Banco Popular Portugal, SA

2013

1st half-year

Interim Report and Accounts

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, the Portuguese version prevails.

Table of Contents

Page
GENERAL INFORMATION 4

BOARD AND MANAGEMENT 5

INTERIM MANAGEMENT REPORT 6
- Main indicators 7
- Macroeconomic scenario 8
- Commercial strategy 8
- Income and profitability 9
  - Net interest income 9
  - Banking income 12
  - Operating income 13
  - Net income and profitability 14
- Funds and lending 14
  - Total assets 14
  - Customer funds 15
  - Lending operations 17
- Principal risks and uncertainties 19
- Qualifying holdings 29

DECLARATION OF COMPLIANCE OF THE FINANCIAL INFORMATION 30

HALF-YEAR ACCOUNTS 31
  - Balance Sheet 31
  - Income Statement 32
  - Statement of Comprehensive Income 33
  - Statement of Changes in Equity 33
  - Cash Flow Statements 34
  - Notes to the Financial Statements 35

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 in the interim management report and half-year accounts 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 2013, particularly those issued by the Bank of Portugal regarding the presentation of accounting information.

Pursuant to article 8(3) of the Portuguese Securities Market Code, the half-year information contained herein was not submitted to any auditing or limited reviewing.

The interim management report, the half-year accounts 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

Carlos Manuel Sobral Cid da Costa Álvares - Member

Tomás Pereira Pena - Member

José Ramón Alonso Lobo - Member

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, Statutory auditor.

INTERIM MANAGEMENT REPORT

At the end of the first half of 2013, Banco Popular Portugal operated with a network of 177 branches and a team of 1,305 staff. At 2012 year-end, the Bank had around 388 thousand customers and managed around 10.3 billion euros of total assets, including customer funds in the amount of 4.9 billion euros (total assets). Net assets amounted to around 9.6 billion euros and equity stood at 680 million euros. As at 30 June 2013, Banco Popular Portugal posted net profit of 2 million euros, which generated a return on equity of 0.31%.

The Bank's activity has been supported by the following financial companies that belong to Banco Popular Group and which have allowed 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 by 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 non-life insurance products and that has Banco Popular Portugal as a distribution channel.

Main indicators

(million euros, unless otherwise stated)

	Jun-13	Change (% and p.p.)	Jun-12
Total turnover			
Total assets managed	10 311	2.8%	10 026
On-balance sheet total assets	9 581	2.7%	9 332
Own funds (a)	680	24.5%	546
Customer funds:	4 919	4.6%	4 703
on balance sheet	4 190	4.5%	4 009
other intermediated customer funds	730	5.2%	694
Lending to customers	5 905	-6.1%	6 291
Contingent risks	605	0.6%	602
Solvency			
Solvency ratio-BP	11.1%	1.7	9.3%
Tier 1	11.1%	1.7	9.3%
Core Tier 1	11.4%	1.8	9.6%
Risk management			
Total risks	6 510	-5.6%	6 893
Non-performing loans	251	20.9%	207
Non-performing loans for more than 90 days	227	28.4%	177
Non-performing loan ratio (%)	4.27%	0.96	3.31%
Non-performing loan coverage ratio	104.2%	-9.1	113.3%
Earnings			
Net interest income	64.2	-21.7%	81.9
Banking income	90.9	-15.0%	106.9
Operating income	35.4	-28.4%	49.4
Income before tax	3.3	-53.7%	7.2
Net income	2.0	-54.9%	4.5
Profitability and efficiency			
Average net assets	9 186	-6.4%	9 815
Average own assets	670	33.2%	503
ROA (%)	0.02%	-0.02	0.05%
ROE (%)	0.31%	-0.60	0.90%
Operating efficiency (Cost to income) (%)	61.1%	10.87	50.2%
(without depreciation) (%)	58.3%	4.55	53.8%
Per share data			
Final number of shares (millions)	476	5.5%	451
Average number of shares (millions)	476	5.5%	451
Share book value (€)	1.428	18.0%	1.211
Earnings per share (€)	0.004	-57.3%	0.010
Other data			
Number of employees	1 305	-0.5%	1 312
Number of branches	177	-5.9%	188
Employees per branch	7.4	5.6%	7.0

(a) After appropriation of results for each year

Macroeconomic scenario

The first six months of the year were lived in an uncertain economic climate both in Europe and in Portugal. Confidence indicators have increased slightly in Europe when compared with the exceedingly low levels previously found. Euro money market interest rates remained stable when compared with the last few months and the Harmonised Index of Consumer Prices (HICP) increased slightly thus reflecting a surge in the price of unprocessed food and services. In the first quarter of 2013, and according to Eurostat, Gross Domestic Product (GDP) dropped in the Euro zone. According to OECD, we should witness steady improvement in the performance of the economic activity in the second half of 2013 and in 2014.

In Portugal, GDP fell by 4.0 per cent in the first quarter of 2013 when compared with the same period last year. Data provided by the National Institute of Statistics for May 2013 show a positive evolution of exports vis-à-vis the same month in 2012 (5.6% increase) mostly due to intra-EU and extra-EU trade, while imports decreased by 3.2% when compared with May 2012. There has been a constant increase in the household savings rate due to the drop in private consumption.

Commercial strategy

In the first half of 2013, Banco Popular followed its growth policy with an increase of its customer portfolio by 10,686 customers (net increase), or 2.8% when compared with 2012 year-end and by 15,930, or 4.3% when compared with the first half of 2012.

Regarding the volume of transactions, flat fees (integrated solutions) grew by 8% when compared with 2012 year-end and 16% when compared with the first half of 2012. Credit card business also grew by over 5% when compared with the same period last year. Point-of-sale terminals (POS) performed negatively in the first half of 2013 when compared with the same period last year.

Credit portfolio and assets' performance will be shown on the following sections.

Income and profitability

The statement of income is summarised in table 1. The Interim 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)	Jun-13	Jun-12	Change Amount	%
1	Interest and similar income	161 149	194 144	- 32 995	-17.0
2	Interest expense and similar charges	96 986	112 218	- 15 231	-13.6
3	**Net interest income (1-2)**	**64 163**	**81 927**	**- 17 764**	**-21.7**
4	Return on equity instruments	47	55	- 8	-13.9
5	Net fees and commissions	24 698	27 699	- 3 001	-10.8
6	Income from financial transactions (net)	2 506	779	1 727	-221.8
7	Income from the sale of other assets	2 614	- 599	3 214	536.2
8	Other operating profits/losses	- 3 138	- 2 973	- 165	-5.5
9	**Banking income (3+4+5+6+7+8)**	**90 890**	**106 887**	**- 15 997**	**-15.0**
10	Personnel expenses	27 913	27 990	- 77	-0.3
11	Other general administrative expenses	25 112	25 671	- 559	-2.2
12	Depreciation	2 483	3 832	- 1 349	-35.2
13	**Operating income (9-10-11-12)**	**35 382**	**49 393**	**- 14 012**	**-28.4**
14	Provisions net of recoveries and write-offs	- 2 129	- 2 083	- 46	2.2
15	Value adjustments net of loans and advances to customers	32 185	36 266	- 4 081	-11.3
16	Impairment and other net provisions	1 992	8 006	- 6 014	-75.1
17	**Profit before tax** (13-14-15-16)	**3 334**	**7 204**	**- 3 870**	**-53.7**
18	Income tax	1 285	2 657	- 1 373	-51.7
19	**Net income for the period** (17-18)	**2 049**	**4 547**	**- 2 498**	**-54.9**

Net interest income

At the end of the first half of 2013, net interest income exceeded 64.1 million euros, which corresponds to a 17.8 million euro decrease when compared with the same period last year. As seen on table 2, this loss was mostly due to the combined adverse effect of the fluctuation of the average trading volumes, the effect of changes in interest rates and the effect of maturity dates.

Table 2 . Annual changes in net interest income - Causal analysis Jun/2013 - Jun/2012

(€ thousand)

Changes in:	Due to changes in business volume	Due to changes in interest rates	Due to changes in maturity	Total change
Loans and advances to customers	- 11 384	- 20 603	- 787	- 32 774
Deposits with banks	- 117	349	- 6	225
Financial assets	202	- 394	- 227	- 418
Other assets	- 13	- 15	- 1	- 28
Total net investments	**- 11 311**	**- 20 664**	**- 1 020**	**- 32 995**
Deposits from customers	6 413	- 14 760	- 479	- 8 826
Deposits from banks	- 4 898	- 4 382	- 101	- 9 381
Own assets	0	0	0	0
Other liabilities	1 436	1 581	- 42	2 975
Total assets	**2 952**	**- 17 561**	**- 622**	**- 15 231**
Net interest income	**- 14 263**	**- 3 103**	**- 398**	**- 17 765**

As shown on table 3, the average assets of the Bank at the end of the first half of 2013 were backed by customer funds (54.7%) and deposits from banks (35.1%) mostly deposits from Banco Popular Group. Loans and advances to customers is still their main component, representing 64.1% of total assets.

This evolution reflects the successful effort of increasing customer funds in the context of improving the commercial gap, since in the same period of 2012 deposits from customers financed only 47.3% of average assets and the dependence on deposits from banks represented around 44.8%.

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

(€ thousand and %)

	Jun/13				Jun/12			
	Average Balance	Dist. (%)	Income or expense	Average Rate (%)	Average Balance	Dist. (%)	Income or expense	Average Rate (%)
Loans and advances to customers (a)	5 888 236	64.1%	118 838	4.07	6 396 491	65.2%	151 613	4.75
Deposits with banks	444 555	4.8%	1 442	0.65	514 754	5.2%	1 217	0.47
Financial assets	2 361 598	25.7%	40 779	3.48	2 350 037	23.9%	41 197	3.52
Other assets	491 038	5.3%	89	0.04	554 710	5.7%	117	0.04
Total Assets (b)	**9 185 426**	**100%**	**161 149**	**3.54**	**9 815 993**	**100%**	**194 144**	**3.97**
Deposits from customers (c)	5 026 637	54.7%	74 049	2.97	4 647 375	47.3%	82 875	3.58
Deposits from banks	3 226 520	35.1%	11 736	0.73	4 397 871	44.8%	21 117	0.96
Equity accounts	670 023	7.3%	0	0.00	503 214	5.1%	0	0.00
Other liabilities	262 246	2.9%	11 201	8.61	267 533	2.7%	8 226	6.17
Total Liabilities and Equity (d)	**9 185 426**	**100%**	**96 986**	**2.13**	**9 815 993**	**100%**	**112 218**	**2.29**
Customer spread (a - c)				**1.10**				**1.18**
Net Interest Income (b - d)				**1.41**				**1.67**

Considering the evolution of the average annual interest rates from loans and deposits, we would like to stress that the average assets, which amounted to 9,185 million euros, posted an overall profitability of 3.54%. On the other hand, the average cost of total funds allocated to the financing of assets decreased by 16 basis points when compared with the first half of 2012, standing at 2.13%.

The aim of increasing the financing of customer lending with customer funds and thus improving on the commercial gap has led to an increase by around 379.3 million euros in the average balance when compared with the same period last year, 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 significant reduction by 61 basis points in the average rate of deposits from customers, which stood at 2.97% the first half of 2013 and compares with 3.58% in the same period last year (table 3a).

The decrease in the average balance of loans and advances to customers is justified mostly by the reduction in demand. The combined effect represented a decrease in customer margin by 8 bp when compared with the same period last year.

Table 3a . Evolution of annual average rates. Margins

	Average annual rate Jun-13 (%)	Average annual rate Jun-12 (%)	Change Jun-13 / Jun-12 (p.p.)
Loans and advances to customers (a)	4.07	4.75	-0.68
Deposits with banks	0.65	0.47	0.18
Financial assets	3.48	3.52	-0.03
Other assets	0.04	0.04	-0.01
Total Assets (b)	**3.54**	**3.97**	**-0.43**
Deposits from customers (c)	2.97	3.58	-0.61
Deposits from banks	0.73	0.96	-0.23
Equity accounts	0.00	0.00	0.00
Other liabilities	8.61	6.17	2.45
Total Liabilities and Equity (d)	**2.13**	**2.29**	**-0.16**
Customer spread (a - c)	**1.10**	**1.18**	**-0.08**
Net Interest Income (b - d)	**1.41**	**1.67**	**-0.27**

Banking income

As at 30 June 2013, net fees and commissions charged to customers for the sale of products and services totalled 24.7 million euros, decreasing by around 10.8% when compared with the same period last year.

Table 4 shows the evolution of fees and commissions that occurred in the first half of 2013 when compared with the first half of 2012.

The drop by 3 million euros was mostly due to a decrease in lending operations and related fees and commissions (-1 million euros, or -10.9%) and in asset management commissions (-0.6 million euros, or -55.0%), the latter resulting mostly from third party receivables at the end of the first half of 2012 which did not occur in the first half of 2013 by option of the issuers. We note as positive the 17.3% upsurge in commissions from insurance sales and the 8.1% increase in account management commissions.

Table 4 . Net Fees and Commissions

(€ thousand)

			Change	
	Jun-13	Jun-12	Amount	%
Commissions from lending	8 310	9 329	- 1 019	-10,9
Commissions from guarantees	3 671	3 971	- 300	-7,6
Commissions from collection and payment handling (net)	5 899	6 733	- 834	-12,4
Commissions from asset management (net)	518	1 152	- 634	-55,0
Commissions from insurance sales	918	783	135	17,3
Commissions from account management	2 538	2 349	189	8,1
Commissions from processing services	821	1 019	- 198	-19,4
Other commissions (net)	2 182	2 513	- 331	-13,2
Fees paid to promoters and agents	- 159	- 148	- 11	-7,3
Total	**24 698**	**27 699**	**- 3 001**	**-10,8**

Regarding the remaining items of banking income, there has been a significant increase in the items Income from financial operations and sale of other assets, respectively 1.7 and 3.2 million euros. Conversely, the item other operating income performed badly, with a 165 thousand change when compared with the same period last year.

