Banco Popular Portugal, SA

Annual Report and Accounts

2013

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

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General Information

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

The financial and statistical data provided herein were prepared according to analytical criteria based on the utmost objectivity, detail, reporting transparency and consistency over time, from the financial information periodically sent to the Bank of Portugal. The financial statements are presented in accordance with the legislation in force in 2013, particularly those issued by the Bank of Portugal regarding the presentation of accounting information.

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

Board and Management

Board of the General Meeting

Augusto Fernando Correia Aguiar-Branco - Chairman

João Carlos de Albuquerque de Moura Navega - Secretary

Executive Board of Directors

Rui Manuel Morganho Semedo - Chairman

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, Revisor Oficial de Contas.

Banco Popular Portugal Financial Highlights

(million euros, unless otherwise stated)

	2013	Change (% and p.p.)	2012	2011	2010	2009
Turnover						
Total assets managed	10 078	5.4%	9 565	10 258	10 952	9 467
On-balance sheet total assets	9 222	4.0%	8 867	9 634	10 233	8 718
Own funds (a)	666	2.8%	648	496	579	652
Customer funds:	5 073	10.2%	4 605	4 778	4 277	4 275
on balance sheet	4 217	7.9%	3 907	4 154	3 558	3 526
other intermediated customer funds	856	22.6%	698	624	719	749
Loans and advances to customers	5 510	-8.5%	6 021	6 530	7 855	6 247
Contingent risks	579	-4.3%	605	655	444	395
Solvency						
Solvency ratio	11.1%	0.5	10.6%	9.4%	8.6%	9.1%
Tier 1	11.1%	0.5	10.6%	9.4%	8.8%	9.5%
Core Tier 1	11.4%	0.5	10.9%	9.6%	8.9%	-
Risk management						
Total risks	6 089	-8.1%	6 625	7 185	8 298	6 641
Non-performing loans	273	17.7%	232	169	194	300
Non-performing loans for more than 90 days	253	21.0%	209	145	157	247
Non-performing loan ratio (%)	4.95%	1.10	3.85%	2.59%	2.47%	4.80%
Non-performing loan coverage ratio	113.7%	11.6	102.0%	129.0%	123.4%	80.0%
Earnings						
Net interest income	121.2	-18.5%	148.9	131.1	128.0	103.8
Banking income	171.7	-11.3%	193.5	166.9	201.3	248.1
Operating income	58.9	-26.3%	80.0	47.1	89.6	142.3
Income before tax	-51.5	-910.4%	6.4	24.4	21.7	20.9
Net income	-31.7	-1278.3%	2.7	13.4	15.9	17.7
Profitability and efficiency						
Average net assets	9 061	-4.0%	9 441	10 411	9 132	8 770
Average own assets	672	24.9%	538	515	604	635
ROA (%)	-0.35%	-0.38	0.03%	0.13%	0.17%	0.20%
ROE (%)	-4.72%	-5.22	0.50%	2.61%	2.63%	2.79%
Operating efficiency (Cost to income) (%)	65.7%	7.02	58.7%	71.8%	55.5%	42.7%
(without depreciation) (%)	62.8%	7.84	54.9%	66.9%	51.6%	39.6%
Per share data						
Final number of shares (millions)	476	0.0%	476	451	376	376
Average number of shares (millions)	476	5.5%	451	376	376	376
Share book value (€)	1.399	2.8%	1.361	1.101	1.540	1.733
Earnings per share (€)	-0.067	-1278.3%	0.006	0.030	0.042	0.047
Other data						
Number of employees	1 300	-0.7%	1 309	1 329	1 343	1 283
Number of branches	174	-2.8%	179	213	232	232
Employees per branch	7.5	2.2%	7.3	6.2	5.8	5.5
Number of ATMs	308	1.0%	305	348	338	337

(a) After appropriation of results for each year

Management Report

As at December 2013, Banco Popular Portugal, S.A., reported shareholder's equity of 665,888 million euros, a network of 174 branches and a team of 1,300 staff. At 2013 year-end, the Bank had around 400 thousand customers and managed around 10.1 billion euros of total assets, including customer funds in the amount of 5.1 billion euros. In 2013 Banco Popular's net assets amounted to 9.2 billion euros and made a net loss of 31.7 million euros.

The Bank operates in Portugal offering a full range of products: Deposits, Retail Credit, Corporate Credit, Life and Non-life Insurance, Asset Management and Factoring. The Bank's activities are supported by the following companies:

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

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

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

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

Macroeconomic scenario

In 2013 Gross Domestic Product decreased by 1.4%. However, favourable export performance and lower contraction in domestic demand have been key contributing factors to GDP growth since the second quarter of 2013.

As regards restoring its external balance and reducing its structural primary budget deficit, the Portuguese economy showed some progress in spite of the economic downturn and the increase in unemployment.

The stabilisation of the Internal Savings Rate reflects the combined positive effects of improved consumer confidence and diminished political uncertainty.

Inflation stood at low levels, reflecting the lower fuel prices, as well as the dissipation of the effect of the increase in value-added tax on natural gas and electricity.

The Portuguese economy is expected to recover moderately in 2014-2015, since it is starting to overcome the macroeconomic imbalances that had been accumulated over the past few years. The expectation of a gradual recovery in domestic demand is dependent upon the actual evolution of the foreseen macroeconomic scenario. Thus, the main risks are associated with a slower recovery of activity when compared with forecasts, arising from a less favourable evolution of the external framework with impact on both exports and domestic demand.

In the euro zone a gradual increase in domestic and external demand is expected to support activity growth. However, the correction of some imbalances in certain economies may affect growth in more advanced economies.

Commercial strategy

In 2013, Portugal was undergoing the third adjustment process of the past 40 years under an economic and financial aid programme. Socially, the unemployment rate has been soaring while simultaneously the population is ageing sharply. On the other hand, there was a positive reversal as regards education, with the number of people with higher degree diplomas more than doubling in the past ten years.

In this bleak macroeconomic scenario, with the national economy sinking in a long recession, the costs of access to international financial markets have become unsustainable, which has led to a profound change in the model used by banks to attract new private customers. From a model that mostly relied on attracting new customers via home loans, we now have a model where private customers are essentially a funding source for the Bank's balance sheet. Banco Popular has continued its strategy of being a leading Bank for Companies while still providing a universal offer with a customer-centred approach and prepared for their everyday needs.

Underlying the plan for 2013 was also the idea of simplifying the Bank's offer. For that have contributed factors such as extinguishing some products or product characteristics that were not perceived as adding value neither to the customer or the Bank. On the other hand, the focus on providing customer services with a view to accompanying their life-cycle and with a better interaction between channels to create a relationship and generate business opportunities were also strong points of the commercial approach.

Regarding the private customer segment, there was a net increase of around 24 thousand new customers, raised mostly via deposits. There was also a strong investment in this segment as regards transactions and loyalty.

We would also like to highlight an effective improvement in the sale of products to new clients, evidence of the continuous investment in loyalty campaigns, mostly through transactional products. (debit cards, credit cards, salary transfers, fees).

The Corporate segment had a net increase by 6,000 new clients with a significant increase in terms of company loyalty, especially as regards the average increase of retention of new customers. There was an increase by 17% in the volume of lending and simultaneously an improvement in terms of credit quality.

Corporate lending, namely by supporting internationalisation and offering a wide range of products and services were two major priorities in 2013. We would like to highlight the place obtained by Banco Popular Portugal in the national ranking of SME Growth Lines and Leasing Products, particularly on Equipment Leasing.

The Bank has continued to effectively support SME in terms of investment and internationalisation as an important player in SME Growth Lines in 2012 and 2013. Banco Popular obtained a market share that is higher than its natural lending share in the Portuguese banking system, standing at No. 4 regarding the number of contracted transactions and at No. 5 in terms of volume. Regarding the totality of SME Investment Lines/FINOVA, Banco Popular had a total of 7,000 contracted operations as at 31 December 2013, which correspond to 500 million euros of credit granted.

In terms of Leasing Equipment, Banco Popular reached 4th place in the ranking of Lending Institutions regarding market production, with a share of 8.9%, having contracted 95 million euros, which represented a 54% increase when compared with 2012. Overall, Leasing Transactions grew by 41% and reached a market share of 8.3%.

At year-end a new agreement was signed with the European Investment Bank, making available 100 million euros to support new investment projects for small and medium sized enterprises (SME) in more favourable conditions.

The communication strategy has accompanied and reflected the strategic positioning of the Bank, conjugating several multimedia communication actions: institutional advertising campaigns - 'It's for You' and SME Power, and product campaigns - thematic time deposits, activations, solidarity, properties, etc...

There is a clear investment in television as the main medium since it is the most appropriate for gaining exposure, and in 2013 radio and Internet still played an important role in promoting Banco Popular's solidarity and property campaigns.

The presence in trade fairs, congresses and sponsoring shows have consolidated the investment in the corporate segment, showing the Bank's availability and know how to business people and associations.

Income and profitability

The statement of income is summarised in table 1. The Annual Accounts show the income statements for 2013 and the previous year pursuant to regulations issued by the Bank of Portugal.

Table 1 . Individual Income Statement

(€ thousand)

		2013	2012	Change Amount	Change %
1	Interest and similar income	303 812	365 784	- 61 972	-16.9
2	Interest and similar charges	182 564	216 926	- 34 362	-15.8
3	**Net interest income (1-2)**	**121 248**	**148 858**	**- 27 610**	**-18.5**
4	Return on equity instruments	49	55	- 6	-10.9
5	Net fees and commissions	52 083	54 281	- 2 198	-4.0
6	Income from financial transactions (net)	9 991	4 046	5 945	146.9
7	Income from the sale of other assets	- 5 241	- 7 347	2 106	28.7
8	Other operating income	- 6 415	- 6 374	- 41	-0.6
9	**Banking income (3+4+5+6+7+8)**	**171 715**	**193 519**	**- 21 804**	**-11.3**
10	Personnel expenses	56 309	55 658	651	1.2
11	General administrative expenses	51 473	50 643	830	1.6
12	Depreciation	5 023	7 234	- 2 211	-30.6
13	**Operating income (9-10-11-12)**	**58 910**	**79 984**	**- 21 074**	**-26.3**
14	Provisions net of recoveries and write-offs	8 563	- 6 546	15 109	230.8
15	Value adjustments net of loans and advances to customers	89 390	63 077	26 313	41.7
16	Impairment and other net provisions	12 481	17 095	- 4 614	-27.0
17	**Profit before tax** (13-14-15-16)	**- 51 524**	**6 358**	**- 57 882**	**-910.4**
18	Income tax	- 19 804	3 666	- 23 470	-640.2
19	**Net income for the period** (17-18)	**- 31 720**	**2 692**	**- 34 412**	**-1278.3**

Net interest income

In 2013, net interest income amounted to 121 million euros, reflecting a 27.6 million euro increase, i.e., 18.5% less when compared with the previous year. This decrease was mostly due to the effect of volume in terms of lending (-22.5 million euros) given the decrease in the average volume of loans granted in 2013 and the effect of the interest rate (-36.9 million euros), arising from the drop in the average granting rate. These negative effects were partially offset by the favourable effect of the interest rate of customer and bank funds via the substantial decrease in the average cost of these liabilities, which amounted to 39.9 million euros. Additionally, we would like to highlight the negative contribution to net interest income of the financial assets portfolio whose decreasing profitability levels, expected and confirmed over 2013, were in part offset by the efficient management of volumes as seen in the average volumes presented on table 3. Overall, the effect of business volume was superimposed, mostly due to the drop in the loan portfolio, which accounted for 85% of the loss occurred in the net interest income in 2013, thus confirming an efficient management of interest rates, even in an adverse scenario.

As shown on table 3, the average assets of the Bank in 2013 were backed by customer funds (55%) and deposits from banks (34%), mostly deposits from Banco Popular Group. Loans and advances to customers is still their main component, representing 64% of total assets. This evolution reflects the successful effort of increasing customer funds in the context of improving the commercial gap, since in 2012 the dependence on deposits from banks represented around 41% and in 2011 it represented around 56%.

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

(€ thousand and %)

	2013				2012			
	Average Balance	Dist. (%)	Income or expense	Average Rate (%)	Average Balance	Dist. (%)	Income or expense	Average Rate (%)
Loans and advances to customers (a)	5 783 097	63.8%	224 091	3.87	6 311 791	66.9%	284 293	4.49
Deposits with banks	533 742	5.9%	2 605	0.49	404 872	4.3%	1 836	0.45
Financial assets	2 238 928	24.7%	76 898	3.43	2 209 380	23.4%	79 430	3.59
Other assets	505 713	5.6%	218	0.04	514 964	5.5%	225	0.04
Total Assets (b)	**9 061 480**	**100%**	**303 812**	**3.35**	**9 441 008**	**100%**	**365 784**	**3.86**
Deposits from customers (c)	5 022 597	55.4%	139 853	2.78	4 724 463	50.0%	160 154	3.38
Deposits from banks	3 113 214	34.4%	20 647	0.66	3 908 927	41.4%	37 855	0.97
Equity accounts	671 724	7.4%	0	0.00	538 410	5.7%	0	0.00
Other liabilities	253 945	2.8%	22 064	8.69	269 206	2.9%	18 918	7.01
Total Liabilities and Equity (d)	**9 061 480**	**100%**	**182 564**	**2.01**	**9 441 008**	**100%**	**216 927**	**2.29**
Customer spread (a - c)				**1.09**				**1.11**
Net Interest Income (b - d)				**1.34**				**1.57**

Taking into consideration the evolution of the average annual interest rates of loans and deposits, we would like to stress that the average assets, which amounted to 9,061 million euros, posted an overall profitability of 3.35%, which, when compared with the average cost of total resources allocated to the financing of assets (2.01%), has enabled an annual net interest income of 1.34%, 23 basis points lower than in the previous year.

The aim of increasing the financing of customer lending with customer funds and thus improving on the commercial gap has led to an increase of customer funds by 298 million euros. This evolution was accompanied by a reduction by 60 basis points in the average annual rate of customer funds, which stood at 2.78% in 2013 and compares with 3.38% in 2012 (table 3a).

The reduction in the average balance of loans is justified by some sales, having the annual average rate of loans dropped by 62 basis points, from 4.49% to 3.87%. Due to this combined effect, customer spread decreased by 2 basis points to 1.09%.

Table 3a . Evolution of annual average rates. Margins

	Average annual rate 2013 (%)	Average annual rate 2012 (%)	Change 2013/2012 (p.p.)
Loans and advances to customers (a)	3.87	4.49	-0.62
Deposits with banks	0.49	0.45	0.04
Financial assets	3.43	3.59	-0.16
Other assets	0.04	0.04	0.00
Total Assets (b)	**3.35**	**3.86**	**-0.51**
Deposits from customers (c)	2.78	3.38	-0.60
Deposits from banks	0.66	0.97	-0.31
Equity accounts	0.00	0.00	0.00
Other liabilities	8.69	7.01	1.68
Total Liabilities and Equity (d)	**2.01**	**2.29**	**-0.28**
Customer spread (a - c)	**1.09**	**1.11**	**-0.02**
Net Interest Income (b - d)	**1.34**	**1.57**	**-0.23**

From the analysis of images 1 and 2, we can see that in 2013 there was a downward turn in the average lending rate and consequently in customer spread and net interest income, since the average funds rate has been decreasing since 2011.

Image 1 - Customer Spread

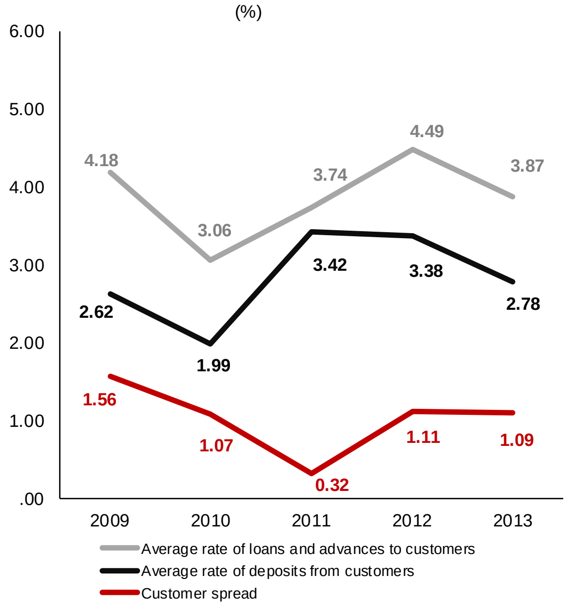
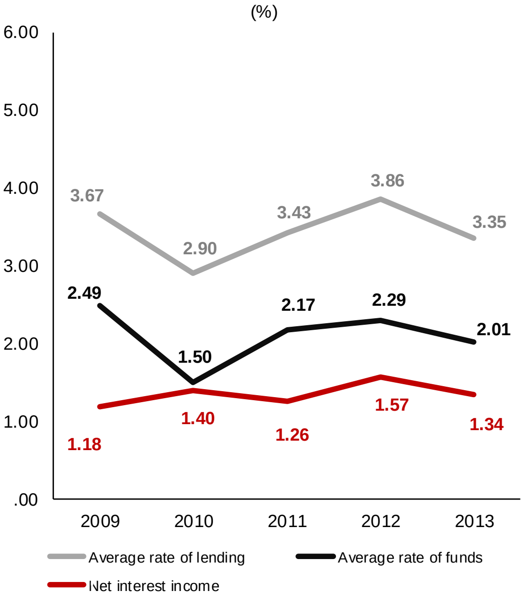


Image 2 - Net interest income



Banking income

In 2013, net fees and commissions charged to customers for the sale of products and services totalled 52.1 million euros, rising by around 4% when compared with the previous year. Albeit lower than in 2012, the amount for 2013 is well above the average amounts for the past five years (image 3).

Image 3 - Net Fees and Commissions

(million €)

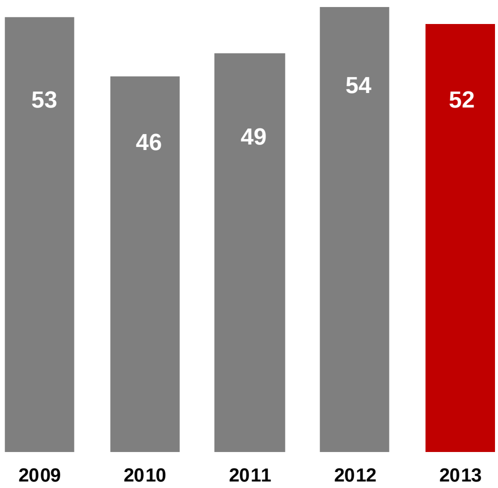


Table 4 shows in more detail the main items that have contributed to the negative change in fees and commissions during 2013, which were: commissions from guarantees, with a drop by 1.2 million euros (-16.6% when compared with the previous year) and commissions from asset management, mostly those related with third party receivables, which dropped by 1.3 million euros (-50% when compared with the previous year).

Table 4 . Net Fees and Commissions

(€ thousand)

	2013	2012	Change Amount	Change %
Commissions from lending	19 575	19 247	328	1.7
Commissions from guarantees	6 063	7 269	- 1 206	-16.6
Commissions from collection and payment handling (net)	11 485	12 223	- 738	-6.0
Commissions from asset management (net)	1 310	2 622	- 1 312	-50.0
Commissions from insurance sales	2 081	1 436	645	44.9
Commissions from account management	5 183	4 836	347	7.2
Commissions from processing services	1 673	1 957	- 284	-14.5
Other commissions (net)	5 042	5 081	- 39	-0.8
Fees paid to promoters and agents	329	390	- 61	-15.6
Total	**52 083**	**54 281**	**- 2 198**	**-4.0**

Regarding the remaining items of banking product, we would like to highlight the increase by 5.9 million euros in terms of financial transactions due to the improved performance of the financial assets in the portfolio and an increase by 2.1 million euros in the sale of other assets, which mostly corresponds to losses related with the sale of properties.

The contribution of these and the remaining items was not enough to offset a drop by 27.6 million euros in net interest income, and has led Banco Popular Portugal to post a banking income of 171.7 million euros in 2013, 21.8 million euros less, i.e., -11.3%, than in the previous year.

Operating income

As regards the Bank's expense policy during 2013, the measures implemented in the previous years were consolidated. In 2013, operating expenses totalled 112.8 million euros, which represents a decrease by 0.7 million euros or -0.6% when compared with the previous year.

From table 5 we can see that personnel expenses amounted to 56.3 million euros, which corresponds to an increase by 1.2%. This increase was due to a larger transfer to the Pension Fund in the amount of 1.26 million euros. If this transfer hadn't taken place, personnel expenses would have been lower than in the previous year since its remaining items performed positively.

General expenses totalled around 51.5 million euros, which corresponds to a 830 million euro increase (1.6%) when compared with the previous year. This increase in terms of expenses was mostly due to an increase in the items Advisory services (+2.4 million euros, or 60.8%) and IT services (+2 million euros, or 31.8%), the former related with recovering credit due. The two items that performed worse cancelled the effort made in reducing the cost of the remaining items.

In terms of allocations for depreciation of fixed assets we have witnessed a very positive performance (-2.2 million euros, or -30.6%) to 5 million euros. This item contributed positively to the reduction of operating expenses.

Table 5 . Operating Expenses

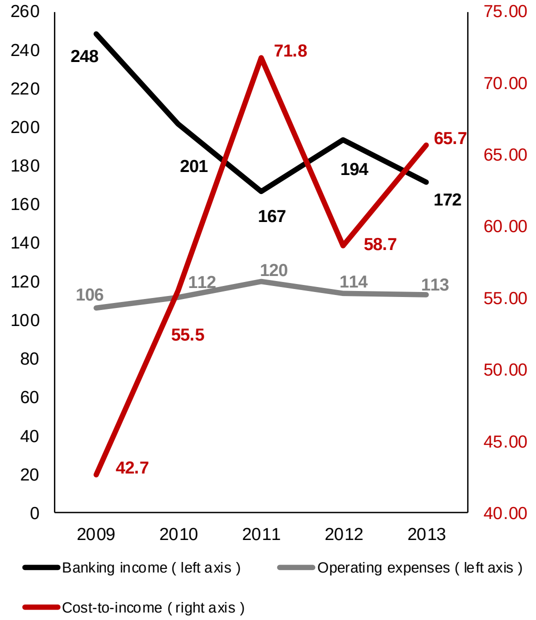
(€ thousand)

	2013	2012	Change Amount	%
Personnel expenses (a)	**56 309**	**55 658**	**651**	**1.2**
Wages and salaries	41 781	41 890	- 109	-0.3
Social security charges	11 126	11 348	- 222	-2.0
Pension Fund	2 397	1 137	1 260	110.8
Other personnel expenses	1 005	1 283	- 278	-21.7
General expenses (b)	**51 473**	**50 643**	**830**	**1.6**
External supplies	2 742	3 133	- 391	-12.5
Rents and leasing	4 392	4 890	- 498	-10.2
Communications	4 164	4 174	- 10	-0.2
Travel, hotel and representation	1 134	867	267	30.8
Advertising and publications	2 700	2 703	- 3	-0.1
Maintenance of premises and equipment	4 170	5 362	- 1 192	-22.2
Transports	1 137	1 249	- 112	-9.0
Advisory services	6 420	3 993	2 427	60.8
Legal expenses	2 473	2 391	82	3.4
IT services	8 338	6 324	2 014	31.8
Security, surveillance and cleaning	1 159	1 317	- 158	-12.0
Temporary work	4 575	4 656	- 81	-1.7
External consultants and auditors	1 148	1 362	- 214	-15.7
SIBS	1 259	1 218	41	3.4
Services rendered by Banco Popular Group	3 283	3 548	- 265	-7.5
Other general expenses	2 379	3 456	- 1 077	-31.2
Operating expenses (c=a+b)	**107 782**	**106 301**	**1 481**	**1.4**
Depreciation (d)	**5 023**	**7 234**	**- 2 211**	**-30.6**
Total (c+d)	**112 805**	**113 535**	**- 730**	**-0.6**

The cost-to-income ratio, which corresponds to the part of banking income consumed by operating expenses increased to 65.7%. This percentage results from a drop in the banking product and a stabilisation of operating expenses. This evidence is reflected in image 4.

Image 4 - Cost-to-income Ratio

(million € and % right axis)



The weight of personnel expenses in banking income stood at 32.8%, which is higher than the 28.8% which were seen in 2012.

Operating income thus amounted to approximately 58.9 million euros, around 26.3% lower than in the previous year.

Net income and profitability

Banco Popular Portugal ended 2013 with a Net Income of -31.7 million euros, 34 million euros lower than in the previous year. This reduction in terms of income was due to:

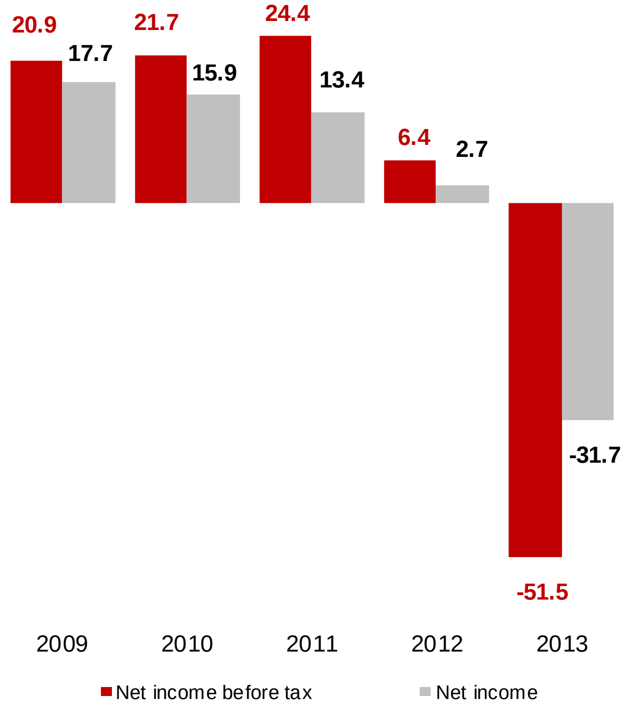
- lower volume of lending and reduction in the price of active transactions;
- growth of credit provisions that went up from 56.5 million euros in 2012 to 98 million euros in 2013, thus lowering Income before tax to -51.5 million euros.

The tax burden went from 3.7 million euros to a recovery of 19.8 million euros.

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

Image 5 - Evolution of Net Income

(million €)



By analysing the income statement and the balance sheet together we can assess the profitability of the Bank's financial activity, comparing profits and costs and their respective margins with the investments and assets that originated them. Table 6 shows income statements for 2013 and 2012 broken down in terms of their percentage of average total assets.

In 2013 operating profitability stood at 0.65%, 20 basis points lower than in the previous year. This drop was mostly due to the decrease by 24 basis points in net interest income.

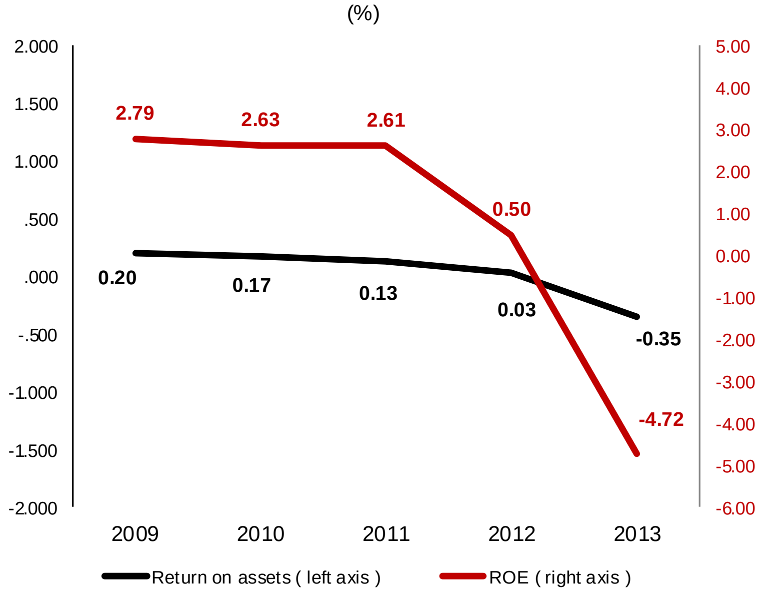
Table 6 . Total Return on Investment

(€ thousand and % of average net assets)

	2013 amount	%	2012 amount	%	Change in amount	% / p.p.
Investment income	303 812	3.35	365 784	3.87	- 61 972	-0.52
Cost of assets	182 564	2.01	216 926	2.30	- 34 362	-0.29
Net interest income	**121 248**	**1.34**	**148 858**	**1.57**	**- 27 610**	**-0.23**
Net fees and commissions	52 083	0.57	54 281	0.57	- 2 198	0.00
Other operating profits/losses	- 1 616	-0.02	- 9 620	-0.10	8 004	0.08
Banking income	**171 715**	**1.90**	**193 519**	**2.05**	**- 21 804**	**-0.15**
Personnel expenses	56 309	0.62	55 658	0.59	651	0.03
General administrative expenses	51 473	0.57	50 643	0.54	830	0.03
Depreciation	5 023	0.06	7 234	0.08	- 2 211	-0.02
Operating profitability	**58 910**	**0.65**	**79 984**	**0.85**	**- 21 074**	**-0.20**
Net loan provisions	97 953	1.08	56 531	0.60	41 422	0.48
Impairment and other net provisions	12 481	0.14	17 095	0.18	- 4 614	-0.04
Return before tax	**- 51 524**	**-0.57**	**6 358**	**0.07**	**- 57 882**	**-0.64**
Income tax	- 19 804	-0.22	3 666	0.04	- 23 470	-0.26
Return after tax	**- 31 720**	**-0.35**	**2 692**	**0.03**	**- 34 412**	**-0.38**
Memorandum item:						
Average net assets (€ million)	9 061		9 441		-380	-4.0
Average own funds (€ million)	672		538		134	24.9
Return on equity - ROE (%) (net income after tax/average shareholders' equity)	-4.72		0.50		-5.22	-1043.3
Gross return on equity (%) (income before tax/average shareholders' equity)	-7.67		1.18		-8.85	-748.8
Cost-to-income (%)	62.77		54.93		7.84	14.3

Return on equity (ROE), defined as the ratio of annual net income to average shareholders' equity, stood at -4.7%, which compares with 0.5% in 2012. Image 6 shows the evolution of these profitability indicators over the past five years.

