities		180						
CL III - Administrative bodies & non-commercial undertakings					62,952			
CL VI - Institutions	235,119	299,444			585,655			
CL VII - Corporate					2,287,215			
CL VIII - Retail				1,819,085				
CL IX - Secured by real estate property					1,763,107		1,165,095	
CL X - Past due items					353,341	5,051		
CL XI - Covered bonds			321,244					
CL XII - Collective investment undertakings					78,736			
CL XIII - Other items	49,004	14,487			471,921			
Total original exposures	1,453,784	314,110	321,244	1,819,085	5,602,928	5,051	1,165,095	10,681,297
2. Exposures by risk class (risk weight base)								
CL I - Central government or central banks	1,169,662							
CL II - Regional government or local authorities		168						
CL III - Administrative bodies & non-commercial undertakings					59,355			
CL VI - Institutions	235,119	299,444			446,554			
CL VII - Corporate					1,718,668			
CL VIII - Retail				1,335,084				
CL IX - Secured by real estate property					1,716,379		1,162,772	
CL X - Past due items					96,926	4,471		
CL XI - Covered bonds			321,244					
CL XII - Collective investment undertakings					75,778			
CL XIII - Other items	437,471	14,487			471,921			
Total exposures	1,842,251	314,098	321,244	1,335,084	4,585,581	4,471	1,162,772	9,565,502
3. Total weighted exposures (deducted from own funds)								
CL I - Central government or central banks								
CL II - Regional government or local authorities		34						
CL III - Administrative bodies & non-commercial undertakings					59,355			
CL VI - Institutions		59,889			446,554			
CL VII - Corporate					1,718,668			
CL VIII - Retail				1,001,313				
CL IX - Secured by real estate property					1,716,379		406,970	
CL X - Past due items					96,926	6,707		
CL XI - Covered bonds			160,622					
CL XII - Collective investment undertakings					75,778			
CL XIII - Other items		2,897			471,921			
Total exposures deducted from own funds	0	62,820	160,622	1,001,313	4,585,581	6,707	406,970	6,224,013

Unit: € thousand

Reference date: 31/12/2012

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

Not 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.

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 2012, 60% of loans to customers had eligible collaterals.

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 exposure	Financial collateral: amount adjusted by volatility and any other difference between maturity dates (Cvam) (-)
			Collaterals	Credit derivatives	Financial collateral simples method	Other funded credit protection			
		1	2	3	4	5	6	7	8
Total exposures		**10,441,092**	**167,448**		**200,373**		**-367,820**		
Breakdown of total exposures by risk class	Risk Class I	1,169,662							
	Risk Class II	180							
	Risk Class III	62,951			125		-125		
	Risk Class VI	1,106,005	89				-89		
	Risk Class VII	2,246,509	25,046		51,933		-76,979		
	Risk Class VIII	1,818,737	116,038		74,676		-190,713		
	Risk Class IX	2,928,203	26,275		1,582		-27,857		
	Risk Class X	173,454			72,057		-72,057		
	Risk Class XI	321,244							
	Risk Class XII	78,736							
	Risk Class XIII	535,412							

Unit: € thousand
Reference date: 31/12/2012

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 amount	Rating		Interest rate
	thousand euros	Standard & Poors	Moody's	(until 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 2012, the book value of Class D Notes amounted to 2 615 thousand euros.

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.

As at 31 December 2012, the Bank's portfolio amounted to around 1,918 million euros, of which only around 50 million were classified as financial assets held for trading and other financial assets at fair value through profit or loss (around 2.7% of the securities portfolio), i.e., with direct impact on the Bank's income account. This risk is considered very low and, as such, the Bank does not employ assessment methods for specific risk in the case of these assets.

Section B - Quantitative Information

2. 'Capital Requirements (Trading Book)' Model

CAPITAL REQUIREMENTS (TRADING BOOK)		
Trading Book Risks	Capital requirements	
	31/12/2012	31/12/2011
TOTAL Trading Book Risks	4,548	3,879
1. Position risk	1,057	1,301
1.1. Standardised Approach to Trading Book Risk	1,057	1,301
1.1.1. Debt instrument	1,057	1,301
1.1.1.1. General risk		
1.1.1.2. Specific risk	1,057	1,301
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	3,491	2,578
2.1. Repurchase transactions, reverse repurchase transactions, securities and and commodities lending and borrowing transactions, margin lending transactions and long settlement transactions		
2.2. Derivatives	3,491	2,578
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 - FOREIGN EXCHANGE AND COMMODITIES RISK		
Foreign Exchange and Commodities Risks	Capital Requirements	
	31/12/2012	31/12/2011
1. Foreign exchange risk		
1.1. Standardised Approach	0	14,022
1.2. Internal Model Method		
2. Commodities risk		
2.1. Standardised Approach		
2.1.1. Maturity ladder approach or Simplified approach		
2.1.2. Futures and options on exchange traded commodities		
2.1.3. Futures and options on over-the-counter commodities - OTC		
2.1.4. Other		
2.2. Internal methods model		

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

EQUITY EXPOSURES (NON-TRADING BOOK)						
	Unquoted Shares				TOTAL	
	Private Equity		Other			
	31/12/12	31/12/11	31/12/12	31/12/11	31/12/12	31/12/11
Cost value / Nominal value			4,203	4,206	4,203	4,206
Fair value			676	1,961	676	1,961
Market price						
Net income at year-end from sales and settlements						
Total unrealized gains or losses						-385
Total latent revaluation gains or losses						-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 capital requirements	
		2010	2011	2012	Expected loss captured in the internal business practices	Risk transfer mechanisms
1 Basic Indicator Approach		198,694	185,255	211,940		
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.

$$GAP_{ACCUMULATED\ i} = \sum_{t=1} (\backslash CF\ (Assets)_{i} - CF\ (Liabilities)_{t}\ )$$

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 * Interest Rate Fluctuations

GAP impact on Net Income

The following assumptions were considered:

- Financial Statements as at 31 December 2012;
- 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:

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).