The joint effect of all the aforementioned items made Banco Popular Portugal generate banking income of almost 91 million euros in the first half of 2013, which represents a decrease by 16 million euros or 15% when compared with the same period last year.

Operating income

Banco Popular remains committed to implementing its cost reduction policy. In the first half of 2013, operating expenses totalled over 55.5 million euros, which represents a decrease by 2 million euros or 3.5% when compared with the same period last year.

In this first semester, and as can be seen in the following table, personnel expenses amounted to 27.9 million euros, dropping by 0.3%. On the other hand, total general expenses reached 25.1 million euros, which implied a decrease by over half a million euros (-2.2%) when compared with the same period of last year.

Allocations for depreciation of fixed assets amounted to 2.5 million euros, a decrease of 35.2% when compared with the first half of 2012.

Table 5 . Operating Expenses

(€ thousand)

	Jun-13	Jun-12	Change Amount	Change %
Personnel expenses (a)	**27 913**	**27 990**	**- 77**	**-0,3**
Wages and salaries	20 844	21 142	- 298	-1,4
Social security charges	5 950	6 056	- 106	-1,7
Pension fund	549	226	323	143,2
Other personnel expenses	570	566	4	0,7
General expenses (b)	**25 112**	**25 671**	**- 559**	**-2,2**
External supplies	1 337	1 371	- 35	-2,5
Rents and leasing	2 249	2 518	- 269	-10,7
Communications	2 033	2 117	- 84	-4,0
Travel, hotel and representation	516	484	32	6,7
Advertising and publications	1 160	1 317	- 157	-11,9
Maintenance of premises and equipment	2 024	2 859	- 835	-29,2
Transports	522	668	- 145	-21,8
Advisory services	3 202	1 555	1 647	105,9
Legal expenses	1 296	1 341	- 46	-3,4
IT services	3 881	3 090	790	25,6
Security, surveillance and cleaning	590	768	- 178	-23,2
Temporary work	2 214	2 373	- 159	-6,7
External consultants and auditors	347	973	- 627	-64,4
External real estate appraisers	147	495	- 348	-70,3
Services rendered by Grupo Banco Popular	1 676	1 866	- 190	-10,2
Other general expenses	1 918	1 875	43	2,3
Operating expenses (c=a+b)	**53 025**	**53 661**	**- 636**	**-1,2**
Depreciation (d)	**2 483**	**3 832**	**- 1 349**	**-35,2**
Total (c+d)	**55 508**	**57 493**	**- 1 986**	**-3,5**

The cost-to-income ratio, which corresponds to the part of banking income consumed by operating expenses, increased slightly in the first half of 2013 when compared with the same period last year, standing at 58.3% and up from 50.2%, mostly due to the reduction in banking income.

The weight of personnel expenses in banking income stood at 30.7%, a little over the amount for June 2012 (26.2%).

Operating income thus amounted to approximately 35.4 million euros, around 28% lower than in the same period last year.

Net income and profitability

In the first half of 2013, Banco Popular Portugal posted a Net Income slightly above 2 million euros, 55% lower than in the same period last year. This income reduction is mostly due to the decrease in net interest income.

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.

At the end of this semester, operating profitability stood at 0.39%, 12 basis points lower than in the same period last year, while return on assets (ROA - the ratio of annual net income to average total assets) stood at 0.02%.

Funds and lending

Total assets

The balance sheets as at 30 June 2013 and 2012 are summarised in table 7. In the section Interim Accounts, those same balance sheets are presented in accordance with the model defined by the Bank of Portugal.

As at 30 June 2013, Banco Popular's net assets amounted to 9,581 million euros, 248 million euros more than in the same period last year, which corresponds to an increase by 2.7%.

The Bank, through the companies of the group, also manages other customer funds applied in investment, saving and retirement instruments, and others, which amounted to 729 million euros in the first half of 2013, representing a 5.2% increase when compared with the same period last year.

Therefore, total assets managed by the Bank amounted to 10,311 million euros in the first half of 2013, which represents a 3% increase when compared with the same period last year.

Customer funds

In the first half of 2013, the total amount of on- and off-balance sheet customer resources amounted to 4,919 million euros, 4.6% more when compared with the same period last year.

On-balance sheet funds, comprised mostly of customer deposits, reached 4,190 million euros, which corresponds to an increase by 4.5% when compared with the first half of 2012.

Demand accounts posted significant increase, reaching 715.5 million euros up from 594.6 million euros, which corresponds to a 20.3% increase when compared with the same period last year.

In the middle of 2012, the Bank started to sell bonds under its EMTN programme.

Table 6 . Customer Funds

(€ thousand)

	Jun-13	Jun-12	Change Amount	%
CUSTOMER FUNDS :				
Deposits	**4 135 002**	**3 945 745**	**189 257**	**4.8**
Demand accounts	715 528	594 621	120 907	20.3
Time deposits	3 413 995	3 343 799	70 196	2.1
Savings accounts	5 478	7 325	- 1 847	-25.2
Cheques, payment orders and other funds	**12 056**	**23 590**	**- 11 534**	**-48.9**
Interest payable	**42 548**	**40 039**	**2 509**	**6.3**
ON-BALANCE SHEET FUNDS (a)	**4 189 605**	**4 009 374**	**180 231**	**4.5**
Disintermediation funds				
Investment funds	198 813	151 450	47 363	31.3
Investment and capitalisation insurance	378 615	364 605	14 010	3.8
Retirement insurance plans	91 367	97 170	- 5 803	-6.0
Customer portfolio under management	60 897	80 631	- 19 734	-24.5
OFF-BALANCE SHEET FUNDS (b)	**729 692**	**693 856**	**35 836**	**5.2**
TOTAL CUSTOMER FUNDS (a + b)	**4 919 297**	**4 703 230**	**216 067**	**4.6**

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 5.2%. The positive performance of this item is mostly due to the growth of investment funds. The evolution of these funds is showed at the bottom of the previous table.

As at 30 June 2013 Banco Popular Portugal is the depositary of 19 investment funds managed by Popular Gestão de Activos, whose total portfolio amounted to 198.8 million euros, 31.3% higher than in the first half of 2012. The following table shows the evolution of each investment fund managed by Popular Gestão de Activos.

Table 7 . Investment Fund Portfolio (asset value)

(€ thousand)

Funds	Jun/13	Jun/12	Variação Valor	Variação %
Popular Valor	2 546	2 840	- 294	-10.4
Popular Acções	2 502	1 948	554	28.4
Popular Euro Obrigações	12 162	4 929	7 233	146.7
Popular Global 25	8 171	5 811	2 360	40.6
Popular Global 50	4 330	2 685	1 644	61.2
Popular Global 75	2 551	1 483	1 068	72.0
Popular Tesouraria	3 955	2 393	1 562	65.3
Popular Economias Emergentes I	8 250	8 170	80	1.0
Popular Economias Emergentes II	9 923	9 800	123	1.3
Popular Multiactivos (*)	4 047	1 449	2 598	
Popular Multiactivos I (*)	0	1 008	- 1 008	
Popular Multiactivos III (*)	0	1 230	- 1 230	
Popular obrig. Ind.Emp. Alemanha e EUA	5 627	5 292	336	6.3
Popular obrig.Ind.Ouro (Londres)	3 927	3 847	79	2.1
Fundurbe	10 359	11 553	- 1 194	-10.3
Imourbe	10 441	12 369	- 1 927	-15.6
ImoPopular	25 468	26 205	- 737	-2.8
ImoPortugal	24 210	24 308	- 98	-0.4
Popular Predifundo	13 173	15 591	- 2 419	-15.5
Popular Objectivo Rendimento 2015	2 454	0	2 454	
Popular Arrendamento	44 718	0	44 718	
Popular Imobiliário FEI	0	8 540	- 8 540	-100.0
Total	**198 813**	**151 450**	**47 363**	**31.3**

(*) Popular Multiactivos, results from the merger with incorporation of Popular Multiactivos II, Popular Multiactivos I and Popular Multiactivos III.

Banco Popular Portugal sells Eurovida's retirement plans and investment insurance, a company that belongs to BPE group. Customer funds raised via these products increased by 3.8% in terms of investment insurance and decreased by 6% in terms of retirement plans, as can be seen at the end of table 6.

Lending operations

Loans and advances to customers totalled around 5.9 billion euros at the end of the first half of 2013, representing 59% of total net assets. This amount corresponds to a decrease by 6.1% when compared with the same period last year.

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

Table 8 . Loan Transactions

(€ thousand)

	Jun-13	Jun-12	Change Amount	%
Loans and advances to customers (a)				
Companies and public sector	3 483 422	3 726 827	- 243 405	-6,5
Private customers	1 874 027	1 928 943	- 54 916	-2,8
Residencial mortgage loans	1 462 556	1 456 203	6 353	0,4
Personal and consumer loans	50 051	61 605	- 11 553	-18,8
Other personal lending	361 420	411 136	- 49 716	-12,1
Total	**5 357 449**	**5 655 770**	**- 298 321**	**-5,3**
Other loans (represented by securities) (b)	**272 300**	**403 400**	**- 131 100**	**-32,5**
Interes and commissions receivable (c)	**24 168**	**24 327**	**- 160**	**-0,7**
Past-due loans and interest (d)				
Due within 90 days	23 963	30 710	- 6 748	-22,0
Over 90 days	226 886	176 719	50 167	28,4
Total	**250 849**	**207 430**	**43 419**	**20,9**
Total Gross Lending (a + b + c + d)	**5 904 765**	**6 290 927**	**- 386 162**	**-6,1**
Specific Loan Provisions	211 713	181 282	30 431	16,8
Total Net Lending	**5 693 052**	**6 109 645**	**- 416 593**	**-6,8**

The decrease in the amount of loans and advances to customers was due to a drop by around 32.5% in securitised lending operations and a decline by 5.3% in lending operations in general. In terms of retail, loans to businesses and the public sector dropped by 243 million euros, 6.5% less when compared with the previous year, while loans to private individuals decreased slightly by 2.8%. This fall had the contribution of a two-figure drop in the items of loans and advances to private individuals (except residential mortgage loans, which increased by 0.4% when compared with the first quarter of 2012). Part of the growth in residential mortgage loans was destined to the acquisition of real estate of the Bank's portfolio.

The amount of past-due loans and interest totalled almost 251 million euros in the first half of 2013, which represents an increase by 20.9% when compared with the same period last year. As seen on the following table, this item represented 4.27% of total lending operations. Taking into consideration only loans that have been non-performing for more than 90 days this indicator stands at 3.84%.

Total non-performing loans amounted to 368 million euros as at 30 June 2013, which represents 6.24% of total lending operations.

Table 9. Past-due Loans and Non-performing Loans

(€ thousand)

	Jun/13	Jun/12	Change Amount	Change % / p.p.
Past-due loans and interest	250 849	207 430	43 419	20.93
Past-due loans by more than 90 days **(a)**	226 886	176 719	50 167	28.39
Doubtful loans reclassified as past-due loans **(b)**	141 496	107 853	33 643	31.19
Non-performing loans **(a+b)**	368 382	284 572	83 810	29.45
Past-due loans / total loans (%)	4.27	3.31		0.96
Past-due loans over 90 days / total lending (%)	3.86	2.82		1.04
Non-performing loans / total lending (%)	6.26	4.54		1.72
Net non-performing loans, net / total net lending (%)	2.85	1.96		0.89
Provisions for Credit risks	261 274	234 947	26 326	11.21
Hedging Ratio (%)	104.2	113.3		-9.11
memorandum item:				
Total lending	**5 904 765**	**6 290 927**	**- 386 162**	**-6.14**

In the first half of 2013, provisions for credit risks amounted to 261.3 million euros, ensuring a coverage ratio of 104.2%.

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 17 percentage points lower than in the first half of 2012, which corresponds to a 610 million euro improvement. As at 30 June 2013, this ratio stood at 135%, which corresponds to an absolute gap of 1.5 billion euros.