Image 6 - Return on Assets and on Equity



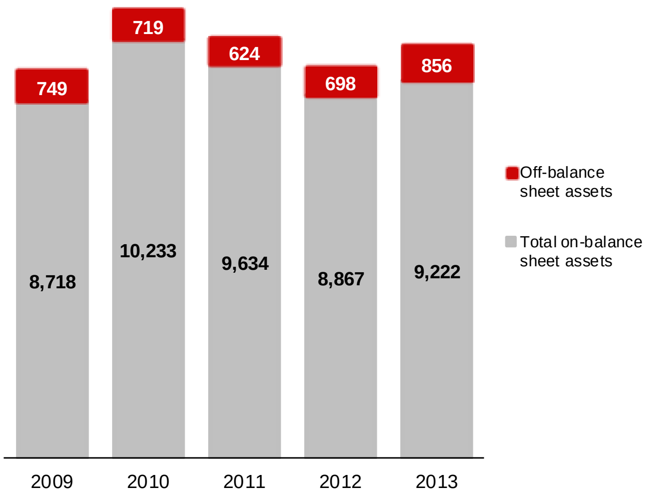
Total assets

The balance sheets as at 31 December 2013 and 2012 are summarised in table 7. In the section Annual Accounts, those same balance sheets are presented in accordance with the model defined by the Bank of Portugal.

As at 31 December 2013, Banco Popular's net assets amounted to 9,222 million euros, 355 million euros less than in 2012, which corresponds to a decrease by around 4%.

The Bank also manages other customer funds applied in investment, saving and retirement instruments, and others, which amounted to 856 million euros at year end, representing a 22,6% increase when compared with 2012.

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



Therefore, total assets managed by the Bank amounted to 10,078 million euros at the end of 2012, which represents a 5.4% drop when compared with the previous year.

Table 7 . Individual Balance Sheet

(€ thousand)

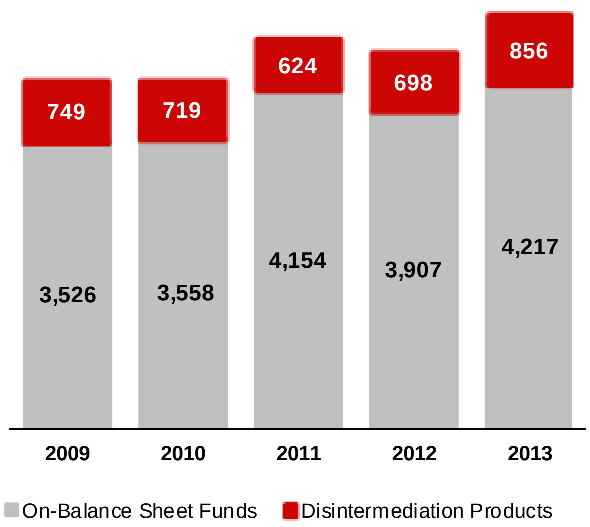
	2013	2012	Amount Change	%
Assets				
Cash and balances with central banks	54 114	171 349	- 117 235	-68.4
Deposits with banks	174 427	54 743	119 684	218.6
Financial assets held for trading	73 843	56 738	17 105	30.1
Other financial assets at fair value through profit or loss	24 983	32 954	- 7 971	-24.2
Available-for-sale financial assets	1 704 136	1 105 359	598 777	54.2
Loans and advances to banks	1 268 822	269 818	999 004	370.3
Loans and advances to customers	5 510 349	6 020 530	- 510 181	-8.5
(-) Provisions for Non-performing Loans	- 260 893	- 185 144	- 75 749	-40.9
Held-to-maturity investments	0	723 879	- 723 879	-100.0
Hedging derivatives	103	0		
Non-current assets held for sale	20 747	22 579	- 1 832	-8.1
Other tangible assets	82 381	88 004	- 5 623	-6.4
Intangible assets	172	171	1	0.6
Investment in subsidiaries and associates	0	0	0	0.0
Deferred income tax assets	72 175	82 396	- 10 221	-12.4
Current income tax assets	3 566	1 360	2 206	162.2
Other assets	493 248	422 076	71 172	16.9
Total Assets	**9 222 173**	**8 866 812**	**355 361**	**4.0**
Liabilities				
Deposits from central banks	1 306 839	1 605 143	- 298 304	-18.6
Financial liabilities held for trading	29 629	40 181	- 10 552	-26.3
Deposits from banks	1 919 736	1 423 759	495 977	34.8
Deposits from customers	4 216 578	3 906 941	309 637	7.9
Debt securities issued	865 255	1 011 248	- 145 993	-14.4
Hedging derivatives	101 883	128 563	- 26 680	-20.8
Provisions	51 054	54 588	- 3 534	-6.5
Current income tax liabilities	0	0	0	0.0
Deferred income tax liabilities	4 060	14 191	- 10 131	-71.4
Other liabilities	61 251	33 824	27 427	81.1
Total Liabilities	**8 556 285**	**8 218 438**	**337 847**	**4.1**
Shareholder's Equity				
Share capital	476 000	476 000	0	0.0
Share premium	10 109	10 109	0	0.0
Fair value reserves	- 54 143	- 110 807	56 664	51.1
Other reserves and retained earnings	265 642	270 380	- 4 738	-1.8
Income for the period	- 31 720	2 692	- 34 412	-1278.3
Total Equity	**665 888**	**648 374**	**17 514**	**2.7**
Total Liabilities + Equity	**9 222 173**	**8 866 812**	**355 361**	**4.0**

Customer funds

At the end of 2013, the total amount of on- and off-balance sheet customer resources amounted to 5,073 million euros, 10.2% more when compared with the previous year. Image 8 shows the performance of total customer funds over the past 5 years.

Image 8 - Customer Funds

(million €)



On-balance sheet funds, comprised mostly of customer deposits, totalled 4,217 million euros, which corresponds to an increase by 7.9% when compared with 2012.

Demand accounts increased significantly, by 98.4 million euros or 15.3%, from 645.4 million euros to 743.9 million euros.

Table 8 . Customer funds:

(€ thousand)

	2013	2012	Change Amount	%
CUSTOMER FUNDS :				
Deposits	**4 164 419**	**3 855 992**	**308 427**	**8.0**
Demand accounts	743 941	645 494	98 447	15.3
Time deposits	3 415 576	3 204 194	211 382	6.6
Savings accounts	4 902	6 304	- 1 402	-22.2
Cheques, payment orders and other funds	**14 160**	**11 025**	**3 135**	**28.4**
Interest payable and other similar charges	**37 999**	**39 924**	**- 1 925**	**-4.8**
ON-BALANCE SHEET FUNDS (a)	**4 216 578**	**3 906 941**	**309 637**	**7.9**
Disintermediation funds				
Investment funds	269 200	173 201	95 999	55.4
Investment and capitalisation insurance	429 634	363 852	65 782	18.1
Retirement insurance plans	90 136	96 112	- 5 976	-6.2
Customer portfolio under management	67 488	65 149	2 339	3.6
OFF-BALANCE SHEET FUNDS (b)	**856 458**	**698 314**	**158 144**	**22.6**
TOTAL CUSTOMER FUNDS (a + b)	**5 073 036**	**4 605 255**	**467 781**	**10.2**

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 22.6%, from 698.3 million euros in 2012 to 856.4 million euros at the end of 2013. The positive performance of this item is mostly due to the growth of investment funds by over 55% and of investment and capitalisation insurance by over 18%. The evolution of these funds is showed at the bottom of the previous table.

As at 31 December 2013, Banco Popular Portugal was the depositary of 19 investment funds managed by Popular Gestão de Activos, whose total portfolio amounted to 269.2 million euros. Table 9 shows the assets contained in each of the investment funds managed over the past two years and image 9 shows the performance of the amount managed in terms of investment funds over the past 5 years.

Table 9 . Investment Fund Portfolio (asset value)

(€ thousand)

Funds	2013	2012	Change Amount	Change %
Popular Valor	2 598	2 799	- 201	-7.2
Popular Acções	4 284	1 974	2 310	117.0
Popular Euro Obrigações	14 548	4 001	10 547	263.6
Popular Global 25	18 289	4 737	13 552	286.1
Popular Global 50	12 770	2 434	10 335	424.6
Popular Global 75	6 299	1 256	5 043	401.6
Popular Tesouraria	4 191	3 538	653	18.5
Pop. Imobiliario FEI	0	7 593	- 7 593	-100.0
Popular Objectivo Rendimento 2015	2 418	2 431	- 13	-0.5
Popular Economias Emergentes - FEI F	8 259	8 248	11	0.1
Pop. Economia Emergentes II - FEI F	9 945	9 921	24	0.2
Popular Multiactivos I	0	958	- 958	-100.0
Popular Multiactivos II	3 398	1 346	2 051	152.3
Popular Multiactivos III	0	1 198	- 1 198	-100.0
Pop. Comp. Ind. Emp. Germany and USA	5 859	5 587	273	4.9
Pop. Comp. Ind. Gold (London)	3 971	3 991	- 20	-0.5
Popular Predifundo	13 239	14 954	- 1 715	-11.5
ImoPopular	22 836	24 193	- 1 357	-5.6
ImoPortugal	22 629	25 944	- 3 316	-12.8
Imourbe	14 161	10 453	3 708	35.5
Fundurbe	0	10 735	- 10 735	-100.0
Popular Arrendamento FIIFAH	99 506	24 909	74 597	299.5
Total	**269 200**	**173 201**	**95 999**	**55.4**

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

Image 9 - Investment Fund Portfolio and Private Portfolios Managed

(million €)

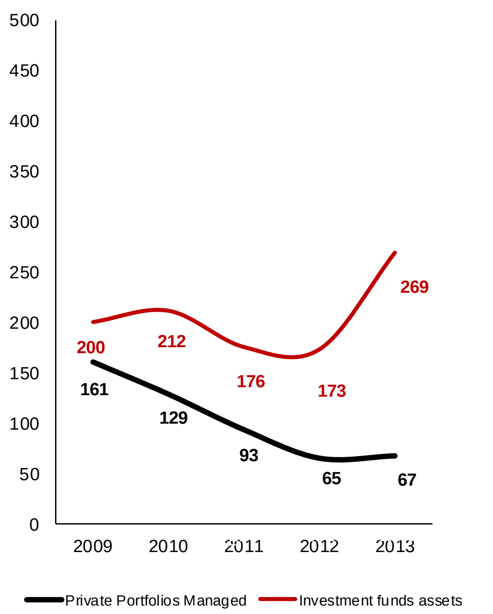
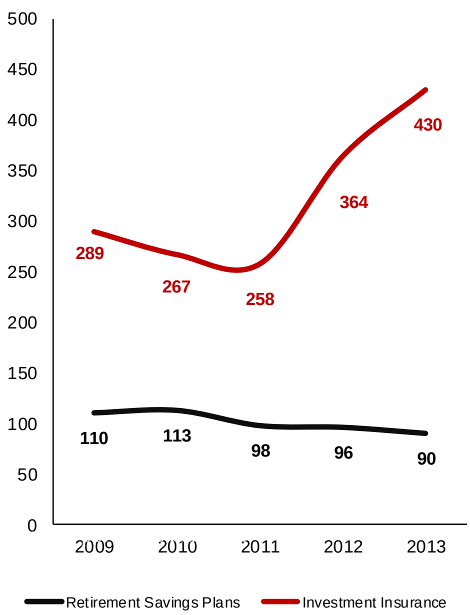


Image 10 - Financial Insurance

(million €)



Lending operations

Loans and advances to customers totalled around 5,510 million euros at the end of 2013, representing 59.8% of total assets, or 56.9% if provisions for past-due loans are deducted. Loans and advances to corporate customers and the public sector amounted to 3,092 million euros (excluding other securitised loans and overdue loans), which corresponds to 62% of total lending transactions.

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

Table 10 . Loan Transactions

(€ thousand)

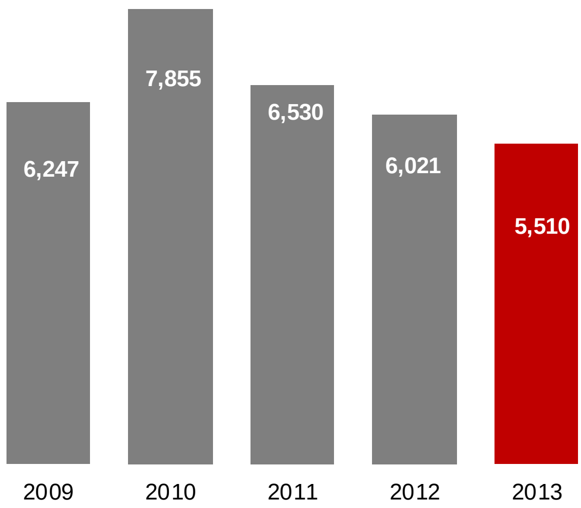
	2013	2012	Change	
			Amount	%
Loans and advances to customers (a)				
Public sector	3 092 054	3 566 488	- 474 434	-13.3
Private customers	1 870 285	1 897 481	- 27 196	-1.4
Residential mortgage loans	1 468 891	1 470 833	- 1 942	-0.1
Personal and consumer loans	45 782	54 565	- 8 783	-16.1
Other personal lending	355 612	372 083	- 16 471	-4.4
Total	**4 962 339**	**5 463 969**	**- 501 630**	**-9.2**
Other loans (represented by securities) (b)	**267 000**	**302 700**	**- 35 700**	**-11.8**
Interest and commissions receivable (c)	**8 188**	**22 077**	**- 13 889**	**-62.9**
Past-due loans and interest (d)				
Due within 90 days	19 757	22 651	- 2 894	-12.8
Over 90 days	253 065	209 133	43 932	21.0
Total	**272 822**	**231 784**	**41 038**	**17.7**
Total Gross Lending (a + b + c + d)	**5 510 349**	**6 020 530**	**- 510 181**	**-8.5**
Specific Loan Provisions	260 893	185 144	75 749	40.9
Total Net Lending	**5 249 456**	**5 835 386**	**- 585 930**	**-10.0**

The decrease in the amount of loans and advances to customers was due to a drop by 11.8% in securitised lending operations (commercial paper) and a decline by 8.5% in lending operations in general. In terms of retail, loans to corporate customers and the public sector dropped by 474 million euros, 13.3% less when compared with 2012, which corresponds to 56.1% of total gross loan operations. Loans to private customers represented 33.9%, showing a slight decrease by 1.4% (-27,2 million euros). This drop arose mostly from the reduction by over 25 million euros in the items of personal and consumer loans and other personal lending.

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

Image 11 - Loan Transactions

(million €)



The amount of past-due loans and interest totalled almost 273 million euros at the end of 2013, which represents an increase by 17.7% when compared with the previous year. As seen on the following table, this item represented 4.95% of total lending operations. Taking into consideration only loans that have been non-performing for more than 90 days this indicator stands at 4.59%.

Total non-performing loans amounted to 411 million euros at the end of 2013, which represents 7.46% of total lending operations.

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

(€ thousand)

	2013	2012	Change Amount	Change % / p.p.
Past-due loans and interest	272 822	231 784	41 038	17.7
Past-due loans by more than 90 days (a)	253 065	209 133	43 932	21.0
Doubtful loans reclassified as past-due loans **(b)**	158 027	136 173	21 854	16.0
Non-performing loans **(a+b)**	411 091	345 306	65 785	19.1
Past-due loans / total loans (%)	4.95	3.85		1.10
Past-due loans over 90 days / total lending (%)	4.59	3.47		1.12
Non-performing loans / total lending (%)	7.46	5.74		1.72
Net non-performing loans, net / total net lending (%)	2.91	2.79		0.12
Provisions for Credit risks	310 070	236 499	73 571	31.1
Hedging Ratio (%)	113.7	102.0		11.6
memorandum item:				
Total lending	**5 510 349**	**6 020 530**	**- 510 181**	**-8.5**

At the end of 2013, provisions for credit risks amounted to 310 million euros, ensuring a hedging ratio of 113.7%, which compares with 102% in 2012.

Outlook for 2014

Although the past few years have been marked by an economic and financial recession, forecasts for some macroeconomic indicators show some signs of recovery. We believe 2014 may be a turning point in terms of investment growth in Portugal. In microeconomic terms, belonging to a solid group provides Banco Popular with the necessary robustness and solvency to be able to strengthen its current position while simultaneously embracing the challenge of converting the opportunities offered by the market into business activities.

We need to keep on investing in the sustainable growth of our customer base, both corporate and private customers, and increasing the number of products bought by our customers to raise their profitability.

These past few years, Banco Popular has been strengthening its costumer-centred strategy, particularly as regards SME. The whole structure has been readjusted and geared towards this ambition, namely by a separated management between the commercial area and the less profitable assets area, thus freeing the retail network for the activity of attracting customers and managing the commercial activity. Due to an adjustment of the Balance Sheet, materialised in a decrease in the commercial gap, the Bank is prepared for effective asset growth.

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

Therefore, the Bank shall have four major strategic aims:

- Gaining exposure
- Expanding its customer base
- Improving customer loyalty and profitability
- Increasing business

This strategy is based on articulating and boosting synergies between companies and private costumers: we have become a leading Bank for companies while still investing in attracting business from private customers and vice-versa, placing companies as an important channel to attract private customers.

As regards communication for 2014, we intend to uphold the strategy initiated in 2012, making real the aims of increasing exposure, strengthening identity and brand values, reaffirming the Bank's standing as the best bank for companies and optimising investment by standardising targets: focused on companies while having impact on private costumers.

Risk management

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

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

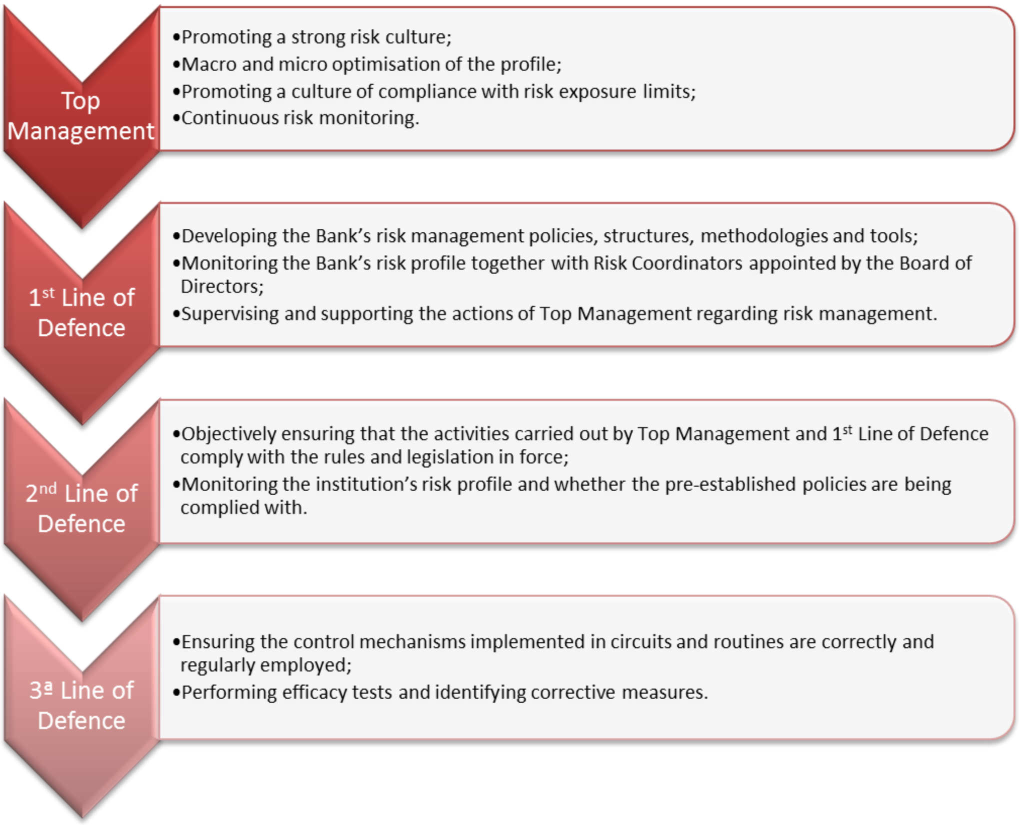
These guidelines are intended to be aligned with the following risk management principles defined for the Bank:

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

The aim of developing risk management processes is allowing the Bank to successfully fulfil its mission by carefully controlling the risks that characterize its activity. Simultaneously the Bank has tried to adapt its organizational structure aiming at adequately separating functions to mitigate risks.

Structure and communication lines

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



Thus, the three lines of defence are basically represented by the following internal structures: (i) the first line of defence is represented by the Risk Management Department; (ii) the second line of defence by Compliance and the Operational Control area; and (iii) the third line of defence by Auditing.

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

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

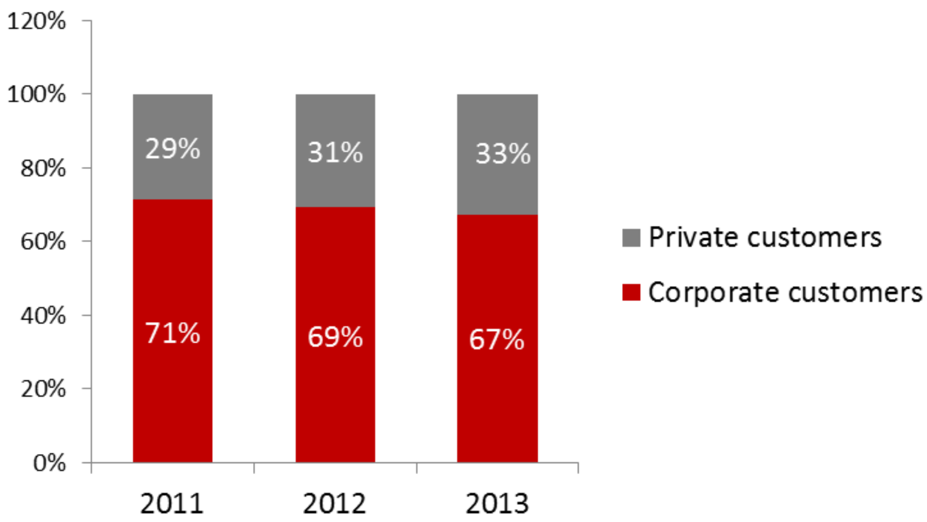
Credit and Concentration risk

This type of risk arises from the possible loss triggered by the breach of contractual obligations of the Bank's counterparties. In the case of refundable financing it arises as a consequence of the non-recovery of principal, interest and commissions, regarding amount, period and other conditions stipulated in the contracts. 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 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 5,510 million euros at the end of December 2013, with a year-on-year drop of around 8.47%. It should be noted that this decrease is mostly due to assignments of credit claims to other companies that belong to Banco Popular Group.

Loans to customers is the main asset of the Bank, representing around 57% of its net assets. As at 31 December 2013, around 67% of the portfolio had to do with advances and loans to corporate customers (mostly SME).

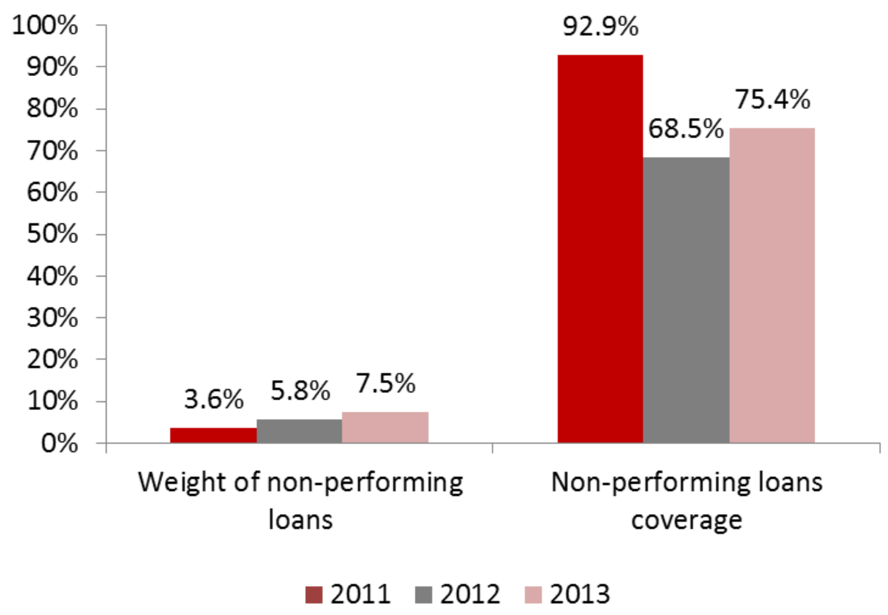
Portfolio broken down by type of counterparty



The evolution of the default ratio, as seen below, is mostly attributable to the current macroeconomic scenario. In spite of the joint effect of the focus given by management to credit recovering and the credit assignments to the Group, this evolution was negative, reaching 7.5% at the end of 2013.

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

Evolution of non-performing loans



Main areas of activity in 2013

As far as credit risk is concerned, in 2013, risk management was focused mainly on the aspects detailed in the following paragraphs.

- Implementation of internal models to assess risk

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

The implementation and management of models has been a fundamental tool to help in the credit decision process. The decision-making power of our branches has been revised, based on the risk levels attributed by the models employed. As a complement, it is important to say that the credit decision process in the scope of the Risk Analysis and Monitoring Department (DAAR) already considers a differentiation of powers depending on the risk level attributed by the rating models.

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

- Credit Impairment Model

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

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

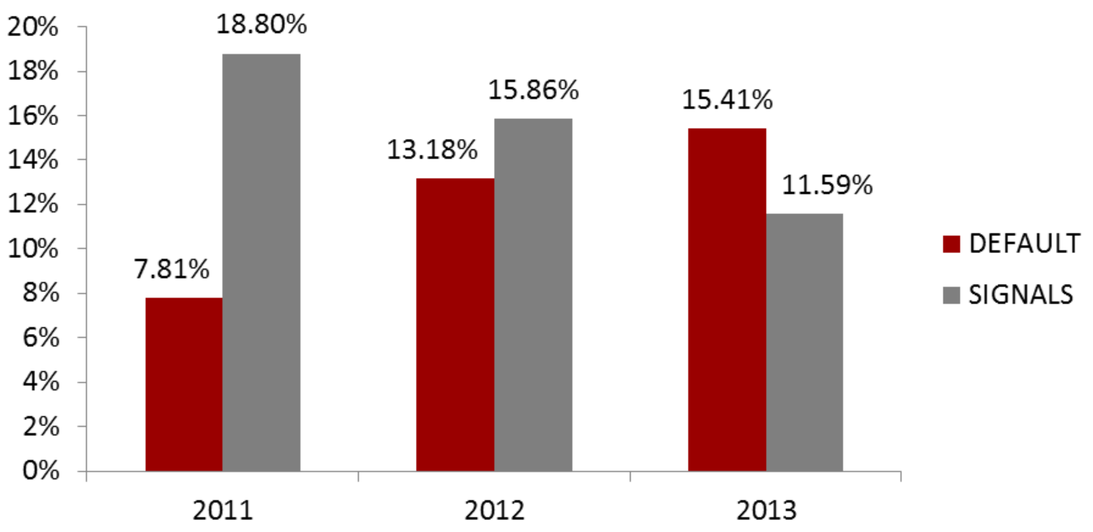
Ever since its inception, the Bank has regularly revised the model, mostly to reflect not only changes in the macroeconomic scenario, but also the evolution of its loan portfolio.

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

At the end of 2012, when the credit impairment model was last revised, the concept of probability of non-performance signals (PI) was introduced. This concept aims essentially at anticipating in the model situations that might culminate in default (PD). Based on the Bank's history, the probability of those transactions with non-performing signals effectively converting into default (PID) is also calculated.

Throughout the past three years, we have seen that the amount of loans with impairment signals has been gradually decreasing its relative weight (11.6% in December 2013). However, loans in default (+ 90 days of default and insolvent or PER) have gradually increased in weight (15.4% in December 2013).

Weight of Non-performing and default portfolio



Still in 2013 and in order to make more robust the model and the data for the analysis of transactions, besides the definition and approval by the management of haircuts for situations whose mortgage collateral assessment was over 24 months, the Bank reappraised all the collaterals of lending transactions for customers with a risk of over 1 million euros, regardless of the situation of their respective loans.

We should stress that in the last quarter of 2013, the Bank was subject to a Transversal Credit Portfolio Impairment Review Exercise, which focused both on the individual and the collective scope of the credit impairment model.

This exercise was carried out by the Bank of Portugal and a team of independent consultants, who have not identified the need for relevant methodological changes, which shows the robustness of the impairment model implemented by the Bank.

In the scope of the stress tests that are regularly performed, the estimated impairment amount for the three-year period is subject to a scenario and sensitivity analysis depending on the incorporation of the macroeconomic variables defined by the Bank of Portugal into the model.

Concentration Risk

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

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

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

Risk limit for a Group/Customer

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

Risk limit by transaction amount

The maximum amount for a lending transaction is defined.

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

To fund trade unions and projects, the Bank's participation shall not be higher than 25% of the total amount, in case the transaction is higher than the limit defined for this type of lending.

Limit of participation in the Credit Risk Central (CRC)

The maximum limit for participation in the CRC with a Group/Customer is the following:
Group/Customer with risks of over € 500 million - Lower than 10% of CRC.
Group/Customer with risks of over € 250 million - Lower than 15% of CRC.
Group/Customer with risks of over € 100 million - Lower than 25% of CRC.
Group/Customer with risks of over € 20 million - Lower than 50% of CRC.