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 2013-2015, which is based essentially on the following growth assumptions

Assumptions	Dec-13	Dec-14	Dec-15
Increase in loans and advances to customers	2.76%	3.65%	4.22%
Increase in fees and commissions	9.08%	15.00%	15.00%
Average loan rate	6.58%	7.02%	6.98%
Average deposit rate	3.32%	3.70%	3.81%
Loan portfolio deterioration	36.56%	30.15%	10.20%
Inflation rate	0.90%	1.00%	50.00%
GDP grow th	-1.90%	1.30%	1.30%
Unemployment rate	16.20%	15.00%	14.00%
Euribor - 1 year	0.79%	1.00%	1.34%
Euribor - 6 months	0.55%	0.76%	1.10%
Euribor - 3 months	0.31%	0.59%	0.90%

For the stress scenario, using the macroeconomic scenario projected in the Circular Letter 200/13/DSPDR issued by the Bank of Portugal on 17 January 2013, we have created a second scenario, considered substantially more adverse, which is essentially based on the following growth and assumptions:

Assumptions	Dec-13	Dec-14	Dec-15
Increase in loans and advances to customers	-2.07%	2.29%	6.00%
Increase in fees and commissions	9.08%	125.00%	15.00%
Average loan rate	6.62%	7.11%	7.05%
Average deposit rate	3.33%	3.66%	3.82%
Loan portfolio deterioration	54.84%	49.29%	8.60%
Inflation rate	1.00%	-0.40%	-0.70%
GDP grow th	-4.80%	0.00%	1.70%
Unemployment rate	18.00%	18.70%	18.60%
Euribor - 1 year	0.79%	1.00%	1.34%
Euribor - 6 months	0.55%	0.76%	1.10%
Euribor - 3 months	0.00%	0.10%	0.20%

Risk Sensitivity Analyses

Parallel Upward Shift in the Yield Curve

With the effect of a parallel shift in the yield curve, the following impact types were projected:

- in the deterioration of the loan and estimated portfolio;
- in past-due loans;
- in provisions for past-due loans;
- in the estimated net interest margin.

BAPOP decided to perform this analysis only for an upward shift in the yield curve by 100 basis points.

Negative Fluctuation in the Price of Real Estate Properties

For this analysis we have considered an immediate downturn by 15% whenever a property that belongs to the portfolio of properties received in the scope of credit recovery is reappraised; the amounts assumed for the sale of properties remain constant in view of the scenario previously envisaged.

We have decided to perform a risk-sensitivity analysis only for a drop in prices since that is the expected scenario.

Section B - Quantitative Information

3. ‘Interest Rate Risk (Non-trading book)’ Model

INTEREST RATE RISK (NON-TRADING BOOK)

			Impact	
			31/12/2012	31/12/2011
Effect on net position of a 200 p.b. shock to the interest rate:	Amount	+1	52,790	10,222
		-2	-52,790	-10,222
	% of net position	+1	8%	2%
		-2	-8%	-2%

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)

2012

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 7 May 2007 and re-elected for the four-year term of 2011-2014 on 30 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 – Vogal

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.

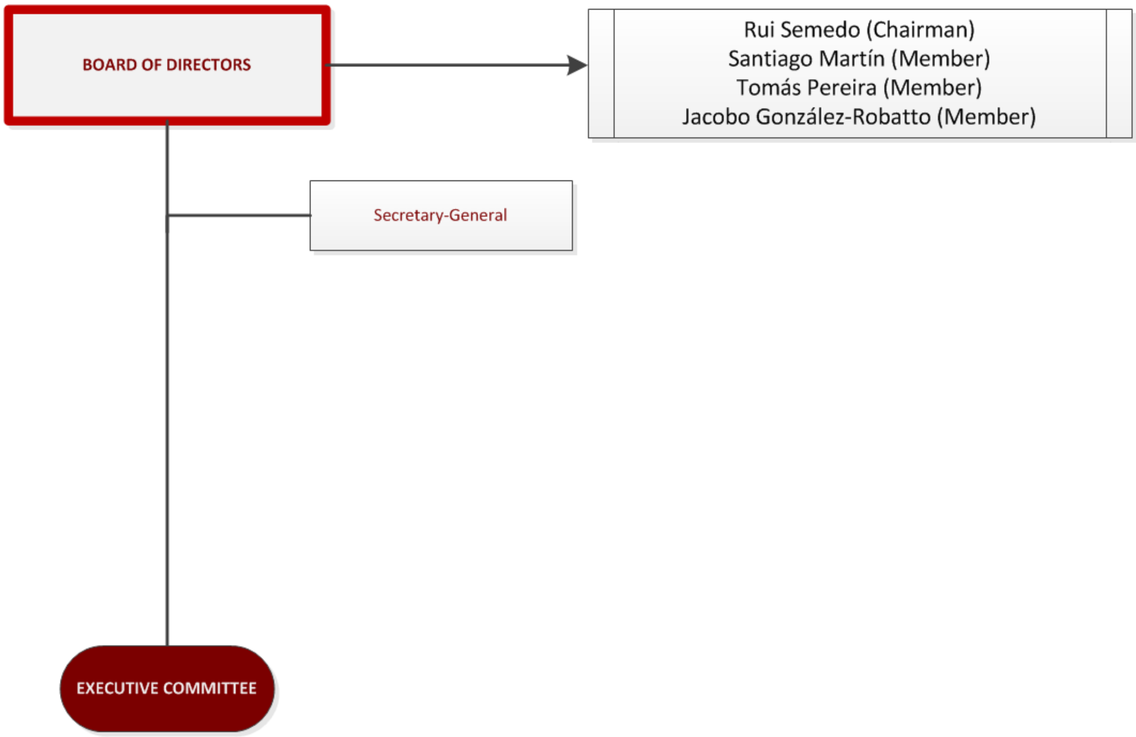
In terms of Corporate Governance of the Banco Popular, the Executive Committee was created on 1st January 2011, under the framework of the continuous improvement process of the management model of the Bank as a unit of Banco Popular Group.