Principal risks and uncertainties

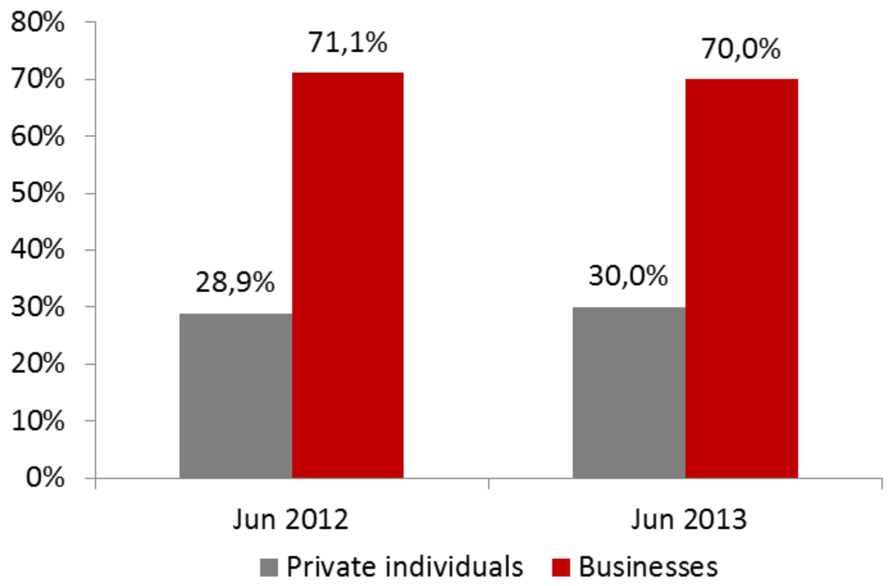
Credit and Concentration risk

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 5,693 million euros at the end of June 2013, with a year-on-year drop of around 6.9%. 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. corporate

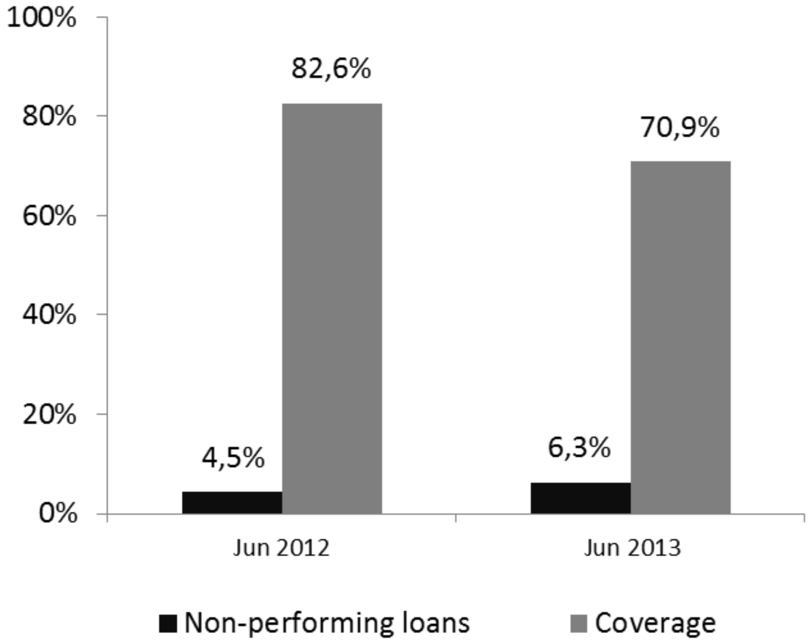
Loans and advances to customers is the Bank's main asset, representing around 59% of net assets. As at 30 June 2013, around 70% of the portfolio was tied with advances and loans to businesses (mostly SMEs). The decline in loans and advances to companies over the past few years results from an increase in residential mortgage loans and the effect of credit assignments to companies belonging to the group, 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 credit assignments, this evolution was negative.

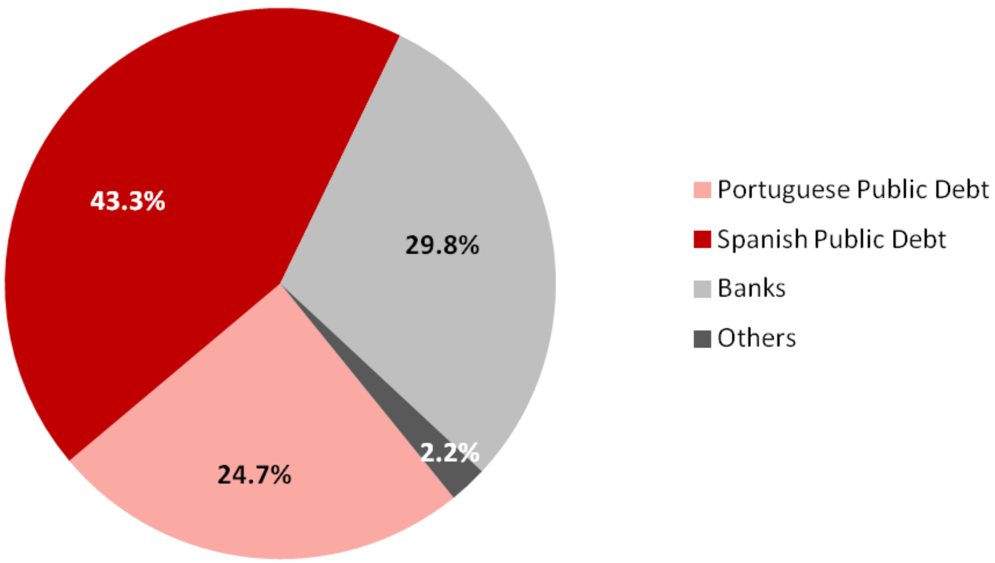
Evolution of non-performing loans



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 2.3 billion euros at the end of June 2013, which represents 24% of Banco Popular's total net assets. In the chart below we have summed up these assets broken down by type.

Securities Portfolio



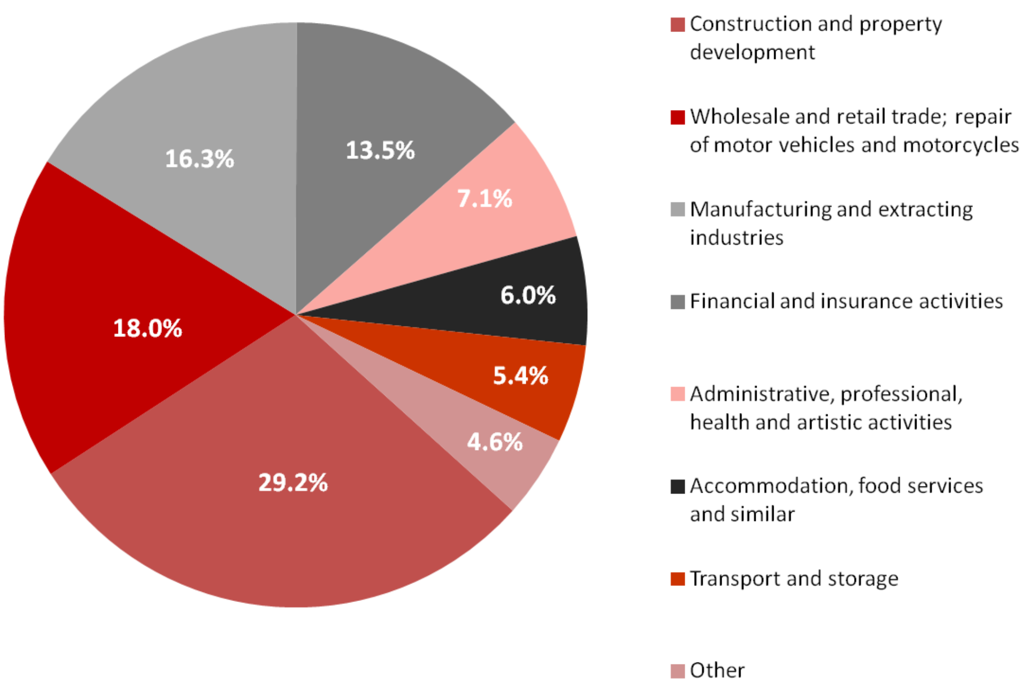
The sustained macroeconomic downturn that continued throughout 2013 remained at the basis of the upsurge in the number of insolvent businesses, which in the case of Banco Popular's customers totalled 1,494 companies which compares with 1,549 companies in the whole of 2012.

In Portugal, until June 2013, 11,764 companies filed for bankruptcy, which represents an increase by 4,001 companies when compared with the whole of 2012 (+51.5%) and shows a clear acceleration when compared with the year-on-year increase 2012/2011 (+27.7%).

It is also important to stress that until June 2013, 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 (4.27%) posted a slight growth when compared with the same period last year (3.31%).

The loan portfolio broken down by economic sector as at 30 June 2013 was as follows:

Loan Portfolio by Economic Sector



As seen above, around 29.2% of loans to companies comprise the sector of property construction and development. When compared with December 2012, it shows a slight decrease in terms of the weight that this sector of activity has in the portfolio, which is more relevant when we consider the decrease in the Bank's total lending. The aim of Banco Popular is to continue to the process that has lead to the diminished exposure in the sectors of property construction and development until it reaches 25%.

Although this sector still bears significant weight on total loans and advances to customers, we would like to stress that these exposures have real collaterals that are periodically monitored, since capital is released after an inspection (carried out by specialized external companies and verified internally by specialized engineers) and 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 30 June 2013, the Bank's portfolio amounted to around 2,6 billion euros, of which only around 56 million were classified as financial assets held for trading and other financial assets at fair value through profit or loss (around 2.1% 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 Risk

Foreign exchange 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 also like to highlight that the foreign exchange risk management is carried out jointly with GBP.

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 – 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 controls.

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 to the top management personnel and discloses to the permanent members of the Committee a report on the main activities in the scope of Operational Risk management and a quantitative analysis of occurred events.

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 the bank's Risk Capacity considering the maximum amount allocated to Operational Risk (provisions for covering Operational Risk) 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 Banco Popular Group's Operational Risk Committee (which meets quarterly) where all the relevant aspects to the whole Group are discussed. Similarly to what is already also 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 following methodology:
The repricing gap 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, so at the date the interest rates are revised (both asset and liability transactions) the new rates start to incorporate that effect.

The model allows 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 to ensure 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 30 June 2013, Banco Popular's funding needs were ensured mainly by deposits from customers (4,189 million euros, around 44% of total assets (Jun/2012: 43%)), by ECB funding (around 1,595 million euros, representing around 16.6% of total assets), by deposits from banks, mostly BPE (1,541 million euros, around 17% (Jun/2012: 37%)), and by the issuance of bonds (1,067 million euros, around 11.1% (Jun/2012: 6.4%)).

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 30 June 2013 was around 317 million euros, representing around 3.3% 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 independent external appraisals are always required. After that, every three years or whenever there is any indication of any property loss of value, new appraisals are carried out. 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.

Qualifying holdings

Pursuant to 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%

Lisbon, 31 July 2013

The Board of Directors

DECLARATION OF COMPLIANCE OF THE FINANCIAL INFORMATION

STATEMENTS REFERRED TO IN ARTICLE 246(1)(c) OF THE PORTUGUESE SECURITIES CODE

Paragraph (c) of article 246(1) of the Portuguese Securities Code states that each of the responsible persons of the entity shall issue a statement as explained therein.

STATEMENT OF THE BOARD OF DIRECTORS

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

«Pursuant to paragraph (c) of article 246(1) of the Portuguese Securities Code, I declare that, to the best of my knowledge, the condensed financial statements of Banco Popular Portugal, S. A. referred to the first half of 2013, 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 interim management report faithfully states the information required in accordance with article 246(2) of the Portuguese Securities Code»

Lisbon, 31 July 2013

The Board of Directors

Rui Manuel Morganho Semedo - Chairman

Carlos Manuel Sobral Cid da Costa Álvares - Member

Tomás Pereira Pena - Member

José Ramón Alonso Lobo - Member

HALF-YEAR ACCOUNTS

Balance Sheet

Individual Balance Sheet as at 30 June 2013

(€ thousand)

	Note/ Table Annex	30/06/2013 Amount before provisions impairment & depreciation 1	Provisions, impairment & depreciation 2	Net result 3 = 1 - 2	30/06/2012
Assets					
Cash and balances with central banks	17	52 219		52 219	88 220
Deposits with banks	18	68 853		68 853	93 999
Financial assets held for trading	19	55 107		55 107	45 106
Other financial assets at fair value through profit or loss	20	32 320		32 320	31 506
Available-for-sale financial assets	21	2 256 880		2 256 880	1 517 516
Loans and advances to banks	22	677 770		677 770	123 023
Loans and advances to customers	23	5 904 765	211 713	5 693 052	6 109 645
Held-to-maturity investments	24	0		0	600 272
Non-current assets held for sale	25	22 579		22 579	0
Other tangible assets	26	179 667	94 343	85 324	90 662
Intangible assets	27	20 794	20 592	202	861
Investment in subsidiaries and associates	25	0		0	22 579
Current income tax assets		3 053		3 053	0
Deferred income tax assets	28	72 160		72 160	111 518
Other assets	29	616 050	54 532	561 518	497 299
Total Assets		**9 962 217**	**381 180**	**9 581 037**	**9 332 206**
Liabilities					
Deposits from central banks	30	1 609 046		1 609 046	1 200 012
Financial liabilities held for trading	19	32 296		32 296	35 464
Deposits from banks	31	1 807 930		1 807 930	2 728 987
Due to customers	32	4 189 605		4 189 605	4 009 374
Debt securities issued	33	1 066 572		1 066 572	596 413
Hedging derivatives	34	89 064		89 064	93 490
Provisions	35	52 459		52 459	59 051
Current income tax liabilities		1 860		1 860	3 996
Deferred income tax liabilities	28	15 218		15 218	11 682
Other liabilities	36	37 281		37 281	47 756
Total Liabilities		**8 901 331**	**0**	**8 901 331**	**8 786 225**
Equity					
Share capital	39	476 000		476 000	451 000
Share premium	39	10 109		10 109	10 109
Fair value reserves	40	- 82 585		- 82 585	- 193 305
Other reserves and retained earnings	41	274 133		274 133	273 630
Profit for the year		2 049		2 049	4 547
Total Equity		**679 706**	**0**	**679 706**	**545 981**
Total Liabilities + Equity		**9 581 037**	**0**	**9 581 037**	**9 332 206**

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Income Statement

Individual Income Statement as at 30 June 2013

(€ thousand)