Limit of risk concentration by activity sector

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

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

and storage; Banking and insurance; Administrative, professional sanitary and artistic activities).

Limit of risk concentration in large companies

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

Limit of risk concentration by product

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

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

Assessment of mortgage collaterals

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

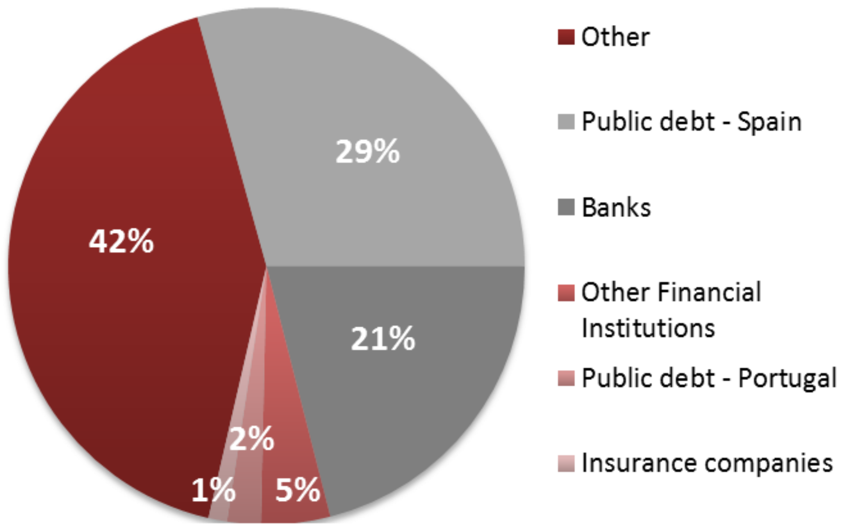
Herfindahl Index

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

Securities portfolio

The Bank's securities portfolio (including available-for-sale financial assets, held-to-maturity investments, trading portfolio and other financial assets at fair value through profit or loss) amounted to around 1.8 billion euros at the end of 2013, which represents around 19.6% of the Bank's total net assets. The chart below shows these assets broken down by type.

Securities Portfolio



Market risk

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

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

As at 31 December 2013, the Bank’s portfolio amounted to around 2,065 million euros, of which around 1,778 million were classified as financial assets held for trading and other financial assets at fair value through profit or loss. The Bank uses value at risk (VaR) as a risk management instrument for the trading portfolio while still using the standard method to calculate own funds requirements. The document entitled 'Market discipline' that shall be published by the end of April 2014 provides more detailed information on the Bank's mandatory capital requirements.

Foreign Exchange Rate Risk

Foreign exchange rate risk is the probability of negative impact on the Bank’s earnings or capital due to adverse changes in foreign exchange rates, caused by the volatility of the price

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

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

Operational Risk

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

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

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

Executive Committee (CE) – top management structure that is the main responsible for management guidelines and policies, establishing and monitoring risk appetite and risk tolerance limits.
Risk Management Department (DGR) - Integrates the unit exclusively dedicated to managing operational risk. It is in charge of boosting and coordinating the remaining structures towards the application of methodologies and employment of corporate tools to support the model.
Heads of Operational Risk (RRO) – Corresponding to the basis of the organization, these are elements appointed by the hierarchies of each organic unit who have the role of facilitators and promoters of the operational risk management model.

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

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

1. Identification

   a. Description of Functions and Risk and Control Maps

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

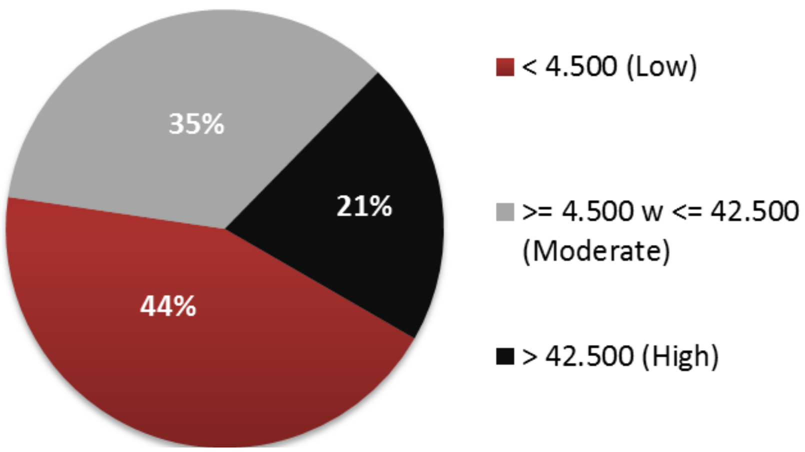
   b. Collection of operational risk events

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

2. Assessment

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

Risks by expected impact



3. Monitoring

    a. Key operational risk indicators (KRIs).

    Whenever relevant, alert mechanisms are developed on indicators that might identify risk situations.

    b. Reporting

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

    Every month the more relevant situations are presented and discussed in the Internal Control and Operational Risk Committee which fosters the debate and adoption of the most adequate mitigating measures.

Banco Popular Portugal calculates its own funds requirements to hedge operational risk according to the Basic Indicator Approach (BIA). It aims adopting the Standardised Approach (TSA) and its respective application is being assessed by the Bank of Portugal.

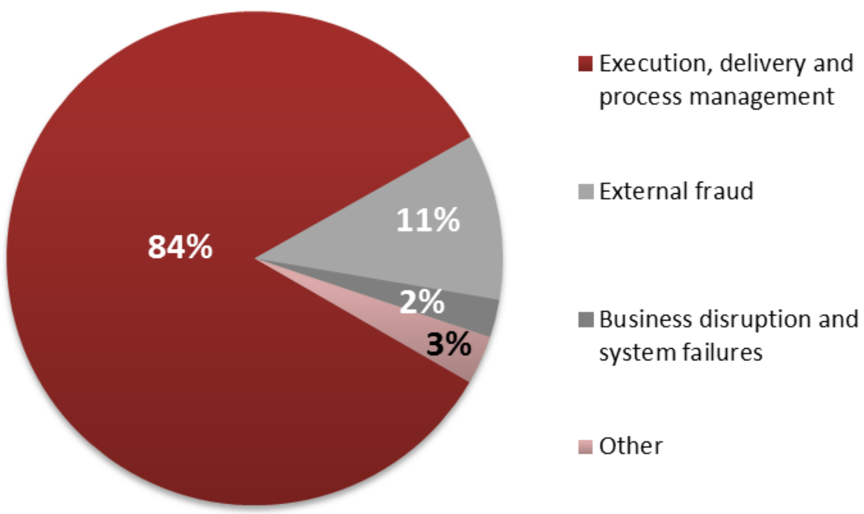
Banco Popular Group, for the Spanish regulator, has been using the Standardised Approach since 2009.

Quantitative situation

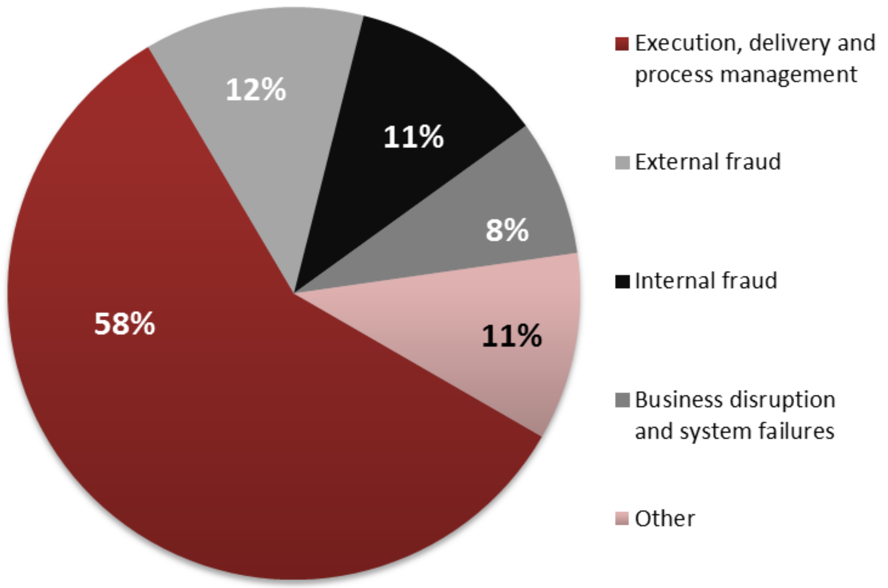
At the end of 2013, the losses identified that fit into Operational Risk amounted to 6% of its capacity for the absorption of such losses, considering the amount of own funds to hedge Operational Risk.

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

Frequency:



Distribution of impact (net losses)



Structural interest rate risk

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

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

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

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

Besides regularly assessing the interest rate risk pursuant to Instruction No. 19/2005 issued by the Bank of Portugal - in which the impact of a shift of 200 basis points in the yield curve, both net, and margin are measured - in the scope of the stress test performed, the Bank analyses the sensitivity to the following parameters:

- Parallel shift of 100 b.p. in the yield curve;
- Fluctuation of 100 b.p. in the steepness of the yield curve.

Liquidity Risk

Liquidity risk is controlled in order to ensure that the 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 Bank 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 are managed by monitoring future cash flows, in order to guarantee that the requirements are met. This includes funding reposition, as it matures or is granted to customers;

- Maintaining a high-liquidity asset portfolio so that can be easily converted into cash as a protection against any unexpected interruption in cash flows;

- Monitoring liquidity ratios taking into account external and internal requirements;

- Managing the concentration and profile of debt maturities resorting to the liquidity gap model.

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

Regarding the analysis of liquidity risk, besides the obligations established by the Bank of Portugal under the terms of Instruction No. 13/2009, the Bank also resorts to the concept of liquidity gap, i.e., from the balance sheet of the Bank as at 31 December 2013, based on the maturities of assets and liabilities it is possible to ascertain the diferential between the referred maturities (positive or negative) according to residual maturity deadlines, called liquidity gaps.

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 and the policies and procedures in force, are adequate and enable the prevention and mitigation of reputational risk in its various forms.

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

Property Risk

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

The Bank is exposed to property risk that arises from its property portfolio whose net amount as at 31 December 2013 stood at around 242.6 million euros, representing around 2.6% of the Bank's net assets. These were assets whose ownership was transferred to the Bank following legal actions or in lieu of payment to settle loan debts (mostly loans for construction/property development and home loans).

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

In the scope of the stress test performed, a sensitivity analysis and the impact on capital consumption caused by the decrease in property prices is calculated.

Proposal for the appropriation of net income

Pursuant to the Articles of Association, the Board of Directors proposes that net loss for 2013, in the amount of 31,720,295 euros, shall be recognised in the Balance Sheet as Other reserves and retained earnings.

Quality and Innovation

'Service Excellence' - A Culture of Commitment with the Customers

For a bank operating in a competitive market in which the different competitors do not provide a varied offer, the quality of the service rendered is the main factor that offers added-value to the customer. Therefore, Banco Popular Portugal endeavours to develop a set of initiatives aiming at implementing these practices in the Bank.

Erasmus Project

The Bank created a programme targeted at the staff of the central departments with the objective of letting them know how branches work with the customers and showing how important the support and contribution of the several departments is towards developing the commercial activity and improving the quality of the service provided to our customers.

Surveys

Making customers' perceptions exceed their initial expectations, by offering them products and services that are adequate to their real needs, replying to all requests swiftly and efficiently with a greater involvement between staff and customers in every interaction are the daily concerns of the whole structure of the Bank.

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

- Internal surveys on the quality of central services;
- Internal surveys on the commercial offer;
- Involvement of employees with projects targeted at improving our activity, services, products and customer relationship;

- Mystery customer programmes targeted at assessing key moments in the experiences of the customer with the Bank;
- Assessing response times to the different requests.

This follow-up allows the Bank to continuously identify aspects that require readjustment and implement their respective improvement actions, always with the aim of increasing customer satisfaction with the quality of the service provided.

Customer Support

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

Incentives to 'Do Well'

With the aim of promoting the practice of 'doing well' both at the level of branches and central services, the Bank has developed initiatives to raise internal awareness for these topics based on metrics related with internal auditing notes, level of customer complaints, operational risk events, results of the mystery customer visits, results of mystery phone calls and indication of internal surveys on the quality of service.

Social Responsibility and Supporting Culture

Refurbishing the Shelter Home of the Obra do Padre Gregório Association

In May 2013 a joint action with Entrajuda took place for which 43 volunteers showed up at the shelter home of the Obra do Padre Gregório Association to refurbish the place. The Obra do Padre Gregório Association works as a Shelter for Infants and Youths, sheltering 29 girls from 3 to 18 years old, who have been victims of negligence or violence.

School Book Donation Campaign

In August, the Bank launched a social responsibility campaign with the motto 'Share the school books you no longer need!'. This initiative, carried out together with the Entrajuda association, consisted in a project of re-using school books by rationalizing and recycling resources, while at the same time promoting the respect for the environment and fighting against waste.

In order to collect the largest number of school books possible, the campaign tried to engage every employee in this noble cause, using the several communication means we have at our disposal: internal posters, emailing and Intranet banner.

Banco Popular's employees enthusiastically responded to this appeal and during the four weeks of this campaign over 300 school books from the whole country were received in a total of over 800 kg. The books were then distributed to several charities.

Christmas Solidarity Campaign - Food Collection

In December 2013, the Bank promoted a collection of foodstuff for Cáritas in its branches and central services. The doors of Banco Popular's branches were open to the whole community, both customers and others, that wanted to participate in this campaign by donating goods. Every branch and the central offices had baskets where thousands of goods were deposited. In total, Banco Popular managed to collect over 15000 goods, the equivalent to 11.5 tons. These goods were handed to Cáritas Portugal that gave them to those in need.

Christmas Solidarity Campaign - Solidarity Deposit

Together with the Food Collection, a Solidarity Deposit was created, which consisted in giving 1€ a charity for every 1,000 € deposited. Many charities received donations from this campaign and the amounts to be given to each one were decided by the Facebook fans of Banco Popular through their vote. In all 61,000 € were collected.

Giving away 989 computers

In 2013, Banco Popular, through its Organization and IT Department, donated to Entrajuda's Equipment Bank 989 computers.

Entrajuda thus gave a new life to the equipment which would have been probably destroyed, recovering the computers and placing them at the service of the several institutions they support, helping those in need.

RNE Solidarity Campaign

In November, the Specialised Business Network (RNE) carried out a Solidarity Campaign aimed at helping poor families in Lisbon and Oporto. The aim of this campaign was collecting several types of goods, such as: foodstuff, hygiene products, clothes, etc. The goods collected were then delivered to the associations 'Associação Auxílio e Amizade' and 'Associação Criança e Vida', whose objective is to help babies, children, youngsters and elderly people. Over 20 boxes of goods were collected, which allowed us to help more than 160 families.

Visit to the Zoo with Raríssimas

In the scope of sponsoring a lemur from the Lisbon Zoo, a visit to the Zoo was organized together with the Raríssimas Association. This visit took place in May, when several employees of the Bank spent an afternoon at the Zoo with children supported by Raríssimas. Besides the visit, money boxes from Banco Popular were distributed to the children that participated in this visit.

Spanish Lessons for Employees

Throughout the year, the Bank provided free Spanish lessons to some employees selected due to their degree of coordination or the importance of learning the language for the job they carry out.

Spanish Course for the children of employees

During the first fifteen days of July, Banco Popular provided daily Spanish lessons for the children of our employees between 8 and 6, using the facilities of the headquarters. This action resulted from a privileged partnership that we have established with the Connecta company that allowed special prices for employees.

National Reading Plan

Since 2011, Banco Popular has associated with the National Reading Plan (PNL), supporting the competitions promoted in the scope of Reading Weeks, initiatives organised every year by PNL that comprehend every school in the country. The partnership with PNL is a project that essentially intends to value the literary and artistic creation of children and youngsters.

Academy of Sciences

Every year the Academy of Sciences of Lisbon promotes three awards - Alexandre Herculano, Pedro Nunes and Padre António Vieira - aimed at distinguishing the three students from secondary education that present the best grades nationwide on the following subjects: History, Mathematics and Portuguese.

The support given by Banco Popular to this event has allowed to strengthen the investment on national talent, with a very important pedagogical approach and promoting education. The Banks sponsors 50% of these awards.

Final note

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

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

Lisbon, 20 February 2014

The Board of Directors

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

(Article 447 of the Commercial Companies Code - 'Código das Sociedades Comerciais')
Nothing to report.

Annex 2 - Qualifying holdings

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

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

Annual Accounts

Balance Sheet

Individual Balance Sheet as at 31 December 2013 and 2012

(€ thousand)

	Note/ Table Annex	31-12-2013 Amount before provisions impairment & depreciation 1	Provisions, impairment & depreciation 2	Net result 3 = 1 - 2	31-12-2012 Restated	01-01-2012 Restated
Assets						
Cash and balances with central banks	17	54 114		54 114	171 349	138 221
Deposits with banks	18	174 427		174 427	54 743	140 324
Financial assets held for trading	19	73 843		73 843	56 738	34 942
Other financial assets at fair value through profit or loss	20	24 983		24 983	32 954	30 496
Available-for-sale financial assets	21	1 704 136		1 704 136	1 105 359	1 503 439
Loans and advances to banks	22	1 268 822		1 268 822	269 818	148 835
Loans and advances to customers	23	5 510 349	260 893	5 249 456	5 835 386	6 367 864
Held-to-maturity investments	24	-		-	723 879	545 326
Hedging derivatives	34	103		103	-	
Non-current assets held for sale	25	20 747		20 747	22 579	-
Other tangible assets	26	178 696	96 315	82 381	88 004	93 338
Intangible assets	27	20 832	20 660	172	171	817
Investment in subsidiaries and associates		-		-	-	22 579
Current income tax assets	15	3 566		3 566	1 360	-
Deferred income tax assets	28	72 175		72 175	82 396	121 839
Other assets	29	546 688	53 440	493 248	422 076	488 946
Total Assets		**9 653 481**	**431 308**	**9 222 173**	**8 866 812**	**9 636 966**
Liabilities						
Deposits from central banks	30	1 306 839		1 306 839	1 605 143	495 137
Financial liabilities held for trading	19	29 629		29 629	40 181	29 374
Deposits from banks	31	1 919 736		1 919 736	1 423 759	3 648 429
Due to customers	32	4 216 578		4 216 578	3 906 941	4 154 043
Debt securities issued	33	865 255		865 255	1 011 248	605 816
Hedging derivatives	34	101 883		101 883	128 563	82 554
Provisions	35	51 054		51 054	54 588	61 134
Current income tax liabilities		-		-	-	2 063
Deferred income tax liabilities	28	4 060		4 060	10 675	6 014
Other liabilities	36	61 251		61 251	33 824	49 628
Total Liabilities		**8 556 285**	**0**	**8 556 285**	**8 214 922**	**9 134 192**
Equity						
Share capital	39	476 000		476 000	476 000	451 000
Share premium	39	10 109		10 109	10 109	10 109
Fair value reserves	40	- 54 143		- 54 143	- 110 807	- 233 632
Other reserves and retained earnings	41	265 642		265 642	273 896	261 865
Income for the year		- 31 720		- 31 720	2 692	13 432
Total Equity		**665 888**	**0**	**665 888**	**651 890**	**502 774**
Total Liabilities + Equity		**9 222 173**	**0**	**9 222 173**	**8 866 812**	**9 636 966**

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Income Statement

Individual Income Statement as at 31 December 2013 and 2012

(€ thousand)

	Note/ Table Annex	31-12-2013	31-12-2012
Interest and similar income	6	303 812	365 784
Interest and similar charges	6	182 564	216 926
Net interest income		**121 248**	**148 858**
Return on equity instruments	7	49	55
Fees and commissions received	8	60 657	75 400
Fees and commission paid	8	8 574	21 119
Net gains from financial assets at fair value through profit or loss	9	- 2 686	3 821
Net gains from available-for-sale financial assets	9	11 389	- 1 192
Net gains from foreign exchange differences	10	1 288	1 417
Net gains from the sale of other assets	11	- 5 241	- 7 347
Other operating income	12	- 6 415	- 6 374
Operating income		**171 715**	**193 519**
Personnel expenses	13	56 309	55 658
General administrative expenses	14	51 473	50 643
Depreciation and amortization	TV 26/27	5 023	7 234
Provisions net of reversals	35	8 563	- 6 546
Adjustments to loans and advances to customers (net of reversals)	23	89 390	63 077
Impairment of other financial assets net of reversals		-	611
Impairment of other assets net of reversals	29	12 481	16 484
Net income before tax		**- 51 524**	**6 358**
Income tax		- 19 804	3 666
Current tax	15	- 957	4 132
Deferred tax	15	- 18 847	- 466
Net income after taxes		**- 31 720**	**2 692**
Of which: Net income from discontinued operations		0	0
Net income for the period		**- 31 720**	**2 692**
Earnings per share (euro)		**-0.07**	**0.01**

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Statement of Comprehensive Income

(€ thousand)

	31-12-2013	31-12-2012 Proforma
Net income	**- 31 720**	**2 692**
Other comprehensive income		
Items not reclassified as income		
Retirement pensions		
Recognition of actuarial gains and losses	- 11 002	- 2 196
	- 11 002	**- 2 196**
Items reclassified as income		
Available-for-sale financial assets		
Revaluation of available-for-sale financial assets	79 172	168 190
Tax burden	- 22 452	- 44 570
	56 720	**123 620**
Income not recognised in the income statement	**45 718**	**121 424**
Individual comprehensive income	**13 998**	**124 116**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

Individual Statement of Changes in Equity

(€ thousand)

	Share Capital	Share premium	Fair value reserves	Other reserves and retained earnings	Net income	Total
Balance as at 01 January 2012	**451 000**	**10 109**	**- 233 632**	**255 418**	**13 432**	**496 327**
Restatement effects				6 447		6 447
Balance as at 01 January 2012 - AAS	**451 000**	**10 109**	**- 233 632**	**261 865**	**13 432**	**502 774**
Transferred to reserves				13 432	- 13 432	0
Share capital increase	25 000					25 000
Others			-795	795		0
Comprehensive income for the period			123 620	- 2 196	2 692	124 116
Balance as at 31 December 2012 - AAS	**476 000**	**10 109**	**- 110 807**	**273 896**	**2 692**	**651 890**
Transferred to reserves				2 692	- 2 692	0
Others			- 56	56		0
Comprehensive income for the period			56 720	- 11 002	- 31 720	13 998
Balance as at 31 December 2013	**476 000**	**10 109**	**- 54 143**	**265 642**	**- 31 720**	**665 888**

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

Cash Flow Statements

Individual Cash Flow Statements for the years ended 31 December 2013 and 2012

(€ thousand)

	Notes	31-12-2013	31-12-2012
Cash flow from operating activities			
Interest and income received		247 350	280 621
Interest and expenses paid		- 128 229	- 176 442
Fees and commissions received		56 747	72 118
Fees and commissions paid		- 8 574	- 21 119
Loan recoveries		1 337	917
Contributions to the pension fund	37	- 647	2 826
Cash paid to suppliers and employees		- 95 787	- 107 805
Sub-total		**72 197**	**51 116**
Changes in operating assets and liabilities			
Deposits with central banks		117 729	- 35 976
Financial assets and liabilities at fair value through profit or loss		- 21 024	- 8 268
Loans and advances to banks		140 773	- 133 998
Deposits from banks		194 732	-1 123 169
Loans and advances to customers		358 014	343 566
Customer funds		311 562	- 243 839
Risk management derivatives		- 48 846	27 114
Other operating assets and liabilities		- 156 881	- 17 532
Net cash flow from operating activities before income taxes		**968 256**	**-1 140 986**
Income taxes		- 1 248	- 7 555
Net cash flow from operating activities		**967 008**	**-1 148 541**
Cash flow from investing activities			
Dividends received		49	55
Purchase of available for sale financial assets		-2 980 422	-1 499 452
Sale of available for sale financial assets		2 975 761	2 122 663
Held-to-maturity investments		301 019	- 158 869
Non-current tangible assets held for sale		172 561	174 360
Purchase and sale of assets		- 189	- 7 244
Net cash flow from investing activities		**468 779**	**631 513**
Cash flow from financing activities			
Share capital increase	39	0	25 000
Issue of own equity instruments	33	122 946	743 907
Redemption of own equity instruments		- 300 192	- 354 824
Net cash flow from financing activities		**- 177 246**	**414 083**
Net changes in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	46	227 772	329 393
Effect of exchange rate fluctuations on cash and cash equivalents		1 583	1 324
Net changes in cash and cash equivalents		**1 258 541**	**- 102 945**
Cash and cash equivalents at year end	**46**	**1 487 896**	**227 772**

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Schedule of Securities

INDIVIDUAL SCHEDULE OF SECURITIES AS AT 31 DECEMBER 2013 (amounts in euros)