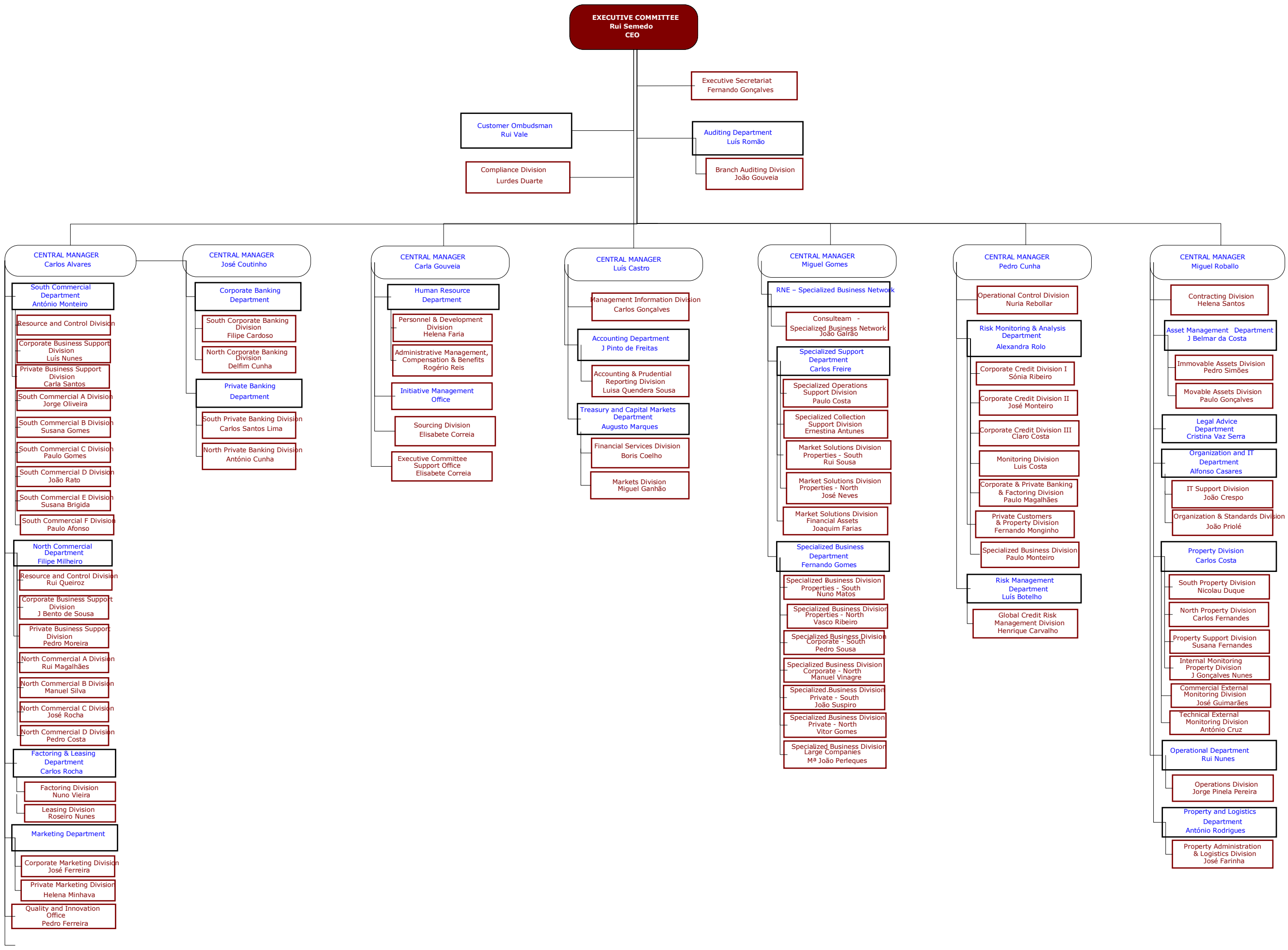
The creation of this Committee, which meets once a week, was aimed at streamlining the decision making process and making its implementation and follow-up more effective in order to face successfully the very demanding circumstances in which the Bank operates.

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, Carlos Miguel de Paula Martins Roballo and José Luis Castro Cortizo, all of them Central Managers.

The current attribution of functions within the members of the Executive Committee can be seen in the following company structure:


BOARD OF DIRECTORS
Rui Semedo (Chairman)
Santiago Martín (Member)
Tomás Pereira (Member)
Jacobo González-Robatto (Member)
Secretary-General
EXECUTIVE COMMITTEE