	Note/ Table/ Annex	30/06/2013	30/06/2012
Interest and similar income	6	161 149	194 144
Interest expense and similar charges	6	96 986	112 217
Net interest income		**64 163**	**81 927**
Return on equity instruments	7	47	55
Fees and commissions received	8	29 081	37 855
Fees and commission paid	8	4 383	10 156
Net gains from financial assets at fair value through profit or loss	9	769	1 613
Net gains from available-for-sale financial assets	9	1 064	- 1 503
Net gains from foreign exchange differences	10	673	668
Net gains from the sale of other assets	11	2 614	- 599
Other operating income	12	- 3 138	- 2 973
Operating income		**90 890**	**106 887**
Personnel expenses	13	27 913	27 990
General administrative expenses	14	25 112	25 671
Depreciation and amortization	26/27	2 483	3 832
Provisions net of reversals	35	- 2 129	- 2 083
Adjustments to loans and advances to customers (net of reversals)	23	32 185	36 266
Impairment of other financial assets net of reversals		0	611
Impairment of other assets net of reversals	29	1 992	7 396
Net income before tax		**3 334**	**7 204**
Income tax		1 285	2 657
Current tax	15	218	4 723
Deferred tax	15	1 067	- 2 066
Net income after taxes		**2 049**	**4 547**
Of which: Net income from discontinued operations		0	0
Net income for the period		**2 049**	**4 547**
Earnings per share (euro)		**0.00**	**0.01**

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Statement of Comprehensive Income

Individual Statement of Comprehensive Income

(€ thousand)

	30/06/2013	30/06/2012
Net income	**2 049**	**4 547**
Retirement Pensions		
Recognition of actuarial gains/losses	1 004	1 849
Income not recognized in the income statement	**1 004**	**1 849**
Available-for-sale financial assets		
Revaluation of available-for-sale financial assets	38 474	54 867
Tax burden	- 10 195	- 14 540
Income not recognized in the income statement	**28 279**	**40 327**
Individual comprehensive income	**31 332**	**46 723**

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 do Capital Próprio
Balance as at 1 January 2012	**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
Actuarial gains/losses				735		735
Other changes			-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**	**270 380**	**2 692**	**648 374**
Transferred to reserves				2 692	- 2 692	0
Actuarial gains/losses				1 004		1 004
Other changes			-57	57		0
Comprehensive income for the period			28 279		2 049	30 328
Balance as at 30 June 2013	**476 000**	**10 109**	**- 82 585**	**274 133**	**2 049**	**679 706**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

Cash Flow Statements

Individual Cash Flow Statements as at 30 June 2013 and 2012

(€ thousand)

	Notes	30/06/2013	30/06/2012
Cash flow from operating activities			
Interest and income received		119 629	142 564
Interest and expenses paid		- 63 126	- 96 588
Fees and commissions received		28 703	37 087
Fees and commissions paid		- 4 383	- 10 156
Loan recoveries		576	956
Contributions to the pension fund	37	81	- 20
Cash paid to suppliers and employees		- 50 768	- 57 065
Sub-total		**30 712**	**16 778**
Changes in operating assets and liabilities			
Minimum cash requirements and deposits with central banks		111 814	45 729
Financial assets and liabilities at fair value through profit or loss		- 4 187	- 4 072
Loans and advances to banks		- 254 688	-
Deposits from banks		384 072	- 218 366
Loans and advances to customers		341 606	47 777
Hedging derivatives		- 25 656	2 733
Other operating assets and liabilities		- 24 990	- 4 226
Net cash flow from operating activities before income taxes		**558 683**	**- 113 647**
Income taxes		- 51	- 2 790
Net cash flow from operating activities		**558 632**	**- 116 437**
Cash flow from investment activities			
Dividends received		47	54
Purchase and sale of available for sale financial assets		- 910 139	69 072
Held-to-maturity investments		542 167	- 44 469
Purchase and sale of assets		50 483	29 716
Net cash flow from investment activities		**- 317 442**	**54 373**
Cash flow from financing activities			
Issue of own equity instruments	33	56 208	
Redemption of own equity instruments		- 16 917	- 16 179
Net cash flow from financing activities		**39 291**	**- 16 179**
Net changes in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	46	227 772	329 394
Effect of exchange rate fluctuations on cash and cash equivalents		382	1 833
Net changes in cash and cash equivalents		**280 480**	**- 78 243**
Cash and cash equivalents at the end of the period	46	**508 634**	**252 984**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

Notes to the Financial Statements

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS AS AT 30 JUNE 2013 AND 2012

(€ 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 30 June 2013, 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).

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 in regular situation to default during the estimated period between occurrence and the loss being identified. Usually, the timeframe used by the Bank is of around 6 months.

For the purpose of evaluation of impairment in groups, 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 compensations.

With the publication of Decree-law No. 1-A/2011, of 3 January, employees covered by the CBA of working age on 4 January 2011 were made subject to the Social Security General Scheme (SSGS) as far as retirement benefits are concerned. Therefore, from that date, the benefits plan defined for the employees covered by the CBA, as far as retirement benefits are concerned, will be financed by the Pension Fund and the Social Security. However, after 4 January 2011, the Pension Fund is still liable for death, disability and survivor's benefits, as well as old-age complementary benefits in order to match the retirement pension of the participants in the Pension Fund to the amounts of the current pension plan.

Pursuant to the guidelines stated on the note issued on 26 January 2011 by the National Council of Financial Supervisors, the Bank has maintained the measurement methodology and the liabilities for past services of active employees with reference to 31 December 2010 regarding the eventualities transferred to the SSGS used in previous years.

Pursuant to Decree-law No. 127/2011, of 31 December, Banco Popular Portugal transferred to Social Security the liabilities for the pensions to be paid as at 31 December 2011, as well as part of the assets of the pension fund that covered those liabilities.

This transfer impacted the Bank's results due to the allocation of the proportional part of the accumulated actuarial deviations and the actuarial deviations originated by the difference of actuarial assumptions used to calculate the transferred liabilities. According to Decree-law No. 127/2011, of 31 December, this amount will be deductible for purposes of determining the taxable profit, in equal parts, from the year starting on 1 January 2012, according to the average number of year of life expectancy of the pensioners whose liabilities were transferred, having been recorded the respected differed tax on the settlement amount recognised in that year's operating income.

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.

Analyses and possible revisions to actuarial and financial assumptions are made by the Bank of Portugal with reference to 31 December every year. The updating of these assumptions is prospectively reflected on pension expenses and in arriving at actuarial gains and losses.

Until December 2012, the Bank recognized the net accumulated amount (after 1 January 2004) of actuarial gains and losses resulting from changes in the financial and actuarial assumptions and differences between the financial and actuarial assumptions used and the actual amounts in the item Other Assets or Other Liabilities – Actuarial deviations. Accumulated actuarial gains and losses were 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 were recognised against results over the average remaining period of service of the employees covered by the plan.

On 1 January 2013, and as stated in 2.19 Changes in the Accounting Policy for Recognizing Actuarial Deviations, Banco Popular changed its accounting policy for the recognition of actuarial and financial deviations of the pension plans and other post-employment benefits with defined benefit pursuant to IAS 19 Revised. Actuarial and financial gains and losses are now booked in the period they occur directly on equity in the Statement of Comprehensive Income.

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

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

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

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

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

Banco Popular Portugal appraises on each reporting date the recoverability of any possible excess of the fair value of the assets that comprise the pension fund in view of the retirement pension liabilities based on the expectation of the reduction of future necessary contributions.

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 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.

2.19 Changes in the accounting policy for the recognition of actuarial deviations

On 1 January 2013, Banco Popular changed its accounting policy for the recognition of actuarial and financial deviations of the pension plans and other post-employment benefits with defined benefit (see note 2.15) pursuant to IAS 19 Revised. Actuarial and financial gains and losses are now booked in the period they occur directly on equity in the Statement of Comprehensive Income.

Banco Popular previously used the ‘corridor’ method, recognizing actuarial gains and losses on the Balance Sheet and establishing a ‘corridor’ to absorb accumulated actuarial and financial gains and losses up to a limit of the highest of 10% of the amount of liabilities for past services or 10% of the amount of the assets in the Pension Fund. The amounts in excess of the corridor were then depreciated by the average number of years until the expected retirement age of the employees covered by the plan.

The retrospective application of the accounting policy to recognize actuarial deviations pursuant to IAS 8 had the following impact on equity:

	Equity as at 01-01-2012	Income for 2012	Equity as at 01-01-2012
Balance pursuant to *IAS 19 pre-revised*	496 327	2 692	647 639
Accumulated actuarial gains/losses as at 01-01-2012	2 931	-	2 931
Actuarial gains/losses for 2012	-	-	- 2 196
Balance pursuant to *IAS 19 revised*	499 258	2 692	648 374

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 2.6 billion euros at the end of the first half of 2013, representing around 27% of total net assets. The typology of these assets was broken down as follows: public Portuguese debt (22.1%), public Spanish debt (38.8%), banks (24.7%) and others (14.4%).

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 30 June 2013, 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 coverage 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:

	30/06/2013		30/06/2012	
	Fair value	Change	Fair value	Change
Financial assets at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	31 598	26 579	31 806	27 836
Futures	34	-	-	-
Options	82	825	59	115
Available-for-sale financial assets				
Debt instruments issued by residents	622 831	-	434 093	-
Equity instruments issued by residents	612	-	1 298	-
Debt instruments issued by non-residents	1 633 371	1 064	1 082 065	1 503
Equity instruments issued by non-residents	65	-	70	-
Financial liabilities at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	32 190	- 26 372	32 883	- 27 729
Futures	23	-	-	-
Options	83	- 91	1 262	- 45
		2 005		**1 680**

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).

Assets and Liabilities at fair value	30/06/2013 Level 1	Level 2	Level 3	Total	30/06/2012 Level 1	Level 2	Level 3	Total
Held-for-trading financial assets								
Variable income securities	23 393	-	-	23 393	13 184	-	-	13 184
Derivatives	-	31 714	-	31 714	-	31 922	-	31 922
Other financial assets at fair value through profit or loss								
Fixed income securities	32 319	-	-	32 319	31 506	-	-	31 506
Available-for-sale financial assets								
Debt securities	2 250 980	5 223	-	2 256 203	1 361 095	155 053	-	1 516 148
Equity securities	-		677	677	-	1 298	70	1 368
Total Assets at fair value	**2 306 692**	**36 937**	**677**	**2 344 306**	**1 405 785**	**188 273**	**70**	**1 594 128**
Held-for-trading financial liabilities (Derivatives)	-	32 296	-	32 296	-	35 464	-	35 464
Hedging derivatives	-	89 064	-	89 064	-	93 490	-	93 490
Total Liabilities at fair value	**0**	**121 360**	**0**	**121 360**	**0**	**128 954**	**0**	**128 954**

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 businesses and private individuals usually require 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 30 June 2013 and 2012, maximum exposure to credit risk was as follows:

	30/06/2013	30/06/2012
On-balance sheet		
Deposits w ith banks	68 853	93 999
Financial assets held for trading	31 714	31 922
Other financial assets at fair value through profit or lo	32 320	31 506
Available-for-sale financial assets	2 256 202	1 516 148
Loans and advances to banks	677 770	123 023
Loans and advances to customers	5 693 052	6 109 645
Held-to-maturity investments	0	600 272
Other assets	222 622	85 338
	8 982 533	**8 591 853**
Off-balance sheet		
Financial guarantees	445 858	474 895
Other guarantees	113 979	92 772
Lending commitments	662 387	695 240
Documentary credits	45 400	34 252
	1 267 624	**1 297 159**
Total	**10 250 157**	**9 889 012**

The table above shows the worst case scenario in terms of the level of exposure to credit risk the Bank faced as at 30 June 2013 and 2012, 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, 62% of total maximum exposure results from loans and advances to customers (2012: 68.8%).

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.