Name and type	Asset cateory Instruction No. 23/2004	Type of issuer	Issuer's country	Listed / Unlisted	Relevant organised market	Market price	Number	Nominal value	Valuation criteria	Balance sheet carrying amount	Realised gains/losses	Value adjustments		% stake	
												Impairment	Other	Capital	Voting rights
Debt instruments															
Public debt instruments - Residents															
OT June 2019 - 4.75%	Available-for-sale financial assets	SPA	Portugal	S	Portugal	36,807,940.00	3,800,000,000	38,000,000.00	Fair value	37,801,926.30					
Public debt instruments - Residents															
Spanish Treasury	Available-for-sale financial assets	SPA	Spain	S	Spain	517,736,140.00	478,000	478,000,000.00	Fair value	527,109,875.76					
Other issuers															
Unsubordinated debt															
A. Rodrigues Correia Lopes, Bebidas e Alimentação, S.A. - 6ª	Loans and other receivables	Other	Portugal	N			30	1,500,000.00	Amortised cost	1,500,000.00					
AdP – Águas de Portugal, SGPS, S.A. - 3ª	Loans and other receivables	Other	Portugal	N			50	2,500,000.00	Amortised cost	2,500,000.00					
AdP – Águas de Portugal, SGPS, S.A. - 4ª	Loans and other receivables	Other	Portugal	N			50	2,500,000.00	Amortised cost	2,500,000.00					
Alliance Healthcare, S.A. (Grupado)	Loans and other receivables	Other	Portugal	N			100	5,000,000.00	Amortised cost	5,000,000.00					
Altri, SGPS, S.A. (Grupado) - 5ª	Loans and other receivables	Other	Portugal	N			100	5,000,000.00	Amortised cost	5,000,000.00					
Amorim Holding II, SGPS, S.A. (2012) - 31ª	Loans and other receivables	Other	Portugal	N			330	16,500,000.00	Amortised cost	16,500,000.00					
Amorim Holding II, SGPS, S.A. (2012) - 32ª	Loans and other receivables	Other	Portugal	N			270	13,500,000.00	Amortised cost	13,500,000.00					
Amorim Holding II, SGPS, S.A. (2013) - 5ª	Loans and other receivables	Other	Portugal	N			500	25,000,000.00	Amortised cost	25,000,000.00					
Amorim Investimentos e Participações, SGPS, S.A. (2011) - 36ª	Loans and other receivables	Other	Portugal	N			200	10,000,000.00	Amortised cost	10,000,000.00					
Amorim Investimentos e Participações, SGPS, S.A. (2013) - 29ª	Loans and other receivables	Other	Portugal	N			800	40,000,000.00	Amortised cost	40,000,000.00					
Amorim Turismo, SGPS, S.A. - 26ª	Loans and other receivables	Other	Portugal	N			330	16,500,000.00	Amortised cost	16,500,000.00					
Auto Sueco, LDA. (2013) - 5ª	Loans and other receivables	Other	Portugal	N			80	4,000,000.00	Amortised cost	4,000,000.00					
Avicasal – Sociedade Avícola, S.A. (Grupado) - 36ª	Loans and other receivables	Other	Portugal	N			25	1,250,000.00	Amortised cost	1,250,000.00					
BA Vidro, S.A. - 40ª	Loans and other receivables	Other	Portugal	N			70	3,500,000.00	Amortised cost	3,500,000.00					
Barraqueiro SGPS - 27ª	Loans and other receivables	Other	Portugal	N			10	500,000.00	Amortised cost	500,000.00					
Barraqueiro Transportes - 27ª	Loans and other receivables	Other	Portugal	N			25	1,250,000.00	Amortised cost	1,250,000.00					
Bebécar - SGPS, S.A. - 3ª	Loans and other receivables	Other	Portugal	N			8	400,000.00	Amortised cost	400,000.00					
Bebécar - SGPS, S.A. - 4ª	Loans and other receivables	Other	Portugal	N			6	300,000.00	Amortised cost	300,000.00					
Bebécar - SGPS, S.A. - 6ª	Loans and other receivables	Other	Portugal	N			5	250,000.00	Amortised cost	250,000.00					
Bi-Silque, Produtos de Comunicação Visual, S.A. - 2ª	Loans and other receivables	Other	Portugal	N			22	1,100,000.00	Amortised cost	1,100,000.00					
Celulose Beira Industrial (CELBI), S.A. (Grupado) - 4ª	Loans and other receivables	Other	Portugal	N			100	5,000,000.00	Amortised cost	5,000,000.00					
Chuvitex – Trading, Lda - 1ª	Loans and other receivables	Other	Portugal	N			20	1,000,000.00	Amortised cost	1,000,000.00					
Ciclo Fapril – Industrias Metalúrgicas, S.A. (2013) - 2ª	Loans and other receivables	Other	Portugal	N			10	500,000.00	Amortised cost	500,000.00					
Cinca – Companhia Industrial de Cerâmica, S.A. - 3ª	Loans and other receivables	Other	Portugal	N			15	750,000.00	Amortised cost	750,000.00					
Cinca – Companhia Industrial de Cerâmica, S.A. - 5ª	Loans and other receivables	Other	Portugal	N			25	1,250,000.00	Amortised cost	1,250,000.00					
Coficab Portugal – Companhia de Fios e Cabos, Lda - 28ª	Loans and other receivables	Other	Portugal	N			20	1,000,000.00	Amortised cost	1,000,000.00					
Efacec Capital, SGPS, S.A. - 5ª	Loans and other receivables	Other	Portugal	N			100	5,000,000.00	Amortised cost	5,000,000.00					
Eva Transportes - 27ª	Loans and other receivables	Other	Portugal	N			20	1,000,000.00	Amortised cost	1,000,000.00					
F Ramada – Aços e Indústrias, S.A. - 12ª	Loans and other receivables	Other	Portugal	N			100	5,000,000.00	Amortised cost	5,000,000.00					
FAF – Produtos Siderúrgicos, S.A. - 3ª	Loans and other receivables	Other	Portugal	N			11	550,000.00	Amortised cost	550,000.00					
FAF – Produtos Siderúrgicos, S.A. - 4ª	Loans and other receivables	Other	Portugal	N			19	950,000.00	Amortised cost	950,000.00					
Frulact – Indústria Agro-Alimentar, S.A. - 37ª	Loans and other receivables	Other	Portugal	N			20	1,000,000.00	Amortised cost	1,000,000.00					
Grupo Valouro, SGPS, S.A. (2013) - 1ª	Loans and other receivables	Other	Portugal	N			40	2,000,000.00	Amortised cost	2,000,000.00					
Grupo Visabeira, SGPS, S.A. - 5ª	Loans and other receivables	Other	Portugal	N			50	2,500,000.00	Amortised cost	2,500,000.00					
Imperial - Produtos Alimentares, S.A. - 9ª	Loans and other receivables	Other	Portugal	N			20	1,000,000.00	Amortised cost	1,000,000.00					
Mari -Sport Calçado, LDA. - 5ª	Loans and other receivables	Other	Portugal	N			5	250,000.00	Amortised cost	250,000.00					
Mari -Sport Calçado, LDA. - 6ª	Loans and other receivables	Other	Portugal	N			5	250,000.00	Amortised cost	250,000.00					
Martins Ferreira – Comércio de Produtos Siderúrgicos, S.A. - 3ª	Loans and other receivables	Other	Portugal	N			10	500,000.00	Amortised cost	500,000.00					
Megio Media Global, SGPS, S.A.	Loans and other receivables	Other	Portugal	N			100	5,000,000.00	Amortised cost	5,000,000.00					
Mundo Têxtil – Indústrias3 Têxteis, S.A. - 54ª	Loans and other receivables	Other	Portugal	N			31	1,550,000.00	Amortised cost	1,550,000.00					
Nabeirogest – Sociedade Gestora de Participações Sociais, S.A. - 27ª	Loans and other receivables	Other	Portugal	N			200	10,000,000.00	Amortised cost	10,000,000.00					
Nevag, SGPS,SA	Loans and other receivables	Other	Portugal	N			28	1,400,000.00	Amortised cost	1,400,000.00					
Oscacer – César Rola, LDA - 144ª	Loans and other receivables	Other	Portugal	N			45	2,250,000.00	Amortised cost	2,250,000.00					
Palbit, S.A. - 5ª	Loans and other receivables	Other	Portugal	N			7	350,000.00	Amortised cost	350,000.00					
Palbit, S.A. - 6ª	Loans and other receivables	Other	Portugal	N			3	150,000.00	Amortised cost	150,000.00					
Pavigrés Cerâmicas, S.A. - 3ª	Loans and other receivables	Other	Portugal	N			100	5,000,000.00	Amortised cost	5,000,000.00					
Pecol – Sistemas de Fixação, S.A. (2013) - 2ª	Loans and other receivables	Other	Portugal	N			20	1,000,000.00	Amortised cost	1,000,000.00					
Pecol II – Componentes Industriais, Lda - 2ª	Loans and other receivables	Other	Portugal	N			20	1,000,000.00	Amortised cost	1,000,000.00					
Probar – Indústria Alimentar, S.A. - 54ª	Loans and other receivables	Other	Portugal	N			20	1,000,000.00	Amortised cost	1,000,000.00					
Procme - Gestão Global de Projectos, S.A. - 4ª	Loans and other receivables	Other	Portugal	N			100	5,000,000.00	Amortised cost	5,000,000.00					
Reivas II – Rolhas de Champanhe, S.A. (2012) - 3ª	Loans and other receivables	Other	Portugal	N			17	850,000.00	Amortised cost	850,000.00					
RevigrésS – Indústria de Revestimentos de Grés, Lda - 39ª	Loans and other receivables	Other	Portugal	N			70	3,500,000.00	Amortised cost	3,500,000.00					
Riberalves, SGPS, S.A. - 22ª	Loans and other receivables	Other	Portugal	N			160	8,000,000.00	Amortised cost	8,000,000.00					
Ricon Serviços - 38ª	Loans and other receivables	Other	Portugal	N			10	500,000.00	Amortised cost	500,000.00					
Rodoviária Alentejo - 27ª	Loans and other receivables	Other	Portugal	N			20	1,000,000.00	Amortised cost	1,000,000.00					
Rodoviária Lisboa - 27ª	Loans and other receivables	Other	Portugal	N			25	1,250,000.00	Amortised cost	1,250,000.00					
Savinor – Sociedade Avícola do Norte, S.A. (Grupado)	Loans and other receivables	Other	Portugal	N			10	500,000.00	Amortised cost	500,000.00					
Semapa – Soc. de Investimento e Gestão, SGPS, S.A. - 148ª	Loans and other receivables	Other	Portugal	N			25	1,250,000.00	Amortised cost	1,250,000.00					
Semapa – Soc. de Investimento e Gestão, SGPS, S.A. - 149ª	Loans and other receivables	Other	Portugal	N			59	2,950,000.00	Amortised cost	2,950,000.00					
Semapa – Soc. de Investimento e Gestão, SGPS, S.A. - 150ª	Loans and other receivables	Other	Portugal	N			89	4,450,000.00	Amortised cost	4,450,000.00					

Name and type	Asset cateory Instruction No. 23/2004	Type of issuer	Issuer's country	Listed / Unlisted	Relevant organised market	Market price	Number	Nominal value	Valuation criteria	Balance sheet carrying amount	Realised gains/losses	Value adjustments		% stake	
												Impairment	Other	Capital	Voting rights
Soc. de Construções Soares da Costa, S.A. - 10ª	Loans and other receivables	Other	Portugal	N			150	7,500,000.00	Amortised cost	7,500,000.00					
Solverde – Sociedade de Investimentos Turísticos da Costa Verde, S	Loans and other receivables	Other	Portugal	N			100	5,000,000.00	Amortised cost	5,000,000.00					
Sonae Capital, SGPS, S.A. (2013) - 1ª	Loans and other receivables	Other	Portugal	N			165	8,250,000.00	Amortised cost	8,250,000.00					
Sonae Indústria, SGPS, S.A. - 1071ª	Loans and other receivables	Other	Portugal	N			100	5,000,000.00	Amortised cost	5,000,000.00					
Sorgal – Sociedade de Óleos e Rações, S.A. (Grupado) - 35ª	Loans and other receivables	Other	Portugal	N			35	1,750,000.00	Amortised cost	1,750,000.00					
Sulgranja – Sociedade Agrícola, S.A. - 55ª	Loans and other receivables	Other	Portugal	N			20	1,000,000.00	Amortised cost	1,000,000.00					
XRS Motor - 39ª	Loans and other receivables	Other	Portugal	N			10	500,000.00	Amortised cost	500,000.00					
BTA IM Cédulas G.B.P. 4,25 02/14	Financial assets at fair value through profit or lo	OIF	Spain	S	Spain	24,079,920.00	240	24,000,000.00	Fair value	24,982,550.17	219,840.00				
Kaupthing 6,25% C 10	Financial assets held for trading	IC	Iceland	S	Iceland	1.00	582	582,000.00	Fair value	1.00	0.00				
Kaupthing 6,75% C 12	Financial assets held for trading	IC	Iceland	S	Iceland	1.00	3,595	3,595,000.00	Fair value	2.50	0.00				
Landsbanki C 24.2.11	Financial assets held for trading	IC	Iceland	S	Iceland	1.00	310	310,000.00	Fair value	1.00	0.00				
Lehman Brothers5.125	Financial assets held for trading	IC	EUA	S	EUA	0.01	66	66,000.00	Fair value	0.66	0.00				
Banco Espírito Santo -3,875	Available-for-sale financial assets	IC	Portugal	S	Portugal	6,078,240.00	120	6,000,000.00	Fair value	6,298,000.31	81,525.02				
Banco Espírito Santo 5,625 06/2014	Available-for-sale financial assets	IC	Portugal	S	Portugal	5,080,100.00	100	5,000,000.00	Fair value	5,241,915.08	82,122.54				
Banco Sabadell	Available-for-sale financial assets	IC	Spain	S	Spain	1,745,577.00	17	1,700,000.00	Fair value	1,800,012.45	50,768.63				
Bankinter	Available-for-sale financial assets	IC	Spain	S	Spain	59,259,200.00	1,100	55,000,000.00	Fair value	61,030,689.73	-171,743.24				
Barclays BK PLC	Available-for-sale financial assets	IC	Jnited Kingdor	S	nited Kingdo	19,500,660.00	18,000	18,000,000.00	Fair value	20,183,180.51	1,534,991.08				
Barclays BK PLC 4,75% Perpetual	Available-for-sale financial assets	IC	Jnited Kingdor	S	nited Kingdo	205,478.40	24	240,000.00	Fair value	214,567.19	9,999.03				
BBVA	Available-for-sale financial assets	IC	Spain	S	Spain	35,024,150.00	700	35,000,000.00	Fair value	36,420,434.21	23,197.12				
BCP-Banco Comercial Português - 3,75	Available-for-sale financial assets	IC	Portugal	S	Portugal	20,464,000.00	400	20,000,000.00	Fair value	20,640,712.35	503,656.79				
BCP-Banco Comercial Português - 5,625	Available-for-sale financial assets	IC	Portugal	S	Portugal	15,451,300.00	305	15,250,000.00	Fair value	16,045,893.34	132,224.41				
BESI -Obrig. Indexadas Ouro	Available-for-sale financial assets	IC	Portugal	N	Portugal	827,664.00	860	860,000.00	Fair value	831,534.00	-25,740.51				
BNP 4,875% Perpetua	Available-for-sale financial assets	IC	France	S	France	33,909.75	35	35,000.00	Fair value	33,909.75	-1,090.25				
BSCH	Available-for-sale financial assets	IC	Spain	S	Spain	8,204,080.00	80	8,000,000.00	Fair value	8,430,857.80	205,768.18				
Caixa Geral de Depósitos 3,625% 07-2014	Available-for-sale financial assets	IC	Portugal	S	Portugal	5,059,450.00	100	5,000,000.00	Fair value	5,142,019.48	60,532.73				
CaixaBank	Available-for-sale financial assets	IC	Spain	S	Spain	75,163,200.00	700	70,000,000.00	Fair value	77,610,323.28	-267,031.96				
Citibank-Obrig. Indexadas Ouro CFI	Available-for-sale financial assets	OIF	EUA	N	EUA		860	860,000.00	Fair value	850,243.81	-16,483.06				
Class D Note Purchase Agreement	Available-for-sale financial assets	OIF	Ireland	N	Ireland		1	4,630,000.00	Fair value	2,336,559.38	-2,043,440.62				
EDP Finance BV	Available-for-sale financial assets	Other	Netherlands	S	Netherlands	38,109,960.00	36,000	36,000,000.00	Fair value	38,643,672.33	2,418,310.06				
EDP Finance BV	Available-for-sale financial assets	Other	Netherlands	S	Netherlands	14,185,220.00	14,000	14,000,000.00	Fair value	14,251,672.06	260,118.37				
Fondo Amort. Def Elect.	Available-for-sale financial assets	Other	Spain	S	Spain	285,154,800.00	2,800	280,000,000.00	Fair value	287,433,156.17	1,899,211.61				
Fondo Amort. Def Elect.	Available-for-sale financial assets	Other	Spain	S	Spain	306,114,000.00	3,000	300,000,000.00	Fair value	308,595,164.39	603,211.03				
Fondo Amort. Def Elect.	Available-for-sale financial assets	Other	Spain	S	Spain	74,132,100.00	700	70,000,000.00	Fair value	76,426,278.08	-162,363.93				
Fortis Nederland	Available-for-sale financial assets	IC	Netherlands	S	Netherlands	36,227,450.00	35,000	35,000,000.00	Fair value	37,500,874.63	1,242,745.73				
Ing Bank, BV	Available-for-sale financial assets	IC	Netherlands	S	Netherlands	30,903,900.00	30,000	30,000,000.00	Fair value	31,747,187.66	941,712.65				
KBC-obrig. Indexadas Ouro KBC 1,4	Available-for-sale financial assets	OIF	Netherlands	N	Netherlands		688	688,000.00	Fair value	673,483.20	-15,272.85				
KBC-obrig. Indexadas Ouro KBC 1,5	Available-for-sale financial assets	OIF	Netherlands	N	Netherlands		172	172,000.00	Fair value	168,637.40	-3,804.19				
Lloyds TSB Bank	Available-for-sale financial assets	IC	Jnited Kingdor	S	nited Kingdo	15,534,450.00	15,000	15,000,000.00	Fair value	15,938,063.04	538,724.75				
Lloyds-Obrig. Indexadas Ouro Lloyds	Available-for-sale financial assets	IC	Jnited Kingdor	N	nited Kingdom		860	860,000.00	Fair value	849,422.00	-17,509.79				
Man Blue Crest	Available-for-sale financial assets	OIF	Jnited Kingdor	S	nited Kingdo	73.14	5	5,000.00	Fair value	73.14	-4,926.86				
Muencher Hypo C 6/06	Available-for-sale financial assets	IC	Germany	S	Germany	29,793.90	30	30,000.00	Fair value	29,793.90	-206.10				
Navigator Mortage Finance EUR FL.R 02-2035	Available-for-sale financial assets	OIF	Ireland	N	Ireland	100,105.74	18	107,280.90	Fair value	100,193.20	-4,735.10				
Red Electrica FIN BV	Available-for-sale financial assets	Other	Spain	S	Spain	4,514,400.00	40	4,000,000.00	Fair value	4,648,191.68	440,714.15				
Royal Bk Scot.10/49	Available-for-sale financial assets	IC	Jnited Kingdor	S	nited Kingdo	733,770.00	15	750,000.00	Fair value	747,509.97	-16,230.00				
Telefonica	Available-for-sale financial assets	Other	Spain	S	Spain	25,501,940.00	230	23,000,000.00	Fair value	26,464,271.50	2,501,940.00				
UBI Banca, SPCA	Available-for-sale financial assets	IC	Italy	S	Italy	31,167,170.00	29,000	29,000,000.00	Fair value	31,218,019.32	2,309,272.86				
Total										**1,986,440,878.78**					
Equity Instruments															
ACT-C-Indústria de Cortiças, SA	Available-for-sale financial assets	Other	Portugal	N			354,153	1,770,765.00	Custo Histórico	0.00	0.00	1,770,765.00		9.88%	9.88%
CorkFoc- Cortiças, SA	Available-for-sale financial assets	Other	Portugal	N			116,066	580,330.00	Fair value	0.00	0.00	580,330.00		6.418%	6.418%
Eurovida - Comp. de Seguros de Vida, S.A.	Non-current assets held for sale	S	Portugal	N	Portugal		239,022	1,195,110.00	Fair value	20,747,127.99	0.00			15.9348%	15.9348%
Finangeste - Emp. Fin. Gestão e Desenv., SA	Available-for-sale financial assets	OIF	Portugal	N	Portugal		100	500.00	Fair value	1,417.55	-577.65			0.00%	0.00%
Prebesan-Pré Fabricados de Betão de Santarém, Lda	Available-for-sale financial assets	Other	Portugal	N					Custo Histórico	0.00	0.00	103,333.00		2%	2%
Sibs - Soc. Interb. de Serviços, SA	Available-for-sale financial assets	OIF	Portugal	N	Portugal		25,680	128,400.00	Fair value	326,036.55	-895,100.95			0.52%	0.52%
SWIFT	Available-for-sale financial assets	OIF	Belgica	N	Belgica		6	750.0000	Custo Histórico	16,500.00	0.00				
TAEM-Processamento Alimentar, SGPS, SA	Available-for-sale financial assets	Other	Portugal	N			125	125.00	Custo Histórico	125.00	0.00			0.25%	0.25%
Unicre - Cartão Intern. de Crédito, SA	Available-for-sale financial assets	OIF	Portugal	N	Portugal		7,207	36,035.00	Fair value	286,910.29	-173,313.14			0.360%	0.360%
Visa Europe Limited	Available-for-sale financial assets	OIF	Jnited Kingdor	N	nited Kingdom		1	10.0000	Fair value	10.00	0.00			0.00%	0.00%
Visa Inc. Class C series I Commom Stock	Available-for-sale financial assets	OIF	EUA	N	EUA		1,854	USD 0,1854	Fair value	46,373.75	0.00			0.00%	0.00%
Total										**21,424,601.13**					
Other															
Arrendamento Mais - FIIFAH		OIF	Portugal	S	Portugal	15,285,275.11	3,063,120	5.00	Fair value	15,285,275.11	-30,324.89				
DEGI Internacional	Financial assets held for trading	OIF	Germany	S	Germany	169,715.22	7,033	1.00	Fair value	169,715.22	-83,677.71				
Imopular FEI Fechado	Financial assets held for trading	OIF	Portugal	S	Portugal	2,264,357.05	269,759	10.00	Fair value	2,264,357.05	-557,236.29				
KanAm Grundinvest	Financial assets held for trading	OIF	Germany	S	Germany	38,856.29	982	1.00	Fair value	38,856.29	-13,774.09				
KanAm Spezial Grund	Financial assets held for trading	OIF	Germany	S	Germany	41,733.50	475	100.00	Fair value	41,733.50	-1,102.00				

Name and type	Asset cateory Instruction No. 23/2004	Type of issuer	Issuer's country	Listed / Unlisted	Relevant organised market	Market price	Number	Nominal value	Valuation criteria	Balance sheet carrying amount	Realised gains/losses	Value adjustments		% stake	
												Impairment	Other	Capital	Voting rights
OPC Preff Class D	Financial assets held for trading	OIF	Ireland	0	Ireland	19,362.00	280	100.00	Fair value	19,362.00	-1,989.21				
Popular Arrendamento - FII/FAH	Financial assets held for trading	OIF	Portugal	0	Portugal	15,496,074.86	157,220	100.00	Fair value	15,496,074.86	-80,238.66				
Popular Economias Emergentes	Financial assets held for trading	OIF	Portugal	0	Portugal	1,457.40	160	10.00	Fair value	1,457.40	-42.60				
Popular Economias Emergentes II	Financial assets held for trading	OIF	Portugal	0	Portugal	4,344.75	450	10.00	Fair value	4,344.75	30.15				
Popular Global 50 - Fundo de Fundos	Financial assets held for trading	OIF	Portugal	0	Portugal	39,296.56	7,974	5.00	Fair value	39,296.56	-30,488.08				
Popular Global 75 - Fundo de Fundos	Financial assets held for trading	OIF	Portugal	0	Portugal	218,250.66	53,929	5.00	Fair value	218,250.66	-67,540.62				
Popular obrigações indexadas a empresas Germany/EUA	Financial assets held for trading	OIF	Portugal	0	Portugal	29,887.95	2,626	10.00	Fair value	29,887.95	4,586.42				
Popular obrigações indexadas ao Ouro (Londres) FEI	Financial assets held for trading	OIF	Portugal	0	Portugal	131,254.88	13,418	10.00	Fair value	131,254.88	-2,920.41				
Popular Predifundo	Financial assets held for trading	OIF	Portugal	0	Portugal	2,320,924.20	197,106	4.99	Fair value	2,320,924.20	299,019.19				
SEB Immoinvest	Financial assets held for trading	OIF	Germany	0	Germany	60,199.70	1,382	1.00	Fair value	60,199.70	-13,912.89				
Solução Arrendamento-FIIAH	Financial assets held for trading	OIF	Portugal	0	Portugal	11,990,631.43	2,447,767	5.00	Fair value	11,990,631.43	-141,269.03				
Total										**48,101,821.66**					

Notes to the Financial Statements

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 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 31 December 2013, the Bank detains only one equity stake in the associated company – Companhia de Seguros de Vida, S.A. (see note 25).

2. 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 Disclosures - New standards as at 31 December 2013

a) Impact of the adoption of standards and interpretations that became effective on 1 January 2013

Standards

- **IAS 1** (amended), ‘Presentation of financial statements’. This amendment changes the presentation of items that were booked as Other comprehensive income (OCI) by requiring entities to separate items recognised in OCI whether they can be recycled to profit or loss at a future point in time, as well as the respective tax effect when those items are booked at their gross amount. The adoption of this amendment had an impact on the Bank's Financial Statements.
- **IAS 12** (amended), 'Income taxes'. This amendment requires an entity to measure deferred tax regarding an asset taking into consideration the expected manner of recovery or settlement of the carrying amount of the underlying asset. This amendment also incorporates SIC 21 accounting guidelines into IAS 12, revoking the former. The adoption of this amendment did not have any impact on the Bank's Financial Statements.
- **IAS 19** (revised), ‘Employee Benefits’. This revision to IAS 19 introduces significant changes to the recognition and measurement of expenses with defined benefit plans and termination benefits, as well as in the disclosures for all types of employee benefits. Actuarial gains and losses are immediately recognised in Other comprehensive income (the corridor method is no longer allowed). The financial cost of defined benefit plans with constituted funds is calculated based on the net amount of unfunded liabilities. Termination benefits are only recognised when the

obligation of the employee to provide future services ceases. The adoption of this amendment did not have any impact on the Bank's Financial Statements.

- **2009 – 2011 improvements to standards.** The annual improvement cycle affects the following standards: IFRS 1 (second adoption of IFRS 1 and respective exemptions), IAS 1 (presentation of additional financial statements when changing an accounting policy is mandatory or voluntary), IAS 16 (classifying spare parts and servicing equipment when it qualifies as tangible asset), IAS 32 (classifying tax effects on transactions involving own funds or dividends), and IAS 34 (exemption from segment reporting). The adoption of this amendments did not have any impact on the Bank's Financial Statements.
- **IFRS 1** (amended) 'First-time adoption of IFRS'. This amendment creates an additional exemption for the cases when an entity that was subject to severe hyperinflation presents its Financial Statements according to IFRS for the first time. The other amendment concerns the removal of a fixed date which is replaced by the 'date of transition to IFRS' regarding the exemption from retrospective adoption. The adoption of this amendment did not have any impact on the Bank's Financial Statements.
- **IFRS 1** (amended) 'First-time adoption of IFRS' - Government loans. This amendment clarifies how a first-time adopter shall recognise a Government loan with a below-market rate of interest in the transition to IFRS. The amendment adds an exception to the retrospective application of IFRS, providing the same relief to first-time adopters as was granted to existing preparers of IFRS Financial Statements in 2009. The adoption of this amendment did not have any impact on the Bank's Financial Statements.
- **IFRS 7** (amended) 'Disclosures – Offsetting financial assets and liabilities '. This amendment is part of IASB's 'offsetting financial assets and liabilities' project and introduces new disclosure requirements on the right of an entity to offset (assets and liabilities), the offset amounts, and the effects in its exposure to credit risk. The adoption of this amendment did not have any impact on the Bank's Financial Statements.
- **IFRS 13** (new), 'Fair value measurement and disclosure'. The aim of IFRS 13 is improving the consistency of financial statements by presenting a precise definition of fair value and providing a single framework for measuring fair value, as well as the disclosure requirements that have to be used in every IFRS. The adoption of this amendment did not have any impact on the Bank's Financial Statements.

b) Standards, amendments to existing standards and interpretations that have already been published and whose adoption is mandatory for the Bank, for annual periods beginning on or after 1 January 2014, or on a subsequent date, which the Bank has not adopted in advance.

Standards

- **IFRS 10** (new), 'Consolidated Financial Statements' (to be adopted in the European Union in annual periods beginning, at the latest, on or after 1 January 2014). IFRS 10 replaces all accounting procedures and guidelines regarding control and consolidation included in IAS 27 and SIC 12, changing the definition of control and the criteria applied to determine it. The main principle that a consolidated entity shall present the parent company and its subsidiaries as a single entity remains unaltered. The Bank shall apply IFRS 10 in the annual period when it becomes effective.

- **IFRS 11** (new), 'Joint Arrangements' (to be adopted in the European Union in annual periods beginning, at the latest, on or after 1 January 2014). IFRS 10 is focused on the rights and obligations of joint arrangements regardless of their legal form. Joint arrangements may be joint operations (rights over assets and liabilities) or joint ventures (rights over net assets by applying the equity method of accounting). Proportional consolidation of joint ventures is no longer allowed. The Bank shall apply IFRS 11 in the annual period when it becomes effective.

- **IFRS 12** (new), 'Disclosure of Interests in Other Entities' (to be adopted in the European Union in annual periods beginning, at the latest, on or after 1 January 2014). This standard establishes disclosure requirements for every nature of interest in other entities, such as; subsidiaries, joint arrangements, associates and structured entities, in order to allow for the assessment of the nature, risks and financial effects associated with the Entity's interests. The Bank shall apply IFRS 12 in the annual period when it becomes effective.

- **Amendments to IFRS 10, IFRS 11 and IFRS 12**, 'Transition guidance' (to be adopted in the European Union in annual periods beginning, at the latest, on or after 1 January 2014). This amendment clarifies that when an accounting treatment differs from IAS 27/SIC 12 guidelines resulting from the adoption of IFRS 10, comparatives only need to be adjusted to the immediately preceding period, and those differences shall be recognised in equity at the beginning of the comparative period . This amendment introduced by IFRS 11 is related with the obligation of testing for impairment the financial investment resulting from discontinuing proportional consolidation. The specific disclosure requirements are included in IFRS 12. The Bank shall apply this amendments at the beginning of the annual period when they become effective.

- **IAS 27** (revised 2011), 'Separate Financial Statements' (to be adopted in the European Union in annual periods beginning, at the latest, on or after 1 January 2014). IAS 27 was revised after IFRS 10 was published and contains recognition and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Entity prepares separate financial statements. The Bank shall apply this amendment at the beginning of the annual period when it becomes effective.

- **IAS 28** (revised 2011),'Investments in Associates and Joint Ventures' (to be adopted in the European Union in annual periods beginning, at the latest, on or after 1 January 2014). IAS 28 was revised following the publication of IFRS 11 and prescribes the accounting treatment for investments in associates and joint ventures, also defining the application of the equity method. The Bank shall apply this amendment at the beginning of the annual period when it becomes effective.

- **IAS 32** (amended) 'Offsetting financial assets and liabilities (which applies to annual periods beginning on or after 1 January 2014). This amendment is part of IASB's 'offsetting financial assets and liabilities' project which aims at clarifying the meaning of 'currently has a legally enforceable right to set-off' and also clarifies that some settlement systems which apply gross settlement mechanisms (such as central clearing house systems) may be equivalent to offsetting by their net amounts. The Bank shall apply this amendment at the beginning of the annual period when it becomes effective.

- **IAS 36** (amended) 'Recoverable amount disclosures for non-financial assets' (which applies to annual periods beginning on or after 1 January 2014). This amendment deals with disclosing information on the amount of impaired assets, when it had been measured based on fair value less costs of disposal. It is not expected that this amendment shall have any impact on the Bank's Financial Statements.

- **IAS 39** (amended) 'Novation of derivatives and continuation of hedge accounting' (which applies to annual periods beginning on or after 1 January 2014). The amendment to IAS 39 enables an Entity to continue hedge accounting, in a situation where a derivative that has been designated as a hedging instrument is novated from one counterparty to a central counterparty, as a consequence of new laws or regulations. It is not expected that this amendment shall have any impact on the Bank's Financial Statements.
- **Amendments to IFRS 10, IFRS 12 and IAS 27** - 'Investment Entities' (which applies to annual periods beginning on or after 1 January 2014). This amendment defines 'Investment entities' and introduces an exemption from consolidation in the scope of IFRS 10 for entities that qualify as Investment entities, whose investments in subsidiaries must be measured at fair value through profit or loss by reference to IAS 39. Specific disclosures required by IFRS 12. The Bank shall apply this amendment at the beginning of the annual period when it becomes effective.
- **IAS 19** (amended), 'Defined benefit plans – Employee contributions' (which applies to annual periods beginning on or after 1 January 2014). This amendment is still going through the European Union endorsement process. The amendment to IAS 19 applies to employee contributions or those made by third parties into defined benefit plans and intends to simplify the accounting for contributions that are independent of the number of years of employee service. It is not expected that this amendment shall have any impact on the Bank's Financial Statements.
- **2010 - 2012 Improvements to Standards,** (which applies, in general, to annual periods beginning on or after 1 July 2014). These amendments are still going through the European Union endorsement process. This improvement cycle affects the following standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. The Bank shall apply these improvements in the annual period when they become effective.
- **2011 - 2013 Improvements to Standards,** (which applies, in general, to annual periods beginning on or after 1 July 2014). These amendments are still going through the European Union endorsement process. This improvement cycle affects the following standards: IFRS 1, IFRS 3, IFRS 13, and IAS 40. The Bank shall apply these improvements in the annual period when they become effective.
- **IFRS 9** (new), 'Financial Instruments – classification and measurement' (does not have a mandatory effective date). This standard is still going through the European Union endorsement process. IFRS 9 corresponds to the first part of the new IFRS standard for financial instruments, which foresees the existence of two measurement categories: amortised cost and fair value. Equity instruments are measured at fair value. Other financial instruments are measured at amortised cost only when the Entity holds them to collect the contractual cash flows, and the cash flows correspond to principal and interest. Otherwise, financial instruments are measured at fair value through profit or loss. The Bank shall apply IFRS 9 in the annual period when it becomes effective.
- **IFRS 9** (amended), 'Financial instruments – hedge accounting' (does not have a mandatory effective date). This standard is still going through the European Union endorsement process. This amendment corresponds to the third stage of IFRS 9 and reflects a substantial revision of the hedge accounting requirements, removing the quantitative assessment of effectiveness testing and enabling more items to qualify for hedge accounting, and allowing the deferral of certain impacts of hedging instruments in Other comprehensive income. This change aims at more closely aligning hedge accounting with risk management practices. The Bank shall apply IFRS 9 in the annual period when it becomes effective.