EXECUTIVE COMMITTEE
Rui Semedo
CEO
Executive Secretariat
Fernando Gonçalves
Customer Ombudsman
Rui Vale
Auditing Department
Luís Romão
Compliance Division
Lurdes Duarte
Branch Auditing Division
João Gouveia
CENTRAL MANAGER
Carlos Alvares
South Commercial Department
António Monteiro
Resource and Control Division
Corporate Business Support Division
Luís Nunes
Private Business Support Division
Carla Santos
South Commercial A Division
Jorge Oliveira
South Commercial B Division
Susana Gomes
South Commercial C Division
Paulo Gomes
South Commercial D Division
João Rato
South Commercial E Division
Susana Brigida
South Commercial F Division
Paulo Afonso
North Commercial Department
Filipe Milheiro
Resource and Control Division
Rui Queiroz
Corporate Business Support Division
J Bento de Sousa
Private Business Support Division
Pedro Moreira
North Commercial A Division
Rui Magalhães
North Commercial B Division
Manuel Silva
North Commercial C Division
José Rocha
North Commercial D Division
Pedro Costa
Factoring & Leasing Department
Carlos Rocha
Factoring Division
Nuno Vieira
Leasing Division
Roseiro Nunes
Marketing Department
Corporate Marketing Division
José Ferreira
Private Marketing Division
Helena Minhava
Quality and Innovation Office
Pedro Ferreira
CENTRAL MANAGER
José Coutinho
Corporate Banking Department
South Corporate Banking Division
Filipe Cardoso
North Corporate Banking Division
Delfim Cunha
Private Banking Department
South Private Banking Division
Carlos Santos Lima
North Private Banking Division
António Cunha
CENTRAL MANAGER
Carla Gouveia
Human Resource Department
Personnel & Development Division
Helena Faria
Administrative Management, Compensation & Benefits
Rogério Reis
Initiative Management Office
Sourcing Division
Elisabete Correia
Executive Committee Support Office
Elisabete Correia
CENTRAL MANAGER
Luís Castro
Management Information Division
Carlos Gonçalves
Accounting Department
J Pinto de Freitas
Accounting & Prudential Reporting Division
Luisa Quendera Sousa
Treasury and Capital Markets Department
Augusto Marques
Financial Services Division
Boris Coelho
Markets Division
Miguel Ganhão
CENTRAL MANAGER
Miguel Gomes
RNE – Specialized Business Network
Consulteam - Specialized Business Network
João Galrão
Specialized Support Department
Carlos Freire
Specialized Operations Support Division
Paulo Costa
Specialized Collection Support Division
Ernestina Antunes
Market Solutions Division Properties - South
Rui Sousa
Market Solutions Division Properties - North
José Neves
Market Solutions Division Financial Assets
Joaquim Farias
Specialized Business Department
Fernando Gomes
Specialized Business Division Properties - South
Nuno Matos
Specialized Business Division Properties - North
Vasco Ribeiro
Specialized Business Division Corporate - South
Pedro Sousa
Specialized Business Division Corporate - North
Manuel Vinagre
Specialized Business Division Private - South
João Suspiro
Specialized Business Division Private - North
Vitor Gomes
Specialized Business Division Large Companies
Mª João Perleques
CENTRAL MANAGER
Pedro Cunha
Operational Control Division
Nuria Rebollar
Risk Monitoring & Analysis Department
Alexandra Rolo
Corporate Credit Division I
Sónia Ribeiro
Corporate Credit Division II
José Monteiro
Corporate Credit Division III
Claro Costa
Monitoring Division
Luís Costa
Corporate & Private Banking & Factoring Division
Paulo Magalhães
Private Customers & Property Division
Fernando Monginho
Specialized Business Division
Paulo Monteiro
Risk Management Department
Luís Botelho
Global Credit Risk Management Division
Henrique Carvalho
CENTRAL MANAGER
Miguel Roballo
Contracting Division
Helena Santos
Asset Management Department
J Belmar da Costa
Immovable Assets Division
Pedro Simões
Movable Assets Division
Paulo Gonçalves
Legal Advice Department
Cristina Vaz Serra
Organization and IT Department
Alfonso Casares
IT Support Division
João Crespo
Organization & Standards Division
João Priolé
Property Division
Carlos Costa
South Property Division
Nicolau Duque
North Property Division
Carlos Fernandes
Property Support Division
Susana Fernandes
Internal Monitoring Property Division
J Gonçalves Nunes
Commercial External Monitoring Division
José Guimarães
Technical External Monitoring Division
António Cruz
Operational Department
Rui Nunes
Operations Division
Jorge Pinela Pereira
Property and Logistics Department
António Rodrigues
Property Administration & Logistics Division
José Farinha

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.

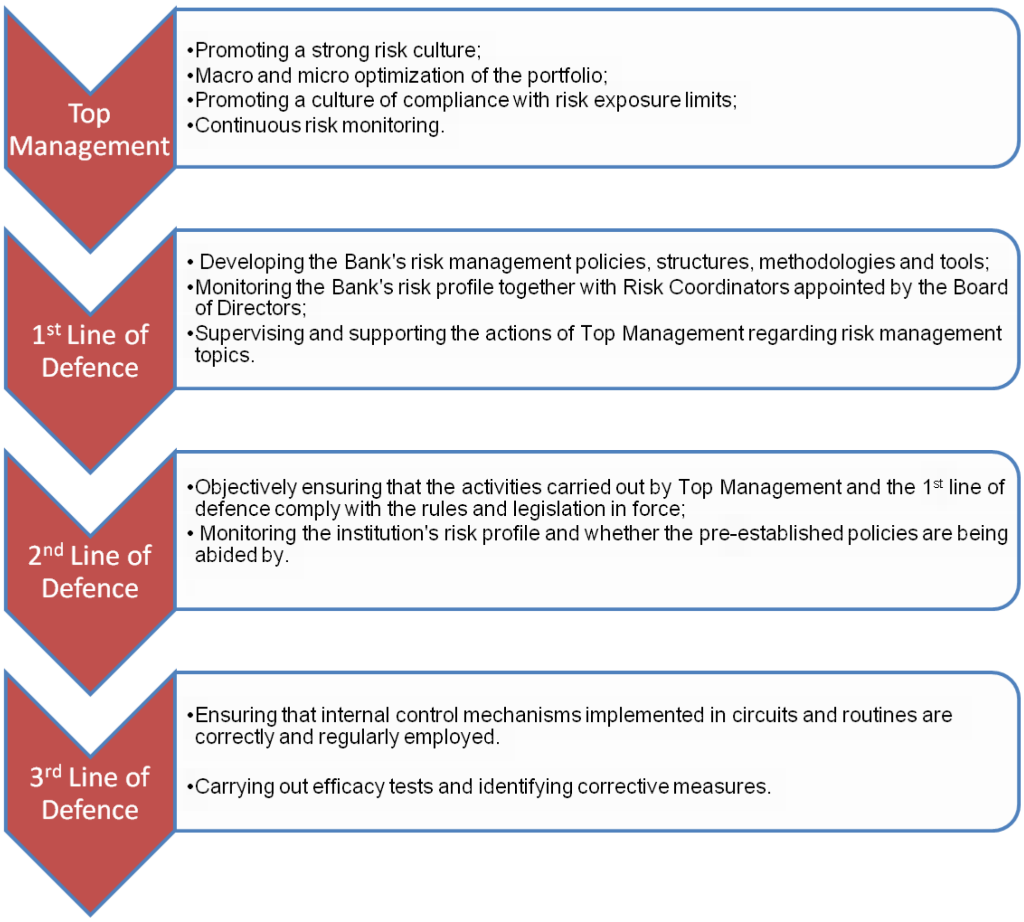
The functions of the Board of Directors are approving the Bank's strategy and undertaking to see it adequately implemented, as well, as defining, approving of and revising the organizational structure of the Bank and ensuring its adequate implementation and maintenance. It is for the Board of Directors 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 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.

The risk management structure is thus organized:
Banco Popular has adopted the ‘three lines of defence’ model, as illustrated and explained below:



Therefore, the three lines of defence are basically represented by the following internal structures: (i) the first line of defence is represented by the Risk Management Department; (ii) the second line of defence by compliance and the operational control area; and (iii) the third line of defence by auditing.

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

Reporting and communication lines

- Communication lines are established between business units, including auditing, and corresponding monthly reports are sent to Risk Management detailing the state of control mechanisms employed to manage risk and changes in terms of objectives and risks.

- The Risk Management Department reports to the Executive Committee on the monitoring process regarding the different types of risks.

- The Board of Directors is in charge of ensuring that Risk Management and Risk Coordinators address specific risks or structural matters.

Functions and responsibilities

The main functions and responsibilities of the different participants in the risk management process are presented below:

a) Board of Directors – The responsibilities include:

i. Defining and reviewing policies aimed at accomplishing the overall goals and specific objectives of each functional area regarding risk profile and the risk tolerance degree;

ii. Approving of concrete, efficient and adequate policies and procedures to identify, assess, monitor and control the risks the Bank is exposed to ensuring these are implemented and accomplished;

iii. Approving, prior to their introduction, new products and activities, as well as the respective risk management policies;

iv. Regularly verifying that the risk tolerance levels and risk management policies and procedures are abided by, assessing their efficacy and continuous suitability to the Bank's activity in the sense of enabling for the detection and correction of any deficiencies;

v. Requesting the preparation of accurate and timely reports on the main risks the Bank is exposed to and that identify the control procedures that have been implemented to manage those risks;

vi. Ensuring and monitoring the effective implementation of their guidelines and recommendations on the risk management structure in order to introduce amendments and/or improvements to the risk management system;

vii. Ensuring that risk management activities are granted enough independence, status and visibility and that they are subjected to periodical revisions;

viii. Appointing the person in charge of risk management and the person in charge of compliance, and ensuring that those functions have sufficient autonomy to perform their duties objectively and independently, as well as the material and human resources necessary to the performance of their respective tasks;

ix. Supervising and monitoring regulatory compliance;

x. Coordinating the decision making process and the consistency of risk management responses;

xi. Ensuring that the business continuity plan is regularly reviewed and monitored (e.g. every year).

b) Risk Management Function – Is in charge of centralizing risk management, and namely:

i. Defining the Bank's risk policies upon approval of the Board;

ii. Analysing, monitoring and suggesting guidelines for credit risk;

iii. Analysing, monitoring and suggesting guidelines for interest rate risk, liquidity risk, exchange rate risk, market risk, strategic risk, reputational risk and compliance risk, based on the Group's methodology;

iv. Analysing the available data on the risks the Bank is exposed to;

v. Using existing data to suggest improvements in terms of best practices regarding the Bank's credit and financial risk;

vi. Monitoring the process of integration of credit models into management practices;

vii. Controlling the quality of the information that is made available and that serves as the basis for scoring and rating models;

viii. Collaborating with the Group towards the development of common methodologies regarding the implementation of credit risk models;

ix Participating, together with the other areas of the Bank, in Committees and working groups to support Risk Management;

x Monitoring and controlling the delegation of powers regarding credit attribution within the Bank's structure

c) Compliance Function – Compliance is in charge of ensuring that all legal requirements are met as well as their respective duties. Thus, their responsibilities are:

i. Possessing a deep knowledge of the Bank's activity, identifying and assessing the applicability and impact of legal rules and regulations together with the other bodies of the Bank and the statutory auditor;

ii. In the context of the Bank's activity, ensuring that legal requirements are met, as well as regulations and best practices, reconciling, on the one hand, the legal compliance perspective and, on the other, the business perspective;

iii. Monitoring the changes and developments in terms of regulations and assessing the adequacy and efficacy of internal standards and procedures in order to prevent the breach of legal obligations and duties that the institution is bound to pursuant to its activity;

iv. Promoting, in the different bodies of the Bank, measures aiming at correcting possible deficiencies that have been detected in terms of legal compliance, and taking preventive actions and verifications to ensure that laws, regulations and best practices are continuously abided by, and aiding in implementing corrective measures;

v. Advising and assisting the governing bodies in terms of the fulfilment of legal obligations and duties to which the institution is bound as well as immediately informing them about any indication of legal breach, violation of rules of conduct, relationship with customers or any other duties that may lead the institution or its employees to commit any legal violation;

vi. Advising and guiding functional areas as regards legal requirements that are relevant in the context of concrete matters that may arise in the common activity of the Bank;

vii. Keeping a record of breaches and measures suggested and adopted to correct them; - Preparing an annual report on the breaches found and the measures adopted to correct possible deficiencies and presenting it to the governing and supervising bodies;

viii. Ensuring, and in terms of internal control promoting, the preparation of reports to be delivered to the supervising entities, together, namely, with the risk management and internal auditing functions; - Acting as the spokesperson in the relationship with regulating entities in order to ensure a good liaison in terms of legal development and evolution, as well as regarding the resolution of detected breaches;

ix. Participating in training actions promoted by the Human Resource Department, thus contributing to raising awareness to the importance of laws, regulations and good practices the Bank is bound to, stressing the performance and behaviour necessary to abide by those legal standards and the consequences of any breach.