30/06/2013	Financial Institutions	Public Sector	Property constr. & development	Other industries	Services	Private individuals: Home loans	Private individuals: Other loans
Deposits with banks	68 853						
Financial assets held for trading	25 343		14 910	28	14 710		116
Other financial assets at fair value through prc	24 695	7 624					
Available-for-sale financial assets	647 297	1580 023			29 560		
Loans and advances to banks	677 770						
Loans and advances to customers		32 185	1160 451	847 452	2 114 893	1479 534	246 083
Held-to-maturity investments							
Other assets	120 806	90 875					
	1564 764	1710 707	1175 361	847 480	2 159 163	1479 534	246 199

30/06/2012	Financial Institutions	Public Sector	Property constr. & development	Other industries	Services	Private individuals: Home loans	Private individuals: Other loans
Deposits with banks	93 999						
Financial assets held for trading	13 715		8 022	4 853	18 516		
Other financial assets at fair value through prc	24 300	7 206					
Available-for-sale financial assets	784 430	707 451			25 634		
Loans and advances to banks	122 904						
Loans and advances to customers		52 626	1425 546	842 249	2 330 562	1471457	144 161
Held-to-maturity investments	221124	318 351			57 026		
Other assets	747	72 555					
	1261219	1158 189	1433 568	847 102	2 431738	1471457	144 161

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 30 June 2013, the Bank's portfolio amounted to around 2.6 billion euros, of which only around 56 million were classified as financial assets held for trading and other financial assets at fair value through profit or loss (around 2.1% 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 Exchange rate risk

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

30-Jun-13	USD	GBP	CHF	JPY	CAD	Other
Assets						
Cash and cash equivalents	549	63	54	39	31	68
Deposits with banks	14 631	11 860	286	4	1 778	901
Available-for-sale financial assets	49	-	-	-	-	-
Loans and advances to banks	11 684	9 854	-	-	9 553	10 501
Loans and advances to customers	2 253	10	1	-	22	39
Other assets	1 157	4	1	-	92	-
	30 323	21 791	342	43	11 476	11 509
Liabilities						
Deposits from banks	32 473	13 489	-	31	10	5
Deposits from customers	105 410	8 459	207	-	11 391	11 549
Other liabilities	1 489	28	10	-	-	40
	139 372	21 976	217	31	11 401	11 594
Foreign exchange forwards	106 807	-	-	-	-	-
Net balance sheet position	- 2 242	- 185	125	12	75	- 85
30-Jun-12						
Total assets	149 919	1 602	587	45	1 015	9 329
Total liabilities	146 363	6 637	507	59	1 087	9 549
Net balance sheet position	3 556	- 5 035	80	- 14	- 72	- 220

- 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 30 June 2013

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Not sensitive	Total
Cash and balances w ith central & other b	68 853	-	-	-	52 219	121 072
Monetary market	605 515	14 272	-	-	57 983	677 770
Loans and advances to customers	1 437 322	2 424 454	1 448 765	273 883	108 628	5 693 052
Securities market	67 248	682 711	1 271 456	307 107	15 783	2 344 305
Other assets	-	-	-	-	744 838	744 838
Total Assets	**2 178 938**	**3 121 437**	**2 720 221**	**580 990**	**979 451**	**9 581 037**
Monetary market	1 262 414	739 425	46 797	1 350 000	18 340	3 416 976
Deposit market	850 464	655 730	1 714 097	920 703	48 611	4 189 605
Securities market	515 000	-	165 668	384 447	1 457	1 066 572
Other liabilities	-	-	-	-	228 178	228 178
Total Liabilities	**2 627 878**	**1 395 155**	**1 926 562**	**2 655 150**	**296 586**	**8 901 331**
Gap	**- 448 940**	**1 726 282**	**793 659**	**-2 074 160**	**682 865**	
Accumulated gap	**- 448 940**	**1 277 342**	**2 071 001**	**- 3 159**	**679 706**	

Maturity and repricing gap for the Bank's activity as at 30 June 2012

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Not sensitive
Gap	**-1 807 883**	**2 418 279**	**463 677**	**-1135 224**	**602 352**
Accumulated gap	**-1 807 883**	**610 396**	**1 074 073**	**- 61 151**	**541 201**

- 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 w ith central and other banks	68 853	-	-	-	52 219	121 072
Monetary market	605 515	14 272	-	-	57 983	677 770
Loans and advances to customers	1 437 322	2 424 454	1 448 765	273 883	108 628	5 693 052
Securities market	67 248	682 711	1 271 456	307 107	15 783	2 344 305
Other assets	-	-	-	-	744 838	744 838
Total Assets	**2 178 938**	**3 121 437**	**2 720 221**	**580 990**	**979 451**	**9 581 037**
Monetary market	1 262 414	739 425	46 797	1 350 000	18 340	3 416 976
Deposit market	850 464	655 730	1 714 097	920 703	48 611	4 189 605
Securities market	515 000	-	165 668	384 447	1 457	1 066 572
Other liabilities	-	-	-	-	228 178	228 178
Total Liabilities	**2 627 878**	**1 395 155**	**1 926 562**	**2 655 150**	**296 586**	**8 901 331**
Gap	- 448 940	1 726 282	793 659	-2 074 160	682 865	
Accumulated gap	- 448 940	1 277 342	2 071 001	- 3 159	679 706	
Impact of a 1% increase	- 94	79	6 198			
Accumulated impact	- 94	- 15	6 183			

Accumulated effect	6 183
Net interest income	64 163
Accumulated gap	9,64%

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. 13/2005, the Bank also resorts to the concept of liquidity gap, i.e., from the balance sheet of the Bank as at 30 June 2013, 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 dates called liquidity gaps.

The table below presents the Bank's balance sheet (without accrued interest) at the end of June 2013 with the main classes grouped by maturity date:

Liquidity gap of the balance sheet as at 30 June 2013

	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	52 219	-	-	-	-
Deposits with banks	68 853	-	-	-	-
Financial assets held for trading	1 103	32	28 447	16 293	13 881
Other financial assets at fair value	-	-	7 624	24 695	-
Available-for-sale financial assets	677	19 673	56 897	1 653 059	526 573
Loans and advances to banks	666 481	10 000	-	-	1 100
Loans and advances to customers	753 886	448 584	972 739	1 511 424	1 943 117
Held-to-maturity investments	-	-	-	-	-
Other assets	126		23 739	176 286	262
Total Assets	**1 543 345**	**478 289**	**1 089 446**	**3 381 757**	**2 484 933**
Deposits from central banks	-	400 000	-	1 195 000	-
Financial liabilities held for trading	1 086	24	6 156	16 031	13 642
Deposits from banks	1 394 121	212 817	44 407	155 000	-
Deposits from customers	1 554 316	637 465	1 687 942	267 335	-
Debt securities issued	-	-	491 001	569 610	-
Hedging derivatives	-	-	1 860		
Current tax liabilities	-	-		-	-
Other liabilities	5 812	835	13 360	65	6 449
Total Liabilities	**2 955 335**	**1 251 141**	**2 244 726**	**2 203 041**	**20 091**
Gap	**-1 411 990**	**- 772 852**	**-1 155 280**	**1 178 716**	**2 464 842**
Accumulated gap	**-1 411 990**	**-2 184 842**	**-3 340 122**	**-2 161 406**	**303 436**
Liquidity gap as at 30 June 2012					
Gap	**-1 471 792**	**-1 087 268**	**- 457 500**	**- 410 342**	**3 374 854**
Accumulated gap	**-1 471 792**	**-2 559 060**	**-3 016 560**	**-3 426 902**	**- 52 048**

- Off-balance sheet exposures (Liquidity risk)

As at 30 June 2013, 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:

30/06/2013	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated
Contingent liabilities:						
Documentary credit	-	-	-	-	-	45 400
Guarantees and Sureties	4 106	9 265	7 921	164 427	44 975	329 143
Commitments:						
Irrevocable loans	-	-	-	-	-	
Revocable loans	30 296	44 938	201 248	20 388	102 128	263 389
Total	**34 402**	**54 203**	**209 169**	**184 815**	**147 103**	**637 932**

30/06/2012	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated
Contingent liabilities:						
Documentary credit	-	-	-	-	-	34 252
Guarantees and Sureties	3 455	7 012	21 608	157 956	45 781	331 859
Commitments:						
Irrevocable loans	-	-	-	-	-	28
Revocable loans	26 888	62 632	214 545	26 584	134 057	230 533
Total	**30 343**	**69 644**	**236 153**	**184 540**	**179 838**	**596 672**

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 30 June 2013.

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 covering Operational Risk) 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 30 June 2013, the Bank held investment accounts in the amount of 4 583 404 thousand euros (2012: 6 054 846 thousand euros) and managed estimated financial assets in the amount of 118 488 thousand euros (2012: 144 621 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 30 June. During these two periods, the Bank was able to meet all the capital requirements to comply with the law.

	30/06/13	30/06/12
Tier 1 Capital		
Share capital	476,000	451,000
Share premium	10,109	10,109
Statutory reserve	35,221	34,951
General banking reserves	238,912	233,899
Minus: Intangible assets	-2,176	-2,462
Eligible revaluation differences	-3,463	-32,775
Deductions pursuant to Instruction 28/2011	-21,699	-11,082
Deferred taxes and non-accepted assets	-6,546	-6,507
Deductions from insurance shareholdings	-2,000	-2,000
Deductions pursuant to Instruction 120/96	-21,552	-20,448
Tier 1 Capital total	***702,806***	***654,685***
Tier 2 Capital		
Unrealized gains in available-for-sale investments	-	3
Reserves from revaluation of tangible assets	2,291	3,143
Deductions from insurance shareholdings	-2,000	-2,000
Tier 2 Capital total	**291**	**1,146**
Eligible own funds	**703,097**	**655,831**
Risk weighted assets	6,360,692	7,033,190
Own funds requirement ratio	11.1%	9.3%
Core tier I	11.4%	9.6%
Tier I	11.0%	9.3%

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 businesses, institutional and private individuals 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:

30/06/2013	Retail Banking	Commercial Banking	Other Segments	Total
Interest and similar revenue	62 750	57 172	41 226	161 148
Interest and similar charges	42 650	21 499	32 837	96 986
Revenue from equity instruments	-	-	47	47
Fees and commissions revenue	12 270	5 137	11 674	29 081
Fees and commissions charges	- 382	74	4 691	4 383
Income from Financial Operations (net)	88	- 20	2 439	2 507
Gains from the sale of other assets	-	-	2 614	2 614
Other Operating Income (net)	-	-	- 3 138	- 3 138
Net assets	3 364 096	2 437 002	3 779 939	9 581 037
Liabilities	2 630 853	1 647 400	4 623 078	8 901 331

30/06/2012	Retail Banking	Commercial Banking	Other Segments	Total
Interest and similar revenue	34 419	105 896	53 829	194 144
Interest and similar charges	-	23	112 195	112 218
Revenue from equity instruments	-	-	55	55
Fees and commissions revenue	24 462	10 843	2 550	37 855
Fees and commissions charges	8 834	219	1 103	10 156
Income from Financial Operations (net)	-	669	110	779
Gains from the sale of other assets	-	-	- 2 973	- 2 973
Other Operating Income (net)	-	-	- 599	- 599
Net assets	1 970 926	3 928 478	3 428 022	9 327 426
Liabilities	-	-	8 786 225	8 786 225

6. Net interest income

This item is broken down as follows:

	30/06/13	30/06/12
Interest and similar income from :		
Cash and cash equivalents	172	380
Deposits with banks	1 270	837
Loans and advances to customers	118 838	151 613
Other financial assets at fair value	669	672
Other available-for-sale financial assets	25 190	30 396
Held-to-maturity investments	14 921	10 129
Others	89	117
	161 149	194 144
Interest and similar charges from:		
Deposits from Central Banks	5 361	21 117
Deposits from banks	6 375	
Deposits from customers	58 015	76 099
Debt securities issued	16 034	6 776
Hedging derivatives	11 201	8 202
Others	-	23
	96 986	112 217
Net Financial Income	**64 163**	**81 927**

7. Dividend income

Balance for this item is as follows:

	30/06/13	30/06/12
Available-for-sale financial assets	47	55
	47	55

8. Revenue and expense with fees and commissions

These items are broken down as follows:

	30/06/13	30/06/12
Revenue from Fees and Commissions from:		
Loans	8 310	9 329
Guarantees and sureties	3 671	3 971
Means of collection and payment	8 745	15 605
Asset management	1 752	2 173
Fees from insurance brokerage	918	783
Account maintenance	2 538	2 349
Processing fees	821	1 018
Structured operations	913	1 207
Others	1 413	1 420
	29 081	**37 855**
Expenses with Fees and Commissions from:		
Means of collection and payment	2 846	8 872
Asset management	1 234	1 021
Promoters and agents	159	148
Others	144	115
	4 383	**10 156**

9. Net income from financial operations

This item is broken down as follows:

	30/06/2013		30/06/2012	
	Gains	Losses	Gains	Losses
Financial assets and liabilities held for trading				
Fixed-income securities	-	-	-	153
Variable-income securities	214	430	254	350
Derivative financial instruments	27 404	26 463	27 951	27 775
	27 618	**26 893**	**28 205**	**28 278**
Assets and liabilities at fair value through profit or loss				
Fixed-income securities	428	383	2 453	767
Variable-income securities	-	-	-	-
	428	**383**	**2 453**	**767**
Hedging derivatives at fair value	97 557	97 557	106 194	106 194
Available-for-sale assets and liabilities				
Fixed-income securities	1 064	-	**198**	**198**
	1 064	**0**	**198**	**198**
Income from held-for-trading financial assets and liabilities and at fair value through profit or loss	**126 667**	**124 833**	**137 050**	**135 437**

In the first half of 2013, the Bank received 22.5 thousand euros in dividends from financial assets held for trading (2012: 21.2 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:

	30/06/13	30/06/12
Exchange gains		
Spot	40	832
Forward	1 611	2
	1 651	834
Exchange losses		
Forward	978	166
	978	166
Income from exchange differences (net)	**673**	**668**

11. Income from the sale of other assets

This item is broken down as follows:

	30/06/13	30/06/12
Gains from the sale of held-for-trading tangible assets	401	790
Gains from other tangible assets	-	100
Gains from held-to-maturity investments	5 065	-
Other operating revenue	-	348
	5 466	1 238
Losses from the sale of held-for-trading tangible assets	2 852	1 837
	2 852	1 837
	2 614	**- 599**

12. Other operating results

This item is broken down as follows:

	30/06/13	30/06/12
Contributions to the DGF	- 583	- 518
Contributions to the Resolution Fund	- 83	-
Other operating expenses	- 1 352	- 730
Other taxes	- 1 235	- 1 254
Contribution on the banking sector	- 1 679	- 1 777
Income from staff transfer	832	824
Income from property	174	277
Other income and operating revenue	788	205
	- 3 138	**- 2 973**

13. Personnel expenses

This item is broken down as follows:

	30/06/13	30/06/12
Wages and salaries	20 844	21 142
Obligatory social security charges from:		
- Wages and salaries	5 863	5 870
- Pension Fund	549	226
- Other obligatory social security charges	87	186
Other expenses	570	566
	27 913	**27 990**