Interpretations

- **IFRIC 21** (new), 'Levies' (applicable in the annual periods beginning on or after 1 January 2014). This standard is still going through the European Union endorsement process. IFRIC 21 is an interpretation of IAS 37 and the recognition of liabilities, clarifying that the past event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy The Bank shall apply IFRIC 21 in the annual period when it becomes effective.

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

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

2.3 Equity stakes in associated companies

Associated companies are those in which the Bank has, directly or indirectly, a significant influence over its management and financial policy but does not hold control over the company. It is assumed that the Bank has a significant influence when it holds the power to control over 20% of the voting rights of the associate. Even when voting rights are lower than 20%, the Bank may have significant influence through the participation in 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: 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 amortised cost based on the effective interest rate method and subject to impairment tests.

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

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

Factoring

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

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

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

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

Guarantees granted and irrevocable commitments

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

c) Held-to-maturity investments

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

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

d) Available-for-sale financial assets

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

This item includes:

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

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

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

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

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

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

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

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

2.9 Impairment of financial assets

a) Assets carried at amortised cost

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

(i) significant financial stress of the borrower;

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

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

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

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

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

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

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

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

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

When analysing impairment in a portfolio, the Bank estimates the probability of an operation or a customer to default during the estimated period between impairment occurring and the loss being identified. Usually, the timeframe used by the Bank is of around 6 months.

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

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

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

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

b) Assets carried at fair value

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

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

2.10 Intangible assets

- Computer software

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

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

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

2.11 Intangible assets

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

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

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

	Estimated useful life (years)
Freehold buildings	50
Adaptation works in leasehold property	10, or during the lease period if lower than 10 years
Furniture, fixtures and fittings	5 to 8
Computers and similar equipment	3 to 4
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 granted loans 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 35); and

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

2.15 Employee benefits

a) Pension liabilities and other post-retirement benefits

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

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

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

Accumulated actuarial gains or losses that did not exceed 10% of the highest of the current value of liabilities for past services or the value of the pension funds were included in the 'corridor'. Actuarial gains 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.

As at 1 January 2013 and as referred to in **2.19 Changes in the Accounting Policy of Recognising Actuarial Gains or Losses**, BAPOP changed its accounting policy of recognising financial and actuarial gains and losses for pension plans and other defined benefit post-employment benefits according to IAS 19 Revised. Financial and actuarial gains and losses are now recognised in the period they occur directly in equity in the Statement of Comprehensive Income.

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

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

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

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

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

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

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

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

b) Seniority bonuses

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

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

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

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

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

2.16 Deferred taxes

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

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

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

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

2.17 Financial liabilities

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

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

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

b) Central banks, other banks and customer funds

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

c) Securitised liabilities and other subordinated liabilities

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

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

2.18 Non-current assets held for sale

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

2.19 Changes in the Accounting policy of recognising actuarial gains and losses

As at 1 January 2013 the Bank changed its accounting policy of recognising financial and actuarial gains and losses for pension plans and other defined benefit post-employment benefits (see **2.15 Employee Benefits**) according to IAS 19 Revised. Financial and actuarial gains and losses are now recognised in the period they occur directly in equity in the Statement of Comprehensive Income.

The Bank formerly applied the corridor method, recognising actuarial gains or losses in the Balance Sheet, defining a corridor to absorb financial and actuarial gains or losses that did not exceed 10% of the highest of the current value of liabilities for past services or the value of the assets in the Pension Funds. Actuarial gains and losses in excess of the corridor would be recognised against results over the average remaining period of service of the employees covered by the plan.

Retrospectively applying the accounting policy of recognising actuarial gains or losses, pursuant to IAS 8, had the following impact on equity:

	Equity as at 01-01-12	Income for 2012	Equity as at 31-12-12
Balance according to IAS 19 pre-revised	**496 327**	**2 692**	**647 639**
Actuarial gains / losses accumulated as at 1 January 2012	2 931		2 931
Actuarial gains / losses for the year - Fund			- 2 196
Deferred taxes due to actuarial deviations	3 516		3 516
Balance according to IAS 19 revised	**502 774**	**2 692**	**651 890**

3. Financial risk management

3.1 Strategy used for financial instruments

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

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

The Bank’s portfolio – including financial assets held for sale, held-to-maturity investments, trading portfolio and other financial assets at fair value through profit or loss – amounted to around 1.8 billion euros at the end of 2013, representing around 19.3% of the Bank's total net assets. The typology of these assets was broken down as follows: public Portuguese debt (2.1%), public Spanish debt (67.5%), banks (26.1%) and others (4.3%).

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

a) Fair value hedge accounting

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

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

b) Cash flow hedge accounting

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

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

3.2 Financial assets and liabilities at fair value

The Board of Directors considered that as at 31 December 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 hedging includes an amount of 9 517 thousand euros (2012: 1 125 thousand euros).

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

	31-12-2013		31-12-2012	
	Fair value	Change	Fair value	Change
Financial assets at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	25 505	40 114	38 429	39 706
Market price swaps	-	-	-	-
Futures	167	-	154	-
Options	70	1 433	226	1 990
Available-for-sale financial assets				
Debt instruments issued by residents	92 002	- 29 950	529 888	-
Equity instruments issued by residents	614	-	611	-
Debt instruments issued by non-residents	1 611 456	41 339	574 795	- 1 192
Equity instruments issued by non-residents	63	-	65	-
Financial liabilities at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	29 456	- 43 240	39 817	- 39 602
Market price swaps	-	-	-	-
Futures	68	-	138	-
Options	105	- 179	226	223
		9 517		**1 125**

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	31-12-2013 Level 1	Level 2	Level 3	Total	31-12-2012 Level 1	Level 2	Level 3	Total
Held-for-trading financial assets								
Variable income securities	2 879		45 222	48 101	4 953		12 976	17 929
Derivatives		25 742		25 742		38 809		38 809
Other financial assets at fair value through profit or loss								
Fixed income securities	24 983			24 983	32 954			32 954
Available-for-sale financial assets								
Debt securities	1 698 580	4 879		1 703 459	1 102 068	2 615		1 104 683
Equity securities			677	677			676	676
Hedging derivatives		103		103				0
Total Assets at fair value	**1 726 442**	**30 724**	**45 899**	**1 803 065**	**1 139 975**	**41 424**	**13 652**	**1 195 051**
Held-for-trading financial Liabilities (Derivatives)		29 629		29 629		40 181		40 181
Hedging derivatives		101 883		101 883		128 563		128 563
Total Liabilities at fair value	**0**	**131 512**	**0**	**131 512**	**0**	**168 744**	**0**	**168 744**

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

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

- Collaterals

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

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

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

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

- Lending commitments

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

- Maximum exposure to credit risk

As at 31 December 2013 and 2012, maximum exposure to credit risk was as follows:

	31-12-2013	31-12-2012
On-balance sheet		
Deposits with banks	174 427	54 743
Financial assets held for trading	25 742	38 809
Other financial assets at fair value through profit or loss	24 983	32 954
Available-for-sale financial assets	1 703 458	1 104 683
Loans and advances to banks	1 268 822	269 818
Loans and advances to customers	5 249 457	5 835 386
Held-to-maturity investments	-	723 879
Other assets	247 492	82 343
	8 694 381	**8 142 615**
Off-balance sheet		
Financial guarantees	429 755	458 426
Other guarantees	109 716	104 828
Lending commitments	788 982	694 372
Documentary credits	39 885	41 453
	1 368 338	**1 299 079**
Total	**10 062 719**	**9 441 694**

The table above shows the worst case scenario in terms of the level of exposure to credit risk the Bank faced as at 31 December 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, 60.0 % of total maximum exposure results from loans and advances to customers (2012: 69.2%).

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

- 59% of the amount of loans and advances to customers has eligible collaterals;
- 95% of customer credit portfolio is not past due.

- Concentration by activity segment of financial assets with credit risk

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

31-12-2013	Financial Institutions	Public Sector	Property constr. & development	Other industries	Services	Private individuals Home loans	Private individuals Other loans
Deposits with banks	174 427						
Financial assets held for trading	48 400		13 862	167	10 224		1 190
Other fin. assets at fair value thr. prof./loss	24 983						
Available-for-sale financial assets	382 761	564 912			756 463		
Loans and advances to banks	1 268 697						
Loans and advances to customers		4 461	847 068	846 768	2 003 430	1 485 564	314 869
Non-current assets held for sale	20 747						
Other assets	132 689	18 221					
	2 052 704	587 594	860 930	846 935	2 770 117	1 485 564	316 059

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

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

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

3.5 Market risk

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

As at 31 December 2013, the Bank's portfolio amounted to around 1.8 billion euros, of which around 73 million were classified as financial assets held for trading and other financial assets at fair value through profit or loss. The Bank uses value at risk (VaR) as an instrument to manage the trading portfolio risk.

- Risk-sensitivity analysis

In the scope of the stress test performed, Banco Popular carries out a sensitivity analysis to a 30% fluctuation in stock indexes.

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 Foreign-exchange risk

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

31 December 2013	USD	GBP	CHF	JPY	CAD	AUD	NOK	Other
Assets								
Cash and cash equivalents	704	123	136	44	9	63	3	8
Deposits with banks	87 744	19 902	269	8	9 941	5 452	2 056	210
Available-for-sale financial assets	46	-	-	-	-			-
Loans and advances to banks	-	547	-	-	-			-
Loans and advances to customers	1 879	22	-	-	-	-	1	-
Other assets	987	62	4	-	5	-	-	-
	91 360	20 656	409	52	9 955	5 515	2 060	218
Liabilities								
Deposits from banks	130 135	12 238	-	34	-	-	-	12
Deposits from customers	93 121	8 219	225	-	10 039	5 593	2 052	123
Other liabilities	1 147	33	21	5	2	-	-	3
	224 403	20 490	246	39	10 041	5 593	2 052	138
Forward transactions	134 047	-	-		-			-
Net balance sheet position	1 004	166	163	13	- 86	- 78	8	80
31 December 2012								
Total assets	183 294	8 616	540	49	1 308	9 881	3 209	273
Total liabilities	188 061	8 572	355	21	1 314	9 986	3 226	200
Net balance sheet position	- 4 767	44	185	28	- 6	- 105	- 17	73

- Risk-sensitivity analysis

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

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

3.7 Interest rate risk

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

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

Maturity and repricing gap for the Bank's activity as at 31 December 2013

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Not sensitive	Total
Cash and balances with central & other banks	-	-	-	-	54 114	54 114
Monetary market	401 153	1 004 891	-	-	37 205	1 443 249
Loans and advances to customers	1 372 518	2 421 740	1 176 867	226 607	51 724	5 249 456
Securities market	104 730	152 784	104 075	1 366 852	74 521	1 802 962
Other assets	-	-	-	-	672 392	672 392
Total Assets	**1 878 401**	**3 579 415**	**1 280 942**	**1 593 459**	**889 956**	**9 222 173**
Monetary market	1 749 335	204 017	252 703	1 013 750	6 770	3 226 575
Deposit market	853 398	735 845	1 466 020	1 114 255	47 060	4 216 578
Securities market	558 844	31 045	149 075	124 422	1 869	865 255
Other liabilities	-	-	-	-	247 877	247 877
Total Liabilities	**3 161 577**	**970 907**	**1 867 798**	**2 252 427**	**303 576**	**8 556 285**
Gap	**-1 283 176**	**2 608 508**	**- 586 856**	**- 658 968**	**586 380**	
Accumulated gap	**-1 283 176**	**1 325 332**	**738 476**	**79 508**	**665 888**	

Maturity and repricing gap for the Bank's activity as at 31 December 2012

Gap	**-1 107 078**	**2 557 651**	**107 694**	**-1 508 625**	**597 997**
Accumulated gap	**-1 107 078**	**1 450 573**	**1 558 267**	**49 642**	**647 639**

- Risk-sensitivity analysis

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

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

	Up to 1 month	1 to 3 months	3 to 12 months	Over 12 months	Not sensitive	Total
Cash and balances with central & other banks	-	-	-	-	54 114	54 114
Monetary market	401 153	1 004 891	-	-	37 205	1 443 249
Loans and advances to customers	1 372 518	2 421 740	1 176 867	226 607	51 724	5 249 456
Securities market	104 730	152 784	104 075	1 366 852	74 521	1 802 962
Other assets	-	-	-	-	672 392	672 392
Total Assets	**1 878 401**	**3 579 415**	**1 280 942**	**1 593 459**	**889 956**	**9 222 173**
Monetary market	1 749 335	204 017	252 703	1 013 750	6 770	3 226 575
Deposit market	853 398	735 845	1 466 020	1 114 255	47 060	4 216 578
Securities market	558 844	31 045	149 075	124 422	1 869	865 255
Other liabilities	-	-	-	-	247 877	247 877
Total Liabilities	**3 161 577**	**970 907**	**1 867 798**	**2 252 427**	**303 576**	**8 556 285**
Gap	-1 283 176	2 608 508	- 586 856	- 658 968	586 380	
Accumulated gap	-1 283 176	1 325 332	738 476	79 508	665 888	
Impact of a 1% increase	- 535	220	9 356			
Accumulated impact	- 535	- 315	9 041			

Accumulated effect	9,041
Net interest income	121 248
Accumulated gap	7.46%

3.8 Liquidity risk

Liquidity risk is controlled in order to ensure that the 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 Bank 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 forecast 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 funding reposition as it matures or is 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. Treasury also monitors the degree of non-used loan commitments, the use of overdraft facilities and the impact of contingent liabilities such as letters of credit and guarantees.

Regarding the analysis of liquidity risk, besides the obligations established by the Bank of Portugal under the terms of Instruction No. 13/2009, the Bank also resorts to the concept of liquidity gap, i.e., from the balance sheet of the Bank as at 31 December 2013, based on the maturities of assets and liabilities it is possible to ascertain the diferential between the referred maturities (positive or negative) according to residual maturity deadlines, called liquidity gaps.

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

Liquidity gap of the balance sheet as at 31 December 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	54 114				
Deposits with banks	174 427				
Financial assets held for trading			48 101		
Other financial assets at fair value			24 983		
Available-for-sale financial assets	37 098		26 430	698 376	942 233
Loans and advances to banks	1 190 406	73 904	3 239		1 148
Loans and advances to customers	652 423	389 178	954 316	1 411 894	1 821 527
Held-to-maturity investments					
Other assets	355	317	22 459	190 819	214
Total Assets	**2 108 823**	**463 399**	**1 079 528**	**2 301 089**	**2 765 122**
Deposits from central banks	400 000			895 000	
Deposits from banks	1 335 387	202 842	260 026		118 750
Deposits from customers	1 584 761	746 659	1 402 599	444 559	
Debt securities issued	16 214	29 679	692 143	125 350	
Other liabilities	10 228	4 309	8 064	793	7 328
Total Liabilities	**3 346 590**	**983 489**	**2 362 832**	**1 465 702**	**126 078**
Gap	**-1 237 767**	**- 520 090**	**-1 283 304**	**835 387**	**2 639 044**
Accumulated gap	**-1 237 767**	**-1 757 857**	**-3 041 161**	**-2 205 774**	**433 270**
Liquidity gap as at 31 December 2012					
Gap	**-2 040 962**	**- 413 011**	**- 660 713**	**208 187**	**3 197 651**
Accumulated gap	**-2 040 962**	**-2 453 973**	**-3 114 686**	**-2 906 499**	**291 152**

- Off-balance sheet exposures (Liquidity risk)

As at 31 December 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:

31-12-2013	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated
Contingent liabilities:						
Documentary credits	-	-	-	-	-	39 885
Guarantees and Sureties	2 760	7 396	16 174	198 679	2 012	312 449
Commitments:						
Irrevocable loans	-	-	-	-	-	-
Revocable loans	51 652	92 439	285 120	8 990	91 501	259 280
Total	**54 412**	**99 835**	**301 294**	**207 669**	**93 513**	**611 614**

3.9 Operational risk

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

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

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

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

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

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

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

3.10 Fiduciary activities

The Bank provides custody services, guarantees, corporate management services, investment management and third party advisory services. These activities demand the allocation of assets and purchasing and sale transactions regarding a wide range of financial instruments. These assets, which are kept in fiduciary capacity are not included in these financial statements. As at 31 December 2013, the Bank held investment accounts in the amount of 5 214 227 thousand euros (2012: 5 940 400 thousand euros) and managed estimated financial assets in the amount of 121 236 thousand euros (2012: 134 642 thousand euros).

3.11 Capital management and disclosures

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

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

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

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

	31-12-13	31-12-12
Tier 1 Capital		
Share capital	476 000	476 000
Share premium	10 109	10 109
Statutory reserve	35 221	34 951
General banking reserves	230 421	234 694
Profit for the year	- 31 720	2 692
Minus: Intangible assets	- 1 576	- 1 573
Eligible revaluation differences	- 7 038	- 12 161
Deductions pursuant to Instruction 28/2011	- 8 529	- 22 729
Deferred taxes and non-accepted assets	- 12 050	- 6 507
Deductions from insurance shareholdings	- 2 000	- 2 000
Deductions pursuant to Instruction 120/96	- 21 441	- 19 528
Tier 1 Capital total	***667 397***	***693 948***
Tier 2 Capital		
Reserves from revaluation of tangible assets	2 291	2 348
Deductions from insurance shareholdings	- 2 000	- 2 000
Tier 2 Capital total	**291**	**348**
Eligible own funds	**667 688**	**694 296**
Risk weighted assets	6 037 085	6 571 846
Own funds requirement ratio	11.1%	10.6%
Core tier I	11.4%	10.9%
Tier I	11.1%	10.6%

4. Estimates and assumptions in the application of accounting policies

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

a) Impairment losses on loans

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

b) Fair value of derivatives and unlisted financial assets

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

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

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

d) Retirement and survivor’s pensions

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

e) Deferred taxes

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

5. Segmental reporting

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

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

Banco Popular operates in the following segments:

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

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

(3) *Other Segments,* which group all the operations not included in the other segments, namely operations and management of the Bank’s Own Portfolio and Investments in Banks.

Geographically, Banco Popular operates exclusively in Portugal.

Segmental reporting is as follows:

31-12-2013	Retail Banking	Commercial Banking	Other Segments	Total
Interest and similar income	131 372	92 861	79 579	303 812
Interest and similar charges	92 630	28 423	61 511	182 564
Return on equity instruments	-	-	49	49
Fees and commissions received	27 049	8 814	24 794	60 657
Fees and commission paid	706	299	7 569	8 574
Income from Financial Operations (net)	1 251	- 3	8 743	9 991
Gains from the sale of other assets	-	-	- 5 241	- 5 241
Other Operating Income (net)	-	-	- 6 415	- 6 415
Net assets	3 396 620	1 949 931	3 875 622	9 222 173
Liabilities	3 223 902	1 379 279	3 953 104	8 556 285

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

6. Net interest income

This item is broken down as follows:

	31-12-13	31-12-12
Interest and similar income from :		
Cash and cash equivalents	283	601
Deposits with banks	2 322	1 235
Loans and advances to customers	224 091	284 293
Other financial assets at fair value	1 265	1 352
Other available-for-sale financial assets	60 711	58 744
Held-to-maturity investments	14 921	19 335
Other	219	224
	303 812	365 784
Interest and similar charges from:		
Deposits from Central Banks	8 510	10 005
Deposits from banks	12 138	27 850
Deposits from customers	108 599	143 805
Debt securities issued	31 254	16 349
Hedging derivatives	22 063	18 894
Others	-	23
	182 564	216 926
Net interest income	**121 248**	**148 858**

7. Dividend income

Balance for this item is as follows:

	31-12-13	31-12-12
Available-for-sale financial assets	49	55
	49	55

8. Revenue and expense with fees and commissions

These items are broken down as follows:

	31-12-13	31-12-12
Revenue from Fees and Commissions from:		
Loans	19 575	19 247
Guarantees and sureties	6 063	7 269
Means of collection and payment	16 816	30 467
Asset management	3 473	4 620
Fees from insurance brokerage	2 081	1 436
Account maintenance	5 183	4 836
Processing fees	1 673	1 957
Structured operations	2 310	2 357
Others	3 483	3 211
	60 657	**75 400**
Expenses with Fees and Commissions from:		
Means of collection and payment	5 331	18 244
Asset management	2 163	1 998
Insurance brokerage	329	390
Others	751	487
	8 574	**21 119**

9. Net income from financial operations

This item is broken down as follows:

	31-12-2013		31-12-2012	
	Gains	Losses	Gains	Losses
Financial assets and liabilities held for trading				
Fixed income securities	-	-	-	327
Variable income securities	411	955	350	526
Derivative financial instruments	41 547	43 419	41 696	39 826
	41 958	**44 374**	**42 046**	**40 679**
Assets and liabilities at fair value through profit or loss				
Fixed income securities	428	698	3 861	1 407
	428	**698**	**3 861**	**1 407**
Hedging derivatives at fair value	**140 098**	**140 098**	**146 959**	**146 959**
Available-for-sale assets and liabilities				
Fixed income securities	41 347	29 958	317	1 509
	41 347	**29 958**	**317**	**1 509**
	223 831	**215 128**	**193 183**	**190 554**

In 2013, the Bank received 52.2 thousand euros in dividends from financial assets held for trading (2012: 24.4 thousand euros). In 2013 and 2012 the Bank did not earn any income from financial assets at fair value through profit or loss.

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

10. Income from foreign exchange revaluation

These items are broken down as follows:

	31-12-13	31-12-12
Exchange gains		
Spot	93	207
Forward	2 953	1 214
	3 046	1 421
Exchange losses		
Forward	1 758	4
	1 758	4
Income from exchange differences (net)	**1 288**	**1 417**

11. Income from the sale of other assets

This item is broken down as follows:

	31-12-13	31-12-12
Gains from the sale of held-for-sale tangible assets	1 433	1 343
Gains from other tangible assets	3	112
Gains from held-to-maturity investments	5 065	348
	6 501	1 803
Losses due to credit assignments	5 456	-
Losses from the sale of held-for-sale tangible assets	6 286	9 150
	11 742	9 150
	- 5 241	**- 7 347**

12. Other operating results

This item is broken down as follows:

	31-12-13	31-12-12
Contributions to the DGF	- 1 033	- 1 044
Contributions to the IIS	- 1 420	-
Other operating expenses	- 1 925	- 1 982
Contribution on the banking sector	- 3 357	- 3 999
Council tax	- 1 298	- 1 973
Other taxes	- 911	- 846
Income from staff transfer	1 472	1 543
Income from property	476	545
Other income and operating revenue	1 581	1 382
	- 6 415	**- 6 374**

13. Personnel expenses

This item is broken down as follows:

	31-12-13	31-12-12
Wages and salaries	41 781	41 890
Compulsory social security charges from:		
- Wages and salaries	11 126	11 348
- Pension Fund	2 397	1 137
- Other compulsory social security charges	160	300
Other expenses	845	983
	56 309	**55 658**

14. General expenses

This item is broken down as follows:

	31-12-13	31-12-12
With supplies		
Water, energy and fuel	1 773	1 991
Items of regular consumption	368	546
Software licences	254	145
Other third party supplies	347	451
With services		
Rents and leasing	4 392	4 890
Communications	4 164	4 174
Travel, hotel and representation	1 134	867
Advertising and publicity	2 700	2 703
Maintenance of premises and equipment	4 170	5 362
Transports	1 137	1 249
Fees and regular payment agreements	6 420	3 993
Legal expenses	2 473	2 391
IT Services	8 338	6 324
Security, surveillance and cleaning	1 159	1 317
Temporary work	4 575	4 656
External consultants and auditors	1 148	1 362
SIBS	1 259	1 218
Services rendered by the parent company	3 283	3 548
Other third party services	2 379	3 456
	51 473	**50 643**

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.

As at 31 December 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:

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:

	31-12-13	31-12-12
Current tax on profits		
For the year	662	3 834
Adjustments in respect of prior years	- 1 619	298
	- 957	4 132
Deferred tax		
Origination and reversal of temporary difference	- 18 847	- 466
Total tax in the income statement	- 19 804	3 666
Net income before tax	- 51 524	6 358
Tax burden	-38.4%	57.7%

The reconciliation between the nominal tax rate and the tax burden for the years 2012 and 2011, as well as the reconciliation between tax expense/income and the product of accounting profit multiplied by the nominal tax rate, after deferred tax, is analysed as follows:

	31-12-13		31-12-12	
	Tax rate	Amount	Tax rate	Amount
Income before tax		- 51 524		6 358
Tax at nominal rate	25.0%	0	25.0%	1 590
Municipal surcharge after deferred tax	0.0%	0	7.2%	457
Autonomous taxation	-1.3%	662	5.6%	354
Negative equity variations	0.0%	0	0.0%	0
Tax benefits	0.0%	0	-4.2%	- 267
Dividends	0.0%	0	0.0%	0
Effect of provisions not acceptable as costs	17.1%	- 8 824	-40.2%	- 2 555
Realized gains / realized losses	0.0%	0	-0.4%	- 26
Other net value adjustments	6.5%	- 3 349	22.0%	1 399
Contribution on the banking sector	0.0%	0	15.7%	1 000
Tax loss	13.0%	- 6 674	20.4%	1 294
Tax from previous years	3.1%	- 1 619	6.6%	420
	-38.4%	**- 19 804**	**57.7%**	**3 666**

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

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

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

31-12-2013	Booked at fair value		Accounts	Available-for-sale	Hedging	Non-fin.	
	Traded	Fair value	receivable	Financial Assets	Derivatives	Assets	Total
Assets							
Cash and balances with central banks			54 114				54 114
Deposits with other banks			174 427				174 427
Financial assets held for trading	73 843						73 843
Other fin. assets at fair value thr. prof./loss		24 983					24 983
Available-for-sale financial assets				1 704 136			1 704 136
Loans and advances to banks			1 268 822				1 268 822
Loans and advances to customers			5 249 456				5 249 456
Hedging derivatives					103		103
Non-current assets held for sale				20 747			20 747
Other assets			214 284			278,964	493 248
	73 843	**24 983**	**6 961 103**	**1 724 883**	**103**	**278 964**	**9 063 879**

31-12-2013	Booked at fair value	Other Financial	Hedging	Non-financial	
	Traded	Liabilities	Derivatives	Liabilities	Total
Liabilities					
Deposits from central banks		1 306 839			1 306 839
Deposits from banks		1 919 736			1 919 736
Financial liabilities held for trading	29 629				29 629
Deposits from customers		4 216 578			4 216 578
Debt securities issued		865 255			865 255
Hedging derivatives			101 883		101 883
Other liabilities		30 725		30 526	61 251
	29 629	**8 339 133**	**101 883**	**30 526**	**8 501 171**

31-12-2012	Booked at fair value		Accounts	Available-for-sale	Hedging	Non-fin.	
	Traded	Fair value	receivable	Financial Assets	Derivatives	Assets	Total
Assets							
Cash and balances w ith central banks			171 349				171 349
Deposits w ith other banks			54 743				54 743
Financial assets held for trading	56 738						56 738
Other fin. assets at fair value thr. prof./loss		32 954					32 954
Available-for-sale financial assets				1 105 359			1 105 359
Loans and advances to banks			269 818				269 818
Loans and advances to customers			5 835 386				5 835 386
Held-to-maturity investments					723,879		723 879
Other assets			72 178			349,898	422 076
	56 738	**32 954**	**6 403 474**	**1 105 359**	**723 879**	**349 898**	**8 672 302**

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

17. Cash and balances with central banks

The balance of this item is broken down as follows:

	31-12-13	31-12-12
Cash and cash equivalents	49 158	48 664
Demand accounts w ith the Bank of Portugal	4 956	122 685
	54 114	**171 349**

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

18. Deposits with banks

Balance for this item is as follows:

	31-12-13	31-12-12
Deposits with banks in Portugal		
Demand accounts	364	349
Cheques payable	9 793	12 199
Other deposits	1 333	2 323
	11 490	14 871
Deposits with banks abroad		
Demand accounts	160 580	37 583
Cheques payable	2 357	2 289
	162 937	39 872
	174 427	**54 743**

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. It involves a single currency and consists in the exchange of fixed cash flows for variable ones or vice versa. This kind of instrument is aimed at hedging and managing the interest rate risk, regarding the income of a financial asset or the cost of a loan that a given entity intends to take in a determined future moment.

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

31-dez-2013

	Contract value	Fair value	
	(Notional amount)	Assets	Liabilities
Derivatives held for trading			
a) Foreign currency derivatives			
Currency forwards	145 525	167	68
b) Interest rate derivatives			
Interest rate swaps	448 362	25 505	29 456
c) Derivatives - others			
Options	63 630	70	105
Total derivatives held for trading (assets/liabilities)		25 742	29 629

31-dez-2012

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

As at 31 December 2013, the fair value of other financial assets and liabilities held for trading was as follows:

	31-12-13	31-12-12
Other financial assets		
Variable income securities		
Equity stakes	48 101	17 929
	48 101	17 929
Total	**48 101**	**17 929**
Total financial assets held for trading	**73 843**	**56 738**
Total financial liabilities held for trading	**29 629**	**40 181**

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

Set out below is a breakdown of these items:

Assets	31-12-13	31-12-12
Fixed income securities		
Portuguese government bonds	-	7 791
Other foreign debt securities	24 983	25 163
	24 983	**32 954**

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

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

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

21. Available-for-sale financial assets

As at 31 December 2013, 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 (2012: 0 thousand euros).