d) **Operational Control Division** – Its main activities are:

i. Developing and monitoring operational controls, as well as those related do contracts and revenues tied with the day-to-day running of the Bank;

ii. Ensuring, together with the remaining functional areas of the Bank, the adequacy and continuous improvement of control procedures, trying to mitigate operational risk.

e) **Internal Auditing Function** – It has a key role in the assessment of the effectiveness of risk management and control systems. Internal auditors have the following responsibilities:

i. Analysing the processing of every transaction and assessing the compliance degree with the internal regulations in force within the Group, the regulations issued by the Supervising Bodies, and other applicable legislation;

ii. Verifying the correct and regular exercise of internal control mechanisms implemented in terms of circuits and routines;

iii. Assisting the Board of Directors in the definition of standards and other measures that are adequate to the creation of a better internal control environment;

iv. Collaborating with the other bodies of the Bank and of the Group in the implementation and correct compliance with polices and guidelines established by the Board of Directors;

v. Ensuring, in the scope of its attributions, the relationship of the Bank with Legal and Police Authorities, as well as with the Supervising Bodies, by collecting, analysing, and supplying any documentation/information requested by the aforementioned entities that may be necessary to monitor criminal proceedings initiated by the police or taken to trial against the Bank's customers;

vi. Making the necessary inquiries and investigations to determine individual liability in every circumstance in which the facts point or prove serious occurrences or practices against internal rules and regulations, the legislation in force, good banking practices, ethics of the Institution and the Financial Sector, that negatively affect the interests of the Bank and the Group's Companies and their customers;

vii. Writing reports on the activities implemented and, at least every year, a report that summarizes the main deficiencies detected in auditing actions, indicating and identifying the recommendations issued and followed.

f) **Risk Coordinators** – These are key employees that identify the risks the Bank is exposed to particularly regarding business/unit/department/function. Their functions and responsibilities include:

i. Identifying and assessing risks and risk responses;

ii. Ensuring the consistency of the application of procedures to risk tolerance;

iii. Issuing recommendations for control activities;

iv. Reporting to the Risk Management Department on the results and recommendations regarding the identification and assessment of risk events that have occurred in the Bank.

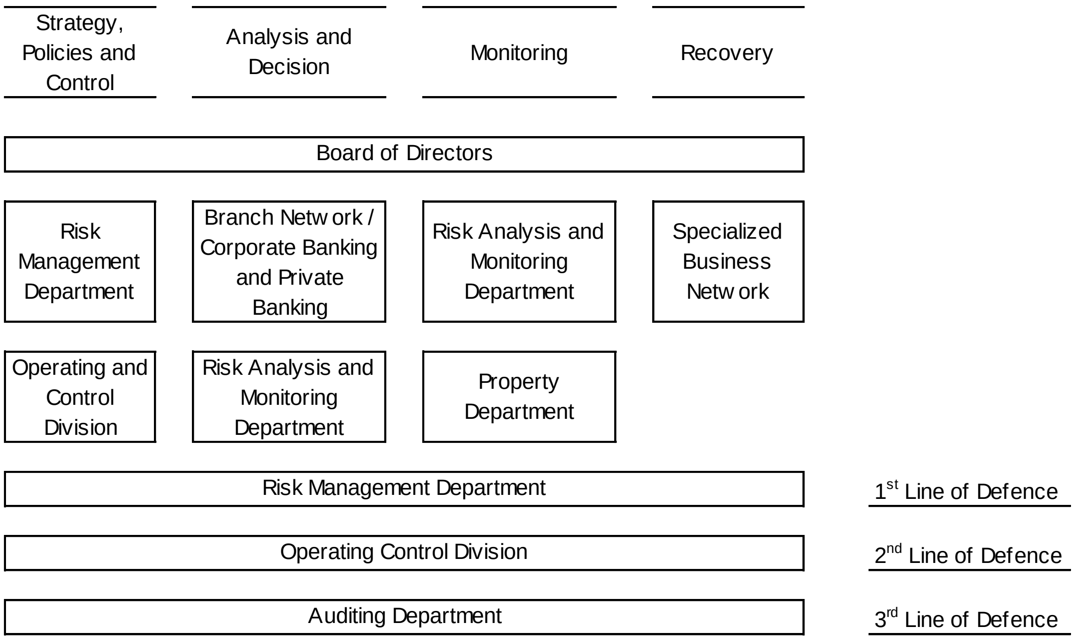
II.6 – Identifying the main risks to which Banco Popular is exposed in the course of its activity

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

Credit 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 organizational structure created to manage and monitor credit risk at Banco Popular Portugal from a macro perspective can be summarized as follows:



The Bank has implemented a risk analysis and assessment circuit based on a formal system of attributions for the authorization of transactions, which depend, among others, from the following factors:

- Nature, amount, maturity and interest rate of the transaction;
- Customer;
- Activity sector;
- Current and historical position of the relationship with the Bank and the financial system;
- Existing collaterals and their quality; and
- Warning signals.

The areas that have been assigned delegated powers to authorise transactions are the following:

- Branches/Corporate and Private Banking;
- Risk Analysis and Monitoring Department;
- Board of Directors.

Monitoring risk is a fundamental task when it comes to managing credit risk since it allows the Bank to be aware of the evolution of its customers' repayment capacity and take corrective action on time in order to avoid situations of non-performance. The methodology employed to monitor risks is mostly based on the analysis of a set of variables associated with transactions and customers that allow the Bank to measure the influence these variables might have on the Bank's exposures and accordingly determining the convenience of maintaining, augmenting, reducing or extinguishing risks. In this scope, the performance of the loan portfolio is regularly analysed in order to set in motion monitoring mechanisms according to the evolution of the overall risk of certain customers and their respective transactions, thus anticipating eventual situations of difficulties by applying preventing measures to current risks.

In 2012, The Bank decided to strengthen its credit recovery actions, and for that purpose nearly all customers with defaulted transactions migrated to an informally called recovery portfolio and the Specialized Business Network (RNE – 'Rede de Negócio Especializado') was created to monitor those customers. Some of the customers included in the so called recovery portfolio do not have any past-due loan, but were identified by the Bank as having a high probability of defaulting in the future.

Pursuant to the credit risk control activities, several reports are produced and made available to the Executive Committee/Board of Directors:

- Monitoring past-due loans (evolution of past-due loans by geographical area);
- Loan portfolio impairment (monthly report);
- Information on credit risk (evolution of outstanding and past-due loans by commercial areas, geographical areas, types of product, large customers, etc.);
- Controlling concentration limits (detail on exposures that exceed the limits that have been pre-established by BAPOP Group's policy);
- Monthly monitoring loan transactions by PD levels;
- Stress Testing report (half-yearly).

Concentration Risk

Concentration risk is monitored by the Risk Management Department (DGR).

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

The procedures employed to manage and monitor concentration risk are mostly focused on defining the limits and analysing/reporting periodically. The most important reports produced by the Risk Management Department and reviewed by the Board of Directors can be summarized as follows:

- Every month a report is prepared that accompanies the following concentration limits approved by the Bank's Board, namely:
    - Customers with risk > 10% TIER I;
    - Customers with risk > 5% TIER I, excluding off-balance sheet and transactions guaranteed by deposits;
    - Risks > 100 million euros and above 25% of CRC;
    - Risks > 20 million euros and 50% of CRC;
    - Risks by activity sector;
    - LTV first housing above 75%;
    - LTV other housing above 60%.

- Every year, pursuant to Instruction No. 5/2011, Banco Popular sends the Bank of Portugal information on concentration risk.

Market Risk

Market Risk is the probability of negative 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.

This type of risk is essentially managed from BPE.

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.

This type of risk is essentially managed from BPE.

Operational risk

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

Through the network of Operational Risk Managers (RRO) of each functional area, the Bank has identified every operational risk that may affect its performance. In this process, each functional area prepared a document describing their functions and a map of the corresponding operational risks, identifying existing control mechanisms employed to mitigate each risk factor.

For updating purposes, periodical revision cycles are carried out for these qualitative requirements, including organizational changes, and RRO mobility, as well as the assessment of the results obtained in previous cycles according to the experience acquired and functional adjustments that have taken place.

Aiming at fully and correctly identifying, classifying and recording operational risk events the Bank faces in its activity and their respective recoveries, events are automatically recorded on a specific database. A small number of those situations is manually collected by the RRO of each area within their functions.

Each record includes a description, dates (of occurrence, discovery and accounting), amounts (of real loss, potential loss, and recoveries) and classification according to Basel II (activity sector and event type).

Operational risk is assessed and preventive and detection procedures are considered.

In order to assess operational risk quantitative and qualitatively, the Bank considers, among others, the following mechanisms:

a. In the Internal Control and Operational Risk Committee's agenda Operational Risk is a compulsory item; high impact events are presented and discusses and, if necessary, measures are taken to mitigate them;

b. Residual risk is periodically assessed through a self-assessment report on risks and controls identified in each area of the Bank. The self-assessment report includes:

   i. **Risks:** assessment of impact and frequency, maximum and most probable (average);

   ii. **Controls**: assessment of efficacy/design and application/execution.

c. The amounts of actual loss, potential loss, potential recovery, direct recovery, and indirect recovery are recorded regarding each Operational Risk event effectively occurred and detected.

In order to quantify operational risk, besides quantitative and/or mixed methods, the Bank uses the quantitative database it shares with Banco Popular Group.

Losses due to operational risk are recorded not only at their financial amount directly measured but also, as far as possible, taking into consideration other costs whenever these are identifiable (for example, trademark loss, reputational loss, re-execution of activities, loss of business opportunities).

The operational risk of the Bank is permanently monitored and reported to the Board of Directors, via the Executive Committee, to the Internal Control and Operational Risk Committee and to GBP's Operational Risk Committee.

When monitoring operational risk the Bank takes into consideration the following elements among others:

d. Analysing the results contained in risk maps and their respective self-assessment;

e. Recording events – maintaining the operational event database;

f. Key operational risk indicators (KRIs).

Meetings are held periodically with those in charge for risk in each department, raising awareness to the importance of monitoring and controlling operational risk in order to mitigate its potential impact on all levels of the organization.

There is a permanent dedication to developing and maintaining the operational risk event database of the Bank, which is integrated with Grupo Banco Popular Español's own database.

The Bank has identified key risk indicators (KRI) in sensitive areas and manages them aided by a specific module of the qualitative management tool (GIRO).

Currently, the following KRIs are identified regarding PCL, DAAR, DOP - Títulos e DIM:

- Customer Ombudsman (PLC):
- Risk Analysis Department (DAAR):
- Operations Department – Securities (DOP – Securities):
- Property Department (DIM):

The characterization, procedures and responsibilities regarding the treatment of key risk indicators are detailed in a specific internal document entitled *'Key Risk Indicators Implementation Plan'*.

Structural interest rate risk

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

Banco Popular Portugal measures its structural interest rate risk by using the repricing gap model. This model, used to measure the interest rate risk, consists in measuring exposures by different maturity and repricing dates in asset and liability cash flows. Briefly, this model groups assets and liabilities in fixed time intervals (maturity date or date of the next interest rate revision when indexed) based on which the potential impact in net interest income is calculated.

In this framework, this model considers a scenario in which there is an immediate impact on interest rates and at the date the interest rates are revised (both asset and liability transactions) the new rates incorporate that effect.
The model allows for the calculation of the impact of parallel gap curve shifts.

Liquidity risk

Liquidity risk is defined as the probability of negative impact 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 Banco Popular Group through its Assets and Liabilities Committee (ALCO) in a centralized manner for all credit entities and consolidated financial societies, and is monitored simultaneously by Banco Popular. The liquidity risk management system employed by GBP 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 impact on earnings or capital due to an adverse perception of the public image of the financial institution, grounded or otherwise, held by its different stakeholders, i.e., clients, suppliers, financial analysts, employees, investors or the public opinion in general.

Reputational risk is analysed and measured qualitatively since it is very difficult to provide a trustworthy quantification of potential loss due to reputational risk.

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

The main and more easily identifiable source of this type of risk is legal risk. In this 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.

Property Risk

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

The Bank is exposed to property risk that arises from its property portfolio whose net amount as at 31 December 2012 stood at around 318 million euros, representing around 3.6% of the Bank's net assets. These were assets whose ownership was transferred to the Bank following legal actions or in lieu of payment to settle loan debts (mostly loans for construction/property development). These assets include urban and rural lands, land plots, buildings or parts of buildings, finished or under construction.

The Property Department is in charge of managing these assets and has employees who are trained in engineering.

At the time of transfer in lieu of payment, acquisition or legal award to settle the debt, for the materially relevant transactions external appraisals are always required. After that, every three years or in-between periods new appraisals are carried out if there is any indication of any property loss of value. Periodically, sensitivity analyses are carried out to assess the amount of the assets, taking into consideration the market evolution as felt by the Group. Thus, the Group considers that these assets are adequately appraised and registered in its income statements.

The aim of the Group is to ensure the assets are sold at the best price possible, and may promote joint projects with construction companies to support those projects and therefore ensure better selling conditions.

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 2012, the Board of Directors met 20 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 2012, the Supervisory Board met 4 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., of Popular Factoring, S.A., Eurovida – Companhia de Seguros de Vida, S.A. and of 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 2012 was approved of at the General Meeting held on 27 May 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 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.

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.

The proposal of the remuneration policy for 2013, which will be presented to the Annual General Meeting for the approval of the Accounts can be found 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 € 480.002,00 in 2012, 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:

	(euros)		
	Remuneração anual		
	fixa	variável pecuniária	total
Rui Manuel Morganho Semedo	380.002,00	100.000,00	480.002,00
Jesús Santiago Martin Juárez	0,00	0,00	0,00
Tomás Pereira Pena	0,00	0,00	0,00
Jaime Jacobo González-Robatto Fernández	0,00	0,00	0,00
Total	380.002,00	100.000,00	480.002,00

The members of the Board of Directors also hold managing positions at Banco Popular Español and are accordingly remunerated by that entity.

The members of the Supervisory Board earned a total fixed amount of € 21,600.00 in 2012. The amounts paid to each member of the Supervisory Board are detailed as follows:

	(euros) Remuneração anual
Rui Manuel Ferreira Oliveira	9.600,00
TelmoFrancisco Salvador Vieira	6.000,00
António José Marques Centúrio Monzelo	6.000,00
Total	21.600,00

III – Information and Auditing

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

Share capital – € 476.000.000,00, represented by 476.000.000 ordinary shares with the unitary nominal value of € 1.00, not admitted to trading in a regulated market in Portugal.

III.2 – Qualified stakes

Banco Popular Español, S.A. – owns directly 100% of the share capital and of the righting votes of Banco Popular Portugal.

III.3 – Rules applicable to amendments of the Articles of Association

The Bank's Articles of Association may be amended by deliberation of the General Meeting taken by absolute majority of votes.

III.4 – Availability of the annual reports of the Supervisory Board

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 2012 were as follows

	(euros) Honorários pagos
Revisão legal de contas	134.000,00
Outros serviços de garantia e fiabilidade	234.000,00
Total	368.000,00

Lisbon, 18 March 2013

THE BOARD OF DIRECTORS

Declaration on the Remuneration Policy of the Members of the Executive Board of Directors and the Supervisory Board – 2013

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, 18 March 2013

THE BOARD OF DIRECTORS

Disclosure of the Staff Remuneration Policy – 2013

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, 18 March 2013

THE BOARD OF DIRECTORS

STATEMENTS REFERRED TO IN ARTICLE 245(1)(c) OF THE PORTUGUESE SECURITIES CODE

Paragraph (c) of article 245(1) of the Portuguese Securities Code states that each of the responsible persons of the entity shall issue a statement as explained therein.

STATEMENT OF THE BOARD OF DIRECTOR

The members of the Board of Directors of Banco Popular Portugal, S.A., identified below by name, have individually signed the following statement:

«Pursuant to paragraph (c) of article 245(1) of the Portuguese Securities Code, I declare that, to the best of my knowledge, the management report, the annual accounts, the statutory audit and auditor's report and other accounting documents disclosed by Banco Popular Portugal, S. A., all referred to 2012, were drawn up in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial position and the results of that entity and that the management report faithfully states the trend of the business, the performance and position of that entity, and contains a description of the principal risks and uncertainties faced.»

Lisbon, 18 March 2013

THE BOARD OF DIRECTORS

Rui Manuel Morganho Semedo	(Chairman)
Jesús Santiago Martín Juárez	(Member)
Jaime Jacobo González-Robatto Fernández	(Member)
Tomás Pereira Pena	(Member)

STATEMENT OF THE SUPERVISORY BOARD

The members of the Supervisory Board of Banco Popular Portugal, S.A., identified below by name, have individually signed the following statement:

«Pursuant to paragraph (c) of article 245(1) of the Portuguese Securities Code, I declare that, to the best of my knowledge, the management report, the annual accounts, the statutory audit and auditor's report and other accounting documents disclosed by Banco Popular Portugal, S. A., all referred to 2012, were drawn up in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial position and the results of that entity, and that the management report faithfully states the trend of the business, the performance and position of that entity, and contains a description of the principal risks and uncertainties faced.»

Lisbon, 20 March 2013

THE SUPERVISORY BOARD

Rui Manuel Ferreira de Oliveira	(Chairman)
Telmo Francisco Salvador Vieira	(Member)
António José Marques Centúrio Monzelo	(Member)