14. General expenses

This item is broken down as follows:

	30/06/13	30/06/12
With supplies		
Water, energy and fuel	866	896
Items of regular consumption	207	263
Software licences	115	80
Other third party supplies	149	134
With services		
Rents and leasing	2 249	2 518
Communications	2 033	2 117
Travel, hotel and representation	516	484
Advertising and publicity	1 160	1 317
Maintenance of premises and equipment	2 024	2 859
Transports	522	667
Fees and regular payment agreements	3 202	1 555
Legal expenses	1 296	1 341
IT Services	3 881	3 090
Security, surveillance and cleaning	590	768
Temporary work	2 214	2 373
External consultants and auditors	347	973
SIBS	612	648
External real estate appraisers	147	495
Services rendered by the parent company	1 676	1 866
Other third party services	1 306	1 227
	25 112	**25 671**

15. Taxes

Income tax calculation for 2013 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 30 June 2013 and 2012, 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:

	30/06/13	30/06/12
Current tax on profits		
For the year	1 911	4 049
Adjustments in respect of prior years	- 1 693	674
	218	4 723
Deferred tax		
Origination and reversal of temporary difference	1 067	- 2 066
Total tax in the income statement	1 285	2 657
Profit before tax	3 334	7 204
Tax burden	38.5%	36.9%

The reconciliation between the nominal tax rate and the tax burden for the years 2013 and 2012, 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:

	30/06/13		30/06/12	
	Taxa de imposto	Valor	Taxa de imposto	Valor
Profit before tax		3 334		7 204
Tax at nominal rate	25.0%	834	25.0%	1 801
Municipal surcharge after deferred tax	6.5%	218	13.6%	980
Autonomous taxation	5.9%	197	2.3%	166
Tax benefits	-4.0%	- 132	-2.0%	- 144
Effect of provisions not acceptable as costs	3.1%	102	-21.7%	- 1 565
Other net value adjustments	40.2%	1 339	2.5%	179
Contribution on the banking sector	12.6%	420	6.2%	444
Tax from previous years	-50.8%	- 1 693	11.0%	796
	38.5%	**1 285**	**36.9%**	**2 657**

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:

30/06/2013	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			52 219				52 219
Deposits with other banks			68 853				68 853
Financial assets held for trading	55 107						55 107
Other fin. assets at fair value thr. prof./loss		32 320					32 320
Available-for-sale financial assets				2 256 879			2 256 879
Loans and advances to banks			677 770				677 770
Loans and advances to customers			5 693 052				5 693 052
Held-to-maturity investments							0
Other assets			197 635			363,883	561 518
	55 107	**32 320**	**6 689 529**	**2 256 879**	**0**	**363 883**	**9 397 718**

30/06/2013	Booked at fair value	Other Financial	Hedging	Non-financial	
	Traded	Liabilities	Derivatives	Liabilities	Total
Liabilities					
Deposits from central banks		1 609 046			1 609 046
Deposits from banks		1 807 930			1 807 930
Financial liabilities held for trading	32 296				32 296
Deposits from customers		4 189 605			4 189 605
Debt securities issued		1 066 572			1 066 572
Hedging derivatives			89 064		89 064
Other liabilities		26 525		10 756	37 281
	32 296	**8 699 678**	**89 064**	**10 756**	**8 831 794**

30/06/2012	Booked at fair value Traded	Booked at fair value Fair value	Accounts receivable	vailable-for-sa Financial Assets	eld-to-maturity Investments	Non-fin. Assets	Total
Assets							
Cash and balances w ith central banks			88 220				88 220
Deposits w ith other banks			93 999				93 999
Financial assets held for trading	45 106						45 106
Other fin. assets at fair value thr. prof./loss		31 506					31 506
Available-for-sale financial assets				1 517 516			1 517 516
Loans and advances to banks			123 023				123 023
Loans and advances to customers			6 109 645				6 109 645
Held-to-maturity investments					600,272		600 272
Other assets			80 053			483,078	563 131
	45 106	**31 506**	**6 494 940**	**1 517 516**	**600 272**	**483 078**	**9 172 418**

30/06/2012	Booked at fair value Traded	Other Financial Liabilities	Hedging Derivatives	Non-financial Liabilities	Total
Liabilities					
Deposits from central banks		1 200 012			1 200 012
Deposits from banks		2 728 987			2 728 987
Financial liabilities held for trading	35 464				35 464
Deposits from customers		4 009 374			4 009 374
Debt securities issued		596 413			596 413
Hedging derivatives			93 490		93 490
Other liabilities		24 487		23 269	47 756
	35 464	**8 559 273**	**93 490**	**23 269**	**8 711 496**

17. Cash and balances with central banks

The balance of this item is broken down as follows:

	30/06/13	30/06/12
Cash	41 348	47 240
Demand accounts w ith the Bank of Portugal	10 871	40 980
	52 219	**88 220**

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:

	30/06/13	30/06/12
Deposits w ith banks in Portugal		
Demand accounts	368	352
Cheques payable	6 893	34 401
Other deposits	687	481
	7 948	35 234
Deposits w ith banks abroad		
Demand accounts	58 696	56 618
Cheques payable	2 209	2 147
	60 905	58 765
	68 853	**93 999**

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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:

30/Jun/2013	Contract value (Notional amount)	Fair value Assets	Fair value Liabilities
Held-for-trading derivatives			
a) Foreign currency derivatives			
Currency forwards	5 989	34	23
b) Interest rate derivatives			
Interest rate swaps	425 671	31 598	32 190
Options	59 782	82	83
Total held-for-trading derivatives (assets/liabilities)		31 714	32 296

30/Jun/2012	Contract value (Notional amount)	Fair value Assets	Fair value Liabilities
Held-for-trading derivatives			
a) Foreign currency derivatives			
Currency forwards	119 841	56	1 319
b) Interest rate derivatives			
Interest rate swaps	527 389	31 806	32 883
c) Derivatives - others			
Options	27 123	60	1 262
Total held-for-trading derivatives (assets/liabilities)		31 922	35 464

As at 30 June 2013, the fair value of other financial assets and liabilities held for trading was as follows:

	30/06/13	30/06/12
Other financial assets		
Variable-yield securities		
Equity stakes	23 393	13 184
	23 393	13 184
Total	**23 393**	**13 184**
Total financial assets held for trading	**55 107**	**45 106**
Total financial liabilities held for trading	**32 296**	**35 464**

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

Set out below is a breakdown of these items:

Assets	30/06/13	30/06/12
Fixed-income securities		
Portuguese government bonds	7 625	7 206
Other foreign debt securities	24 695	24 300
	32 320	**31 506**

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 30 June 2013 and 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.

A breakdown of this item is as follows

	30/06/13	30/06/12
Securities issued by residents		
Government bonds - at fair value	569 588	344 317
Other debt securities - at fair value	53 243	89 776
Equity securities - at fair value	612	1 298
	623 443	435 391
Securities issued by non-residents		
Government bonds - at fair value	1 010 435	363 135
Other debt securities - at fair value	622 936	718 920
Equity securities - at fair value	66	70
	1 633 437	1 082 125
Total	**2 256 880**	**1 517 516**

As a result of the sale of several financial assets classified as held to maturity made in June, the Bank, pursuant to IAS 39, reclassified the remaining assets, in the amount of 935 364 thousand euros, as available for sale.

The difference between the book value and the fair value was directly booked on equity.

The Bank has in its available-for-sale financial assets portfolio an investment of 2 590 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.

22. Loans and advances to banks

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

	30/06/13	**30/06/12**
Loans and advances to banks in Portugal		
Time deposits	3 173	3 167
Loans	10 000	10 000
Other	93 399	101 278
Interest receivable	98	91
	106 670	114 536
Loans and advances to banks abroad		
Time deposits	292 455	7 170
Call options w ith repurchase agreement	277 996	-
Other	557	1 289
Interest receivable	92	28
	571 100	8 487
	677 770	**123 023**

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

	30/06/13	30/06/12
Up to 3 months	676 429	121 745
From 3 months to 1 year	-	-
Over 5 years	1 151	1 159
Interest receivable	190	119
	677 770	**123 023**

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:

	30/06/13	30/06/12
Internal lending operations		
Public sector	**3 430 120**	**3 594 035**
Private customers	**1 855 077**	**1 908 312**
Residential mortgage loans	1 446 928	1 439 361
Personal and consumer loans	50 002	61 502
Other personal lending	358 147	407 449
	5 285 197	**5 502 347**
External lending operations		
Public sector	**53 302**	**132 792**
Private customers	**18 949**	**20 631**
Residential mortgage loans	15 628	16 842
Personal and consumer loans	49	103
Other personal lending	3 272	3 686
	72 251	**153 423**
Other loans (represented by securities)	**272 300**	**403 400**
Interest and commissions receivable	**24 168**	**24 328**
Past-due loans and interest		
Due within 90 days	23 963	30 710
Over 90 days	226 886	176 719
	250 849	**207 429**
Gross Total	**5 904 765**	**6 290 927**
Minus:		
Provision for doubtful loans	63 970	68 522
Provision for past-due loans and interest	147 728	112 749
Provision for country risk	15	11
	211 713	181 282
Net total	**5 693 052**	**6 109 645**

As at 30 June 2013, lending operations included 867 064 thousand euros in mortgage loans assigned to the issuance of mortgage bonds (2012: 780 981 thousand de euros) (note 33).

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

	30/06/13	30/06/12
Up to 3 months	1 202 470	1 446 100
From 3 months to 1 year	972 739	1 011 855
From 1 to 5 years	1 511 423	631 837
Over 5 years	1 943 116	2 969 378
Undetermined maturity (past due)	250 849	207 429
Interest and commissions receivable	24 168	24 328
	5 904 765	**6 290 927**

During the first half of 2012, the Bank carried out three credit assignments to the company Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 81.4 million euros for the total amount of 60.9 million euros. This operation had a positive income in the amount of 15.5 million euros due to the cancelling of already constituted provisions.

On 30 January 2013, the Bank assigned loans to Banco Popular Español in the total gross amount of 86.3 million euros for the amount of 86.3 million euros. This operation aimed at concentrating in a sole entity all the credit held on Chamartin Group.

On 28 March 2013, the Bank assigned loans to Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 19.9 million euros for the amount of 19.3 million euros. This operation had a positive income in the amount of 3.3 million euros due to the cancelling of already constituted provisions.

On 31 May 2013, the Bank assigned loans to to Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 63.1 million euros for the amount of 58.3 million euros. This operation had a positive income in the amount of 0.4 million euros due to 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:

	30/06/2013	30/06/2012
Balance as at 1 January	185 144	162 610
Appropriations	114 230	119 629
Used	7 205	18 551
Cancelled	80 456	82 406
Balance as at 30 June	211 713	181 282
Appropriations for provisions	114 230	119 629
Write-offs	- 80 456	- 82 406
Recoveries of bad debts	- 1 589	- 957
Provisions net of write-offs and recoveries of bad debts	32 185	36 266

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	
	30/06/13	30/06/12	30/06/13	30/06/12
Private customers				
Residential mortgage loans	1 475 434	1 481 724	121 881	121 747
Personal and consumer loans	52 051	62 790	21 991	20 014
Other personal lending	120 487	128 214	46 879	36 842
	1 647 972	1 672 728	190 751	178 603
Corporate customers				
Loans	1 754 681	2 098 378	647 305	454 727
Current account	688 426	785 027	69 182	9 631
Others	740 285	949 814	106 380	66 979
	3 183 392	3 833 219	822 867	531 337
	4 831 364	**5 505 947**	**1 013 618**	**709 940**

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.

	30/06/13				30/06/12
	Up to 30 days	31 to 60 days	61 to 90 days	Total	Total
Private customers					
Residential mortgage loa	50 160	15 061	10 268	75 489	81 148
Personal and consumer	2 413	1 240	552	4 205	5 427
Other personal lending	9 354	3 890	1 459	14 703	10 158
	61 927	**20 191**	**12 279**	**94 397**	**96 733**
Corporate customers					
Loans	108 334	17 118	18 017	143 469	79 725
Current account	240	193	105	538	15
Others	3 805	2 181	2 051	8 037	9 657
	112 379	**19 492**	**20 173**	**152 044**	**89 397**
Total	**174 306**	**39 683**	**32 452**	**246 441**	**186 130**

Individually impaired loans

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

	30/06/12	30/06/12
Private customers		
Residential mortgage loa	4 724	9 746
Personal and consumer	3	45
Other personal lending	2 463	2 010
	7 190	**11 801**
Corporate customers		
Loans	436 612	404 105
Current account	37 594	72 171
Others	59 868	58 865
	534 074	**535 141**
Total	**541 264**	**546 942**

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:

	30/06/13	30/06/12
Debt instruments - Residents		
Listed securities		
Portuguese government bonds	-	122 452
Interest receivable	-	2 265
	0	124 717
Debt instruments - Non-residents		
Listed securities		
Foreign government bonds	-	195 899
Other non-resident bonds	-	278 150
Interest receivable	-	1 506
	0	475 555
TOTAL	**0**	**600 272**

In June, the Bank sold several financial assets classified as held to maturity made. As a result of these sales, the Bank, pursuant to IAS 39, reclassified the remaining assets as available for sale. Also as a consequence of these operations the Bank will not be able to classify any financial asset as held to maturity during the current financial year or during the subsequent two financial years.

25. Non-current assets held for sale

As at 30 June 2013, 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 30 June 2013.