The balance of this item is broken down as follows:

	31-12-13	31-12-12
Securities issued by residents		
Government bonds - at fair value	37 802	449 866
Other debt securities - at fair value	54 200	80 022
Equity securities - at fair value	615	611
Equity securities - at historical cost	-	-
	92 617	530 499
Securities issued by non-residents		
Government bonds - at fair value	527 110	-
Other debt securities - at fair value	1 084 346	574 795
Equity securities - at historical cost	-	-
Other securities	63	65
	1 611 519	574 860
Total	**1 704 136**	**1 105 359**

The Bank has in its available-for-sale financial assets portfolio an investment of 2 337 thousand euros regarding subordinate bonds (Class D Notes) purchased in June 2002 associated with the securitisation of home loans, in the amount of 250 million euros named Navigator Mortgage Finance No. 1.

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

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

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

Intervening entities:

- Navigator Mortgage Finance No. 1 Fundo, a Portuguese loan securitization fund that purchased the loans;
- Navigator, SGFTC, a loan securitisation fund manager that manages the fund;

- Navigator Mortgage Finance No. 1 Plc, the company that purchased the securitization units and issued the notes.

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

	31-12-13	31-12-12
Net assets	59 267	67 256
Liabilities	64 607	71 269
Equity	-5 340	-4 013
Income for the year	-1 327	-1 161

22. Loans and advances to banks

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

	31-12-13	31-12-12
Loans and advances to banks in Portugal		
Time deposits	3 178	3 171
Loans	192	5 000
Other	73 895	80 933
Interest receivable	98	95
	77 363	89 199
Loans and advances to banks abroad		
Time deposits	187 640	180 354
Other	1 003 792	67
Interest receivable	27	198
	1 191 459	180 619
	1 268 822	**269 818**

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

	31-12-13	31-12-12
Up to 3 months	1 264 311	124 365
From 3 months to 1 year	3 238	144 005
Over 5 years	1 148	1 155
Interest receivable	125	293
	1 268 822	**269 818**

23. Lending operations

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

	31-12-13	31-12-12
Internal credit operations		
Public sector	**3 056 881**	**3 428 400**
Private customers	**1 851 513**	**1 879 063**
Home loans	1 453 644	1 455 824
Personal and consumer loans	45 746	54 502
Other personal lending	352 123	368 737
	4 908 394	**5 307 463**
External credit operations		
Public sector	**35 173**	**138 088**
Private customers	**18 772**	**18 418**
Home loans	15 247	15 009
Personal and consumer loans	36	63
Other personal lending	3 489	3 346
	53 945	**156 506**
Other loans (represented by securities)	**267 000**	**302 700**
Interest and commissions receivable	**8 188**	**22 077**
Past-due loans and interest		
Due within 90 days	19 757	22 651
Over 90 days	253 065	209 133
	272 822	**231 784**
Gross Total	**5 510 349**	**6 020 530**
Minus:		
Provision for doubtful loans	80 231	59 221
Provision for past-due loans and interest	180 653	125 922
Provision for country risk	9	1
	260 893	185 144
Net total	**5 249 456**	**5 835 386**

As at 31 December 2013, credit operations included 907 810 thousand euros in mortgage loans assigned to the issuance of mortgage bonds (2012: 896 653 thousand de euros) (note 33).

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

	31-12-13	31-12-12
Up to 3 months	1 041 601	1 221 161
From 3 months to 1 year	954 316	1 031 834
1 to 5 years	1 411 894	1 539 147
Over 5 years	1 821 528	1 974 527
Undetermined maturity (past due)	272 822	231 784
Interest and commissions receivable	8 188	22 077
	5 510 349	**6 020 530**

During 2012, the Bank carried out four credit assignments to the company Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 129.8 million euros for the total amount of 99.2 million euros. These operations had a positive income in the amount of 24.2 million euros due to the cancelling of already constituted provisions

During 2013, the Bank carried out four credit assignments to the company Consulteam (a subsidiary of BPE in which the Bank has no stake), in the total gross amount of 166.5 million euros for the total amount of 152.8 million euros. These operations had an overall negative result of 2.6 million euros

Still during 2013, the Bank carried out four more credit assignments to Banco Popular Español in the total gross amount of 411.8 million euros for the total amount of 396.4 million euros. These operations had a positive income in the amount of 0.4 million euros due to the cancelling of already constituted provisions.

Provisions for customer loan losses

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

	31-12-2013	31-12-2012
Balance as at 1 January	185 144	162 610
Appropriations	241 368	252 880
Used	16 495	42 423
Cancelled	149 124	187 923
Balance as at 31 December	260 893	185 144
Appropriations for provisions	241 368	252 880
Write-offs	- 149 124	- 187 923
Recoveries of bad debts	- 2 854	- 1 880
Provisions net of write-offs and recoveries of bad debts	89 390	63 077

Credit quality

The table below was prepared based on the following assumptions:

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

	Customers with no default history		Customers in default	
	31-12-13	31-12-12	31-12-13	31-12-12
Private customers				
Home loans	1 487 998	1 478 913	110 724	125 875
Personal and consumer loans	47 942	55 640	20 353	22 291
Other personal lending	127 642	123 946	42 284	46 126
	1 663 582	1 658 499	173 361	194 292
Corporate customers				
Loans	1 617 812	1 906 204	485 539	592 120
Current account	660 039	612 890	58 594	72 244
Other	762 059	851 890	89 362	132 391
	3 039 910	3 370 984	633 495	796 755
	4 703 492	**5 029 483**	**806 856**	**991 047**

Past due but not impaired loans

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

	31-12-13				31-12-12
	Up to 30 days	31 to 60 days	61 to 90 days	Total	Total
Private customers					
Home loans	63 597	17 366	7 824	88 787	109 024
Personal and consumer loans	2 113	837	577	3 527	5 814
Other personal lending	12 053	2 958	3 429	18 440	18 859
	77 763	**21 161**	**11 830**	**110 754**	**133 697**
Corporate customers					
Loans	54 393	15 832	18 716	88 941	131 367
Current account	133	213	16	362	518
Other	8 546	3 326	2 186	14 058	21 522
	63 072	**19 371**	**20 918**	**103 361**	**153 407**
Total	**140 835**	**40 532**	**32 748**	**214 115**	**287 104**

Individually impaired loans

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

	31-12-13	31-12-12
Private customers		
Home loans	5 513	6 276
Personal and consumer loans	1	6
Other personal lending	825	870
	6 339	**7 152**
Corporate customers		
Loans	264 199	403 799
Current account	29 917	40 620
Other	45 975	63 036
	340 091	**507 455**
Total	**346 430**	**514 607**

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

24. Held-to-maturity investments

This item is broken down as follows:

	31-12-13	31-12-12
Debt instruments - Residents		
Listed securities		
Portuguese government bonds	-	122 258
Interest receivable	-	1 686
	0	123 944
Debt instruments - Non-residents		
Listed securities		
Foreign government bonds	-	360 816
Other non-resident bonds	-	233 403
Interest receivable	-	5 716
	0	599 935
TOTAL	**0**	**723 879**

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

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

25. Non-current assets held for sale

As at 31 December 2013, the Bank only held an equity stake in the associate company Eurovida – Companhia de Seguros de Vida, S.A., booked for 20 747 thousand euros. 22 579 thousand euros).

The most important financial data extracted from the consolidated financial statements of Eurovida, prepared according to the IFRS, as well as the impact of the equity method of accounting, were as follows, as at 31 December 2013.

	Financial consolidated results for Eurovida as at 31-12-2012			Impact of the application of the equity method	
Effective stake (%)	Net Assets	Owner's equity	Net profit	On consolidation reserves	On net income
15.9348%	864 155	89 127	28 668	-11 113	4 568

26. Other tangible assets

This item is broken down as follows:

	31-12-2013				31-12-2012
	Real estate	Equipment	Art and antiques	Total	Total
Balance as at 01 January					
Acquisition costs	130 000	51 244	149	181 393	184,577
Accumulated depreciation	- 40 099	- 46 695		- 86 794	-84,644
Accumulated impairment	- 6 595			- 6 595	-6,595
Acquisitions		388		388	6,859
Transfers					
Acquisition costs	- 1 982			- 1 982	- 9 747
Accumulated depreciation	1 192			1 192	4 114
Disposals / Write-offs					
Acquisition costs		- 1 103		- 1 103	- 296
Accumulated depreciation		781		781	296
Depreciation for the year	- 2 675	- 2 224		- 4 899	-6,560
Balance as at 31 December					
Acquisition costs	128 018	50 529	149	178 696	181,393
Accumulated depreciation	- 41 582	- 48 138		- 89 720	-86,794
Accumulated impairment	- 6 595			- 6 595	-6,595
Net amount	**79 841**	**2 391**	**149**	**82 381**	**88,004**

27. Intangible assets

This item is broken down as follows:

	31-12-2013			31-12-2012
	Software	Other	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	125		125	496
Transfers				
Acquisition costs			0	- 556
Accumulated depreciation			0	88
Depreciation for the year	- 113	- 11	- 124	- 674
Balance as at 31 December				
Acquisition costs	18 735	2 097	20 832	20 707
Accumulated depreciation	- 18 578	- 2 082	- 20 660	- 20 536
Net amount	**157**	**15**	**172**	**171**

28. Deferred taxes

Deferred taxes are calculated in respect of all the temporary differences using an effective tax rate of 24.5%, except those regarding tax loss for which a 23% rate was used (exception, 5%).

Balances for these items are as follows:

	Balance as at	Equity		Reserves		Balance as at
	31-12-12	Expenses	Income	Increase	Decrease	31-12-13
Deferred Tax Assets						
Available-for-sale securities	45 875			10 481	34 129	22 227
Tangible assets	5 434	2 090	100			3 444
Taxable provisions	15 915	5 339	8 659			19 235
Fees and commissions	184	21				163
Seniority bonus	1 032	112	74			994
RGC provisions	6 546	2 715	8 219			12 050
Other assets/liabilities	7 410	32	10			7 388
Tax loss	0	3 648	10 322			6 674
	82 396	**13 957**	**27 384**	**10 481**	**34 129**	**72 175**
Deferred Tax Liabilities						
Available-for-sale securities	5 077			9 683	8 487	3 881
Property revaluation	185	1	7			179
Shareholdings	5 413		5 413			0
	10 675	**1**	**5 420**	**9 683**	**8 487**	**4 060**

29. Other tangible assets

This item is detailed as follows:

	31-12-13	31-12-12
Recoverable government subsidies	281	720
Taxes recoverable	17 940	14 368
Pledge accounts	133 449	1 044
Other debtors	61 942	55 689
Other income receivable	547	1 091
Expenses with deferred charges	6 063	6 027
Asset operations pending settlement - Diverse	30 517	8 804
Assets acquired in exchange for loans	286 458	369 100
Properties for own use reclassified as available-for-sale	8 716	10 072
Pension liabilities	84	12 835
Other transactions pending settlement	691	586
	546 688	**480 336**
Provisions for impairment of assets acquired in exchange for loans	- 48 342	- 53 598
Provisions for other assets	- 5 098	- 4 662
	493 248	**422 076**

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

Provisions for other assets	31-12-13	31-12-12
Balance as at 1 January	4 662	654
Appropriations	1 991	5 537
Used	1 512	1 527
Cancelled	43	2
Balance as at 31 December	**5 098**	**4 662**

Movements in the account Assets acquired in exchange for loans in 2013 and 2012 were as follows:

	31-12-2013				31-12-2012
	Available-for-sale properties	Properties not held for sale	Equipment	Total	Total
Balance as at 01 January					
Gross amount	363 930	3 865	1 305	369 100	444 020
Accumulated impairment	- 53 390	-	- 208	- 53 598	- 74 143
Net amount	310 540	3 865	1 097	315 502	369 877
Additions					
Acquisitions	102 888	2 570	895	106 353	125 301
Other	1 783			1 783	9 987
Disposals					
Gross amount	- 189 302		- 1 422	- 190 724	- 210 208
Transfers	2 873	- 2 927		- 54	
Impairment losses	- 15 977		- 429	- 16 406	- 20 236
Used	13 550		408	13 958	31 495
Reversed	7 585		119	7 704	9 286
Balance as at 31 December					
Gross amount	282 172	3 508	778	286 458	369 100
Accumulated impairment	- 48 232	0	- 110	- 48 342	- 53 598
Net amount	233 940	3 508	668	238 116	315 502

30. Deposits from central banks

This item is detailed as follows:

	31-12-13	31-12-12
Deposits from central banks		
Deposits	1 295 000	1 595 000
Interest payable	11 839	10 143
	1 306 839	**1 605 143**

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

	31-12-13	31-12-12
Forward		
Up to 3 months	400 000	400 000
1 to 5 years	895 000	1 195 000
Interest payable	11 839	10 143
	1 306 839	**1 605 143**

31. Deposits from banks

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

	31-12-13	31-12-12
Domestic credit institutions		
Deposits	493 782	189 550
Interest payable	2 411	904
	496 193	190 454
International credit institutions		
Loans	118 750	125 000
Deposits	143 866	699 294
Repurchase agreement	1 160 524	407 874
Other funds	83	554
Interest payable	320	583
	1 423 543	1 233 305
	1 919 736	**1 423 759**

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

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

	31-12-13	31-12-12
Spot	10 859	13 345
Forward		
Up to 3 months	1 527 370	1 200 488
From 3 months to 1 year	260 026	53 439
1 to 5 years	118 750	30 000
Over 5 years		125 000
Interest payable	2 731	1 487
	1 908 877	1 410 414
	1 919 736	**1 423 759**

32. Customer funds

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

	31-12-13	31-12-12
Resident funds		
Demand accounts	721 998	626 877
Time accounts	3 350 764	2 992 500
Savings accounts	4 902	6 304
Cheques payable	14 087	10 919
Other funds	40	44
	4 091 791	3 636 644
Non-resident funds		
Demand accounts	21 943	18 617
Time accounts	64 812	211 694
Cheques payable	33	62
	86 788	**230 373**
Interest payable	37 999	39 924
	4 216 578	**3 906 941**

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

	31-12-13	31-12-12
Spot	743 941	645 494
Forw ard		
Up to 3 months	1 587 479	1 445 996
From 3 months to 1 year	1 402 599	1 679 341
1 to 5 years	444 560	96 186
Interest payable	37 999	39 924
	3 472 637	3 261 447
	4 216 578	**3 906 941**

33. Securitised liabilities

The balance of this item is broken down as follows:

	31-12-13	31-12-12
Cash bonds	2 294	-
Mortgage bonds	515 000	515 000
Euro Medium Term Note	346 092	493 907
Interest payable	1 869	2 341
	865 255	1 011 248

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, the third issuance of mortgage bonds in the amount of 160 million euros on 30 December 2011, and the fourth issuance of mortgage bonds in the amount of 300 million euros on 26 September. This last issuance was fully repurchased by the Bank.

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

On 31 December 2013, the characteristics of these issuances were the following:

Name	Nominal value	Carrying value	Issue date	Reimbursement date	Interest frequency	Interest rate	Rating
Motrgage bonds 20/12/2014	130 000	130 061	20-12-2010	20-12-2014	Monthly	1M Euribor+120%	BBB
Motrgage bonds 30/06/2014	225 000	225 000	30-06-2011	30-06-2014	Monthly	1M Euribor+120%	BBB
Motrgage bonds 30/12/2014	160 000	160 000	30-12-2011	30-12-2014	Monthly	1M Euribor+120%	BBB
Motrgage bonds 26/09/2015	300 000	0	26-09-2012	26-09-2015	Monthly	1M Euribor+120%	BBB

We should also note that the Bank made the first issuance of mortgage bonds under the 'extended maturity date' option, extending the maturity date for another year to December 2014.

On 31 December 2013, autonomous equity assigned to these issuances amounted to 913 003 thousand euros (2012: 901 584 thousand de euros) (see note 23).

During 2011, Banco Popular Portugal constituted a Mortgage Bond Issuance Programme whose maximum amount is 2.5 500 million euros. In the scope of this programme, the Bank has already carried out 34 issuances and as at 31 December 2013, its balance was broken down as follows:

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	4ª	4 060	4 060	1 000	17-09-2014
02-10-2012	6ª	27 630	2 763	10 000	02-10-2014
26-10-2012	10ª	20 000	200	100 000	26-10-2015
13-11-2012	8ª	36 725	26 725	1 000	13-05-2014
26-11-2012	12ª	9 319	9 319	1 000	26-02-2014
11-12-2012	11ª	28 792	28 792	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	10 985	10 985	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
12-02-2013	20ª	4 060	4 060	1 000	12-02-2014
18-02-2013	19ª	12 492	12 492	1 000	18-05-2014
26-02-2013	18ª	6 728	6 728	1 000	26-02-2016
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	30-04-2016
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
30-07-2013	26ª	4 586	4 586	1 000	30-07-2016
27-08-2013	27ª	1 834	1 834	1 000	27-08-2016
13-09-2013	29ª	40 000	4 000	10 000	13-09-2015
19-09-2013	28ª	2 275	2 275	1 000	19-09-2015
30-09-2013	30ª	4 475	4 475	1 000	30-09-2013
21-10-2013	32ª	2 664	2 664	1 000	21-10-2015
30-10-2013	31ª	4 650	4 650	1 000	30-10-2017
29-11-2013	33ª	2 660	2 660	1 000	29-11-2017
30-12-2013	34ª	1 300	1 300	1 000	30-06-2017
		346 092			

34. Hedging derivatives

The item derivatives is composed as follows:

	31-12-2013			**31-12-2012**		
	Notional	**Carrying amount**		**Notional**	**Carrying amount**	
	amount	**Assets**	**Liabilities**	**amount**	**Assets**	**Liabilities**
Interest rate contracts						
Swaps	696 250	103	101 883	706 250	-	128 563

As referred previously, the Bank covers part of its interest rate risk, resulting from any possible decrease in the fair value of fixed interest rate assets, using interest rate swaps. On 31 December 2013, the net fair value of hedging and trading interest rate swaps (see above) was negative (see note 19) in the amount of -105 730 thousand euros (2012: -129 951 thousand euros).

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

35. Other provisions

Balances and movements for the Provisions account were as follows:

Other Provisions (Liabilities) - Movements	31-12-13	31-12-12
Balance as at 1 January	54 588	61 134
Appropriations	25 248	1 850
Used	12 097	-
Cancelled	16 685	8 396
Balance as at 31 December	**51 054**	**54 588**

Other Provisions (Liabilities) - Balances	31-12-13	31-12-12
Other provisions	66	114
Provisions for general credit risks	49 186	51 355
Other provisions	1 802	3 119
	51 054	**54 588**

36. Other liabilities

This item is detailed as follows:

	31-12-13	31-12-12
Suppliers of goods	5 119	1 276
Tax withheld at source	5 654	5 743
Personnel expenses	11 964	11 842
Other expenses	7 988	5 047
Other revenues with deferred income	2 642	2 203
Funding operations pending payment	27 102	7 508
Other accruals and deferred income	782	205
	61 251	33 824

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 services rendered are calculated pursuant to IAS 19 Revised.

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

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

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

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

This transference was 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. In accordance with Decree-law No.127/2011 of 31 December, this amount shall be deductible for effects of determining taxable profit, in equal parts, from the fiscal year started on 1 January 2012, regarding the average of the number of years of life expectancy of the pensioners whose responsibilities have been transferred. The respective deferred taxes have been on the amount recognised in the year's net income.

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

As at 1 January 2013 and as referred to in 2.19 Changes in the Accounting Policy of Recognising Actuarial Gains or Losses, BAPOP changed its accounting policy of recognising financial and actuarial gains and losses for pension plans and other defined benefit post-employment benefits according to IAS 19 Revised. Financial and actuarial gains and losses are now recognised in the period they occur directly in equity in the Statement of Comprehensive Income.

On 31 December 2013, the number of participants in the fund was 1 141 (2012: 1 158). On this date, there were 39 retired people and 11 pensioners, and the remaining employees were active.

Current amount of liabilities

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

Past Services	31-12-13	31-12-12
Liabilities at the beginning of the year	**108 961**	**94 708**
Service expenses:		
Bank	1 245	655
Employees	747	739
Interest expense	4 975	4 549
Pensions paid	- 901	- 706
Actuarial deviations	13 384	9 016
Liabilities as at 31 December	**128 411**	**108 961**

Current liabilities	31-12-13	31-12-12
Past Services		
- Old age	112 235	96 232
- Payable pensions	16 176	12 729
	128 411	**108 961**
Future services		
- Old age	46 793	46 291
	46 793	**46 291**

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

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

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

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

Total Fund Amount

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

Total amount of the Fund	31-12-13	31-12-12
Amount at the beginning of the year	**121 796**	**113 703**
Contributions paid		
Employer	600	-
Employees	747	739
Return on Fund assets	7 935	12 271
Pensions paid	- 901	- 3 574
Other net differences	- 1 682	- 1 343
Amount of the Fund as at 31 December	**128 495**	**121 796**
Current liabilities for past services	128 411	108 961
Coverage level	100.1%	111.8%

Evolution of Liabilities and Total Fund Amount

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

	31-12-13	31-12-12	31-12-11	31-12-10	31-12-09
Current amount of liabilities	128 411	108 961	94 708	102 746	105 838
Total amount of the Fund	128 495	121 796	113 703	118 246	110 346
(Net) Assets/Liabilities	**84**	**12 835**	**18 995**	**15 500**	**4 508**
Coverage level	100.1%	111.8%	120.1%	115.1%	104.3%

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

Structure of the Assets that comprise the Fund

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

Type of assets	31-12-2013	31-12-2012
Fixed income securities	60.49%	68.57%
Variable income securities	33.49%	18.59%
Real estate	5.04%	7.70%
Liquidity	0.98%	5.14%
	100.00%	100.00%

Maximum exposure to credit risk

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

Ratings	31-12-2013	31-12-2012
AAA	5.35%	3.08%
AA	10.42%	3.13%
A	19.74%	12.01%
BBB	24.95%	41.25%
Others (NR)	39.54%	40.53%
	100.00%	100.00%

As at 31 December 2013, the Fund had 50 Euro Medium Term Notes (1st Series) issued on 29 December 2011 by Banco Popular Portugal in the amount of 5 194 thousand euros. During 2013 these bonds had a positive change in fair value by 184 thousand euros. As at 31 December 2013, the Fund had 100 Euro Medium Term Notes (1st Series) issued on 02 October 2012 by Banco Popular Portugal in the amount of 1 006 thousand euros, purchased on 12 December 2013.

Costs for the year

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

Cost for the year	31-12-13	31-12-12
Service	1 992	1 394
Interest	4 975	4 549
Expected return on Fund assets	- 5 552	- 5 452
Other	935	604
Total	**2 350**	**1 095**

Actuarial gains and losses

The amount of actuarial gains and losses for the years 2013 and 2012 is broken down as follows:

Actuarial gains and losses	31-12-13	31-12-12
Off-balance actuarial losses as at 1 January	735	2 931
Actuarial gains for the year - liabilities	- 13 384	- 9 016
Actuarial gains / losses for the year - Fund	2 382	6 820
Off-balance actuarial gains/losses as at 31 December	- 10 267	735

Actuarial assumptions

The main actuarial and financial assumptions used were as follows:

	31-12-13		31-12-12	
	Assump.	Real	Assump.	Real
Discount rate	3.63%	3.63%	4.50%	4.50%
Expected return of Fund assets	3.63%	6.57%	4.50%	11.04%
Salaries and other benefits increase rate	1.5%	0.0%	2.0%	0.0%
Pensions increase rate	1.0%	0.0%	1.0%	0.0%
Mortality table	TV 88/90		TV 88/90	
Disability table	ERC Frankona		ERC Frankona	
Turnover	n.a.	n.a.	n.a.	n.a.

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

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

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

	Impact on current liabilities		
	Change	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.25%	Decrease by 6.2%	Increase by 6.7%
Salaries and other benefits increase rate	0.25%	Increase by 5.1%	Decrease by 4.8%
Pensions increase rate	0.25%	Increase by 2.6%	Decrease by 2.5%

	Increase by 1 year	**Decrease by 1 year**
Average life expectancy	Increase by 3.2%	Decrease by 3.3%

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

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

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

With the reference date 31 December 2013, we quantified the impact in the Pension Fund's portfolio, by performing a stress test that might reflect the most significant risks that the Pension Fund is exposed to, taking into consideration fluctuations in interest rates and in the stock and property markets, and compared the resulting amount of the fund with the minimum level of solvency amount.

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

Base II, and market risk is measured by the change in the value of shares and property investment funds.

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

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

Moderate shock		
Risk factor	Impact	%
Interest rate risk		
+20%	- 361	-0.28
Credit risk (Basel III)	- 2 608	-2.03
Market risk		
Shares		
-20%	- 7 642	-5.95
Properties		
-15%	- 970	-0.75

Considering all the risks, the impact on the asset portfolio would be -9.01%, which represents -11,581 thousand euros (taking into account the amount of the fund as at 31 December 2013). In this sense, the level of funding for liabilities, considering the minimum solvency level of the Portuguese Insurance Institute would be 177.86%.

For a severe shock, the scenario would be:

Severe shock		
Risk factor	Impact	%
Interest rate risk		
+30%	- 539	-0.42
Credit risk (Basel III)	- 5 162	-4.02
Market risk		
Shares		
-35%	- 13 373	-10.41
Properties		
-25%	- 1 617	-1.26

Considering all the risks, the impact on the asset portfolio would be -16.11%, which represents -20,691 thousand euros. In this sense, the level of funding for liabilities, considering the minimum solvency level of the Portuguese Insurance Institute would be 163.99%.

When compared with the previous year, we have seen for both scenarios an increase in the interest rate and market risks, although overall there was a reduction in the full amount of potential losses motivated by a decrease in the portfolio's credit risk.

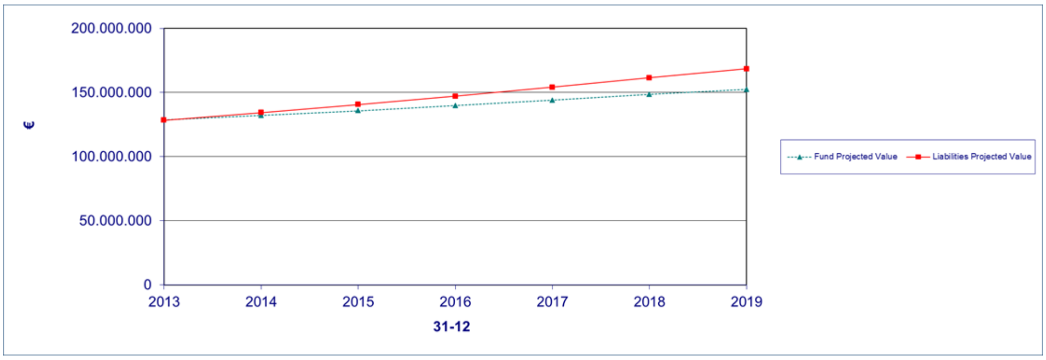
Financial asset/liability adequacy

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

We assumed that the current population is a closed group. Based on the liabilities as at 31 December 2013, on normal expected costs to face increased liabilities and on the expected amount of pensions to be paid each year, we estimated the future expected liabilities of each population group that currently exist for a 20-year time frame. We also assumed that the outflows to pensions occur on average in mid-year.

We also projected the fund's assets for each of the years in the referred time frame. For that we estimated the expected cash flow amounts, namely contributions, yield, insurance premium, amounts of pensions paid, and fund commissions for each year. We assumed a future profitability of 3.63%, which corresponds to the assumption used in the assessment.

The results obtained were the following:



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

Expected future cash flows

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

	Up to 1 year	1 to 3 years	1 to 5 years	Over 5 years	Total
Benefit (monthly)	94	114	189	5 255	5 652

38. Contingent commitments and liabilities

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

	31-12-13	31-12-12
Contingent liabilities		
Guarantees and Sureties	539 471	563 255
Documentary credits	39 885	41 453
Commitments		
Irrevocable loans	1 130 026	645 792
Revocable loans	788 982	694 344
	2 498 364	1 944 844

On 31 December 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.

	31-12-13	31-12-12
Assets pledged as collateral		
Loans	-	1 582 816
Securities	1 743 700	1 652 475
	1 743 700	3 235 291

The amount of the item Assets pledged as collateral includes 1 743.7 thousand euros from the Bank's own portfolio aimed, almost entirely, at collateralising an irrevocable credit line with the Bank of Portugal pursuant to the large-amount payment system ('Sistema de Pagamentos de Grandes Transacções – SPGT') and the Intervention Operations Market ('Mercado de Operações de Intervenção' - MOI)

Additionally, as at 31 December 2013 and 2012, the balances regarding off-balance sheet accounts were as follows:

	31-12-13	31-12-12
Deposit and custody of securities	5 214 227	5 940 400
Amounts received for collection	92 653	88 992
	5 306 880	6 029 392

39. Share capital and share premium

As at 31 December 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:

	31-12-13	31-12-12
Revaluation reserves and Fair Value		
Available-for-sale investments		
Net balance as at 1 January	- 113 155	- 236 775
Revaluation at fair value	79 172	168 190
Deferred tax	- 22 451	- 44 570
Balance as at 31 December	- 56 434	- 113 155
Revaluation reserves (Legal provisions)	2 291	2 348
Balance as at 31 December	- 54 143	- 110 807

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

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

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

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

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

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

41. Other reserves and retained earnings

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

	31-12-13	31-12-12
Statutory reserve	35 221	34 951
Other reserves	289 026	286 548
Retained earnings	- 58 605	- 47 603
	265 642	**273 896**

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

	31-12-13	31-12-12
Statutory reserve		
Balance as at 1 January	34 951	33 607
Trasnf. Retained Earnings	270	1 344
Balance as at 31 December	35 221	34 951
Other reserves		
Balance as at 1 January	286 548	273 665
Trasnf. Retained Earnings	2 422	12 088
Trasnf. Revaluation Reserves	56	795
Balance as at 31 December	289 026	286 548
Retained earnings		
Balance as at 1 January	- 47 603	- 48 338
Net income for the previous year	2 692	13 432
Pension fund actuarial gains/losses	- 11 002	735
Transf. Statutory Reserve	- 270	- 1 344
Transf.Other Reserves	- 2 422	- 12 088
	- 58 605	- 47 603
	265 642	**273 896**

- Legal Reserve

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

42. Personnel expenses

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

	31-12-13	31-12-12
Directors	95	95
Management	451	450
Technical personnel	517	494
Clerical staff	237	270
	1 300	1 309

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

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

	Fixed Remun.	Variable Remun. Cash	Total Remun.
Board of Directors			
Rui Manuel Morganho Semedo - Chairman	380	100	480
Carlos Manuel Sobral Cid da Costa Álvares	177	0	177
	557	**100**	**657**
Supervisory Board			
Rui Manuel Ferreira de Oliveira - Chairman	10	0	10
António José Marques Centúrio Monzelo - Member	6	0	6
Telmo Francisco Salvador Vieira - Member	6	0	6
	22	**0**	**22**

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

	No. of Benef.	Remun. Fixed	iable Remun. Varia Cash Remun.	Remun. Total
Executive Committee	6	953	196	1 149
Risk Management	1	71	6	77
Compliance	1	64	4	68
Asset Management	1	90	7	97
Auditing	1	58	10	68
	10	1 236	223	1 459

44. Remuneration of the Statutory Auditor

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

	31-12-13	31-12-12
Statutory audit	113	112
Other guarantee and reliability services	242	256
	355	368

45. Relationship with related companies

As at 31 December 2013 and 2012, the amounts payable and receivable regarding related companies was as follows:

	Credit		Debit		Income		Expense	
	31-12-13	31-12-12	31-12-13	31-12-12	31-12-13	31-12-12	31-12-13	31-12-12
Eurovida, SA	4 006	4 006	147 758	90 186	2 615	1 835	6 451	4 953
Popular Gestão de Activos, SA	62	-	2 147	1 982	1 375	812	2	9
Popular Factoring, SA	74 653	89 917	-	15	2 917	4 203	335	341
Imopopular Fundo Especial I.I.	10 253	1 485	227	-	356	45	-	1
Popular Arrendamento	5	2	42 025	1 229	37	3	57	11
Popular Seguros, SA	-	-	892	1 604	578	511	20	51
SPE-Special Pourpuse Entities	2 437	2 722	-	-	1 419	422	-	-
	91 416	98 132	193 049	95 016	9 297	7 831	6 865	5 366
Banco Popular Español, SA	1 493 141	316 111	1 951 901	1 792 511	166 056	170 544	205 251	233 810

As at 31 December 2013, the guarantees pledged by the Bank to related companies amounted to 11 273 thousand euros (2012: 8 066 thousand euros).

As at 31 December 2013, the Bank received deposits from BPE to guarantee risk associated with loans granted by the Bank in the amount of 106 129 thousand euros (2012: 157 153 thousand euros).

Transactions with related companies are based on common market conditions.

As at 31 December 2013, the members of the Bank's Board of Directors did not hold any deposits or loans with Banco Popular.

46. Cash and cash equivalents

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

	31-12-13	31-12-12
Cash (note 17)	49 158	48 664
Cash and balances with banks (note 18)	174 427	54 743
Deposits with banks with maturities of less than 3 months	1 264 311	124 365
	1 487 896	227 772

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); homogeneous default exposures (regarding the remaining default customers); significant non-performing exposures (of entities with total liabilities of above 750 thousand euros); homogeneous 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) 'Homogeneous' groups

In the case of the homogeneous 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 homogeneous segment where they are included.

The LGDs that will be applied to each homogeneous 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 (CUFF) 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 subject 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 homogeneous segments with the application of its respective PD, PI, PID, and LGD.

b) Other tangible assets

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

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

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

Reconciliation of the Balance Sheet as at 31 December 2013 and 2012

(€ thousand)

	31-12-2013			31-12-2012		
	AAS Net amount	Adjust.	IFRS Net amount	AAS Net amount	Adjust.	IFRS Net amount
Assets						
Cash and balances with central banks	54 114		54 114	171 349		171 349
Deposits with banks	174 427		174 427	54 743		54 743
Financial assets held for trading	73 843		73 843	56 738		56 738
Other financial assets at fair value through profit or loss	24 983		24 983	32 954		32 954
Available-for-sale financial assets	1 704 136		1 704 136	1 105 359		1 105 359
Loans and advances to banks	1 268 822		1 268 822	269 818		269 818
Loans and advances to customers	5 249 456	- 43 234	5 206 222	5 835 386	- 46 229	5 789 157
Held-to-maturity investments	0		0	723 879		723 879
Hedging derivatives	103		103			
Non-current assets held for sale	20 747		20 747	22 579		22 579
Other tangible assets	82 381	9 791	92 172	88 004	9 791	97 795
Intangible assets	172		172	171		171
Current income tax assets	3 566		3 566	1 360		1 360
Deferred income tax assets	72 175	- 951	71 224	82 396	- 1 067	81 329
Other assets	493 248		493 248	422 076		422 076
Total Assets	**9 222 173**	**- 34 394**	**9 187 779**	**8 866 812**	**- 37 505**	**8 829 307**
Liabilities						
Deposits from central banks	1 306 839		1 306 839	1 605 143		1 605 143
Financial liabilities held for trading	29 629		29 629	40 181		40 181
Deposits from banks	1 919 736		1 919 736	1 423 759		1 423 759
Due to customers	4 216 578		4 216 578	3 906 941		3 906 941
Debt securities issued	865 255		865 255	1 011 248		1 011 248
Hedging derivatives	101 883		101 883	128 563		128 563
Provisions	51 054	- 46 787	4 267	54 588	- 50 254	4 334
Deferred income tax liabilities	4 060	2 399	6 459	10 675	2 595	13 270
Other liabilities	61 251		61 251	33 824		33 824
Total Liabilities	**8 556 285**	**- 44 388**	**8 511 897**	**8 214 922**	**- 47 659**	**8 167 263**
Equity						
Share capital	476 000		476 000	476 000		476 000
Share premium	10 109		10 109	10 109		10 109
Fair value reserves	- 54 143	5 101	- 49 042	- 110 807	4 848	- 105 959
Other reserves and retained earnings	265 642	5 249	270 891	273 896	3 912	277 808
Income for the year	- 31 720	- 356	- 32 076	2 692	1 394	4 086
Total Equity	**665 888**	**9 994**	**675 882**	**651 890**	**10 154**	**662 044**
Total Liabilities + Equity	**9 222 173**	**- 34 394**	**9 187 779**	**8 866 812**	**- 37 505**	**8 829 307**

Reconciliation of the Income Statement as at 31 December 2013 and 2012

(€ thousand)

	31-12-2013			31-12-2012		
	AAS	Adjust.	IFRS	AAS	Adjust.	IFRS
Interest and similar income	303 812		303 812	365 784		365 784
Interest and similar charges	182 564		182 564	216 926		216 926
Net interest income	**121 248**	**0**	**121 248**	**148 858**	**0**	**148 858**
Return on equity instruments	49		49	55		55
Fees and commissions received	60 657		60 657	75 400		75 400
Fees and commission paid	8 574		8 574	21 119		21 119
Net gains from financial assets at fair value						0
through profit or loss	- 2 686		- 2 686	3 821		3 821
Net gains from available-for-sale financial assets	11 389		11 389	- 1 192		- 1 192
Net gains from foreign exchange differences	1 288		1 288	1 417		1 417
Net gains from the sale of other assets	- 5 241		- 5 241	- 7 347		- 7 347
Other operating income	- 6 415		- 6 415	- 6 374		- 6 374
Operating income	**171 715**	**0**	**171 715**	**193 519**	**0**	**193 519**
Personnel expenses	56 309		56 309	55 658		55 658
General administrative expenses	51 473		51 473	50 643		50 643
Depreciation and amortization	5 023		5 023	7 234		7 234
Provisions net of reversals	8 563		8 563	- 6 546		- 6 546
Adjustments to loans and advances to customers						
(net of reversals)	89 390	472	89 862	63 077	- 1 896	61 181
Impairment of other financial assets net of reversals			0	611		611
Impairment of other assets net of reversals	12 481		12 481	16 484		16 484
Net income before tax	**- 51 524**	**- 472**	**- 51 996**	**6 358**	**1 896**	**8 254**
Income tax	- 19 804	- 116	- 19 920	3 666	502	4 168
Current tax	- 957		- 957	4 132		4 132
Deferred tax	- 18 847	- 116	- 18 963	- 466	502	36
Net income for the period	**- 31 720**	**- 356**	**- 32 076**	**2 692**	**1 394**	**4 086**

Reconciliation of changes in equity as at 31 December 2013 and 2012

(€ thousand)

	Share Capital	Share premium	Fair value reserves	Other reserves and retained earnings	Net income	Total
Balances as at 31/12/2013 - AAS	**476 000**	**10 109**	**- 54 143**	**265 642**	**- 31 720**	**665 888**
Credit impairment						
- Adjustments - regulatory provisions				4 025	- 472	3 553
- Deferred tax				- 1 067	116	- 951
Valuation of own property						
- Fair value			7 500	2 291		9 791
- Deferred tax			- 2 399			- 2 399
Balances as at 31/12/2013 - IFRS	**476 000**	**10 109**	**- 49 042**	**270 891**	**- 32 076**	**675 882**

	Equity	Share premium	Fair value reserves	Other reserves and retained earnings	Net income	Total
Balances as at 31/12/2012 - AAS	**476 000**	**10 109**	**- 110 807**	**273 896**	**2 692**	**651 890**
Credit impairment						
- Adjustments - regulatory provisions				2 128	1 896	4 024
- Deferred tax				- 564	- 502	- 1 066
Valuation of own property						
- Fair value			7 443	2 348		9 791
- Deferred tax			- 2 595			- 2 595
Balances as at 31/12/2012 - IFRS	**476 000**	**10 109**	**- 105 959**	**277 808**	**4 086**	**662 044**

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Statement of the Board of Directors

BANCO POPULAR PORTUGAL, S.A.

Head Office: R. Ramalho Ortigão, No. 51, 1099-090 Lisbon

Share capital: Eur 476,000,000.00

Registered at the Lisbon Commercial Registry

under the Taxpayer No. 502.607.084

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

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

STATEMENT OF THE BOARD OF DIRECTORS

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

'Pursuant to paragraph (c) of article 245(1) of the Portuguese Securities Code, I declare that, to the best of my knowledge, the management report, the annual accounts, the statutory audit and auditor's report and other accounting documents disclosed by Banco Popular Portugal, S. A., all referred to 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 management report faithfully states the trend of the business, the performance and position of that entity, and contains a description of the principal risks and uncertainties faced.'

Lisbon, 20 February 2014

Board of Directors

Rui Manuel Morganho Semedo	(Chairman)
Tomás Pereira Pena	(Member)
Carlos Manuel Sobral Cid da Costa Alvares	(Member)
José Ramón Alonso Lobo	(Member)

Statutory Audit and Auditor's Report

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

Statutory Audit and Auditor's Report

Introduction

1. In accordance with the applicable legislation, we present our Statutory Audit and Auditor's Report on the financial information included in the Management Report and in the accompanying financial statements of Banco Popular Portugal, S. A., which comprise the Balance Sheet as at 31 December 2013 (showing total assets of 9,222,173 thousand euros and total equity of 665,888 thousand euros, including net loss of 31,720 thousand euros), the Statements of income, of comprehensive income, of changes in equity, and of cash flows for the year then ended, and the corresponding Notes. These financial statements were prepared in accordance with the Adjusted Accounting Standards introduced by Notice No. 1/2005 issued by the Bank of Portugal, which are based on the International Financial Reporting Standards (IFRS) as adopted by the European Union, with the exceptions referred to in Notices Nos. 1/2005, 4/2005 and 7/2008 issued by the Bank of Portugal.

Responsibilities

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

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

Scope

4. We conducted our audit in accordance with the Technical Standards and Audit Guidelines issued by the Portuguese Institute of Statutory Auditors ('Ordem dos Revisores Oficiais de Contas'), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. Accordingly our audit included: (i) verifying, on a test basis, the information underlying the figures and its disclosures contained in the financial statements, and assessing the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements; (ii) evaluating the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances; (iii) assessing the applicability of the going concern basis of accounting; (iv) assessing the appropriateness of the overall presentation of the financial statements; and (v) assessing whether the financial information is complete, true, current, clear, objective and lawful.

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

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

Opinion

7. In our opinion, the financial statements referred to above present fairly in all material respects the financial position of Banco Popular Portugal, S.A. as at 31 December 2013, the results of its operations, comprehensive income, changes in equity, and cash flows for the year then ended in accordance with the Adjusted Accounting Standards issued by the Bank of Portugal, and the information contained therein is complete, true, current, clear, objective and lawful.

Report on other legal requirements

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

Lisbon, 20 March 2014

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

Report and Opinion of the Supervisory Board

Report and Opinion of the Supervisory Board

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

1. In accordance with the law and our mandate, we present our report on our supervisory activity and our opinion on the Management Report and the financial statements presented by the Board of Directors of Banco Popular Portugal, S.A. for the year ended 31 December 2013.

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

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

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

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

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

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

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

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

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

i) the Management report is approved;

ii) the Corporate governance report is approved;

iii) the financial statements are approved;

iv) the proposal for the appropriation of net income is approved.

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

Lisbon, 20 March 2014.

The Chairman of the Supervisory Board
Rui Manuel Ferreira de Oliveira

Member
António José Marques Centúrio Monzelo

Member
Telmo Francisco Salvador Vieira

Corporate Governance Report

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

2013

Banco Popular Portugal, S.A. (also named Banco Popular or BAPOP) is fully owned by a sole shareholder, Banco Popular Español, S.A., whose Head Office is located in Madrid, Spain. Banco Popular shares are not admitted to trading in any regulated market in Portugal.

The Bank's corporate governance bodies are: the Board of the General Meeting, the executive Board of Directors, the Supervisory Board and the Statutory Auditor.

I - General Meeting

I. 1 - Members of the Board of the General Meeting

Members of the Board of the General Meeting

Augusto Fernando Correia Aguiar-Branco - Chairman
João Carlos de Albuquerque de Moura Navega - Secretary

I.2 – Terms of office of the members of the Board

The current members of the Board of the General Meeting were first elected on 7 May 2007 and re-elected for the four-year term of 2011-2014 on 30 May 2011 and their term of office is on 31 December 2014.

I.3 – Remuneration of the Chairman

The Chairman of the Board of the General Meeting earned a monthly salary of 500.00 euros, in a total of 6,000.00 euros; the Secretary earned a monthly salary of 300.00 euros in the annual amount of 3,600.00 euros.

I.4 – Voting rights

Each 500 shares correspond to one vote.

I.5 – Shareholders with special rights

Banco Popular has no shareholders with special rights.

I.6 – Statutory regulations on voting rights

Pursuant to Article 11 of the Articles of Association of Banco Popular, only shareholders that own 500 or more shares have voting rights. There are no other limitations as regards voting rights and no timeframe is determined for the exercise of voting rights.

In accordance with Article 14, decisions are made by absolute majority of votes, except in the case of dissolution of the Bank, for which the decision shall be made by a three-fourths majority of the share capital, and in cases when a qualified majority is prescribed by law.

I.7 – Postal voting

There are no statutory restrictions or defined regulations on exercising voting rights by post.

I.8 – Annual General Meeting on the remuneration and performance assessment policies of the members of the Board of Directors

The General Meeting annually approves of the declaration on the remuneration policy of the Board of Directors and the Supervisory Board presented by the Board of Directors pursuant to Article 2(1) of Law No. 28/2009 of 19 June 2009.
Similarly, the General Meeting annually assesses the performance of the Board of Directors based on the evaluation of the Bank’s economic performance in the previous year.

II – Governing bodies

II.1 – Identification and composition of the governing bodies

The governing and supervisory bodies of Banco Popular are the Executive Board of Directors, the Supervisory Board and the Statutory Auditor, or Audit Firm. These governing bodies were elected for the four-year term of 2011-2014 on 30 May 2011. Except for Carlos Manuel Sobral Cid da Costa Alvares and José Ramón Alonso Lobo, who were elected on 3 May 2013 and 21 March 2013, respectively, and whose term of office is also 31 December 2014.

Composition:

Board of Directors

Rui Manuel Morganho Semedo - Chairman
Carlos Manuel Sobral Cid da Costa Alvares - Member
Tomás Pereira Pena – Member
José Ramón Alonso Lobo – Member

Supervisory Board

Rui Manuel Ferreira de Oliveira – Chairman

Telmo Francisco Salvador Vieira - Member

António José Marques Centúrio Monzelo - Member

Ana Cristina Freitas Rebelo Gouveia – Alternate

Statutory Auditor

PricewaterhouseCoopers & Associados, SROC, Lda.

Represented by Aurélio Adriano Rangel Amado

or José Manuel Henriques Bernardo

Alternate Statutory Auditor

Jorge Manuel Santos Costa

II.2 – Delegation of powers and the Bank's organizational structure

The Board of Directors has delegated the day-to-day management of the business of Banco Popular to its Chairman, Rui Manuel Morganho Semedo, and the Director, Carlos Manuel Sobral Cid da Costa Alvares, with powers to make decisions and to practice all the acts comprehended in the Bank's social object, within legal limits, namely the following:

a) Acquiring, disposing of and encumbering movable and immovable assets, as well as creating or change the horizontal property of real estate owned by the Bank;

b) Opening or closing branches;

c) Important extension or reduction of the Bank's activity;

d) Important changes in the Bank's organization;

e) Entering in or terminating any lasting cooperation with another company;

f) Managing the Bank's stakes in other companies, namely appointing the Bank's representatives in their respective corporate bodies and defining guidelines for their performance;

g) Hiring, signing, changing or terminating employment contracts and exercising the respective directive and disciplinary powers;

h) Approving of the employees appointments or changes in their remuneration except those that regard the last level of the Collective Bargaining Agreement table;

i) Contracting, signing, changing and terminating insurance or building contracts, as well as other service contracts;

j) Contracting, signing, changing and terminating rental and lease contracts for immovable or movable property;

l) Representing the Bank in and out of Court, filing criminal complaints, engaging in arbitrations, start and respond to Court proceedings, with the power to waive, transact and confess in any legal proceedings;

m) Appointing proxies to practice certain acts, or categories of acts, on behalf of the Bank, always defining the extension of their respective powers;

n) Subscribing, acquiring, disposing of or encumbering shareholdings in any companies, as long as the operations are included in the pre-defined business plans;

o) Establishing and organizing working methods, including the elaboration of regulations and determination of instructions they deem necessary.

The above-describe delegated powers shall be enforced by the Chairman of the Board of Directors, Rui Manuel Morganho Semedo, together with the Director Carlos Manuel Sobral Cid da Costa Alvares. Whenever deemed necessary or convenient, throughout the year, the Chairman, Rui Manuel Morganho Semedo, shall inform the Board of Directors of the decisions, acts or agreements signed under the delegated powers.

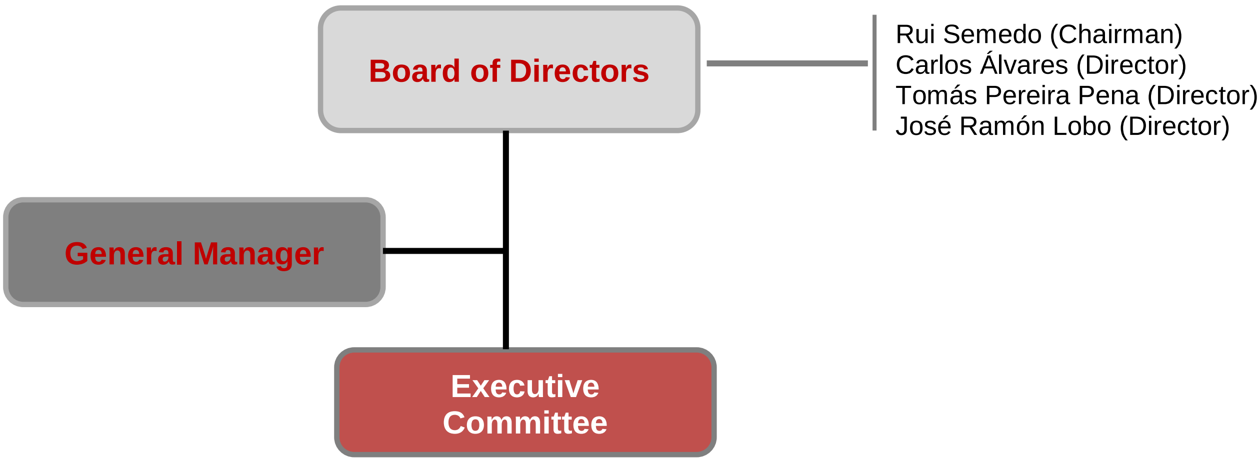
In terms of Corporate Governance of the Banco Popular, the Executive Committee was created on 1 January 2011, under the framework of the continuous improvement process of the management model of the Bank as a unit of Banco Popular Group.

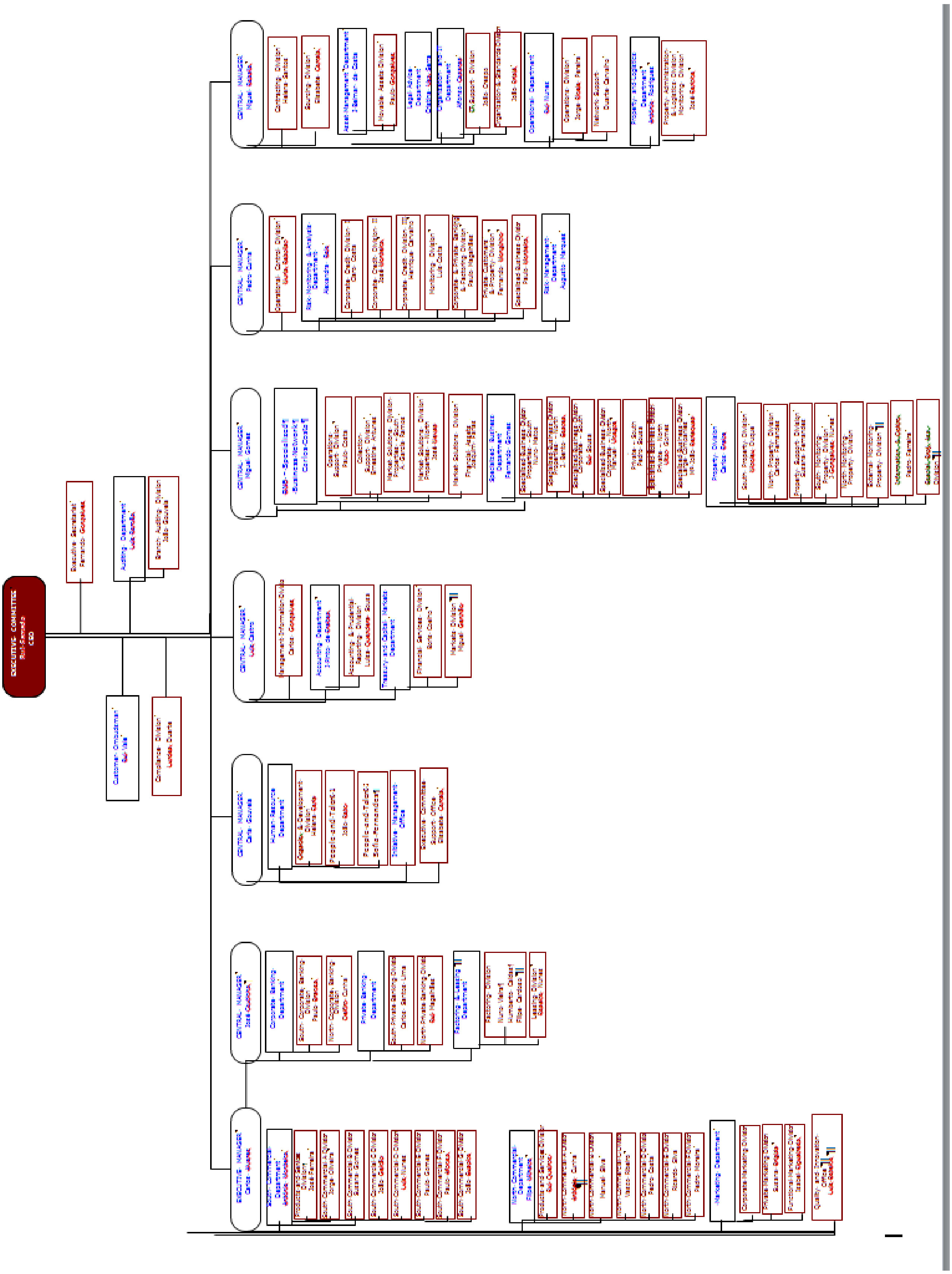
The creation of this Committee, which meets once a week, was aimed at streamlining the decision making process and making its implementation and follow-up more effective in order to face successfully the very demanding circumstances in which the Bank operates.

Without prejudice to the role of the Board of Directors as a statutory governing body, the Executive Committee, a non-statutory body, will ensure the day-to-day running of the Bank, within the larger guidelines of the Group and the Board of Directors.

The Executive Committee is composed of Rui Manuel Morganho Semedo, Chairman of the Board of Directors, who coordinates it, Carlos Manuel Sobral Cid da Costa Álvares, Director and General Business Manager, José António Matos dos Santos Coutinho, Carla Maria da Luz Gouveia, Jorge Miguel Santos Roldão Gomes, Pedro Miguel da Gama Cunha, Carlos Miguel de Paula Martins Roballo and José Luis Castro Cortizo, all of them Central Managers.

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





II.3 – Activity Monitoring Committees

Besides the creation of the Executive Committee, which supports the Board of Directors in the day-to-day running of the Bank, several specialised committees were established to monitor the activity of Banco Popular, namely:

Internal Control and Operating Risk Committee

The Internal Control and Operating Risk Committee is a consultant body, constituted by the Heads of several departments: Auditing, Risk Management, Organization and IT, Customer Ombudsman, Legal Advice, Human Resources and Compliance/Internal Control. This Committee is coordinated by the Chairman of the Board of Directors.

This Committee meets at least once a month and its main functions are:
- protecting the Bank's reputation and minimize its respective risk;
- systematically identifying and analysing the relevant legislation applied to the day-to-day activity of the Bank, detecting existing deficiencies and how to overcome them;
- analysing and proposing policies, planning and action strategies in order to scrupulously comply with the regulations and Instructions issued by the Bank of Portugal, CMVM and ISP in order to avoid any type of sanctions;

Business Continuity Management Committee

This consultant Committee is comprised of the Heads of several departments: Human Resources, Organization and Technology, Operating, Risk Management, and Compliance. This Committee is coordinated by the Chairman of the Board of Directors and meets at least once every quarter but it can meet exceptionally whenever necessary. Its functions are observing a set of generic good practices to be implemented and deepened by the Bank in accordance with the characteristics in terms of risk profile, taking into consideration the nature, dimension, business complexity and organizational model, which are reflected in the 'Prudential Recommendations on Business Continuity Management' approved of by the National Council of Financial Supervisors ('Conselho Nacional de Supervisores Financeiros').

Demand Management Committee

The Demand Management Committee is a consulting body, comprised of the heads of several departments: Organization and IT, Risk Management, Operations, Legal Advice, Commercial, Accounting, and Marketing. This Committee meets at least once a quarter and may meet exceptionally whenever necessary.

The function of this Committee is to manage the demand management model of the Bank's IT Systems regarding commercial needs, internal needs, or legal requirements, monitoring projects, defining priorities and anticipating impacts in their implementation.

II.4 –Annual Report of the Supervisory Body

The annual Report and Opinion written by the Supervisory Body provides a brief description of the supervision activity as regards the annual reporting This Report is posted on the Bank's internet website together with the financial statements.

II.5 – Internal control and risk management systems

Banco Popular's internal control system is a process implemented by the Board of Directors, the other governing bodies and employees, as part of the Bank's strategic planning, which is sustainable in the long run and conceived to grant a reasonable guarantee that the objectives are met in the following categories:

- Operation efficacy and effectiveness;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations

The internal control system implemented by Banco Popular, in accordance with applicable laws and regulations, is described in the internal standards, namely regarding the responsibilities that are assigned to the Board of Directors and the other governing bodies tied with the control structure.

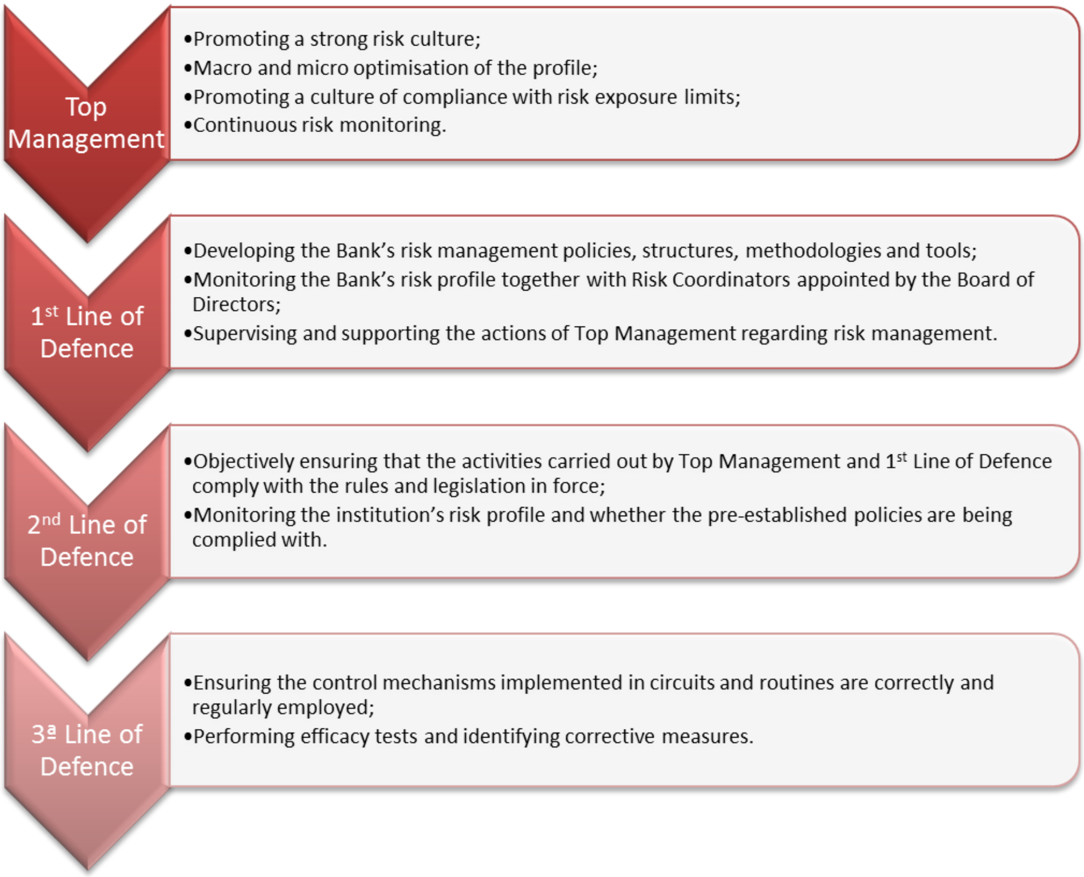
The functions of the Board of Directors are approving the Bank's strategy and undertaking to see it adequately implemented, as well, as defining, approving of and revising the organizational structure of the Bank and ensuring its adequate implementation and maintenance. The Board of Directors shall promote an internal control culture based on high standards of ethics and integrity, by defining and approving of the adequate codes of conduct, ensuring that all the employees understand their part in the system and may contribute effectively to it.

The duties of the Supervisory Board are ensuring that the Banks implements the necessary procedures deemed relevant to comply, in all the materially relevant aspects, with its internal control system and the requirements described in Notice No. 5/2008 issued by the Bank of Portugal, based namely on the principles of the existence of an adequate control environment, a solid risk management system, an efficient IT and Communications system, and an effective monitoring process, which guarantee that all the objectives in the above-mentioned categories are met.

Namely regarding reliability of financial reporting, the internal control system provides a reasonable guarantee that the preparation of the corresponding reports is in accordance with generally accepted accounting principles and complies with the applicable legal precepts and regulations, that the information therein contained reflects the transactions and underlying events in order to present a reliable and truthful equity and financial position, and that they are clear and informational regarding the matters that may influence their usage, understanding and interpretation.

The risk management function tries to identify, evaluate, monitor and control all the materially relevant risks to which the Bank is exposed, both internal and externally, so as not to let them negatively affect the financial situation of the institution. This is also an area that contributes to create value by enhancing support tools: (i) for credit decision making, (ii) for the definition of pricing adjusted to the risk of the operations and (iii) for allocating capital.

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



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

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

Reporting and communication lines

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

Functions and responsibilities

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

a) Board of Directors – The responsibilities include:

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

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

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

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

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

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

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

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

ix. Supervising and monitoring regulatory compliance;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ii. Ensuring that legal requirements are met, as well as regulations and best practices, reconciling, on the one hand, the legal compliance perspective and, on the other, the business perspective;

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

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

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

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

vii. Keeping a record of breaches and measures suggested and adopted to correct them;

viii. Writing an annual report that shall be presented to the governing and supervisory boards, identifying any breaches and the measures adopted to correct them;

ix. Ensuring, and in terms of internal control promoting, the preparation of reports to be delivered to the supervising entities, together, namely, with the risk management and internal auditing functions;

x. Acting as the spokesperson in the relationship with regulating entities in order to ensure a good liaison in terms of legal development and evolution, as well as regarding the resolution of detected breaches;

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

d) Operational Control Division – Its main activities are:

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

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

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

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

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

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

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

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

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

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

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

i. Identifying and assessing risks and risk responses;

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

iii. Issuing recommendations for control activities;

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

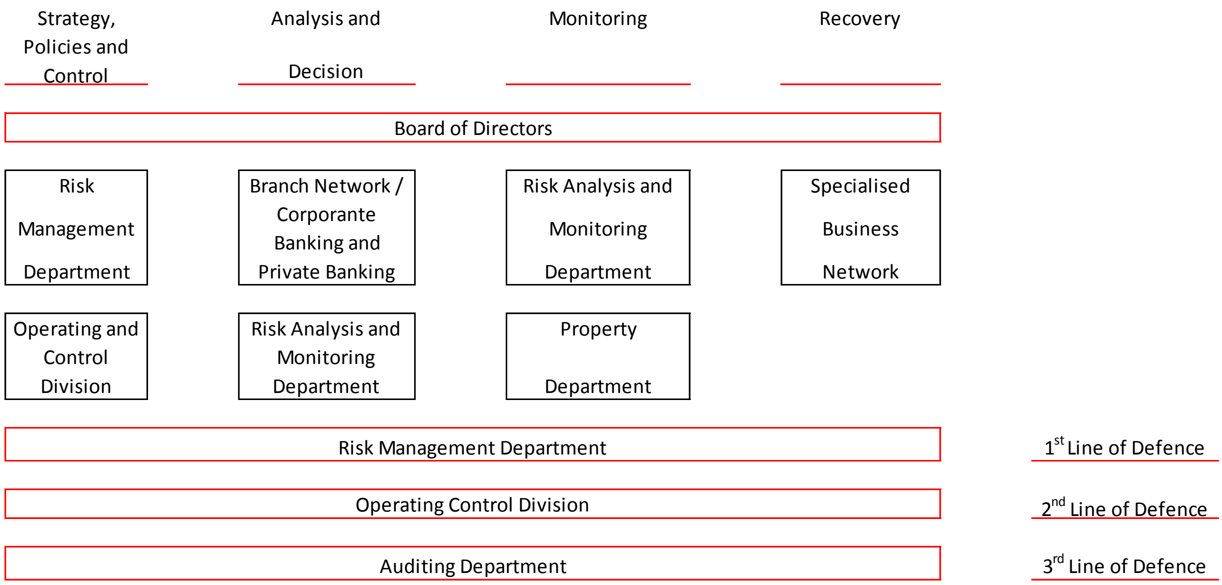
II.6 – Identifying the main risks to which Banco Popular is exposed in the course of its activity

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

Credit Risk

Credit risk arises from the possible loss triggered by the breach of contractual obligations of the Bank's counterparties. In the case of refundable financing it arises as a consequence of the non-recovery of principal, interest and commissions, regarding amount, period and other conditions stipulated in the contracts. 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 organizational structure created to manage and monitor credit risk at Banco Popular Portugal from a macro perspective can be summarized as follows:



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

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

- Warning signals.

People that have been assigned delegated powers to authorise transactions are integrated into the following areas and bodies of the Bank:

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

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

In 2012, The Bank decided to strengthen its credit recovery actions, and for that purpose nearly all customers with defaulted transactions migrated to an informally called recovery portfolio and the Specialized Business Network (RNE – 'Rede de Negócio Especializado') was created to monitor those customers.

This strategy was continued in 2013 and allowed for a closer monitoring of higher-risk customers, which was reflected in a swifter detection of potential non-performance situations and the immediate adoption of adequate solutions for each of those situations.

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

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

Concentration Risk

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

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

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

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

Market risk

Market Risk is the probability of negative 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 in the Bank's balance sheet is done separately, through the Structural Interest Rate Risk, and given the Bank's activity and the structure of its balance sheet, market risk is limited to the fluctuation in the prices of the securities that comprise its portfolio.

The Bank's securities portfolio is managed by the General Treasury of BPE Group in Madrid, which also manages market risk. The main instrument used in terms of risk management is Value at Risk (VaR), the Risk Management Department regularly monitors the evolution of the portfolio's VaR and reports those numbers to the Board. We would like to stress that the Bank uses the standardised approach to calculate own funds requirements.

Foreign Exchange Rate Risk

Foreign exchange rate risk is the probability of negative impact on the Bank's earnings or 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 Bank also uses the VaR methodology as a management instrument for its foreign currency position using the standardised approach to calculate own funds requirements.

Operational Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

Losses arising from operational risk are booked not only for the financial amount directly accounted for, but also, whenever possible, taking into consideration other quantifiable costs.

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

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

a) Analysing the results contained in risk maps and their respective self-assessment;
b) Recording events – maintaining the operational risk events database;
c) Key operational risk indicators (KRIs).

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

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

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

Presently, KRIs are defined for the following areas:

- Customer Ombudsman:
- Risk Analysis:
- Operations Department – Securities:

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

Structural interest rate risk

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

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

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

Besides regularly assessing the interest rate risk pursuant to Instruction No. 19/2005 issued by the Bank of Portugal - in which the impact of a shift of 200 basis points in the yield curve, both net, and margin are measured - in the scope of the stress test performed, the Bank analyses the sensitivity to the following parameters:

- Parallel shift of 100 b.p. in the yield curve;
- Fluctuation of 100 b.p. in the steepness of the yield curve.

Liquidity Risk

Liquidity risk is controlled in order to ensure that the 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 Bank 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 forecast 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 funding reposition as it matures or is granted to customers;
- Maintaining a high-liquidity asset portfolio so that these can be easily converted into cash as a protection against any unexpected interruption in cash flows;
- Monitoring liquidity ratios taking into account external and internal requirements;
- Managing the concentration and profile of debt maturities resorting to the liquidity gap model.

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

Regarding the analysis of liquidity risk, besides the obligations established by the Bank of Portugal under the terms of Instruction No. 13/2009, the Bank also resorts to the concept of liquidity gap, i.e., from the balance sheet of the Bank as at 31 December 2013, based on the maturities of assets and liabilities it is possible to ascertain the relation between the referred maturities (positive or negative) according to residual maturity deadlines, called liquidity gaps.

Reputational and Compliance Risk

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

Potential adverse impact on the 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.

Compliance risk is defined as the probability of negative impacts on income or equity the Bank may suffer as a result of its failure to comply with laws, regulations, specific requirements, agreements, codes of conduct and relationship with its customers, standards of good practices or principles of integrity and fair dealing, which may imply legal sanctions, loss of business opportunities, decreased expansion potential or the inability to demand the fulfilment of contractual obligations.

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

Strategic Risk

Strategic risk is defined as the probability of negative impacts on results or equity deriving from inadequate strategic decisions, deficient implementation of decisions, or the inability to respond effectively to market changes and variations, as well as any possible internal restrictions in the context of the Bank's performance.

The following instruments are used to monitor strategic risk:

- Balance Sheet Simulations - several scenarios are generated for the evolution of the Bank's Balance Sheet taking into consideration Assets, Liabilities and Net Income;
- Income Account Simulations - the adequacy of the profitability and solvency levels is assessed depending on the balance sheet simulations that were performed. Calculating the impacts on net interest income, banking product, operating margin and net income for the period. Taking into consideration the impacts on the main activity ratios particularly solvency, profitability, efficiency and liquidity ratios;
- Mandatory stress tests.
- Mandatory Recovery and Resolution plans.

Strategic risk is periodically measured with special emphasis on:

- A monthly Management Report that allows to follow and interpret the institution's main management and performance indicators;
- Monthly following up and analysis of the main deviations from the objectives written down in the Strategic Plan;
- Monthly report with corrective proposals taking into consideration the deviations that occurred;
- The Board of Directors follows up Stress Tests and Regulatory Plans.

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. These were assets whose ownership was transferred to the Bank following legal actions or in lieu of payment to settle loan debts (mostly loans for construction/property development and home loans). 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 have specific training in this field.

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

In the scope of the stress test performed, a sensitivity analysis and the impact on capital consumption caused by the decrease in property prices is calculated.

II.7 – Powers of board members, and in particular the power to issue or buy back shares

The Executive Board of Directors has no powers to issue or buy back shares.

Any share capital increase requires the approval of the General Meeting on proposal of the Executive Board of Directors.

II.8 – Policy on rotation of functions within the Executive Board of Directors

Although not formalized there is, in fact, a policy: functions within the Executive Committee that supports the Executive Board of Directors in terms of the day-to-day management of the Bank are periodically rotated.

II.9 - Rules applicable to appointment and replacement of members of the management and supervisory bodies

The members of the Executive Board of Directors are elected by the General Meeting for four-year terms, with the possibility of being re-elected. Directors will lose their term if, during it, they miss five consecutive meetings of the Board or seven interpolated with no justification accepted by the Board. The replacement of Directors is made by cooptation pursuant to legal terms, and it shall be submitted to ratification on the following General Meeting.

The members of the Supervisory Board are elected by the General Meeting for four-year terms, with the possibility of being re-elected. The Chairman of the Board of the General Meeting shall verify any possible conflicts of interest among its permanent members and make any moves necessary for replacement by an alternate member.

The Statutory Auditor, or the Audit Firm, is appointed by the General Meeting for a four-year period and an alternate Statutory Auditor, or Audit Firm, is also appointed.

II.10 – Meetings held by the management and supervisory bodies

The Executive Board of Directors meets ordinarily once a month and extraordinarily at the initiative of the Chairman or two other directors. Minutes from the meetings contain all the decisions taken in those meetings. During 2013, the Board of Directors met 16 times.

The Supervisory Board meets ordinarily at least once every three months and extraordinarily on request of the Chairman or of any other member. Minutes from the meetings contain all the decisions taken in those meetings. In 2013, the Supervisory Board met 4 times.

II.11 – Professional information on the members of the Executive Board of Directors:

Rui Manuel Morganho Semedo - Chairman

Date of first appointment – 5 November 2007

Term of office – 31 December 2014

Professional qualifications: - Degree in Economy

Professional activities in the past 5 years: - Barclays Bank , Portugal – CEO; Barclays Bank, Spain – CEO.

Does not own any shares in the company.

Functions in other companies from Banco Popular Group: - Chairman of the Executive Board of Directors of Popular Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A., of Popular Factoring, S.A., Eurovida – Companhia de Seguros de Vida, S.A. and of Popular Seguros – Companhia de Seguros, S.A.; Manager of Consulteam – Consultores de Gestão, Lda.

Carlos Manuel Sobral Cid da Costa Alvares - Member

Date of first appointment – 3 May 2013

Term of office – 31 December 2014

Professional qualifications: Degree in Business Management; High Management Programme - PADE at AESE/Escola de Direção e de Negócios.

Professional activities in the past 5 years: - Banco Comercial Português Group – several management positions

Does not own any shares in the company.

Functions in other companies from Banco Popular Group: - Member of the Board of Directors of Popular Gestão de Ativos, SGFI, S.A.

Tomás Pereira Pena - Member

Date of first appointment – 27 May 2009

Term of office – 31 December 2014

Professional qualifications: - Degree in Law

Professional activities in the past 5 years: Banco Popular Español, S.A. - Head of Legal Services

Does not own any shares in the company.

Functions in other companies from Banco Popular Group: - Head of Legal and Compliance Services at Banco Popular Español, S.A..

José Ramón Alonso Lobo - Member

Date of first appointment – 10 April 2013

Term of office – 31 December 2015

Professional qualifications: - Degree in Business Management by Universidad de Oviedo

Does not own any shares in the company.

Functions in other companies from Banco Popular Group: Executive Director at Banco Popular Portugal, SA; Deputy Director at Banco Popular Español, SA; Member of the Board of Iberia Cards, SA.

II.12 – Identification of the members of the Supervisory Board

Rui Manuel Ferreira de Oliveira – Chairman
Telmo Francisco Salvador Vieira - Member
António José Marques Centúrio Monzelo - Member
Ana Cristina Freitas Rebelo Gouveia – Alternate

According to their own self-assessments, effective Supervisory Board members meet the requirements of incompatibility rules as foreseen by No. 1 of Article 141; and the independence criteria as defined in No. 5 of Article 414, both from the Portuguese Companies Act (‘Código das Sociedades Comerciais’).

II.13 – Professional information on the members of the Supervisory Board

Rui Manuel Ferreira de Oliveira

Date of first appointment – 7 May 2007

Term of office – 31 December 2014

Professional qualifications: Degree in Business Management

Professional activities in the past 5 years: Freelance consultant

Does not own any shares in the company.

Does not hold any post in other companies of the Banco Popular Group.

Telmo Francisco Salvador Vieira

Date of first appointment – 7 May 2007

Term of office – 31 December 2014

Professional qualifications: Degree in Business Management and MBA; Statutory Auditor; Doctoral Candidate in Business Management at ISEG

Professional activities in the past 5 years: - Lecturer at Instituto Superior de Economia e

Gestão; consultancy as a partner at Premivalor Consulting

Does not own any shares in the company.

Does not hold any post in other companies of the Banco Popular Group.

António José Marques Centúrio Monzelo

Date of first appointment – 7 May 2007

Term of office – 31 December 2014

Professional qualifications: - Degree in Accountancy and Business Management; Statutory Auditor

Professional activities in the past 5 years: - Statutory Auditor for several companies

Does not own any shares in the company.

Does not hold any post in other companies of the Banco Popular Group.

Ana Cristina Freitas Rebelo Gouveia

Date of first appointment – 7 May 2007

Term of office – 31 December 2014

Professional qualifications: - Degree in Auditing; First Degree in Accountancy and Business Administration

Professional activities in the past 5 years: - Assistant Manager in the financial company ENERSIS;

Does not own any shares in the company.

Does not hold any post in other companies of the Banco Popular Group.

II.14 – Remuneration policy of corporate bodies

The remuneration of the members of the Board of Directors and the Supervisory Board is determined by the sole shareholder. Aiming at, on the one hand, abide by Law No. 28/2009, of 19 June, and, on the other, strengthening transparency in the pay structure of Banco Popular Portugal, S.A, governing bodies, the following remuneration policy for 2013 was approved of at the General Meeting held on 21 March 2013.

1 – Process for setting the remuneration of the members of the corporate bodies

Banco Popular Portugal, S.A. is fully owned by Banco Popular Español, S.A., and is therefore included in the Banco Popular Group, which has defined management policies, including remuneration policies, that are uniform and transversal to all the companies that comprise it.

Therefore, the remuneration policy of the members of the Executive Board of Directors and the Supervisory Board is directly defined by its sole shareholder according to uniform, consistent, fair and balanced criteria adopted by the Group. The existence or not of a variable remuneration is directly associated with the degree of fulfilment of the main objectives established each year for Banco Popular Group and Banco Popular Portugal.

2 – Remuneration of the members of the Supervisory Board

The members of the Supervisory Board earn a monthly fixed salary paid twelve times a year. Remunerations are set at the beginning of term and valid until de term of office.

3 - Remuneration of the Statutory Auditor

The remunerations of the Audit Firm are established at the beginning of each term for service contracts pursuant to common remunerative practices and conditions for similar services.

4 – Remuneration of the members of the Executive Board of Directors

4.1 – Non executive members

Non-executive members of the Board of Directors do not earn any remuneration from Banco Popular Portugal.

4.2 – Executive members

Remuneration composition

The remuneration of executive members of the Board of Directors is fixed annually by the sole shareholder and depends on the economic performance in the previous year of the Grupo Banco Popular, to which Banco Popular Portugal belongs.

Remuneration is composed of a monthly fixed amount paid on the basis of 14 months/year and a variable amount.

The variable remuneration is paid in cash and no deferred payment of the variable component is provided for in the statutory regulations.

Remuneration limits

The fixed part of the remuneration shall have the limits established by the sole shareholder.

The variable component will fluctuate each year and for each member being, in any case, determined by the sole shareholder.

Criteria for the definition of the variable component of the remuneration

The variable component is established according to the criteria used for the members of governing bodies of the Banco Popular Group in terms of remuneration, depending on the degree of fulfilment of the Group's main objectives.

Other forms of remuneration

No other forms of remuneration besides the aforementioned fixed and variable components are provided for in the rules and regulations.

Pension Plan

The executive members of the Board of Directors exercising their functions on an exclusive basis at Banco Popular Portugal are entitled to receive retirement and survivor's pensions according to the following regulations:

1 – Right to a monthly retirement pension on a 14 month/year basis, corresponding to a percentage of their monthly remuneration, in the case of the Chairman of the Board of Directors, or of a percentage of level 18 of the Collective Bargaining Agreement for the banking sector, in the case of all other members, for each year in function;

2 – Right to a monthly survivor pension paid to the surviving spouse, corresponding to 80% of the pension as defined in number 1;

3 – The rights to the retirement pension and the survivor pension will only become effective if and when the member of the Executive Board of Directors is appointed for a second term and has completed at least four year in the exercise of those functions;

4 – The right to the retirement pension is acquired on the term of office date and it shall be calculated and fixed in relation to that date. However, the effective payment of the pension will only begin in the month after the member of the Board of Directors completes 65 years of age.

The Pension Plan for the members of the Executive Board of Directors was approved of at the General Meeting.

Compensation due for directors' dismissal without cause

No agreements are foreseen that determine the amounts to pay in case of dismissal of executive members of the Board of Directors besides the provisions of Law.

The proposal of the remuneration policy for 2014, which will be presented to the Annual General Meeting for the approval of the Accounts can be found in Annex I to the present Report.

II.15 – Remunerations earned by the governing bodies

The members of the Executive Board of Directors earned a total amount of € 657,469 in 2013, which included both fixed and variable components and which was fully paid in cash.

The amounts paid to each member of the Executive Board of Directors are detailed as follows:

(euros)

	Annual remuneration		
	Fixed Remun.	Variable Remun. Cash	Total
Rui Manuel Morganho Semedo	380,002.00	100,000.00	480,002.00
Carlos Manuel Sobral Cid da Costa Álvares	177,467.00	0.00	177,467.00
Tomás Pereira Pena	0.00	0.00	0.00
José Ramón Alonso Lobo	0.00	0.00	0.00
	557,469.00	100,000.00	657,469.00

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

The members of the Supervisory Board earned a total fixed amount of € 21,600.00 in 2013. The amounts paid to each member of the Supervisory Board are detailed as follows:

(euros)

	Annual remuneration
Rui Manuel Ferreira de Oliveira	9,600.00
António José Marques Centúrio Monzelo	6,000.00
Telmo Francisco Salvador Vieira	6,000.00
	21,600.00

III – Information and Auditing

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

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

III.2 – Qualified stakes

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

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

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

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

Annual reports and opinions issued by the Supervisory Board on the activity developed are available, together with the annual financial statements, on the Bank's internet website, www.bancopopular.pt.

III.5 – Remunerations paid to the Statutory Auditor

The amounts paid to the Statutory Auditor, PricewaterhouseCoopers, in 2013 were as follows

	(euros) Fees paid
Statutory audit	112,545.00
Other guarantee and reliability services	241,987.40
	354,532.40

Lisbon, 20 February 2014

THE BOARD OF DIRECTORS

Declaration on the Remuneration Policy of the Members of the Executive Board of Directors and the Supervisory Board – 2014

1 – Process for setting the remuneration of the members of the corporate bodies

Banco Popular Portugal, S.A. is fully owned by Banco Popular Español, S.A., and is therefore included in the Banco Popular Group, which has defined management policies, including remuneration policies, that are uniform and transversal to all the companies that comprise it.

Therefore, the remuneration policy of the members of the Executive Board of Directors and the Supervisory Board is directly defined by its sole shareholder according to uniform, consistent, fair and balanced criteria adopted by the Group. The existence or not of a variable remuneration is directly associated with the degree of fulfilment of the main objectives established each year for Banco Popular Group and Banco Popular Portugal.

2 – Remuneration of the members of the Supervisory Board

The members of the Supervisory Board earn a monthly fixed salary paid twelve times a year. Remunerations are set at the beginning of term and valid until de term of office.

3 – Remuneration of the Statutory Auditor

The remunerations of the Audit Firm are established at the beginning of each term for service contracts pursuant to common remunerative practices and conditions for similar services.

4 – Remuneration of the members of the Executive Board of Directors

4.1 – Non-executive members

Non-executive members of the Board of Directors do not earn any remuneration from Banco Popular Portugal.

4.2 – Executive members

Remuneration composition

The remuneration of executive members of the Board of Directors is fixed annually by the sole shareholder and depends on the economic performance in the previous year of the Grupo Banco Popular, to which Banco Popular Portugal belongs.

Remuneration is composed of a monthly fixed amount paid on the basis of 14 months/year and a variable amount.

The variable remuneration is paid in cash and no deferred payment of the variable component is provided for in the statutory regulations.

Remuneration limits

The fixed part of the remuneration shall have the limits established by the sole shareholder.

The variable component will fluctuate each year and for each member being, in any case, determined by the sole shareholder.

Criteria for the definition of the variable component of the remuneration

The variable component is established according to the criteria used for the members of governing bodies of the Banco Popular Group in terms of remuneration, depending on the degree of fulfilment of the Group's main objectives.

Other forms of remuneration

No other forms of remuneration besides the aforementioned fixed and variable components are provided for in the rules and regulations.

Pension Plan

The executive members of the Board of Directors exercising their functions on an exclusive basis at Banco Popular Portugal are entitled to receive retirement and survivor's pensions according to the following regulations:
1 – Right to a monthly retirement pension on a 14 month/year basis, corresponding to a percentage of their monthly remuneration, in the case of the Chairman of the Board of Directors, or of a percentage of level 18 of the Collective Bargaining Agreement for the banking sector, in the case of all other members, for each year in function;

2 – Right to a monthly survivor pension paid to the surviving spouse, corresponding to 80% of the pension as defined in number 1;
3 – The rights to the retirement pension and the survivor pension will only become effective if and when the member of the Executive Board of Directors is appointed for a second term and has completed at least four year in the exercise of those functions;
4 – The right to the retirement pension is acquired on the term of office date and it shall be calculated and fixed in relation to that date. However, the effective payment of the pension will only begin in the month after the member of the Board of Directors completes 65 years of age.

The Pension Plan for the members of the Executive Board of Directors was approved of at the General Meeting.

Compensation due for directors' dismissal without cause

No agreements are foreseen that determine the amounts to pay in case of dismissal of executive members of the Board of Directors besides the provisions of Law.

Lisbon, 20 February 2014

THE BOARD OF DIRECTORS

Disclosure of the Staff Remuneration Policy – 2014

Pursuant to No. 4 of Article 16 of Notice No. 10/2011 issued by the Bank of Portugal on 29 December, the remuneration policy we hereby disclose the remuneration policy of employees that, not being members of governing bodies of Banco Popular Portugal, S.A., earn a variable remuneration and exercise their professional activity in the scope of the control functions as established by Notice No. 5/2008 issued by the Bank of Portugal on 1 July, or exercise any activity that may carry a material impact on the Bank's risks profile.

Banco Popular Portugal has defined a remuneration policy of all its employees that comprehends, naturally, all those who exercise their professional activity in the scope of compliance, risk management, and internal auditing, or that exercise any other professional activity that may carry a material impact on the Bank's risk profile.

Definition of the remuneration policy of employees

The remuneration policy of employees is defined by the Board of Directors on proposal of the Human Resources Department and follows what is established by the instruments that collectively regulate work agreements, as well on the criteria and practices used by Banco Popular Group. This remuneration is composed, in general, by a fixed component, which is agreed under the terms of the employment contract (individual or collective) agreed with the employees.

There may be a variable component, which will always have a very low relative weight and which is decided annually by the sole shareholder taking into account the meeting of the Group's and Banco Popular Portugal's objectives, as well as the individual performance of each employee.

Criteria for the definition of the fixed and variable remunerations

The overall remuneration policy of the Bank is revised until the end of the first semester by the Board of Directors. As a consequence, the monthly remuneration is revised every year in accordance with the increase rate established by the Collective Bargaining Agreement for the banking sector, and its variable component is also defined based on the performance assessment of the previous year.

The exact amount of the variable component will fluctuate each year taking into consideration the degree of fulfilment of the main annual objectives (quantitative and qualitative) and the collective performance of the respective unit in which the comprised employees are included in accordance with the Bank's performance evaluation model as approved by the Board of Directors.

Besides the fixed and variable remuneration described in the present remuneration policy, managers are entitled to the following benefits:
*Life Insurance in accordance with Article 142 of the Collective Bargaining Agreement for the banking sector (SAMS);
*Health Insurance in accordance with Article 142 of the Collective Bargaining Agreement for the banking sector (SAMS);
*Personal Accident Insurance in accordance with Article 142 of the Collective Bargaining Agreement for the banking sector (SAMS).

Payment of the variable component of the remuneration

If there is a variable component of remuneration it shall be fully paid in cash and no payment deferral is foreseen.

Other forms of remuneration

No other forms of remuneration besides the aforementioned fixed and variable components are provided for in the rules and regulations.

Remuneration of employees who have control functions

The remuneration of employees who have control functions as established by Notice No. 5/2088 issued by the Bank of Portugal are based, mostly, on the fixed component of their remuneration.

In case there is a variable component, it shall have a relative low weight and depend exclusively on the individual performance of the employee taking into consideration the specific objectives of their functions.

Lisbon, 20 February 2014

THE BOARD OF DIRECTORS

Statement of the Supervisory Board

BANCO POPULAR PORTUGAL, S.A.

Head Office: R. Ramalho Ortigão, No. 51, 1099-090 Lisbon

Share capital: Eur 476,000,000.00

Registered at the Lisbon Commercial Registry

under the Taxpayer No. 502.607.084

STATEMENT OF THE SUPERVISORY BOARD

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

'Pursuant to paragraph (c) of article 245(1) of the Portuguese Securities Code, I declare that, to the best of my knowledge, the management report, the annual accounts, the statutory audit and auditor's report and other accounting documents disclosed by Banco Popular Portugal, S. A., all referred to 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 management report faithfully states the trend of the business, the performance and position of that entity, and contains a description of the principal risks and uncertainties faced.'

Lisbon, 20 March 2014

Board of Directors

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