	Financial consolidated results for Eurovida as at 30-06-2013			Impact of the application of the equity method	
Effective stake (%)	Net Assets	Owner's equity	Net profit	In consolidation reserves	In net income
15.9348%	782 680	66 316	5 155	-12 833	821

26. Other tangible assets

This item is broken down as follows:

	30/06/2013					30/06/2012
	Real estate	Equipment	Art and antiques	Tang. Assets in progress	Total	Total
Balance as at 1 January						
Acquisition costs	130 001	51 244	149	0	181 394	184,577
Accumulated depreciation	- 40 099	- 46 695		0	- 86 794	-84,644
Accumulated impairment	- 6 595			0	- 6 595	-6,595
Acquisitions		68			68	5,859
Transfers	- 752					
Acquisition costs	- 752				- 752	- 8 627
Accumulated depreciation	752				752	3 496
Disposals / Write-offs						
Acquisition costs		- 1 043			- 1 043	
Accumulated depreciation		722			722	
Depreciation for the year	- 1 363	- 1 065			- 2 428	-3,404
Balance as at 30 June						
Acquisition costs	129 249	50 269	149	0	179 667	181,809
Accumulated depreciation	- 40 710	- 47 038		0	- 87 748	-84,552
Accumulated impairment	- 6 595				- 6 595	-6,595
Net amount	**81 944**	**3 231**	**149**	**0**	**85 324**	**90,662**

27. Intangible assets

This item is broken down as follows:

	30/06/2013			30/06/2012
	Software	Diverse	Total	Total
Balance as at 1 January				
Acquisition costs	18 610	2 097	20 707	20 767
Accumulated depreciation	- 18 465	- 2 071	- 20 536	- 19 950
Acquisitions	87		87	472
Transfers				
Acquisition costs			0	0
Depreciation for the year	- 50	- 6	- 56	- 428
Balance as at 30 June				
Acquisition costs	18 697	2 097	20 794	21 239
Accumulated depreciation	- 18 515	- 2 077	- 20 592	- 20 378
Net amount	**182**	**20**	**202**	**861**

28. Deferred taxes

Deferred taxes are calculated in respect of all the temporary differences using an effective tax rate of 26.5% (2012: 26.5%).

Balances for these items are as follows:

	Balance as at	Equity		Reserves		Balance as at
	31/12/12	Costs	Revenues	Increase	Decrease	30/06/13
Deferred Tax Assets						
Available-for-sale securities	45 875			7 896	16 711	37 060
Tangible assets	5 434	1 331	100			4 203
Taxable provisions	15 915	4 068	3 894			15 741
Fees and commissions	184					184
Seniority bonus	1 032	40	38			1 030
RGC provisions	6 546					6 546
Other assets/liabilities	7 410	14				7 396
Tax loss	0	3 444	3 444			0
	82 396	8 897	7 476	7 896	16 711	72 160
Deferred Tax Liabilities						
Available-for-sale securities	5 077			2 740	4 121	6 458
Retirement pensions	3 516		352			3 164
Property revaluation	185		2			183
Shareholdings	5 413					5 413
	14 191	0	354	2 740	4 121	15 218

29. Other assets

This item is detailed as follows:

	30/06/13	30/06/12
Recoverable government subsidies	395	1 739
Taxes recoverable	15 267	15 193
Escrow accounts	121 333	484
Other debtors	60 311	62 089
Other income receivable	1 077	1 024
Expenses w ith deferred charges	9 607	11 108
Asset operations pending settlement - Diverse	12 868	5 150
Properties from recovered loans	362 175	443 807
Other tangible assets held for sale	8 779	10 133
Pension liabilities	13 210	17 770
Other transactions pending settlement	11 028	500
	616 050	**568 997**
Impairment of properties from recovered loans	- 49 619	- 67 155
Provisions for other assets	- 4 913	- 4 543
	561 518	**497 299**

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

Provisions for other assets	30/06/13	30/06/12
Balance as at 1 January	4 662	654
Appropriations	1 123	3 889
Used	859	-
Cancelled	13	-
Balance as at 30 June	**4 913**	**4 543**

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Movements in the Properties recovered from loans in the first half of 2013 and 2012 were as follows:

	30/06/2013				30/06/2012
	Properties	Equipment	Other	Total	Total
Balance as at 1 January					
Gross amount	363 930	1 305	3 865	369 100	444 020
Accumulated impairment	- 53 390	- 208	-	- 53 598	- 74 143
Net amount	310 540	1 097	3 865	315 502	369 877
Additions					
Acquisitions	46 352	582	1 583	48 517	38 388
Others	1 173	-	-	1 173	3 967
Disposals					
Gross amount	- 55 936	- 679	-	- 56 615	- 47 491
Decommitment of ow n property		-	-	0	4 923
Impairment losses	- 2 436	- 342	-	- 2 778	- 5 917
Used	4 676	186	-	4 862	10 495
Reversed	1 841	54	-	1 895	2 410
Balance as at 30 June					
Gross amount	355 519	1 208	5 448	362 175	443 807
Accumulated impairment	- 49 309	- 310	0	- 49 619	- 67 155
Net amount	306 210	898	5 448	312 556	376 652

30. Deposits from central banks

This item is broken down as follows:

	30/06/13	30/06/12
Central banks		
Deposits	1 595 000	1 195 000
Interest payable	14 046	5 012
	1 609 046	**1 200 012**

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

	30/06/13	30/06/12
Forw ard		
Up to 3 months	400 000	-
1 to 5 years	1 195 000	1 195 000
Interest payable	14 046	5 012
	1 609 046	**1 200 012**

31. Deposits from banks

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

	30/06/13	30/06/12
Domestic credit institutions		
Deposits	152 072	153 925
Interest payable	1 334	901
	153 406	154 826
International credit institutions		
Loans	125 000	131 250
Deposits	509 123	2 090 360
Repurchase agreement	1 019 646	351 173
Other funds	503	365
Interest payable	252	1 013
	1 654 524	2 574 161
	1 807 930	**2 728 987**

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:

	30/06/13	30/06/12
Spot	8 007	47 323
Forward		
Up to 3 months	1 598 930	2 156 457
3 months to 1 year	74 407	362 043
1 to 5 years	125 000	30 000
Over 5 years	-	131 250
Interest payable	1 586	1 914
	1 799 923	2 681 664
	1 807 930	**2 728 987**

32. Customer funds

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

	30/06/13	30/06/12
Resident funds		
Demand accounts	690 478	577 115
Time accounts	3 328 047	3 194 354
Savings accounts	5 478	7 325
Cheques payable	12 023	23 503
Other funds	31	44
	4 036 057	3 802 341
Non-resident funds		
Demand accounts	25 051	17 506
Time accounts	85 949	149 445
Cheques payable	1	43
	111 001	**166 994**
Interest payable	42 547	40 039
	4 189 605	**4 009 374**

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

	30/06/13	30/06/12
Spot	715 529	594 621
Forward		
Up to 3 months	1 476 253	1 633 377
From 3 months to 1 year	1 687 942	1 715 687
From 1 to 5 years	267 334	25 650
Interest payable	42 547	40 039
	3 474 076	3 414 753
	4 189 605	**4 009 374**

33. Securitised liabilities

The balance of this item is broken down as follows:

	30/06/13	30/06/12
Cash bonds	-	18 797
Mortgage bonds	515 000	515 000
Euro Medium Term Note	545 611	60 000
Interest payable	5 961	2 616
	1 066 572	596 413

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 residencial and commercial mortgage loans, as well as 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 30 June 2013, the characteristics of these issuances were the following:

Name	Nominal value	Carrying value	Issue date	Reimbursement date	Interest freqeuncy	Interes rate	Rating
BAPOP Obrgs hipotecárias 20/12/201	130 000	130 057	20-12-2010	20-12-2013	Mensal	Euribor 1M +1,20%	BBB
BAPOP Obrgs hipotecárias 30/06/201	225 000	225 327	30-06-2011	30-06-2014	Mensal	Euribor 1M +1,20%	BBB
BAPOP Obrgs hipotecárias 30/12/201	160 000	160 233	30-12-2011	30-12-2014	Mensal	Euribor 1M +1,20%	BBB

On 30 June 2013, autonomous equity assigned to these issuances amounted to 872 059 thousand euros (2012: 784 089 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	70 781	70 781	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	37 031	37 031	1 000	13/05/2014
26/11/2012	12ª	9 319	9 319	1 000	26/02/2014
11/12/2012	11ª	29 548	29 548	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
12/02/2013	17ª	4 585	4 585	1 000	12/02/2014
26/02/2013	18ª	6 728	6 728	1 000	26/02/2016
18/02/2013	19ª	12 492	12 492	1 000	18/05/2014
12/02/2013	20ª	4 060	4 060	1 000	12/02/2014
26/03/2013	21ª	6 628	6 628	1 000	26/03/2016
12/04/2013	22ª	5 093	5 093	1 000	12/07/2014
30/04/2013	23ª	5 142	5 142	1 000	30/06/2016
28/05/2013	24ª	5 695	5 695	1 000	28/05/2016
25/06/2013	25ª	5 785	5 785	1 000	25/06/2016
		545 611			

34. Hedging derivatives

The item derivatives is composed as follows:

	30/06/2013		30/06/2012	
	Notional amount	Liabilities	Notional amount	Liabilities
Interest rate contracts				
Swaps	696 250	89 064	706 250	93 490
		89 064		93 490

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 30 June 2013, the net fair value of hedging (see above) and trading interest rate swaps (see note 19) was negative in the amount of -89 656 thousand euros (2012: -94 567 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	30/06/13	30/06/12
Balance as at 1 January	54 588	61 134
Appropriations	1 285	651
Cancelled	3 414	2 734
Balance as at 30 June	**52 459**	**59 051**

Other Provisions (Liabilities) - Balances	30/06/13	30/06/12
Other provisions	257	43
Provisions for general credit risks	49 575	56 998
Other provisions	2 627	2 010
	52 459	**59 051**

36. Other liabilities

This item can be broken down as follows:

	30/06/13	30/06/12
Suppliers of goods	4 113	2 856
Tax withheld at source	3 569	3 733
Personnel expenses	11 144	11 352
Other expenses	6 477	6 026
Other revenues with deferred income	1 855	2 306
Debit instructions charged	627	5 441
Funding operations pending payment	8 274	7 706
Other accruals and deferred income	1 222	8 336
	37 281	47 756

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. These liabilities for past services are calculated pursuant to IAS 19 Revised.

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

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

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

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

This transference was 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. Pursuant to Decree-law No. 127/2011, of 31 December, this amount shall be deductable for effects of determining taxable profit, in equal parts, from the fiscal year started on 1 January 2012, regarding the average of the number of years of life expectancy of the pensioners whose responsibilities have been transferred having been booked the respective deferred taxes on the settlement account recognized in the operating result for the year.

Until December 2012, the Bank recognized the net accumulated amount (after 1 January 2004) of actuarial gains and losses resulting from changes in the financial and actuarial assumptions and differences between the financial and actuarial assumptions used and the actual amounts in the item Other Assets or Other Liabilities – Actuarial deviations. Accumulated actuarial gains and losses were 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 were recognised against results over the average remaining period of service of the employees covered by the plan.

On 1 January 2013, and as stated in 2.19 Changes in the Accounting Policy for Recognizing Actuarial Deviations, Banco Popular changed its accounting policy for the recognition of actuarial and financial deviations of the pension plans and other post-employment benefits with defined benefit pursuant to IAS 19 Revised. Actuarial and financial gains and losses are now booked in the period they occur directly on equity in the Statement of Comprehensive Income.

On 30 June 2013, the number of participants in the fund was 1 147 (2012: 1 167). On this date there were 36 retired people and 11 pensioners, while the remaining are employees in service.

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

Past Services	30/06/13	30/06/12
Defined benefit obligation at the beginning of the y	**108 961**	**94 708**
Service expenses:		
Bank	618	328
Employees	378	369
Interest expense	2 488	2 275
Pensions paid	- 431	- 307
Actuarial deviations	- 1 564	403
Defined benefit obligation as at 30 June	**110 450**	**97 776**

Every year, the Bank determines the amount of obligations for past services through actuarial calculations using the Projected Unit Credit method for obligations with past services due to old age and the Successive Single Premiums method for the calculation of disability and survivor's benefits. The discount rate is determined based on market rates for bonds issued by low risk companies with a similar maturity to that of the settlement of the liabilities.

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

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

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

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

Equity amount of the Fund	30/06/13	30/06/12
Amount at the beginning of the year	**121 796**	**113 703**
Contributions paid		
Employer	-	-
Employees	378	369
Return on Fund assets	2 217	4 979
Pensions paid	- 431	- 3 175
Other net differences	- 300	- 329
Amount of the Fund as at 30 June	**123 660**	**115 547**
Current obligations for past services	110 450	97 776
Hedging level	112.0%	118.2%

The evolution of the pension fund's asset value in the past five years was the following:

	31/12/12	31/12/11	31/12/10	31/12/09	31/12/08
Current obligations amount	108 961	94 708	102 746	105 838	93 532
Pension Fund Assets	121 796	113 703	118 246	110 346	93 234
Net Assets/(Obligations)	**12 835**	**18 995**	**15 500**	**4 508**	**- 298**
Hedging amount	111.8%	120.1%	115.1%	104.3%	99.7%

On each reporting date, Banco Popular Portugal assesses the recoverability of the possible excess in the fair value of the assets included in the pension fund in face of the liabilities for retirement pensions, based on expectation of reduction in the necessary future contributions.

As at 30 June the structure of the Pension Fund by asset class was the following:

Type of assets	30/06/2013	30/06/2012
Fixed income securities	61.10%	61.41%
Variable income securities	24.20%	15.06%
Real estate	7.25%	8.72%
Liquidity	7.45%	14.81%
	100.00%	100.00%

Regarding the credit risk of the assets with debt characteristics that comprise the fund's assets the exposure by rating was structured as follows:

Ratings	30/06/2013	30/06/2012
AAA	0.60%	0.65%
AA	2.52%	4.25%
A	14.00%	14.14%
BBB	76.37%	76.24%
Other (NR)	6.51%	4.72%
	100.00%	100.00%

As at 30 June 2013, the Fund had 50 Euro Medium Term Notes issued on 29 December 2011 by Banco Popular Portugal in the amount of 5 203 thousand euros. During the first half of 2013, these bonds showed a positive change in the fair value by 193 thousand euros.

The amounts recognized as costs for the year are broken down as follows:

Cost for the year	30/06/13	30/06/12
Service Cost	996	697
Interest cost	2 488	2 275
Expected return on Fund assets	- 2 776	- 2 726
Others	- 182	- 41
Total	**526**	**205**

The amount of actuarial gains and losses during 2012 and 2011 are broken down as follows:

Actuarial gains and losses	31/12/12	31/12/11
Gains/losses as at 1 January	2 931	- 3 070
Actuarial losses 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 main actuarial and financial assumptions used were as follows:

	30/06/13 Assumptions	30/06/12 Assumptions
Discount rate	4.50%	4.75%
Expected return of Fund assets	4.50%	4.75%
Salaries and other benefits increase rate	2.0%	2.0%
Pensions increase rate	1.0%	1.0%
Mortality table	TV 88/90	TV 88/90
Disability table	ERC Francona	ERC Francona
Turnover	n.a	n.a.

38. Contingent commitments and liabilities

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

	30/06/13	30/06/12
Contingent liabilities		
Guarantees and Sureties	559 837	567 667
Documentary loans	45 400	34 252
Commitments		
Irrevocable loans	763 543	651 455
Revocable loans	662 387	695 240
	2 031 167	1 948 614

On 30 June 2013, the item Irrevocable loans included the amount of 5 314 thousand euros (2012: 5 314 thousand euros) regarding forward liabilities for the Deposit Guarantee Fund regarding the part of annual contributions which, pursuant to the deliberations of the Fund, were not paid in cash.

	30/06/13	30/06/12
Assets pledged as collateral	3 179 265	1 658 391

The amount of the item Assets pledged as collateral includes 1 656.5 thousand euros in loans pledged as collateral to the European Central Bank and 1 522.7 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 30 June 2013 and 2012, the balances regarding off-balance sheet accounts were as follows:

	30/06/13	30/06/12
Deposit and custody of securities	4 583 404	6 054 846
Amounts received for collection	95 738	101 919
	4 679 142	6 156 765

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 30 June 2013, 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:

	30/06/13	30/06/12
Revaluation reserves and Fair Value		
Available-for-sale investments		
Net balance as at 1 January	- 113 155	- 236 775
Revaluation at fair value	38 474	54 866
Deferred taxes	- 10 195	- 14 539
Balance as at 30 June	- 84 876	- 196 448
Revaluation reserves (Legal provisions)	2 291	3 143
Balance as at 30 June	- 82 585	- 193 305

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:

	30/06/13	30/06/12
Legal reserve	35 221	34 951
Other reserves	289 027	285 753
Retained earnings	- 50 115	- 47 074
	274 133	273 630

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

	30/06/13	30/06/12
Legal reserve		
Balance as at 1 January	34 951	33 607
Transf. Retained Earnings	270	1 344
Balance as at 30 June	35 221	34 951
Other reserves		
Balance as at 1 January	286 548	273 665
Transf. Retained Earnings	2 422	12 088
Transf. Revaluation Reserves	57	-
Balance as at 30 June	289 027	285 753
Retained earnings		
Balance as at 1 January	- 51 119	- 51 854
Net income for the previous year	2 692	13 432
Diff. from changed accounting critera (IFRS)	1 004	4 780
Transf. Legal Reserve	- 270	- 1 344
Transf. Other Reserves	- 2 422	- 12 088
	- 50 115	- 47 074
	274 133	273 630

- 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:

	30/06/13	30/06/12
Directors	94	95
Management	457	455
Technical personnel	517	493
Clerical staff	237	269
	1 305	1 312

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	196 787	100 000	296 787
Carlos Manuel Sobral Cid da Costa Álvares	38 407	0	38 407
	196 787	**100 000**	**296 787**
Supervisory Board			
Rui Manuel Ferreira de Oliveira - Chairman	4 800	0	4 800
António José Marques Centúrio Monzelo - Member	3 000	0	3 000
Telmo Francisco Salvador Vieira - Member	3 000	0	3 000
	10 800	**0**	**10 800**

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	538 301	196 000	734 301
Risk Management	1	31 146	6 000	37 146
Compliance	1	32 958	4 000	36 958
Asset Management	1	47 652	7 000	54 652
Auditing	1	29 808	10 000	39 808
	11	679 864	223 000	902 864

44. Remuneration of the Statutory Auditor

The amounts paid to the Audit Firm PricewaterhouseCoopers in the first half of 2012 and 2013 were:

	30/06/13	30/06/12
Statutory audit	76	87
Other guarantee and reliability services	108	173
	184	260

45. Relationship with related companies

As at 30 June 2013 and 2012, the amounts payable and receivable regarding related companies were as follows:

	Credit		Debit		Income		Expense	
	30/06/13	30/06/12	30/06/13	30/06/12	30/06/13	30/06/12	30/06/13	30/06/12
Eurovida, SA	4 025	4 063	113 883	111 935	1 206	937	3 231	2 039
Popular Gestão de Activos, SA	-	-	1 890	2 072	677	463	1	7
Popular Factoring, SA	97 862	104 422	-	-	1 504	2 266	187	187
Imopopular Fundo Especial I.I.	12 703	1 104	208	475	162	20	-	-
Popular Arrendamento	3	-	-	-	13	-	3	-
Popular Seguros, SA	-	-	679	1 729	281	268	15	28
SPE-Special Pourpuse Entities	2 699	3 156	-	-	948	303	-	-
	117 292	112 745	116 660	116 211	4 791	4 257	3 437	2 261
Banco Popular Español, SA	499 272	389 956	2 197 193	3 084 238	17 894	124 758	132 441	155 221

As at 30 June 2013, the guarantees pledged by the Bank to related companies amounted to 8 431 thousand euros (2012: 26 052 thousand euros).

As at 30 June 2013, the Bank received deposits from BPE to guarantee the risk associated with loans granted by the Bank in the amount of 172 491 thousand euros (2012: 76 289 thousand euros).

Transactions with related companies are based on common market conditions.

As at 30 June 2013, 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:

	30/06/13	30/06/12
Cash (note 17)	41 348	47 240
Cash and balances with banks (note 18)	68 853	93 999
Deposits with banks with maturities of less than 3 months	398 433	111 745
	508 634	252 984

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 30 June 2013 and 2012

(€ thousand)

	30/06/2013			30/06/2012		
	AAS Net amount	Adjust.	IFRS Net amount	AAS Net amount	Adjust.	IFRS Net amount
Assets						
Cash and balances with central banks	52 219		52 219	88 220		88 220
Deposits with banks	68 853		68 853	93 999		93 999
Financial assets held for trading	55 107		55 107	45 106		45 106
Other financial assets at fair value through profit or loss	32 320		32 320	31 506		31 506
Available-for-sale financial assets	2 256 880		2 256 880	1 517 516		1 517 516
Loans and advances to banks	677 770		677 770	123 023		123 023
Loans and advances to customers	5 693 052	- 47 356	5 645 696	6 109 645	- 55 026	6 054 619
Held-to-maturity investments	0		0	600 272		600 272
Non-current assets held for sale	22 579		22 579	0		0
Other tangible assets	85 324	9 791	95 115	90 662	9 791	100 453
Intangible assets	202		202	861		861
Investment in subsidiaries and associates	0		0	22 579		22 579
Current income tax assets	3 053		3 053	0		0
Deferred income tax assets	72 160	- 333	71 827	111 518	- 19	111 499
Other assets	561 518		561 518	497 299		497 299
Total Assets	**9 581 037**	**- 37 898**	**9 543 139**	**9 332 206**	**- 45 254**	**9 286 952**
Liabilities						
Deposits from central banks	1 609 046		1 609 046	1 200 012		1 200 012
Financial liabilities held for trading	32 296		32 296	35 464		35 464
Deposits from banks	1 807 930		1 807 930	2 728 987		2 728 987
Due to customers	4 189 605		4 189 605	4 009 374		4 009 374
Debt securities issued	1 066 572		1 066 572	596 413		596 413
Hedging derivatives	89 064		89 064	93 490		93 490
Provisions	52 459	- 48 612	3 847	59 051	- 55 097	3 954
Current income tax liabilities	1 860		1 860	3 996		3 996
Deferred income tax liabilities	15 218	2 594	17 812	11 682	2 595	14 277
Other liabilities	37 281		37 281	47 756		47 756
Total Liabilities	**8 901 331**	**- 46 018**	**8 855 313**	**8 786 225**	**- 52 502**	**8 733 723**
Equity						
Share capital	476 000		476 000	451 000		451 000
Share premium	10 109		10 109	10 109		10 109
Fair value reserves	- 82 585	4 905	- 77 680	- 193 305	4 054	- 189 251
Other reserves and retained earnings	274 133	5 250	279 383	273 630	4 707	278 337
Profit for the year	2 049	- 2 035	14	4 547	- 1 513	3 034
Total Equity	**679 706**	**8 120**	**687 826**	**545 981**	**7 248**	**553 229**
Total Liabilities + Equity	**9 581 037**	**- 37 898**	**9 543 139**	**9 332 206**	**- 45 254**	**9 286 952**

Reconciliation of the Income Statement as at 30 June 2013 and 2012

(€ thousand)

	30/06/2013			30/06/2012		
	AAS	Adjust.	IFRS	AAS	Adjust.	IFRS
Interest and similar income	161 149		161 149	194 144		194 144
Interest expense and similar charges	96 986		96 986	112 217		112 217
Net interest income	**64 163**	**0**	**64 163**	**81 927**	**0**	**81 927**
Return on equity instruments	47		47	55		55
Fees and commissions received	29 081		29 081	37 855		37 855
Fees and commission paid	4 383		4 383	10 156		10 156
Net gains from financial assets at fair value						0
through profit or loss	769		769	1 613		1 613
Net gains from available-for-sale financial assets	1 064		1 064	- 1 503		- 1 503
Net gains from foreign exchange differences	673		673	668		668
Net gains from the sale of other assets	2 614		2 614	- 599		- 599
Other operating income	- 3 138		- 3 138	- 2 973		- 2 973
Operating income	**90 890**	**0**	**90 890**	**106 887**	**0**	**106 887**
Personnel expenses	27 913		27 913	27 990		27 990
General administrative expenses	25 112		25 112	25 671		25 671
Depreciation and amortization	2 483		2 483	3 832		3 832
Provisions net of reversals	- 2 129		- 2 129	- 2 083		- 2 083
Adjustments to loans and advances to customers						
(net of reversals)	32 185	2 769	34 954	36 266	2 058	38 324
Impairment of other financial assets net of reversals	0		0	611		611
Impairment of other assets net of reversals	1 992		1 992	7 396		7 396
Net income before tax	**3 334**	**- 2 769**	**565**	**7 204**	**- 2 058**	**5 146**
Income tax	1 285	- 734	551	2 657	- 545	2 112
Current tax	218		218	4 723		4 723
Deferred tax	1 067	- 734	333	- 2 066	- 545	- 2 611
Net income for the period	**2 049**	**- 2 035**	**14**	**4 547**	**- 1 513**	**3 034**

Reconciliation of changes in equity as at 30 June 2013 and 2012

(€ thousand)

	Share Capital	Share premium	Fair value reserves	Other reserves and retained	Net income	Total
Balances as at 30-06-2013 - AAS	**476 000**	**10 109**	**- 82 585**	**274 133**	**2 049**	**679 706**
Credit impairment						
- Adjustments - regulatory provisions					- 2 769	- 2 769
- Deferred tax				4 025	734	4 759
Valuation of own property						
- Fair value			7 500	2 291		9 791
- Deferred tax			- 2 595	- 1 066		- 3 661
Balances as at 30-06-2013 - IFRS	**476 000**	**10 109**	**- 77 680**	**279 383**	**14**	**687 826**

	Share Capital	Share premium	Fair value reserves	Other reserves and retained	Net income	Total
Balances as at 30-06-2012 - AAS	**451 000**	**10 109**	**- 193 305**	**273 630**	**4 547**	**545 981**
Credit impairment						
- Adjustments - regulatory provisions				2 128	- 2 058	70
- Deferred tax				- 564	545	- 19
Valuation of own property						
- Fair value			6 649	3 143		9 792
- Deferred tax			- 2 595			- 2 595
Balances as at 30-06-2012 - IFRS	**451 000**	**10 109**	**- 189 251**	**278 337**	**3 034**	**553 229**

48. Subsequent events

By letter dated 26 July 2013, the Bank of Portugal communicated to Banco Popular that under the scope of its recent transversal auditing action, involving the eight largest banking groups operating in Portugal, minimum impairment levels have been defined for a set of customers that show relevant default signals in their respective credit quality.

As a result of this resolution, Banco Popular increased its provisions for general credit risks in the amount of 22 082 thousand euros in July.

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS