BANCO POPULAR ESPAÑOL, S.A.
TOTALBANK
TAILORED RESOLUTION PLAN

December 31, 2013

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I. Executive Summary

In order to promote financial stability, Section 165(d) of the Dodd-Frank Act requires "covered companies" to file contingency plans describing how large bank holding companies could be sold or wound down in a way that would mitigate adverse effects to the financial stability of the United States in the event of the material financial distress or failure of the bank. Banco Popular Español, S.A. ("Banco Popular") is a covered company pursuant to 12 CFR § 243.2(f)(iii) (the "Resolution Plan Rule"), which states that "covered companies" include "[a]ny foreign bank or company that is a bank holding company…and that has $50 billion or more in total consolidated assets."

Banco Popular may file a tailored resolution plan in lieu of a full resolution plan because Banco Popular meets the requirements set forth in 12 CFR § 243.4(a)(3)(i). Banco Popular has less than $100 billion in total U.S. nonbank assets and the assets of its U.S. insured depository institution operations, branches, and agencies comprise eighty-five percent (85%) or more of Banco Popular's U.S. total consolidated assets.

On March 25, 2013, Banco Popular's Board of Directors submitted written notice to the Board of Governors of the Federal Reserve System (the "Board") and the Federal Deposit Insurance Corporation (the "FDIC") of Banco Popular's intent to submit a tailored resolution plan pursuant to 12 CFR § 243.4(a)(3). The Board and the FDIC acknowledged receipt of this written notice on May 29, 2013.

Pursuant to the Resolution Plan Rule, Banco Popular submits this tailored resolution plan (the "Tailored Plan").

Banco Popular is chartered by Banco de España (the "Bank of Spain") and has total assets of $208 billion. Banco Popular has no activities in the United States other than the activities of its wholly-owned subsidiary, TotalBank, a Florida banking corporation ("TotalBank"). TotalBank is a Florida state-chartered, non-member bank, with $2.4 billion of assets as of September 30, 2012. TotalBank has no nonbank activities.

Accordingly, there are no operations or assets requiring resolution in the event of material financial distress at or failure of the covered company, Banco Popular.

II. Strategic Analysis

The FDIC routinely examines TotalBank, and the FDIC is in a position to liquidate or place TotalBank in receivership in the unlikely event of the material financial distress or failure of TotalBank. Because Banco Popular conducts no additional activities in the United States and the inter-company transactions between the entities are not material, Banco Popular does not believe any additional advance resolution planning is required.

III. Corporate Governance

The Board of Directors of Banco Popular granted express authority to approve and file this Tailored Plan to: Jorge Rossell, Francisco Garcia-Nieto, Lydia ("Lyan") Fernandez, and Jose Marina. These individuals have primary responsibility for overseeing the development, maintenance, implementation, and filing of the Tailored Plan. This group of individuals includes members of the executive management of TotalBank and the Board of Directors of TotalBank who are responsible for timely reporting to Banco Popular regarding the Tailored Plan. The Board of Directors of Banco Popular has approved the filing of this Tailored Plan.

With respect to future compliance, TotalBank has adopted a Regulation W/Affiliate Policy pursuant to which TotalBank will request a report regarding any nonbanking activities by Banco Popular in the U.S. on an annual basis. The purpose of such report is to obtain all required information necessary to comply with on-going reporting requirements.

IV. Organizational Structure

Banco Popular is chartered by the Bank of Spain and had $208MM of total assets as of September 30, 2013. Banco Popular has no activities in the United States other than the activities of its wholly-owned subsidiary, TotalBank. The headquarters of TotalBank and Banco Popular are:

TotalBank
2720 Coral Way
Miami, FL 33145
(305) 448-6500

Banco Popular Español, S.A.
José Ortega y Gasset 29, 1°
28006 Madrid
Spain
011-3491-520-7098

TotalBank is a Florida state-chartered, non-member bank, with $2.4 billion of assets as of September 30, 2012. TotalBank has no nonbank activities.

The key management officials of TotalBank are set forth in Exhibit A.

TotalBank's consolidated balance sheets for the year ending December 31, 2012 and the nine months ending September 30, 2013 are attached in Exhibit B.

Banco Popular's Annual Report is attached in Exhibit C. The Annual Report includes information on the material components of the liabilities of Banco Popular.

V. Management Information Systems

TotalBank and Banco Popular do not have integrated management information systems or applications and TotalBank would not be impacted by the results or activities of any nonbank subsidiaries of Banco Popular, the covered company. The activities of Banco Popular pose no risk or threat to TotalBank.

VI. Supervisory and Regulatory Information

Banco Popular is chartered, supervised, and regulated by the Bank of Spain, the national central bank of Spain. Contact information for the Bank of Spain is:

Banco de España
C/ Alcalá, 48
28014 Madrid
+(34) 91 338 50 00

Banco Popular has no activities in the United States other than the activities of its wholly-owned subsidiary, TotalBank. TotalBank, a Florida state-chartered, non-member bank, is supervised and regulated by the Florida Office of Financial Regulation, which is responsible for ensuring the safety and soundness of TotalBank. Contact information for the Florida Office of Financial Regulation is:

Florida Office of Financial Regulation
200 E. Gaines Street
Tallahassee, FL 32399
(850) 487-9687

VII. Interconnections and Interdependencies

This section is not applicable as TotalBank has no nonbank activities, and accordingly, there are no operations or assets requiring resolution in the event of material financial distress at or failure of the covered company, Banco Popular.

VIII. Contact Information

The senior management official responsible for serving as a point of contact regarding the Tailored Plan is:

Jorge Rossell, President & CEO
c/o TotalBank
2720 Coral Way
Miami, FL 33145
(305) 772-7425
JRossell@totalbank.com

Exhibit A

Board of Directors	
Jorge Rossell	Chairman , TotalBank
Luis de la Aguilera	President &CEO, TotalBank
Jacobo Gonzalez-Robatto	General Director, Banco Popular Español, S.A.
Lyan Fernandez	Chief Operating & Risk Officer, EVP, TotalBank
Jose Marina	Chief Financial Officer, EVP, TotalBank
Benigno Pazos	Chief Credit Officer, EVP, TotalBank
Sergio Gonzalez	University Advancement, SVP, University of Miami
Raquel Matas	Associate Dean of Administration, University of Miami School of Law
Javier Soto	President, The Miami Foundation
Bruce Keller	Principal, PRstore Marketing
Alexander Reus	Partner, Diaz Reus & Targ LLP
Executive Management Team	
Jorge Rossell	Chairman, CEO
Luis de la Aguilera	President, Chief Marketing Officer
Lyan Fernandez	Chief Operating Officer, EVP
Jose Marina	Chief Financial Officer, EVP
Ramon Rodriguez	Bank Lending Division, EVP
Benigno Pazos	Chief Credit Officer, EVP
Lourdes Rey-Wilson	Human Resources, EVP
Nelson Hidalgo	Banking Center Division, EVP
Francisco Garcia-Nieto	International Personal Banking, EVP

Exhibit B

TotalBank's consolidated balance sheets for the year ending December 31, 2012 and the nine months ending September 30, 2013 - Attached

Exhibit C

Banco Popular's Annual Report - Attached

2012

annual report

BANCO POPULAR

2012
annual report

BANCO POPULAR

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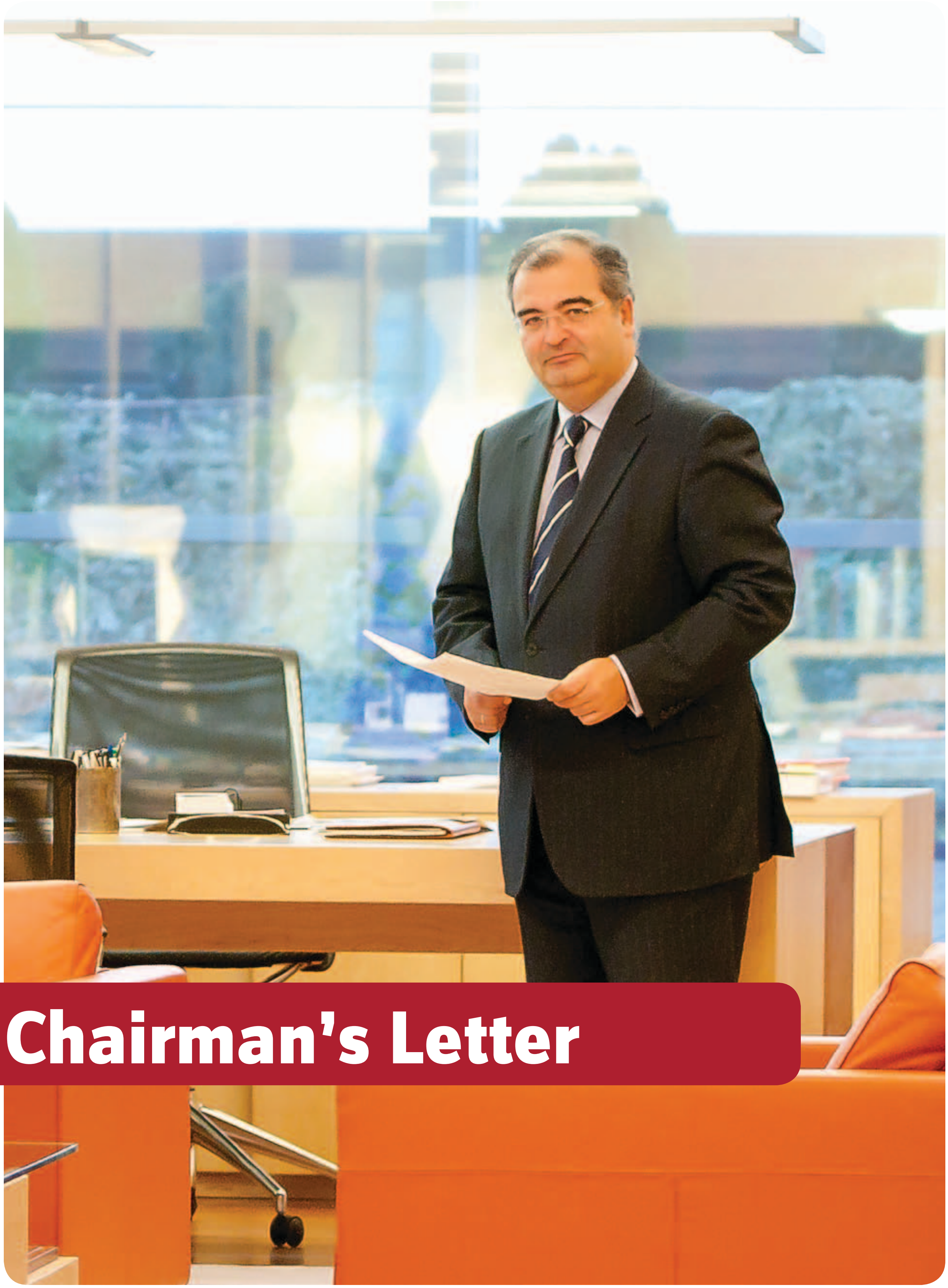
1 GENERAL INFORMATION



Chairman's Letter

Eduardo Diéguez - DYD Fotógrafos

Dear Shareholder,

In 2012, against an economic and regulatory background that continued to generate instability in the financial markets and in the banking system, Banco Popular not only successfully navigated round the obstacles but also, in doing so, provided evidence to the market of the high value of its business model.

In the final quarter we undertook a €2.5 billion capital increase that was a landmark in the Bank's history. The excellent reception of this initiative by shareholders, customers and investors enabled us to preserve one of Banco Popular's most essential signs of identity - its independence -, by avoiding the need for State aid, while establishing the basis for continuing to generate value for our shareholders.

In combination with other measures that are under way, this capital increase is enabling us to lay the foundations for our immediate future and will undoubtedly give us a major competitive edge over the rest of the sector in the medium- and long-term. The provisioning effort made and this strengthening of our capital have given us unbeatable financial strength with which to continue confidently meeting the challenges that lie ahead.

The future, as we all know, will be demanding, with a sector that is becoming increasingly smaller, but stronger and more competitive. In this environment, Banco Popular will continue facing the challenges with dedication, commitment and decisiveness. These, and not others, are the features that distinguish us and they are how we have maintained our signs of identity intact, and will continue to do so.

2012, BANKING IN A THREE-FOLD CRISIS UNDER A CHANGING REGULATORY FRAMEWORK

As you know, Spain has been going through a three-fold crisis for several years now: i) a financial confidence crisis triggered by the bursting of the property bubble; ii) a profound economic crisis, with high levels of indebtedness, substantial needs for State funding and alarming levels of unemployment that are leading to continuous reductions in the outlook for growth; and iii) a sovereign debt crisis triggered basically by the doubts about the irreversibility of the euro.

In this complex scenario, the financial sector is once again facing a year of numerous challenges: ongoing worsening of risk quality, record low interest rates with aggressive competition in retail deposits, and constant regulatory changes that lay a stony ground for taking decisions and restoring investor confidence.

To address this situation, unprecedented reforms are being implemented in Spain over a very short timescale in the fields of taxes, employment, finance and pensions, etc., with adjustments that despite their immediate contractive effects will undoubtedly bear fruit in the mid- and long-term. In fact, the restructuring of our financial system, without parallel anywhere else in the world, is already bringing results, and its completion, which is expected in the course of 2013, should make it possible to reactivate lending to households and small and medium-sized businesses, with the resulting positive impact on our economy.

The structural reforms in Spain, together with the advances in economic, tax and banking union in the euro area, will be the catalysts that will finally put our economy back on the path of growth. For the time being, the situation still calls for caution, and we can only enjoy some positive signs: increased competitiveness, recovery of exports, reduction of the budget deficit, return of investor appetite for Spain, as revealed by a country risk premium that has dropped down from the record highs of a few months ago.

EARNINGS AND BUSINESS ACTIVITIES IN 2012: FAITHFUL TO OUR SIGNS OF IDENTITY, ONCE AGAIN WE DEMONSTRATED OUR CAPACITY TO ACT AHEAD OF TIME

In this difficult environment, we can affirm with satisfaction that the Group's signs of identity remain intact: exceptional recurring income, European leader in efficiency, and a strengthened capital base that enables the Bank to meet with ease the requirements set by the European Banking Authority. In addition, the Bank once again demonstrated its capacity to act ahead of time. And it did so by combining very prudent management of liquidity that enabled it to reduce its dependence on wholesale financing by over €8.6 billion and establish a second line of liquidity of over €14.5 billion, with the booking of writedowns that have given it the highest levels of coverage in the sector.

Once again in 2012 Banco Popular demonstrated its outstanding ability to generate recurring income, with annual growth of over 24% at all levels of income. This good performance was the result of both our commercial strength, which drove the growth of our market share in loans and in deposits, and the exemplary integration of Banco Pastor without State aid, the synergies of which are proving to be greater than was initially forecast.

In order to address the issues posed by non-earning assets, the Bank decided that it would meet the requirements established in the two Royal Decrees on property exposure ahead of time by making an effort that took its total provisions to €9.6 billion.

It was precisely this exercise, without precedent in Spanish banking, that led the Bank to sacrifice its income statement in 2012 by recording a net book loss of €2,461 million. These results gave rise to the temporary suspension of our shareholder dividend in the interests of further strengthening of the balance sheet.

WE ENDED 2012 BY INCREASING OUR FINANCIAL STRENGTH

As you know, the capital increase was an outstanding success: it was launched with the backing of 99.8% of the shareholders at the shareholders meeting called for the purpose and not only was it completed without needing to call on the underwriting banks but it was also 83% oversubscribed. Overall, 73,000 new investors became shareholders, taking the shareholder base to 320,000. This result shows that we have the backing of the primary shareholders represented on the Board - who currently hold over 24% of the share capital -, customers that support our mission, and new institutional investors who have decided to join us despite the still negative feeling towards the European periphery, undoubtedly attracted by the enormous value that our shares represent.

This recapitalisation placed us at the end of 2012 at levels of solvency above those required by the EBA (10.1% as against 9%), despite the booking of record provisions that took the coverage of non-earning assets to 65%, among the highest in the sector. This is our starting point for 2013, when we will be focusing closely on the business and presenting a cloudless income statement.

The financial strength with which we are beginning 2013 has revived investor appetite for the Bank, as evidenced by the recent debt issues of €1,350 million in which 70% of the investors were foreign, the appreciation of the share price with rises of over 25% from the lows recorded in December, and across-the-board recognition by financial analysts, with the result that the number of positive share recommendations has doubled since September.

However, the best proof of this recognition are the 370,000 new customers, 43,000 new SMEs and 166,000 new shareholders that placed their trust in our management in 2012.

2013: FOCUSED ON PROFITABLE GROWTH OF THE BUSINESS AND GENERATING VALUE FOR OUR SHAREHOLDERS

Banco Popular began 2013 by embarking on a new phase in its management model when it reinstated the figure of Chief Executive Officer with the appointment of Francisco Gómez, who is now in charge of the day-to-day running of the Bank and is responsible for implementing and monitoring compliance with the Business Plan.

Our main challenge for the coming year will be to increase shareholder earnings in a still complicated environment, in which the deleveraging of the private sector will continue. To achieve this objective we will be focusing closely on the Bank's traditional business: serving households and SMEs, attracting deposits and lending money, while at the same time conducting very proactive management of risk.

Before ending, I would like to thank you for your support of the Bank: thanks to you, we successfully met the challenge posed by the capital increase. I would also like to assure you that each and every one of the professionals in the Banco Popular team is committed to working day by day to successfully handle the challenges of the future and thereby continue to inspire your confidence.

Ángel Ron
Chairman

"Nothing is more difficult, and therefore more precious, than to be able to decide.

Rien n'est plus difficile, et donc plus précieux, que d'être en mesure de décider."

Napoléon Bonaparte

Banco Popular Español S.A. ("Banco Popular", "the Bank" or "the Group") was founded on 14 July 1926, and is registered in the Madrid Mercantile Register in volume 174, folio 44, page 5,458, 1st entry. The Bank is a member of the Deposit Guarantee Fund for banking entities. 2012 was its 86th year of existence. The head office is located at Velázquez 34, 28001 Madrid.

The Ordinary Shareholders Meeting is scheduled for 10 June 2013.

The financial accounting and statistical data provided herein were prepared with the utmost objectivity, detail, reporting clarity and consistency over time, from the Group's internal accounting data. 1 January 2005 saw the entry into force of the obligation to prepare consolidated financial statements in conformity with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) for entities with shares listed on a regulated market in any EU member state, pursuant to Regulation 1606/2002 of the European Parliament and Council dated 19 July 2002.

The financial information was prepared in accordance with the aforementioned standards and reflects the Group's entire economic activity, both financial and insurance and non-financial, and accordingly gives a true and fair view of the net worth, financial position, risks and consolidated earnings.

Average balances are calculated on the basis of daily, monthly or quarterly data, depending on the information available in each case. Figures in brackets are negative amounts, differences or variation rates.

In addition to the Annual Report and its accompanying documents, Banco Popular issues quarterly financial reports on its operations, including a detailed analysis of variations in assets, liabilities, earnings and profitability in each quarter. All the information is available at the Banco Popular Shareholders Office (José Ortega y Gasset 29, 28006 Madrid. Telephone.: +34 91 5207265, fax: +34 91 5779209; e-mail: accionista@bancopopular.es). All the information is also available at: http://www.bancopopular.es

Banco Popular financial highlights

On-balance sheet total assets

+20.4%

157,618,118
130,925,703
Thousands of euros

Gross lending to customers, ex-repos

+19.3%

110,506,378
92,662,523
Thousands of euros

Customer funds, ex-repos

+25.7%

77,033,956
61,285,497
Thousands of euros

Net operating income (pre-provision profit)

+23.9%

2,016,374
1,627,478
Thousands of euros

Non-performing loans coverage ratio(*)

65.44pp

+30.89 pp
34.55
% variation in percentage points

(*) not incl. written-off balances

EBA Core capital

10.06

2.68 pp
7.38
% variation in percentage points

2012 figures 2011 figures

I TABLE 1. Key figures (Amounts in thousands of euros)

	31.12.12	31.12.11	% Var.
BUSINESS VOLUME			
Total assets managed	172,259,038	143,388,808	20.1
On-balance sheet total assets	157,618,118	130,925,703	20.4
Own funds	10,797,878	9,124,148	18.3
Customer funds, ex-repos	77,033,956	61,285,497	25.7
Gross lending to customers	117,298,902	98,872,768	18.6
SOLVENCY			
EBA Core capital (%)	10.06	7.38	
Tier 1 (%)	10.25	10.00	
BIS ratio	11.03	10.15	
Leverage	14.13	14.56	
RISK MANAGEMENT			
Total risks	155,582,005	122,301,714	27.2
Non-performing loans	13,976,733	7,323,272	90.9
Allowances for credit losses	9,146,044	2,530,076	>
Non-performing loans ratio (%)	8.98	5.99	
% coverage of non-performing and written-off balances	73.65	55.75	
% coverage of non-performing and not written-off balances	65.44	34.55	
% coverage with guarantees	115.16[1]	97.72	
EARNINGS			
Net interest income	2,718,756	2,086,911	30.3
Gross operating income	3,777,816	2,996,634	26.1
Net operating income (pre-provision profit)	2,016,374	1,627,478	23.9
Profit before tax	(3,491,719)	444,141	
Consolidated profit for the year	(2,460,943)	483,976	
Profit attributed to the controlling entity	(2,461,023)	479,653	
NET RETURN AND EFFICIENCY			
Average total assets	151,151,473	128,338,961	17.8
Average equity	10,694,997	8,738,504	22.4
ROA (%)	(1.63)	0.38	
ROE (%)	(23.01)	5.49	
Operating efficiency (%)	42.48	42.15	
PER SHARE DATA			
Final number of shares diluted (thousands)	10,164,929[2]	1,639,403	>
Average number of shares (thousands)	3,985,139[2]	1,599,741	>
Share closing market price (euros)	0.59	3.52	(83.4)
Market capitalisation	5,956,649[3]	5,770,699	3.2
Share book value (euros)	1.17	5.57	(79.0)
Earnings per share (euros)	(0.602)[2]	0.317	
Dividend per share paid in the period (euros)	0.120	0.200	(40.0)
Price/Book value	0.50	0.63	
Price/Earnings (annualised)	(0.97)	11.73	
OTHER DATA			
Shareholders	316,050	149,618	>
Employees:	16,501	14,062	17.3
Spain:	14,680	12,234	20.0
Men	9,371	8,248	13.6
Women	5,309	3,986	33.2
Abroad:	1,821	1,828	(0.4)
Men	1,121	1,124	(0.3)
Women	700	704	(0.6)
Branches:	2,475	2,203	12.3
Spain	2,267	1,967	15.3
Abroad	208	236	(11.9)
ATMs	3,120	2,811	11.0

1. Risk coverage ratio including the value of guarantees after application of the discounts defined in Appendix IX of Bank of Spain Circular 4/2004.
2. Including 187,162 thousand shares relating to the notes mandatorily convertible in November 2015, 1,084,576 convertible in April 2018, 399,317 convertible in March 2014 and 85,324 convertible in December 2014.
3. The calculation includes the shares relating to the mandatorily convertible notes.

The Group's consolidated financial statements at 31 December 2012 were prepared in accordance with the accounting principles and methods established by the International Financial Reporting Standards adopted by the European Union (IFRS-EU) which are the same as those used to prepare the audited financial statements presented in the Annual Report for 2011.

Note: The Banco Pastor Group is included from 17 February 2012.

Board and Management

BOARD OF DIRECTORS

Ángel Ron Güimil
Chairman

Luis Herrando Prat de la Riba
Vice Chairman

José María Arias Mosquera
Vice Chairman

Allianz SE (Jan-Olof Richard Carendi)
Director

Américo Ferreira Amorím
Director

Asociación de Directivos BPE
(Francisco Aparicio Valls)
Director

Eric Gancedo Holmer
Director

Alain Fradin
Director

Miguel Ángel de Solís Martínez-Campos
Director

Unión Europea de Inversiones, S.A.
(Jorge Oroviogoicoechea)
Director

Vicente Tardío Barutel
Director

José Heraclio Peña Pérez
3rd Deputy Secretary

Francisco Javier Lleó Fernández
2nd Deputy Secretary

Francisco Javier Zapata Cirugeda
1st Deputy Secretary

Francisco Aparicio Valls
Director and Secretary

Sindicatura de Accionistas de BPE
(Carlos Figuero García)
Director

José Ramón Rodríguez García
Director

Helena Revoredo Delveccio
Director

Miguel Nigorra Oliver
Director

Ana María Molins López-Rodó
Director

Maianca Inversión, S.L. (José Gracía Barba)
Director

Fundación Pedro Barrié de la Maza,
Conde de Fenosa (Ana José Varela)
Director

Roberto Higuera Montejo
Vice Chairman

Francisco Gómez Martín
Rapporteur, Risk Committee

Executive Committee

Risk Committee

Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee

Audit and Control Committee

MANAGEMENT COMMITTEE

Corporate & Finance	Jacobo González-Robatto
Business	Ángel Rivera
Non-performing loans	Jesús Arellano
Risk, Comptrollership & Integration	Francisco Gómez
Control & Audit	Eutimio Morales
Technical Resources	Fernando Rodríguez
Technical General Secretariat	Francisco Sancha
Chairman's Office	Alberto Muñoz

NETWORK LINE MANAGEMENT

Commercial Network Management

Antonio PUJOL

Territorial Managers

Northwestern Spain	Antonio PÉREZ
Burgos - Segovia-Soria	Victoriano APARICIO
León - Zamora	José María ARCE
Salamanca - Avila	Joaquín CAAMAÑO
Galicia - Banco Popular	Manuel CASTILLO
Asturias	Carlos DURÁN
Valladolid - Palencia	Manuel PONCELA
Banco Pastor	José Manuel HEVIA
Santiago	Luis ÁLVAREZ
Vigo	Antonio DEÁN
A Coruña	Aníbal GARCÍA
Ourense - Lugo Sur	Juan Manuel NAVEIRO
Lugo Norte - Coruña Norte	Luis ORTIZ
Pontevedra	Vicente RUBIO
Northern Spain	Pablo Fernando MERINO
Guipuzcoa - Alava- Vizcaya	José Luis CABERO
Vizcaya - Cantabria	Ángel ESCUDERO
Navarre	Vicente GÁLVEZ
Aragón - La Rioja	Manuel José SANCHEZ
Central Spain	Carlos VELÁZQUEZ
Madrid Capital Norte	Manuel FERRER
Madrid Capital Sur	Antonio GONZÁLEZ
Madrid Comunidad Sur	Santiago MARTÍN
Madrid Comunidad Noroeste	Armando MARTÍNEZ
Castile-La Mancha	José Manuel MARTÍNEZ
Madrid Comunidad Este	Rafael MUÑOZ
Madrid Capital Centro	Manuel QUERO
Canary Islands	José María TORRES
Catalonia & Balearic Islands	Juan José RUBIO
Barcelona Centro Area Metrop.	Luis Ángel ALDECOA
Mallorca - Ibiza	Juan DOMÉNECH
Mallorca - Menorca	Berenguer GALÍN
Barcelona - Norte	Joan Vicent LLÁCER
Barcelona - Tarragona	Carlos MARIÑO
Girona	Juan Martín NIETO
Barcelona Centro	José Antonio REGO
Barcelona - Lleida	Francisco SUBIRANA
Levante	Alfonso RUSPIRA
Murcia	Francisco José BAONZA
Valencia Norte - Castellón	Luis MARÍN
Alicante Sur	Luis MIGUEL PERNAS
Alicante Norte	José MIGUEL REGUEIRA
Valencia Sur	Francisco VELASCO
Eastern Andalusia	Antonio RAMÍREZ
Granada - Jaén	Jesús Mª GONZÁLEZ
Córdoba - Jaén	Manuel LAVÍN
Almería	Alfonso MARÍN
Málaga Este	Ramón Ángel PARÍS
Málaga Oeste	Antonio SILVA
Western Andalusia	Antonio FÉREZ
Huelva - Badajoz - Cáceres	Antonio Carlos GONZÁLEZ
Cádiz	Jaime LOBO
Sevilla Sur	Manuel MOLINA
Sevilla Norte	Pablo ROMERO

Banks outside Spain
Jorge ROSSELL, TotalBank
Rui Manuel SEMEDO, Banco Popular Portugal

Banks in Spain
Joaquín ARIZA, bancopopular-e.com
Miguel Ángel LUNA, Popular Banca Privada
Juan PÉREZ/Javier GEFAELL, Targobank

Other units
José Ramón ALONSO, Global Integration Plan Office
José Ángel AMOR, Banking for Businesses
Santiago ARMADA, Origination & Markets
Diego BARRÓN, Investor Relations
Carlos BALADO, Communication, Brand and Corporate Relations
Juan ECHANOJAUREGUI, International Banking
Miguel Ángel FRANCO, Wholesale & Corporate Banking
Rafael GALAN, General Treasury
José Luis MANSO, Human Resources
Alberto MARCHANTE, Claims & Recoveries
Luis Felipe MARCOS, Customer Care
Juan Antonio MONTERO, Regulatory Compliance
Susana DE MEDRANO, Comprehensive Risk Management
Rafael de MENA, Financial Officer
Javier MORENO, Financial Management
Carmen ORTIZ, Shareholders Office
Tomás PEREIRA, Legal Counsel
Hugues Victor Albert PFYFFER, Corporate Development
José Manuel PIÑEIRO, Commercial Management
Miguel Angel PRIETO, Quality, CSR & Banco Popular Foundation
María RAGA, Financial Management
Jesús RODRÍGUEZ, Restructuring & Non-performing loans
José María SAGARDOY, Risk Office
Rubén SUAREZ, Banking for Private Individuals
Francisco Javier ZAPATA, Board Deputy Secretariat & Regulatory Compliance

Specialist Companies
Ángel BLÁZQUEZ, Popular de Mediación
Carlos RAMOS, Popular Bolsa
Pedro Javier RODERA, Aliseda
Francisco José RUBIO, Popular de Factoring
Francisco VALÉRIO, Eurovida Portugal

2 MANAGEMENT REPORT

Banco Popular Group

In 2012 Banco Popular reaffirmed its objective of being a leader in solvency, efficiency and profitability, and thereby driving a business model focused on small and medium-sized companies, self-employed persons and households, and on financing the productive economy.

In short, a model based on generating strong recurring earnings, strict control of risk and liquidity, and outstanding customer care.

- In 2012 Banco Popular strengthened its balance sheet by taking the following actions:
  - The Group made an enormous provisioning effort of over €9.6 billion in order to comply with the new regulatory requirements (Royal Decrees 02/2012 and 18/2012). Thanks to this effort the coverage of non-performing loans rose from 35% to 65% and that of foreclosed real estate assets rose from 32% to 49%.
  - Banco Popular maintained its better relative position in credit quality, despite the deterioration experienced in 2012. Thus, the non-performing loans ratio of 8.98% at year end was 240 basis points below that of the sector (11.38% in 2012).
  - The Group had an EBA core capital ratio of 10.06% at 31 December 2012, compared with 7.38% the previous year. In 2012 Banco Popular undertook a process of recapitalising and strengthening the balance sheet by means of a €2.5 billion capital increase. Thanks to this successful capital increase and efficient capital management, the Group's solvency was strengthened to levels of leadership, even despite having booked massive writedowns.
  - The Group's liquidity position was strengthened by reducing the commercial gap and maintaining high liquidity reserves. The loan-to-deposit ratio fell by 12 percentage points in the year down to 123% and the second liquidity line amounted to over €14.5 billion.
- Maximising profitability by generating income mainly from the commercial banking business led to strong net operating income of €2,016 million at the end of 2012 (up by 23.9% year on year), assisted in part by the integration of Banco Pastor, signifying a return on average lending to customers of 1.88%. This performance of the pre-provision profit took the efficiency ratio to 42.48% in 2012, placing the Bank top of the system, where the ratio is around 60%.

The backdrop of these lines of action was a very complicated year in which the Bank had to navigate a Spanish economy in recession, constant regulatory changes (EBA, RDL 02/2012 and RDL 18/2012) and low interest rates amidst aggressive competition in retail deposits. In this difficult environment the Group maintained its signs of identity intact, with operating profitability that was the highest in the sector, while managing its liquidity very prudently and strengthening its capital base and solvency.

In addition, these axes of Group action are aligned with a business model that considers it essential to place the customer at the centre of all decisions in order to be responsive to the aim of maximising shareholder value. This sound business model and the efficient performance in the present environment enabled the Group to increase its market share in both loans and deposits by 6.55% and 5.73%, respectively. At year end Banco Popular had a total of 7,733,000 customers, compared with 7,643,000 in 2011 (including Banco Pastor), an increase of 1.18% year on year. At 31 December 2012, the Group was managing assets worth €172,259 million and on-balance sheet funds of €157,618 million, with a capital base of €10,798 million.

To serve its customers and support the commercial network, the Group has a flexible, flat organisation made up of a team of 16,501 staff, 14,680 of whom are in Spain (approximately 4,000 of them from Banco Pastor) and 1,821 in Portugal and the United States. The Group's vocation for creating value in the long term is also reflected in its human resources policy focused on internal promotion and work-life balance that contributes to a more expert and motivated workforce. The Group has made efforts to incorporate work-life balance into its culture and values, and has defined a variety of work-life balance measures which many of the Group's staff are now enjoying.

The Group consists of a controlling company (Banco Popular); two foreign banks, both of them wholly-owned: Banco Popular Portugal, and TotalBank, operating in the state of Florida, United States; as well as other banks and financial service companies.

Banco Popular Portugal shares the parent company's technology platform and is integrated in its central services. But it also maintains a structure of its own in order to comply with Portuguese regulations and to respond to the special characteristics of its customers.

In addition to the banks mentioned above, the Group has two other deposit-taking entities: Banco Popular-e (specialising in online financial services) and Popular Banca Privada (asset management). The Group also has affiliates specialising in factoring, managing mutual funds, pension funds and plans, securities and stock markets, a share ownership company, renting, insurance and a number of special-purpose financial and asset-holding companies, with which it covers substantially all the financial services demanded by its customers.

In October 2011 Banco Popular launched a public bid for the acquisition of all of the shares and mandatorily convertible notes of Banco Pastor, after being successful in a competitive bidding process between several national and international institutions.

With this transaction, Banco Popular is contributing to the restructuring of the Spanish financial system and is firmly establishing itself as one of the system's principal institutions, with over €157 billion in on-balance sheet assets, more than 7 million customers, over 16,000 employees and over 2,200 branches.

In 2012 Banco Popular completed the integration of Banco Pastor without recourse to any kind of public support and in an exemplary manner. As a result of the integration, the initial estimation of synergies was adjusted upwards to €181 million in 2013 and €185 million in 2014.

As part of the Banco Pastor integration plan, Banco Popular is engaged in the process of combining the Group brands that are operating in Galicia under the new Nuevo Banco Pastor brand.

Banco Popular carried out a number of corporate transactions in 2012 which gave rise to a series of capital gains as part of the 2012-2014 Business Plan published by the Bank. These transactions consisted of:

- Sale of real estate assets (€122 million)
- Sale of technology company (€5 million)
- POS terminal business (€68 million)

For 2013-2014, the Group intends to continue leading corporate transactions that will generate capital gains for the Bank. The transactions that can be publicly disclosed include the following:

- Sale of the recoveries unit, already completed in the first quarter of 2013
- Credit card business joint venture
- Sale/ joint venture ATM business
- Possible joint venture of life and pensions business in Portugal
- Sale of real estate assets

In addition to the foregoing, Banco Popular will be watching for any opportunities that may arise in the market that will generate value for the Bank's shareholders, customers, employees and other stakeholders.

Recent years have been very active in terms of corporate transactions. In March 2011 a new company - Allianz-Popular - was set up with the German Allianz insurance company to manage insurance, funds and pensions. It is 40% owned by Banco Popular and 60% owned by Allianz.

In 2010 Banco Popular signed an agreement with Crédit Mutuel for the provision of joint services to customers by setting up a new banking platform, consisting of 123 branch offices and 505 employees, in which each institution has a 50% stake. In 2011, the alliance with Crédit Mutuel was strengthened and the Targobank brand was adopted for the new bank arising out of this joint venture with the aforementioned French financial group.

The Banco Popular Group is committed to financial customisation and although it is a multi-channel bank, the commercial network is its main and most direct channel of communication with customers, due to its proximity, personal attention and accessibility. To provide coverage to its customers, the Group has 2,475 branch offices (2,203 in 2011). 2,267 of these are distributed throughout Spain and 208 of them are located in Portugal and the United States. In addition to its operations in Portugal and the United States, the Group also has a substantial international presence through representative offices or operating staff seconded to local correspondent banks in other countries, to cater for the financial needs of customers without exposure to cross-border risk.

Banco Popular remains committed to international growth and in 2012 opened new representative offices in Casablanca, Dubai, Sao Paulo, Istanbul, etc., and its market shares in lending for imports (12.5%) and exports (7.5%) greatly exceed its natural market share.

In addition to the commercial banking branch network, the Bank has more specialised offices that support the network and provide direct service to private individuals, businesses and institutions: personal banking, banking for businesses and corporate banking.

Lastly, the Bank has an office that specialises in giving personal attention to all Banco Popular shareholders.

The Banco Popular Group ended 2012 with accounting losses of €2,461 million as a result of the massive writedowns booked to comply with the new regulatory requirements. Thanks to this major effort, the Group is now the Spanish entity with the highest coverage of the property sector. At year end the market capitalisation was €5,957 million[1] and there was a base of 316,050 shareholders compared with 149,618 shareholders the previous year. The Board of Directors controls 2,128 million shares, 25.31% of the capital compared to 39.60% in the previous year, including shares owned directly or indirectly by the directors and those habitually represented by them. The consolidated balance sheets as of 31 December 2012 and 2011, and the consolidated income statements for the years then ended, are presented on the following pages.

1. Including 399,317 convertible in 2014, 85,324 convertible in December 2014, 187,162 thousand notes mandatorily convertible in November 2015; and 1,084,576 convertible in April 2018.

I TABLE 2. Consolidated Balance Sheets (Amounts in thousands of euros)

	31.12.12	31.12.11	% Var.
ASSETS			
Cash and balances with central banks	2,117,182	522,205	>
Financial assets held for trading	2,096,851	1,316,564	59.3%
Other financial assets at fair value through profit or loss	493,623	377,504	30.8%
Available-for-sale financial assets	10,843,000	10,405,746	4.2%
Loans and receivables	114,444,133	100,741,920	13.6%
Held-to-maturity investments	11,014,472	7,568,415	45.5%
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	222,647	19,546	>
Hedging derivatives	678,357	1,092,040	(37.9%)
Non-current assets held for sale	4,896,644	3,601,723	36.0%
Investments	811,356	595,184	36.3%
Insurance contracts linked to pensions	144,530	141,809	1.9%
Reinsurance assets	4,878	3,033	60.8%
Tangible assets	1,892,725	1,734,231	9.1%
Intangible assets	2,655,084	649,131	>
Tax assets	3,703,759	1,212,610	>
Other assets	1,598,877	944,042	69.4%
Total Assets	**157,618,118**	**130,925,703**	**20.4%**
LIABILITIES			
Financial liabilities held for trading	1,491,141	1,104,323	35.0%
Other financial liabilities at fair value through profit or loss	93,060	93,761	(0.7%)
Financial liabilities at amortised cost	141,726,166	118,279,831	19.8%
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	-
Hedging derivatives	2,048,864	1,414,056	44.9%
Liabilities associated with non-current assets held for sale	-	-	-
Insurance contract liabilities	814,599	571,109	42.6%
Provisions	508,047	281,552	80.4%
Tax liabilities	461,230	279,630	64.9%
Other liabilities	519,590	513,217	1.2%
Total Liabilities	**147,662,697**	**122,537,479**	**20.5%**
SHAREHOLDERS' EQUITY			
Own funds	10,797,878	9,124,148	18.3%
Valuation adjustments	(886,614)	(841,923)	5.3%
Minority interests	44,157	105,999	(58.3%)
Total Equity	**9,955,421**	**8,388,224**	**18.7%**
Total liabilities and equity	**157,618,118**	**130,925,703**	**20.4%**
Memorandum items			
Contingent exposures	15,199,483	13,978,129	8.7%
Contingent commitments	10,291,450	10,904,964	(5.6%)

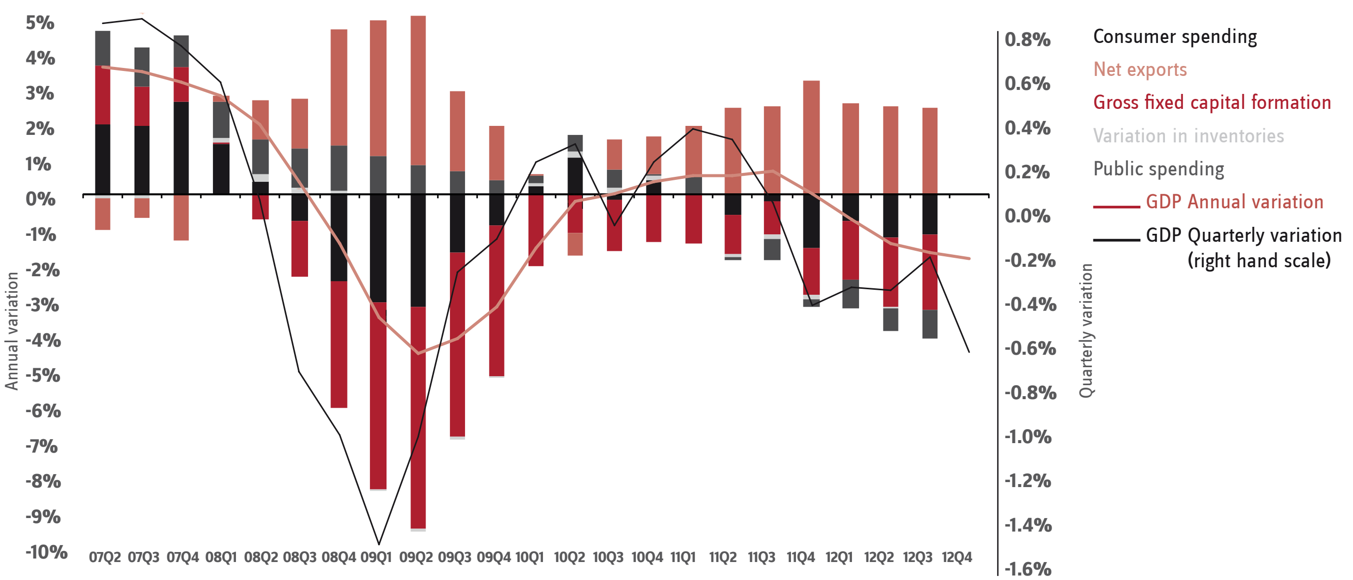
TABLE 3. Consolidated Statements of Income (Amounts in thousands of euros)

	31.12.12	31.12.11	% Var.
Interest and similar income	5,496,413	4,580,521	20.0
Interest expense and similar charges	2,777,657	2,493,610	11.4
NET INTEREST INCOME	**2,718,756**	**2,086,911**	**30.3**
Return on equity instruments	4,106	8,495	(51.7)
Share of results of entities accounted for using the equity method	23,070	46,068	(49.9)
Fee and commission income	964,890	821,904	17.4
Fee and commission expense	171,220	136,372	25.6
Gains/(losses) on financial assets & liabilities, net	304,837	81,479	>
Held for trading	235,722	6,454	>
Other financial instruments at fair value through profit or loss	2,785	(1,884)	>
Financial instruments not valued at fair value through profit or loss	177,719	53,310	>
Other	(111,389)	23,599	>
Exchange differences (net)	55,148	47,745	15.5
Other operating income	135,452	144,477	(6.2)
Income from insurance and reinsurance contracts issued	23,206	19,590	18.5
Sales and income from provision of non-financial services	25,134	21,848	15.0
Other operating income	87,112	103,039	(15.5)
Other operating expenses	257,223	104,073	>
Insurance and reinsurance contract expenses	15,260	12,975	17.6
Variation in inventories	26,907	27,914	(3.6)
Other operating expenses	215,056	63,184	>
GROSS OPERATING INCOME	**3,777,816**	**2,996,634**	**26.1**
Administrative expenses	1,604,723	1,262,965	27.1
Personnel expenses	949,734	778,756	22.0
Other general administrative expenses	654,989	484,209	35.3
Depreciation & amortisation	156,719	106,191	47.6
Provisions to allowances, net	37,647	(18,032)	>
Financial asset impairment losses, net	4,310,073	970,370	>
Loans and receivables	4,210,776	940,158	>
Other financial instruments not valued at fair value through profit or loss	99,297	30,212	>
NET OPERATING PROFIT	**(2,331,346)**	**675,140**	**>**
Losses for impairment of other assets, net	511,494	398,741	28.3
Goodwill and other intangible assets	57,677	30,000	92.3
Other assets	453,817	368,741	23.1
Negative difference on business combinations	150,134	506,853	(70.4)
Gains/(losses) on non-current assets held for sale not classified as discontinued operations	(799,013)	(339,111)	>
PROFIT BEFORE TAX	**(3,491,719)**	**444,141**	**>**
Income tax	(1,030,776)	(39,835)	>
PROFIT FOR THE YEAR FROM ONGOING OPERATIONS	**(2,460,943)**	**483,976**	**>**
Profit/(loss) from discontinued operations, net	-	-	-
CONSOLIDATED PROFIT FOR THE YEAR	**(2,460,943)**	**483,976**	**>**
Profit attributed to the controlling company	(2,461,023)	479,653	>
Profit attributed to minority interests	80	4,323	>
BASIC EARNINGS PER SHARE	**(1.104)**	**0.352**	
DILUTED EARNINGS PER SHARE	**(0.602)**	**0.317**	

Economic Environment

2012 was a difficult year in which the economic contraction that began in the second half of 2011 continued to deepen. Spain's GDP fell in all four quarters of the year, with a particularly acute drop in Q4 of 0.7% compared with the preceding quarter. This means that at the time of writing GDP has contracted for six quarters in a row. This in turn has been accompanied by a continuous rise in the rate of unemployment to 26.0%, and a contraction of credit that had reached 5.5% in the third quarter of 2012. In both cases these are the worst figures in Spain's recent history. However, it should be pointed out that in this very negative environment there are several positive factors, such as the correction of certain imbalances accumulated in the previous expansive phase. On the one hand, the competitiveness of the Spanish economy in terms of labour costs continues to improve, in contrast with what is happening in the other main economies of the euro area. In addition, the private sector continues to make progress with its deleveraging process as does the public sector with its reduction of the budget deficit. Both these processes represent a substantial drag on growth, but we believe they are necessary before domestic demand can return to sustainable growth. Lastly, inflation remains largely contained, ending 2012 at a year-on-year rate of 3.0%, and a downward trend.

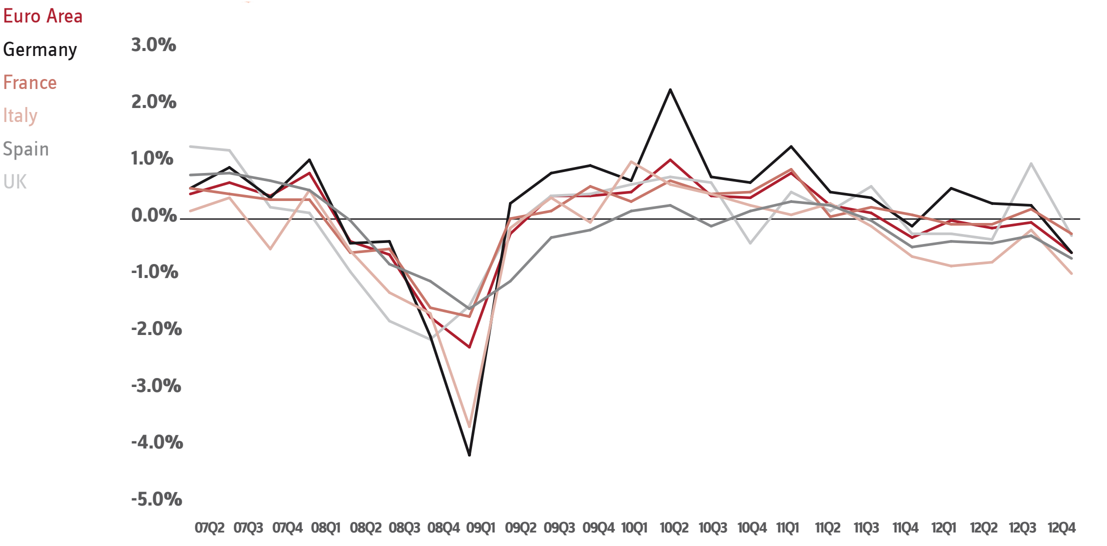
I FIGURE 1. Quarterly & annual variation in GDP, and contributions to year-on-year growth of demand side components



Source: INE

As Figure 1 shows, the contraction of GDP continued throughout 2012. In the first two quarters, it fell by a quarterly rate 0.4% and although in the third quarter the contraction was slightly less - 0.3% - we attribute it to end-of-the-year spending being brought forward to avoid the increase in VAT in September. This resulted in a fall of 0.7% in Q4 2012 (-1.8% year on year), the biggest since the second quarter of 2009. All of the demand side components contributed to this contraction, particularly the drop in gross fixed capital formation (GFCF) and to a lesser extent in consumer and public spending. It should be pointed out that although investment in housing continued to decline, the contraction of GFCF was primarily the result of the drop in non-residential property investment. Investment in capital goods also fell in the first half of the year, and although it rose by a quarterly rate of 0.3% in the third quarter, we believe this was part of the bringing forward of demand due to the increase in VAT, with the expectation that in the fourth quarter it will have dropped again fairly sharply. Making up for the weakness of domestic demand, external demand continued to prevent the contraction of the economy from being greater. This was due to both the growth in exports (from 2.4% to 4.3% in real terms in the first three quarters of 2012) and the falls in imports (from -3.5% to -5.8%, respectively), with the result that in the first nine months of the year net exports were positive for the first time since 1998; in other words, Spain exported more than it imported. It should be noted with respect to the first quarter of 2013 that the PMI indexes forecast for Spain improved significantly in January in comparison with the levels of October, November and December, pointing to a smaller contraction at the beginning of 2013 and, perhaps, to the peak of GDP contraction occurring in 4Q 2012, although it is too soon to be able to confirm it.

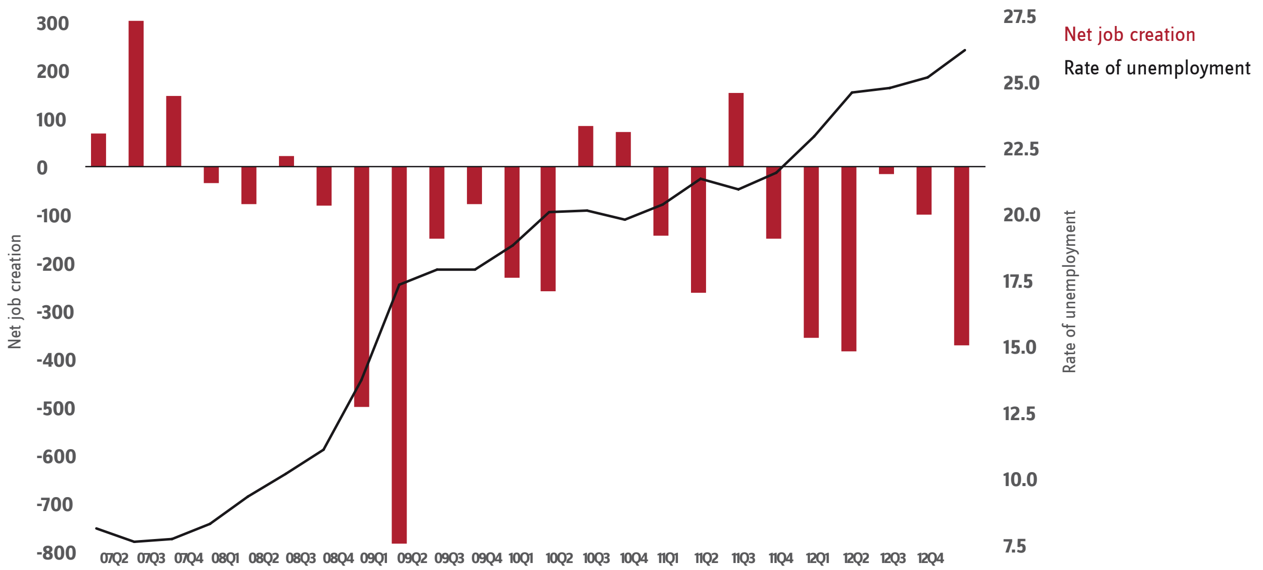
I FIGURE 2. GDP in the euro area and principal member countries



Source: Eurostat.

Comparing the performance of GDP in Spain in 2012 with that of the other main euro area economies and the region as a whole, what stands out is that the recession has been significantly greater in Spain than in the region as a whole. Individually, Germany grew in the first three quarters, more strongly at the beginning of the year and, in fact, the market is expecting a contraction in the fourth quarter, although the German PMIs bounced back strongly in January and it looks likely that in Q1 2013 this economy will return to growth. France remained stagnant in 2012, although a contraction of 0.2% is forecast for Q4 and the French PMIs for January are very negative, pointing to a deepening of the recession in Q1 2013. Lastly, Italy is the major European economy that has seen its GDP fall the most. However, although a sharp quarterly drop of 0.6% is expected in the fourth quarter of 2012, its PMIs improved in January, almost to the same extent as in Spain.

I FIGURE 3. **The Spanish labour market**



Source: INE.

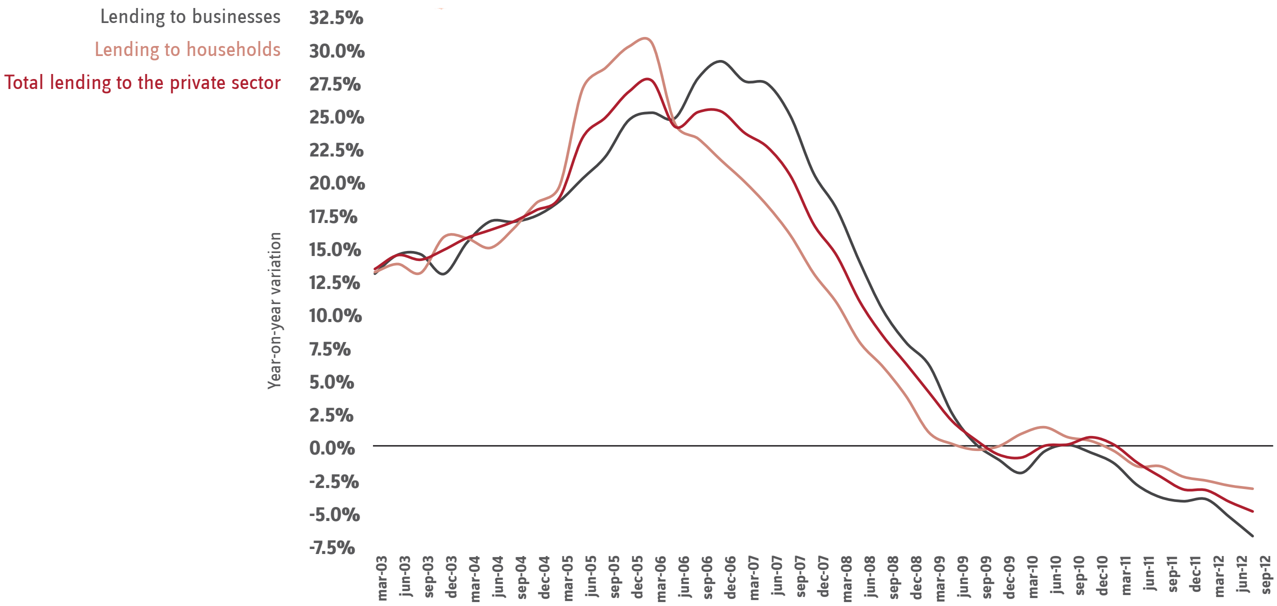
The continuous deterioration of the labour market in the course of 2012 is one of the most worrying aspects of the current Spanish macroeconomic situation. In addition to the high unemployment rate itself, there are a number of other noteworthy aspects concerning the labour market:

i) although the unemployment rate rose by 1.6 percentage points in Q1 2012, in the following two quarters it rose less, by 0.6 percentage points, indicating the possibility that the rate would soon cease to rise. The figure for the fourth quarter was a jug of cold water: a 1.0 percentage point rise in the rate and a further destruction of over 300,000 jobs in three months. With the sharp drop in GDP in the fourth quarter and the fact that employment is a variable that lags behind activity, an additional hike in the unemployment rate is to be expected.

ii) in 2012 850,600 jobs were destroyed, making this the worst year of all the historical series, with the exception of 2009, and despite the heavy cumulative destruction of employment in the construction sector in the course of the crisis, in 2012 it was the sector with the biggest percentage drop in the number of persons occupied (down by 15.9%). Levels of employment in this sector have not been so low since 1988, when the active population numbered 15 million compared with the present 23 million. This means that this sector accounts for 6.3% of the total number of occupied persons, the lowest proportion of the entire historical series going back to 1976, whereas at the end of the property boom it accounted for 13.5%, which in turn was the highest figure of the entire historical series; and

iii) in 2012 the working-age population was down by 175,200 and the active population (individuals of working age available for work) was down by 158,800, which were once again record figures in the historical time series. This was due not only to immigrants who came to Spain in the last decade returning to their countries of origin, but also to the emigration of Spanish nationals looking for work.

I FIGURE 4. Year-on-year variation in bank lending to Other Residents in Spain

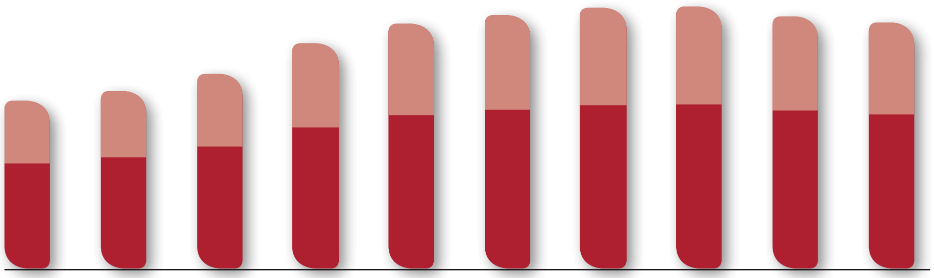


Source: Bank of Spain.

Another factor behind the sharp contraction in the fall of domestic demand is private sector credit. Despite having no precedents since 1963, as Figure 4 shows, the contraction of credit began at the end of 2009, following a trend that has accelerated over time. Thus, in Q4 2012, the fall was 5.5%, split between -3.7% in lending to households and -7.4% in lending to businesses. This performance is the result of both the fall in the demand for credit within the framework of the overall cooling of domestic demand and the process of deleveraging of the private sector, and the decrease in the supply of credit due to the restructuring of the financial sector. Some improvement can be expected on the credit supply side following the recapitalisations undertaken and the incipient reopening of the wholesale funding markets, although the rising rate of non-performing loans and the weak demand will continue to have a negative impact.

As a result of the fall in credit, the private sector can be seen to be continuing its deleveraging trend (Figure 5), after accumulating unprecedented indebtedness after the last economic cycle, and this is accentuating the contraction of private demand. The leverage of households (gross debt/GDP) rose from 30%-40% during the 1990s to reach 86.4% in 2009. In the first nine months of 2012 it fell from the year-end figure of 82.2% to 80.0%: from the high, a correction of 6.4 points of GDP. The leverage of business in the 1990s was 45%-55%, rising to a high of 141.2% in 2010 and falling in 2012 to 132.5%, a drop from the high of 8.7 points of GDP. In the private sector overall, as shown in Figure 5, the reduction of leverage from the high of 2010 was 14.6 points in one year and three quarters. The rate of deleveraging slowed to some extent in 2012 as compared with 2011, probably due to the fact that GDP was contracting for all four quarters of 2012, compared with only two in 2011. The rate of deleveraging is positive, and there is likely to be additional deleveraging of the private sector in the coming years.

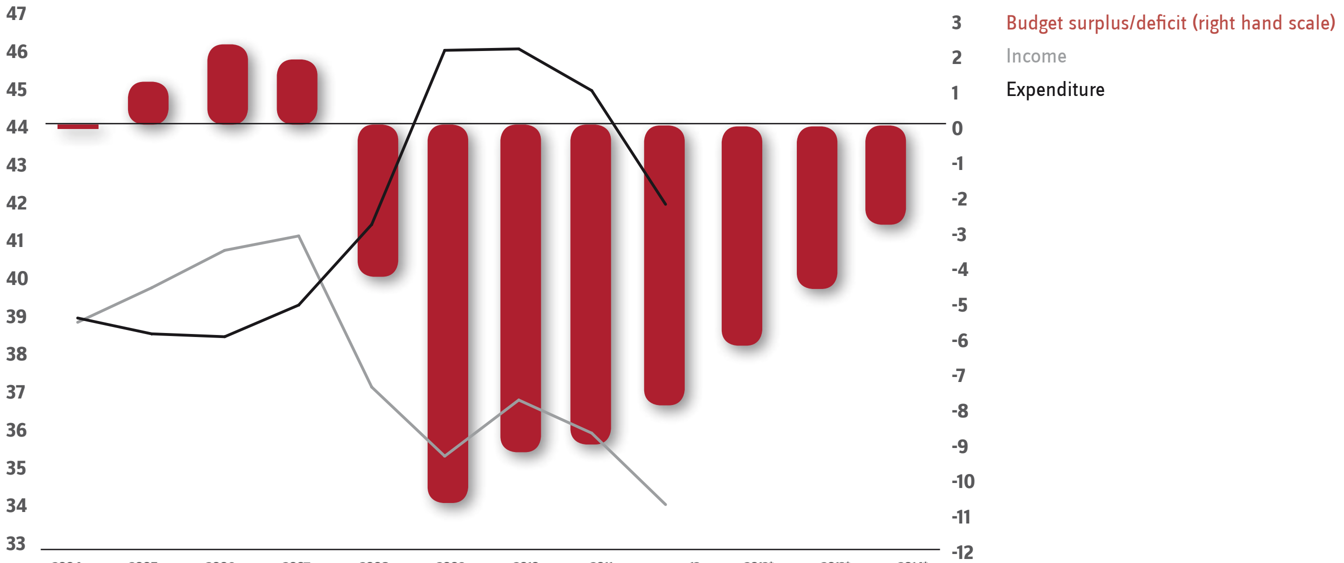
I FIGURE 5. **Leveraging (Gross debt / GDP) of the Spanish private sector**



2003	2004	2005	2006	2007	2008	2009	2010	2011	12Q3
147.85%	159.90%	176.58%	200.44%	215.03%	220.50%	226.81%	227.10%	217.89%	212.45%

Source: Bank of Spain.

I FIGURE 6. **Public authorities income, expenditure and budget balance (% of GDP)**



2004	2005	2006	2007	2008	2009	2010	2011	sep-12	2012*	2013*	2014*
-0.13	1.27	2.37	1.92	-4.49	-11.17	-9.67	-9.45	-8.26	-6.30	-4.50	-2.80

* Target deficit agreed with the EU

Source: Spanish Ministry of Finance and Public Authorities

Conversely, the public sector has carried on borrowing as a result of the continuous budget deficits since 2009. As Figure 6 shows, collapsing income since 2008 and 2009 combined with accelerating spending turned the 2007 surplus of 1.9% into a deficit of 11.2% in 2009. Since then the public sector has embarked on a tough deficit reduction process (the drag on the growth of GDP that this has involved can be seen in Figure 1), which had been cut to 8.3% by the third quarter of 2012. This process was slower than originally expected due to the poorer performance of GDP, but also as a result of the failure of Spain's autonomous communities to reach their deficit targets. For the coming years, the degree of achievement of the ambitious deficit reduction targets will depend to a large extent on the severity and duration of the current recession.

Positioning in the banking sector

2012 was overall a very complicated year during which the Bank had to navigate through the recession in the Spanish economy, ultra-low interest rates and aggressive competition in retail liabilities, plus constant regulatory changes (EBA, RDL 02/2012 and RDL 18/2012). In this difficult environment it can be stated with satisfaction that the Bank maintained its signs of identity intact, with operating profitability that was the highest in the sector, while managing its liquidity very prudently and strengthening its capital base and solvency up to leadership levels despite having booked massive writedowns.

The main landmarks of the year were:

- **Successful integration of Banco Pastor.** The accounting consolidation of Banco Pastor began on 17 February 2012, and on 28 June 2012 the merger with Banco Popular was formally completed. With this transaction, Banco Popular has strengthened its position among Spain's big banking groups by forming an institution with over €170 billion assets under management, more than 7 million customers, over 16,000 employees and over 2,200 branches.
- **New business plan and capital increase.** On 1 October 2012 Banco Popular published an update of its 2012-2014 Business Plan, the main item of which is the booking of writedowns with the aim of returning to past levels of profitability in 2014. This objective will be achieved by:
  - Booking writedowns amounting to €9.3 billion gross in 2012.
  - Recapitalising the Bank with immediate effect by means of a €2.5 billion rights issue.
  - Setting up a Specialist Business management department to actively manage property sector assets.

In connection with the three main objectives of the new business plan, the Group booked writedowns in 2012 totalling €9.6 billion, slightly more than estimated, and successfully completed the capital increase as announced, which ended on 28 November 2012. Oversubscribed by 180%, the capital increase was strongly supported by both the Board and the retail tranche, and in particular by the institutional tranche, which increased its investment in the Bank's share capital from the pre-increase figure of 19% to 30% in January 2013.

In January 2013 the Board approved the setting up of the Specialist Business management department. This unit will be in charge of managing the so-called non-strategic assets, including assets that must legally be transferred to a specific company (foreclosed assets from the property business and possibly developers whose status is classified as being other than normal), as well as others that the Bank decides need specialist action.

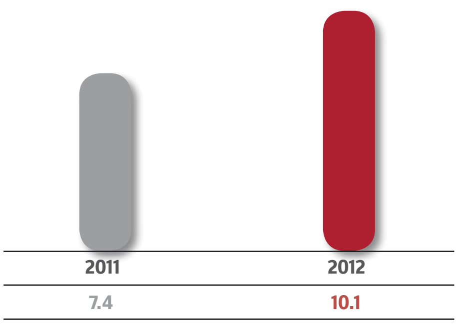
Against this backdrop of important landmarks for the Group, the following paragraphs analyse the Bank's positioning in the banking sector in terms of the most important indicators of solvency, liquidity, profitability and credit quality.

The Group's most significant aggregates and its position in relation to its domestic and international competitors are analysed in the following paragraphs.

1. SOLVENCY: STRENGTHENED CAPITAL POSITION

As Figure 7 shows, the Bank had a Core Tier 1 capital ratio of 7.4% under European Banking Authority rules, calculated very restrictively. Thanks to the efforts made in 2012, this ratio had reached 10.1% by 31 December 2012, an increase of 270 basis points. It should be remembered that the Banco Pastor Group was included in 2012, with total assets of €30 billion.

I FIGURE 7. Core capital



The most significant capital strengthening transactions undertaken during the first part of the year were as follows:

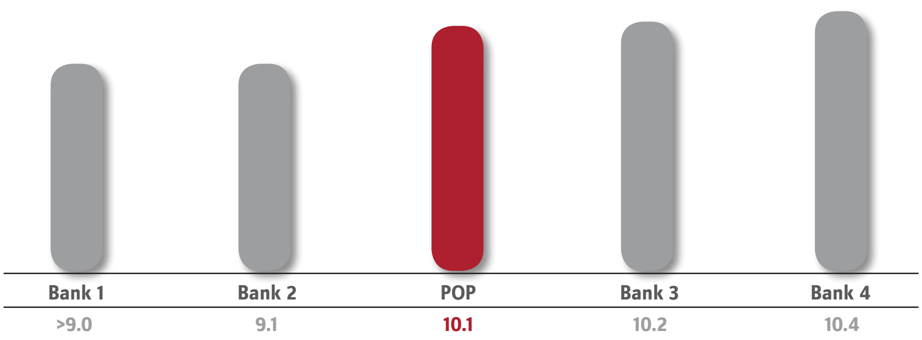
- Exchange of retail preferred shares for EBA-eligible mandatorily convertible notes for a total of €1,109 million
- Conversion to shares of €455 million of 2010 MCNs
- Exchange of 2009 MCNs for EBA-eligible MCNs amounting to €657 million
- Exchange of wholesale preferred shares for EBA-eligible MCNs amounting to €257 million
- Private issue of EBA-eligible MCNs for €50 million

Also, during the last quarter of the year, Banco Popular completed a process of recapitalisation and balance sheet strengthening by means of a capital increase without precedent in the history of the Bank, for a total of €2.5 billion, enabling it to book provisions to cover any adverse economic scenario for 2013 and 2014 and also avoiding any kind of State aid.

As a result, Banco Popular is now one of the best provisioned and capitalised entities in Spain and Europe, with coverage at 31 December 2012 of 16% of its credit and non-earning assets balance sheet in Spain as compared with 7% in 2011.

In sector relative terms, as Figure 8 shows, Banco Popular is in a comfortable capital position complying easily with the regulatory minimums established.

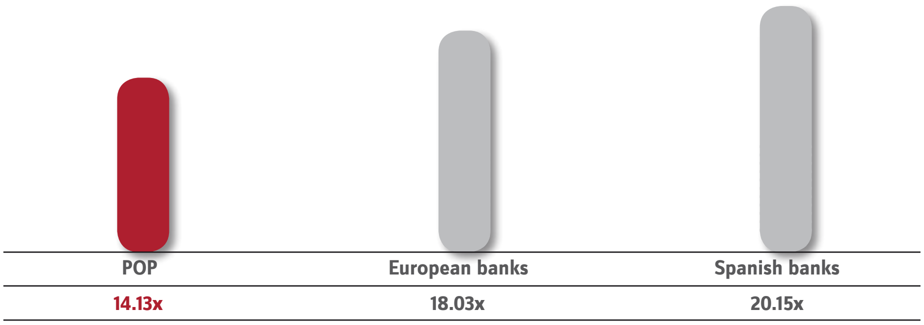
I FIGURE 8. Banco Popular EBA Core Capital in comparison with peers



Note: Banks: BBVA, BKT, CABK and SAN

Also noteworthy is the Group's low level of leverage, calculated as the ratio of tangible assets to tangible equity, which, as Figure 9 shows, at December 2012 was 14.13x compared with the average for comparable Spanish banks of 20.15x and for European banks of 18.03x. This ratio, which will acquire particular importance under the new Basel III regulations, and the Bank's excellent relative position, make the validity of our model even clearer. On the one hand, the relative smaller size of our balance sheet reduces liquidity risk in a volatile environment; on the other, it lowers the potential impact of asset impairment on the Bank's capital, while increasing the recurring nature of income thanks to our greater profitability.

I FIGURE 9. Banco Popular 2012 leverage in comparison with Spanish and European banks (%)

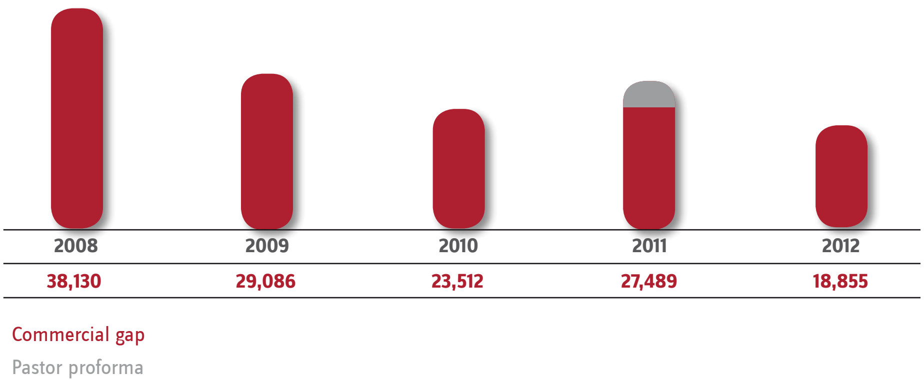


Source: 2012 quarterly reports average of Spanish banks (Santander Spain, BBVA Spain, Sabadell, Caixabank, Bankinter) and KBW estimates for European banks.

2. LIQUIDITY: CONTINUING REDUCTION OF WHOLESALE DEPENDENCE

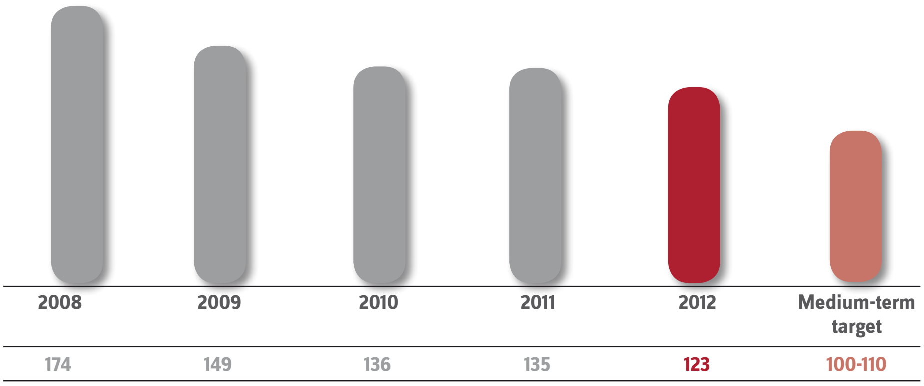
In 2012 Banco Popular continued to pursue its policy of reducing the commercial gap and, therefore, its dependence on the wholesale markets. Thus, as Figure 10 shows, by tactically managing retail funds and on-balance sheet loans, the Bank has succeeded in reducing this dependence by over €25.5 billion since 2008, and by €8.5 billion in 2012 alone.

I FIGURE 10. Commercial gap (millions of euros)



As a result the LTD ratio was reduced by 51 percentage points to 123%, as shown in Figure 11. This ratio was 174% in December 2008, signifying that for every €1.74 of customer loans there were retail deposits of €1. This means that lowering this ratio also reduces dependence on the wholesale markets, bringing us close to our medium-term target of 100%-110%.

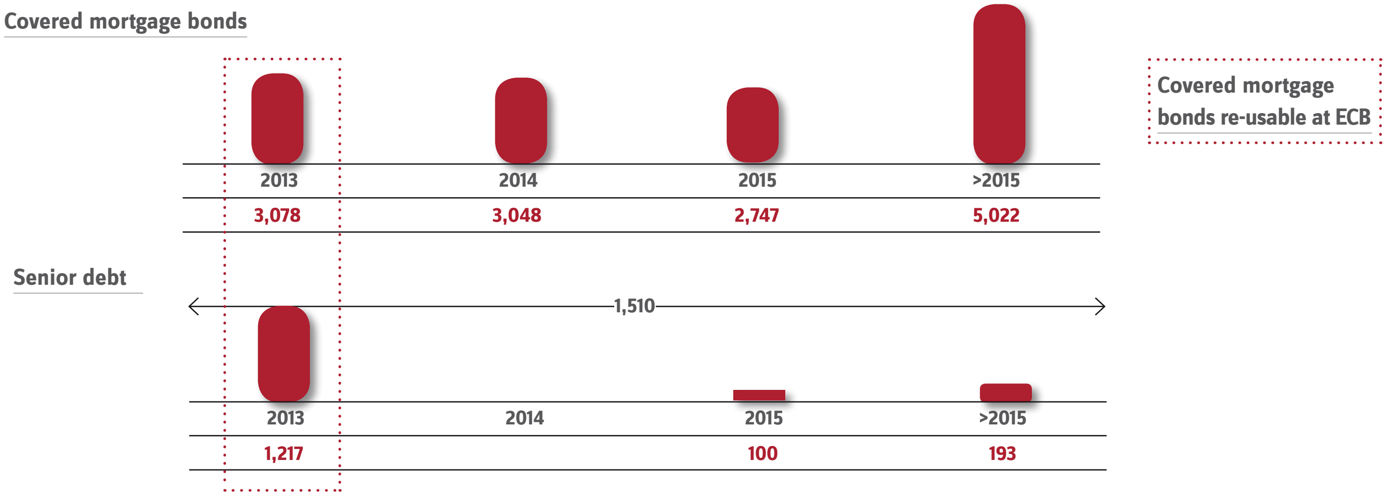
I FIGURE 11. Loan-to-deposit ratio (%)



In connection with liquidity, as shown in Figure 12, in 2013 the Bank will be in a very comfortable position at the end of the year with maturities of under €4.3 billion in 2013, 72% of which are covered bonds that are re-usable at the ECB.

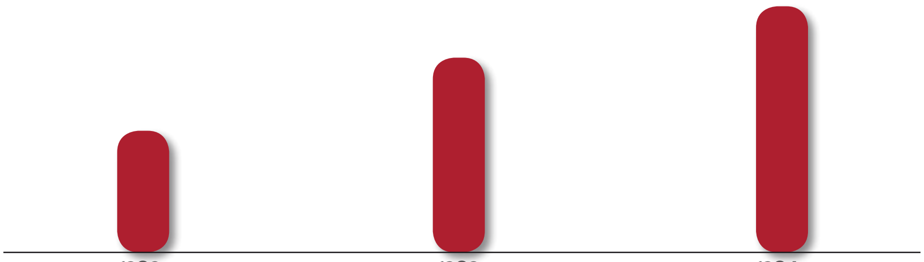
In addition, it is noteworthy that in the first two months of 2013 the Bank has already issued €1,350 million in covered mortgage bonds (€500 million) and senior debt (€850 million), accounting for 31% of the total maturities for the year and covering 70% of the senior debt maturities.

I FIGURE 12. Maturities profile (millions of euros)



Additionally there is also a second liquidity line of €14,552 million which, as Figure 13 shows, had risen from the end of September to the end of December 2012 by nearly €2 billion, and was 9.6 times higher than the total senior debt maturities, giving the Bank confidence to continue to support lending to our customers.

| FIGURE 13. Second line of liquidity (millions of euros)

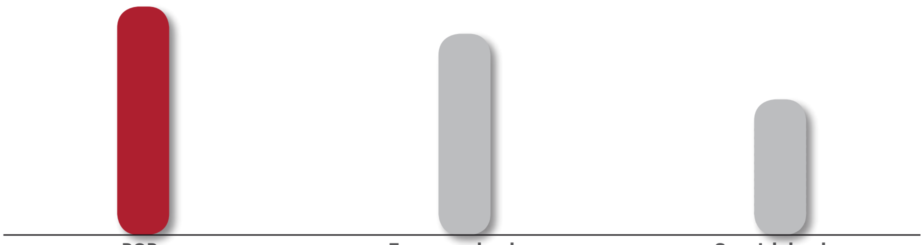


12Q2	12Q3	12Q4
10,343	12,652	14,552

3. NET RETURN AND EFFICIENCY: LEADERS IN EUROPE

The business model of Banco Popular is characterised by its purely commercial nature and its focus on proximity to customers and on customer service. As Figure 14 shows, lending accounts for 74% of the total balance sheet, compared with the average of 69% for Spanish banks and 42% for European banks, signifying that in an environment that is characterised by the return to traditional commercial banking, Banco Popular enjoys a clear competitive edge.

| FIGURE 14. Banco Popular's gross lending as a percentage of assets compared with Spanish and European banks 2012



POP	European banks	Spanish banks
74%	69%	42%

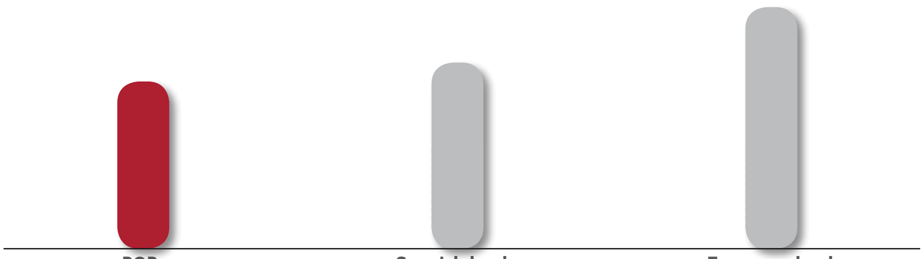
Source: 2012 quarterly reports average of Spanish banks (Santander Spain, BBVA Spain, Sabadell, Caixabank, Bankinter) and KBW estimates for European banks.

Our unique business model rests on a historical focus on businesses, particularly SMEs, which translates not only into better margins but also into quicker adaptation of them, thanks to shorter asset duration. The result of all these factors, combined with an enormously powerful network focused on customer service, is that Banco Popular is positioned, once again, as the most profitable bank of its competitors in terms of pre-provision earnings.

At 31 December 2012 these stood at €2,016 million, signifying a return on gross lending of 1.34% due to the strength of recurring income and the operating efficiency. This figure gives an idea of our ability to book the necessary provisions and to increase our profits once the economic situation returns to normal.

At the end of 2012 our efficiency ratio was 42.48%, thereby enabling Group to maintain, as illustrated in Figure 15, the best cost/income ratio of the sector in both Spain and Europe (5 percentage points below the average for Spanish banks and 22 percentage points below the average for European banks). This efficiency is supported not only by the ability of the network to generate income, but also by a long-standing and firmly established culture of cost control.

I FIGURE 15. 2012 Banco Popular efficiency in comparison with Spanish and European banks



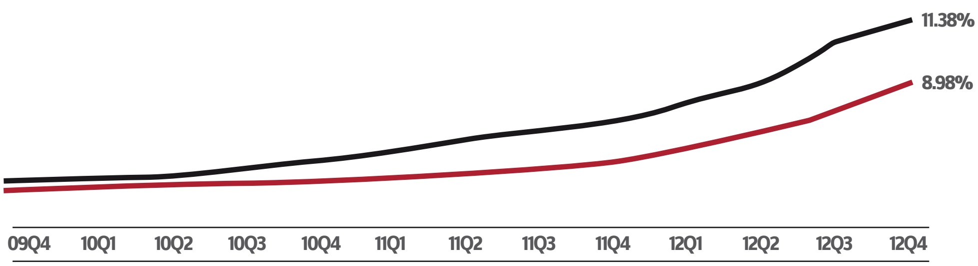
POP	Spanish banks	European banks
42.48%	47.10%	64.08%

Source: 2012 quarterly reports average of Spanish banks (Santander Spain, BBVA Spain, Sabadell, Caixabank, Bankinter) and KBW estimates for European banks.

4. CREDIT QUALITY: ALL-TIME RECORD IN PROVISIONS

In 2012 non-performing loans were affected by the macroeconomic deterioration, and performed very negatively (8.98% at year end compared with 5.99% at the end of 2011), although below the sector average (11.38%).

I FIGURE 16. Banco Popular's NPL ratio compared with the system



Popular

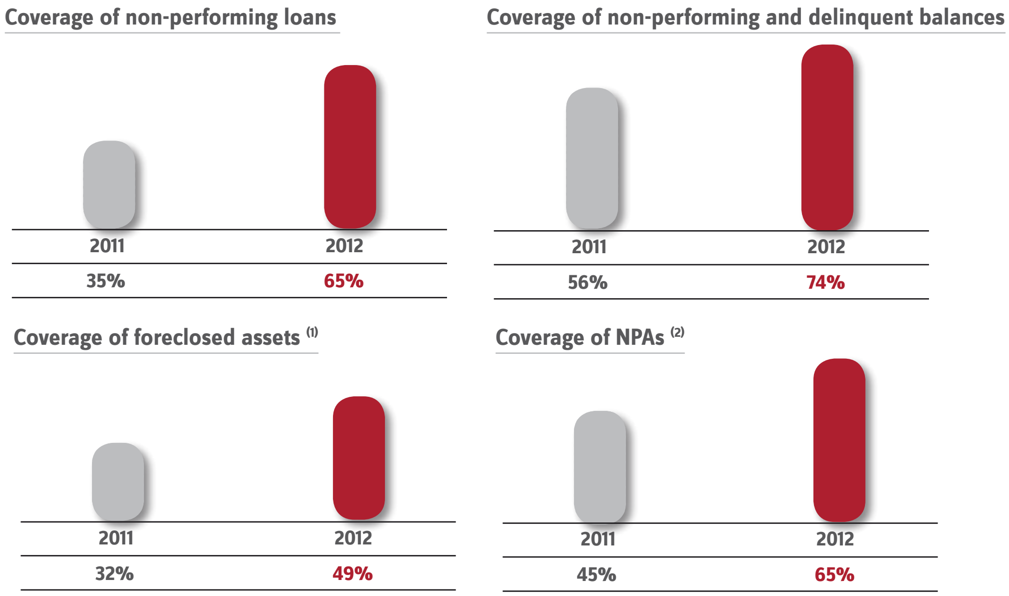
Sector

Source: Average for banks, savings banks and credit cooperatives, EFCs and ICO, according to Bank of Spain statistics at November 2012 (latest information available)

In order to absorb this deterioration of credit quality as well as potential stress scenarios, in 2012 Banco Popular booked a total of €9.6 billion in gross provisions, thereby meeting in full the requirements of the Royal Decrees and becoming a benchmark for the Spanish system with coverage at year end of 16% of its balance sheet in Spain.

As shown in Figure 17, this massive booking of provisions has resulted in exceptional increases in the coverage ratios in all segments. Thus, the coverage of non-performing loans was up by 30 percentage points year on year to 65% (74% taking into account loans fully written off). The coverage of property in Spain was up from 32% in December 2011 to 49% in December 2012. Lastly, combining the above segments, the coverage of the Bank's total non-earning assets rose from 45% to 65%.

I FIGURE 17. Coverage ratio



(1) Spain. Includes financial investments

(2) NPAs: Non-performing + delinquent + foreclosed real estate + financial investments

5. BUSINESS: THE BANK HAS INCREASED ITS MARKET SHARE AND CONTINUES TO LEAD IN SMES

Although the demand for credit is weak, and was down by 5.66%(1) in 2012 in the system, gross lending rose by 18.6% at Banco Popular, impacted by the integration of Banco Pastor in the year. Retail funds also performed well, with a year-on-year increase of 25.7%, also impacted by the integration of Banco Pastor, compared with a fall of 2.98%(1) in the industry. Consequently, the Bank continued to gain market share in both loans and deposits.

Noteworthy is the fact that Banco Popular continues to strengthen its SME franchise, with penetration that now stands at 14%. Over 1 million SMEs place their trust in Banco Popular. In the ICO-line credit campaign, the Bank continues to be the outright leader in the system with a market share of 19.9%, treble that of our natural market share.

Lastly, Banco Popular is also committed to international growth, and opened new representative offices in 2012 in Casablanca, Dubai, Sao Paolo, Istanbul, etc., and its market shares in lending for imports (12.5%) and exports (7.5%) exceed its natural market share.

To summarise, in a year marked by an adverse economic environment, Banco Popular substantially strengthened its fundamentals thanks to the support of its existing shareholders and the confidence of many other new ones. This new situation will make it possible to face the challenges of 2013 with determination and thereby obtain an attractive net return in 2014 for all our shareholders.

In a year marked by an adverse economic environment, Banco Popular kept its strengths intact. In 2013 the Bank will continue to apply the model of customer-focused commercial banking that has made it a benchmark of asset quality, solvency, profitability and efficiency.

(1) Variation in gross lending of banks, savings banks and credit cooperatives, EFCs and ICO, according to Bank of Spain statistics at November 2012 (latest information available).

Main consolidated results

In 2012, Banco Popular booked massive writedowns in order to comply with the new regulatory requirements. After booking provisions of €9.6 billion, the Group has met the requirements stipulated in the Royal Decree Laws. This provisioning effort led Banco Popular to post accounting losses of €2,461 million. However, the Group continues to demonstrate its ability to generate income, with strong pre-provision profit of €2,016 million (up by 23.9% year on year).

NET INTEREST INCOME

Net interest income, i.e. interest income minus interest charges, rose by 30.3% in 2012 to €2,719 million, partly due to the favourable impact of the integration of Banco Pastor.

The following paragraphs analyse the performance of the net interest income from three different aspects:

- Performance of assets and interest income.
- Performance of liabilities and interest charges.
- Performance of spreads.

Performance of assets and interest income

Of the total assets managed in 2012, amounting to €172,259 million, €157,618 million were on-balance sheet assets that recorded annual growth of 20.4%. These assets included most notably loans and receivables amounting to €122,939 million before valuation adjustments. As shown in Table 4, most of this amount related to transactions with customers, which were up by 18.6% in the year. In 2012, the volume of loans granted, in terms of both growth of the business and renewal of matured transactions, amounted to €26,512 million, which enabled the Bank to increase its market share to 6.55%.

I TABLE 4. Loans and advances to credit institutions & Loans and advances to other debtors (gross) (Amounts in thousands of euros)

	31.12.12	31.12.11	% Var.
Total loans and receivables	**122,939,121**	**102,845,033**	**19.5%**
Loans and advances to credit institutions	4,664,037	3,972,265	17.4%
Loans and advances to other debtors	117,298,902	98,872,768	18.6%
Lending to general government	3,839,449	1,211,994	>
Lending to other private sectors	113,459,453	97,660,774	16.2%
Residents	103,025,775	86,263,289	19.4%
Non-residents	10,201,026	10,799,816	(5.5%)
Other	232,652	597,669	(61.1%)
Fixed income	976,182	-	-

70% of the lending was to businesses, mainly SMEs, and 30% to private individuals.
The composition of Banco Popular's lending to customers remained very similar to that of the previous year, since Banco Pastor had a portfolio segmented into SMEs/private individuals and with mortgage guarantees quite similar to those of Banco Popular. As Table 5 shows, 44.6% related to mortgage loans (47.8% in 2011). This portfolio is backed by high quality mortgage guarantees with total LTV (Loan to Value: the loan as a percentage of the mortgage value) of 67% (66.23% for private individuals and 67.62% for businesses). To this must be added the fact that in the case of private individuals, the average rate of effort was 23.71%, which is well below the 35% considered to be prudent.

I TABLE 5. Lending to customers (gross) (Amounts in thousands of euros)

	31.12.12	31.12.11	% Var.	Weight 2012	Weight 2011
Trade loans and discounts	3,740,553	4,304,512	(13.1%)	3.2%	4.4%
Secured loans	54,023,003	49,076,376	10.1%	46.1%	49.6%
Mortgage	52,299,261	47,222,458	10.8%	44.6%	47.8%
Other	1,723,742	1,853,918	(7.0%)	1.5%	1.9%
Asset repos	6,792,524	6,210,245	9.4%	5.8%	6.3%
Term and other loans	36,301,223	29,464,867	23.2%	30.9%	29.8%
Finance leases	2,732,177	2,749,935	(0.6%)	2.3%	2.8%
Doubtful assets	13,709,422	7,066,833	94.0%	11.7%	7.1%
Total	**117,298,902**	**98,872,768**	**18.6%**	**100.0%**	**100.0%**

As a result of Banco Pastor's inclusion in the Group and the logical growth in the balance sheet, Banco Popular increased its investment portfolio in 2012, compared with the previous year, to a total face value of €19,995 million (€8,708 million relating to the available-for-sale fixed income portfolio, €10,467 million to the held-to-maturity investment portfolio and €820 million to the loans portfolio), compared with €14,694 million at the end of 2011. This investment portfolio currently accounts for approximately 13% of the balance sheet and its purpose is to achieve income stability at a time of low interest rates and partially immunise the non-interest-rate sensitive balance-sheet liabilities.

The interest income represented a yield of 3.64%, which was 7 basis points higher than in 2011. The major portion of the €5,496 million of interest and similar income related to Secured loans, mainly Mortgage loans (€2,195 million) and Term and other loans, the interest on which amounted to €1,890 million. These two captions accounted for 74.3% of the interest and similar income in 2012.

Table 6 shows that the Bank continued to focus heavily on its traditional business. The yield on earning assets arose mainly from the lending activity with the private sector, which accounted for 85.1% of the total. A further 0.7% of the income was from transactions with financial institutions, and was mainly generated by the Group's Treasury activities. 11.5% related to securities transactions, primarily of fixed income securities and 0.1% related to other earning assets.

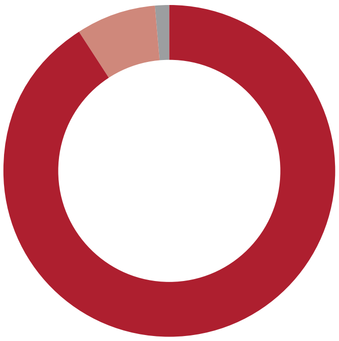
In comparison with the previous year, the proportion of income arising from general government and mortgage loans rose, by 1.5% and 3 basis points, respectively.

I TABLE 6. Interest and similar income in 2012 (Amounts in thousands of euros)

	Total 2012	Weight (%)	Total 2011	Weight (%)
Credit institutions	(38,378)	0.7%	(54,792)	1.2%
General government	(144,590)	2.6%	(48,258)	1.1%
Private sector	(4,675,446)	85.1%	(3,966,588)	86.6%
Trade loans and discounts	(299,897)	5.5%	(257,515)	5.6%
Secured loans	(2,268,261)	41.3%	(1,875,466)	40.9%
Mortgage	(2,195,009)	39.9%	(1,815,622)	39.6%
Other	(73,252)	1.3%	(59,844)	1.3%
Term and other loans	(1,889,720)	34.4%	(1,641,406)	35.8%
Finance leases	(133,661)	2.4%	(120,532)	2.6%
Doubtful assets	(83,907)	1.5%	(71,669)	1.6%
Debt securities	(629,892)	11.5%	(501,642)	11.0%
Other earning assets	(8,107)	0.1%	(9,241)	0.2%
Total	**(5,496,413)**	**100.0%**	**(4,580,521)**	**100.0%**

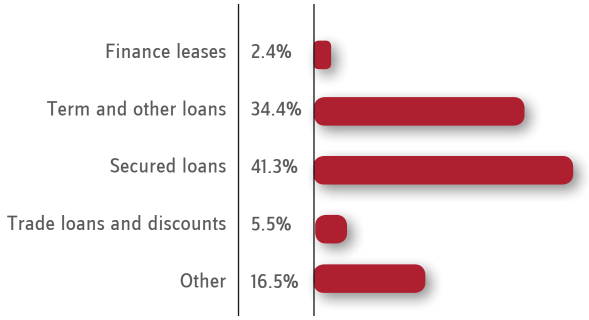
As Figure 18 shows, the Group's income comes mainly from activities with customers in the Iberian Peninsula, which contributed 98.1% of the interest and similar income. Banco Popular Portugal accounted for 8.3% of this income. The remaining 1.9% came from TotalBank and from business with other non-resident companies and private individuals. Figure 19 shows the sources of income by type of transaction with customers.

I FIGURE 18. Distribution of income from the private sector (%)



Private sector residents, 89.8%
Banco Popular Portugal, 8.3%
Rest of non-resident sector, 1.9%

I FIGURE 19. Origin of income by type of transaction with customers (%)



Performance of liabilities and interest expenses

Table 7 shows that, at 31 December 2012, the on-balance sheet funds, i.e. customer deposits, interbank deposits and wholesale markets amounted to €141,726 million, which was 19.8% more than in 2011, partly supported by the integration of Banco Pastor.

I TABLE 7. Funds managed (net) (Amounts in thousands of euros)

	31/12/12	31/12/11	% Variation
Deposits from central banks	20,564,157	13,993,728	47.0%
Deposits from credit institutions	14,402,480	11,336,547	27.1%
Customer deposits	79,830,212	68,742,520	16.1%
Retail deposits	74,893,259	59,084,618	26.8%
General government	7,410,601	1,265,191	>
Other private sectors	67,249,082	57,509,905	16.9%
Residents	58,802,462	50,092,127	17.4%
Non-residents	8,446,620	7,417,778	13.9%
Valuation adjustments	233,576	309,522	(24.5%)
Deposits with central counterparties	4,936,953	9,657,902	(48.9%)
Bonds and other marketable debt securities	23,442,605	20,448,938	14.6%
Unadjusted debt certificates including bonds	22,846,880	19,752,083	15.7%
Bonds and other securities outstanding	15,740,074	17,318,165	(9.1%)
Commercial paper	7,106,806	2,433,918	>
Valuation adjustments	595,725	696,855	(14.5%)
Subordinated liabilities	2,170,454	2,834,927	(23.4%)
Other financial liabilities	1,316,258	923,171	42.6%
Total on-balance sheet funds	**141,726,166**	**118,279,831**	**19.8%**

As a result of savers' confidence in the Bank and the integration with Banco Pastor, customer funds, which include customer deposits ex-repos, and marketable securities distributed through the network, as shown in Table 8, were up by 25.7% on 2011. This increase in deposits took the market share to 5.73%.

I TABLE 8. Customer funds (net), ex-repos (Amounts in thousands of euros)

	31/12/12	31/12/11	% Variation
Demand accounts	21,886,235	19,287,178	13.5%
Time deposits	45,804,485	38,648,677	18.5%
Customer asset repos	6,405,186	394,887	>
Other accounts and valuation adjustments	797,353	753,876	5.8%
Customer deposits	**74,893,259**	**59,084,618**	**26.8%**
Marketable securities distributed through the network (*)	8,545,883	2,595,766	>
Customer asset repos	(6,405,186)	(394,887)	>
Total	**77,033,956**	**61,285,497**	**25.7%**

(*) Includes convertible notes, preferred shares, commercial paper and subordinated debt distributed through the network

In 2012 the Bank continued its policy of reducing its dependence on wholesale funding and after tactically managing retail funds and lending to customers, it again successfully reduced the loan-to-deposit ratio from 135% to 123% (a decrease of 12 percentage points), thus reducing its commercial gap by €8,634 million in the year.

At €2,778 million, the interest expenses represented 1.84% of the average total assets, which was 10 basis points less than in 2011 as a result of the fall in interest rates.

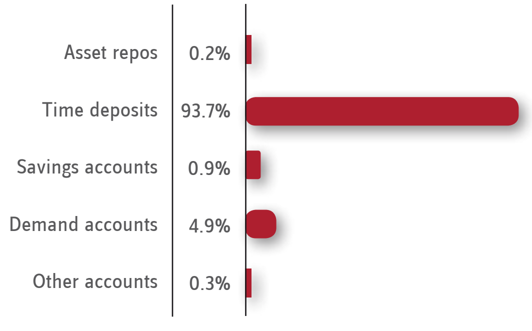
As regards the breakdown of interest expenses by provenance and product, Table 9 reveals that 52% of the expenses arose from transactions with customers, in line with the previous year, despite the decrease in the weight of wholesale funding on the balance sheet. This is due to the increased cost of retail funds which were unaffected by the fall in rates as a result of the strong competition to attract deposits because of the system's lack of liquidity.

I TABLE 9. Interest expense and similar charges in 2012 (Amounts in thousands of euros)

	Total 2012	Weight (%)	Total 2011	Weight (%)
Credit institutions	502,127	18.1%	255,795	10.3%
General government	49,240	1.8%	90,943	3.6%
Private sector	1,452,085	52.3%	1,306,517	52.4%
Demand accounts	71,158	2.6%	102,265	4.1%
Savings accounts	12,440	0.4%	16,437	0.7%
Time deposits	1,361,200	49.0%	1,179,424	47.3%
Asset repos	2,920	0.1%	5,825	0.2%
Other accounts	4,367	0.2%	2,566	0.1%
Deposits with central counterparties	19,495	0.7%	200,611	8.0%
Marketable securities	731,693	26.3%	620,604	24.9%
Bonds	407,889	14.7%	463,264	18.6%
Commercial paper and bills	262,689	9.5%	43,372	1.7%
Subordinated and preferred liabilities	61,115	2.2%	113,968	4.6%
Other funds	23,017	0.8%	19,140	0.8%
Total	2,777,657	100.0%	2,493,610	100.0%

The breakdown of interest expenses by type of operation with the private sector is shown in Figure 20. Noteworthy is the cost of time deposits and their greater weight compared to 2011 as a result of the increase in volume and the greater remuneration. On the other hand, demand and savings deposits bear a lower cost despite the fierce competition that also exists for these products. The reason is that the balances are fully available to customers and therefore the yield on them for the account holders is lower. In addition, demand accounts are often an accessory since they act as operating accounts linked to other customer transactions. The cost of wholesale liabilities accounts for less of the total, because of their reduction in volume, despite the big increase in spreads in response to the demands of the market, offset by much lower interest rates than in the previous year.

I FIGURE 20. Origin of costs by type of transaction with private sector (%)



Performance of spreads

As Table 10 shows, the customer spread was 2.35% at the end of the year, which was 13 basis points higher than in 2011 as a result of an increase in the yields on loans and receivables that was higher (24 basis points) than the increase in the costs of customer funds (11 basis points). As explained earlier, Banco Popular succeeded in mitigating the impact of the drop in rates for lending thanks to the rate for new loans. As may be observed in Table 11, the Bank increased its income by €456 million thanks to bigger asset spreads. However, €368 million of this increase was lost due to the increase in the spreads on both retail and wholesale liabilities.

I TABLE 10. Yields and costs (Amounts in thousands of euros)

	31.12.12				31.12.11			
	Average balance	Weight (%)	Income or expense	Rate (%)	Average balance	Weight (%)	Income or expense	Rate (%)
Financial intermediaries	4,870,943	3.22	38,378	0.79	4,471,825	3.48	54,792	1.23
Loans and advances to other debtors (a)	107,352,998	71.02	4,820,036	4.49	94,472,009	73.61	4,014,846	4.25
Securities portfolio	20,403,405	13.50	629,892	3.09	17,358,048	13.53	501,642	2.89
Other assets	18,524,128	12.26	8,107	0.04	12,037,079	9.38	9,241	0.08
Total assets (b)	**151,151,473**	**100.00**	**5,496,413**	**3.64**	**128,338,961**	**100.00**	**4,580,521**	**3.57**
Financial intermediaries	32,077,903	21.22	502,127	1.57	13,214,860	10.30	255,795	1.94
Customer funds (c)	81,344,377	53.81	1,738,958	2.14	79,530,416	61.97	1,610,706	2.03
Demand deposits	15,414,171	10.20	82,109	0.53	14,702,505	11.46	114,782	0.78
Savings & time deposits	57,102,463	37.77	1,419,216	2.49	48,799,882	38.02	1,282,678	2.63
Deposits with central counterparties	3,293,179	2.18	19,495	0.59	15,540,438	12.11	200,611	1.29
Retail commercial paper	5,534,564	3.66	218,138	3.94	487,591	0.38	12,635	2.59
Marketable securities and other	21,909,745	14.50	513,555	2.34	22,374,973	17.43	607,969	2.72
Other interest-bearing liabilities	357,791	0.24	23,017	6.43	242,739	0.19	19,140	7.89
Other funds	4,766,660	3.15	-	-	4,237,469	3.30	-	-
Equity	10,694,997	7.08	-	-	8,738,504	6.81	-	-
Total liabilities (d)	**151,151,473**	**100.00**	**2,777,657**	**1.84**	**128,338,961**	**100.00**	**2,493,610**	**1.94**
Customer spread (a-c)				*2.35*				*2.22*
Net interest margin (b-d)				*1.80*				*1.63*

Noteworthy was the limited loss arising from the drop in rates on assets as a result of the existence of a very big floors portfolio (42% of the portfolio in Spain, 72% of which are activated). The income also includes an increase on 2011 of €210 million, mainly as a result of the inclusion of Banco Pastor.

I TABLE 11. Causal analysis of variations in interest rates (Amounts in millions of euros)

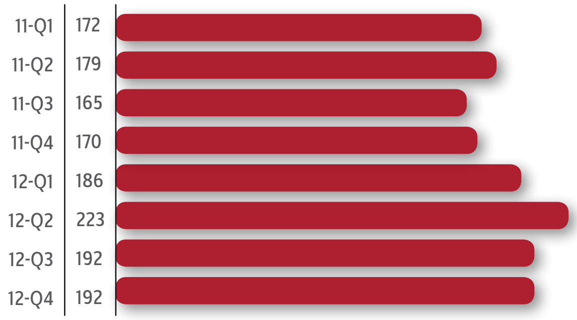
	Variation by balances	Variation by rates Reference rates	Spread	Total variation
Total earning assets	712	(252)	456	916
Total liabilities & equity	502	(586)	368	284
Total net interest income	210	334	88	632

As a result, the net interest margin was 1.80% in 2012, which was 17 basis points higher than in 2011.

GROSS OPERATING INCOME

The gross operating income was €3,777 million at 31 December 2012, which was 26.1% higher than in 2011.

| FIGURE 21. Net fee and commission income (%)



Net fees and commissions totalled €794 million, which was 15.8% more than in 2011. Figure 21 shows the quarterly variations during 2011 and 2012.

Analysis of the individual components of this caption as shown in Table 12 reveals that the fees and commissions associated with banking services maintained their growth (19.6%), as did those related to asset management (up by 11.1%) and payment systems (up by 6.3%). The fees and commissions relating to defaulting debtors were up by 3.5% year on year.

| TABLE 12. Net fee and commission income (Amounts in thousands of euros)

				Weight (%)	
	31.12.12	31.12.11	% Variation	31.12.12	31.12.11
Banking services	**747,370**	**640,785**	**16.6**	**94.2**	**93.5**
Fees & commissions for asset management	81,647	73,465	11.1	10.3	10.7
Securities portfolios	28,214	23,549	19.8	3.5	3.4
Asset portfolio management	3,015	3,246	(7.1)	0.4	0.5
Mutual funds	40,249	39,718	1.3	5.1	5.8
Pension plans	10,169	6,952	46.3	1.3	1.0
Other banking services	563,343	471,006	19.6	71.0	68.7
Securities & foreign currency purchases & sales	10,393	9,819	5.8	1.3	1.4
Administration of demand accounts	107,880	98,964	9.0	13.6	14.4
Provision of guarantees and other sureties	145,729	126,760	15.0	18.4	18.5
Loan-related services	44,961	46,240	(2.8)	5.7	6.7
Collection and payment handling	89,241	78,714	13.4	11.2	11.5
Other	165,139	110,509	49.4	20.8	16.1
Means of payment	102,380	96,314	6.3	12.9	14.1
Defaulting debtors	**46,300**	**44,747**	**3.5**	**5.8**	**6.5**
Total	**793,670**	**685,532**	**15.8**	**100.0**	**100.0**

With regard to asset management fees and commissions, the assets managed or marketed via mutual funds amounted to €7,272 million in 2012 (including Banco Pastor), compared with €6,139 million in 2011. Popular Gestión Privada and Allianz Popular Asset Management (40% owned by the Group), the Group's two main management companies, had assets of €6,205 million under management at the end of 2012, compared with €6,050 million in December 2011. Table 13 shows the distribution by type of product. As may be observed, the risk profile of the assets under management is conservative, with almost 80% of the volume accounted for by fixed income monetary institutions, and guaranteed capital.

This 2.6% increase in the volume of assets managed is mainly due to inflows of funds in pursuit of more conservative products.

The fund categories that performed best in comparison with the previous year were funds with guaranteed capital and fixed income funds. As Table 13 shows, there were losses of assets in money market, equity, mixed and global funds, which were offset by the increase in fixed income and guaranteed funds. The Group's market share in Spain stood at 5.07%, keeping the Bank for the third year running in fourth place in the Spanish asset portfolio management league table published by Inverco in December 2012.

I TABLE 13. Assets of and variation in Spanish mutual funds by type (millions of euros)

	Total	% Variation	Weight
Money market funds	654	(4.7%)	10.5%
Bond funds	2,366	8.0%	38.1%
Equity funds	332	(9.5%)	5.3%
Mixed funds	181	(16.2%)	2.9%
Guaranteed funds	2,419	6.3%	39.0%
Global funds	253	(19.7%)	4.1%
Total	**6,205**	**2.6%**	**100.0%**

Net subscriptions	(1.40%)
Management/markets	4.00%
Market share	5.07%

The gains on financial assets and liabilities amounted to €305 million in 2012, which was much higher than the previous year's figure of €81 million, as a result of the debt repurchasing transactions and other financial transactions.

Noteworthy in other ordinary income was the sharp increase in the contribution to the Deposit Guarantee Fund, which rose to €166 million compared with €37 million in 2011 as a result of the change in the regulations in 2012 (the standard contribution was raised from 0.06% in 2011 to 0.20% in 2012). Also, deposits offering returns above the regulatorily stipulated maximum were subject to an additional surcharge until 31 August 2012. In 2013 we expect this contribution to the Deposit Guarantee Fund to be significantly lower as a result of the new regulations.

NET OPERATING INCOME

Net operating income amounted to €2,016 million at the end of 2012, an increase of 23.9% on the previous year.

As Table 14 shows, personnel and general expenses were up by 27.1% to €1,605 million, after the integration of Banco Pastor. Personnel expenses increased by 22.0% and general expenses by 35.3%.

Depreciation and amortisation totalled €157 million which was 48.1% more than in 2011. 77% of this amount related to the amortisation of intangible assets.

I TABLE 14. Personnel and general expenses in 2012 (Amounts in thousands of euros)

	31.12.12	31.12.11	% Variation
Personnel expenses:	**949,734**	**778,756**	**22.0**
Salaries and wages	721,246	583,746	23.6
Social Security charges	174,006	139,692	24.6
Other personnel expenses	28,920	23,747	21.8
Pensions	25,562	31,571	(19.0)
General expenses:	**654,989**	**484,209**	**35.3**
Rents and shared services	154,603	113,048	36.8
Communications	34,605	28,505	21.4
Maintenance of premises and equipment	47,600	32,277	47.5
Technical resources	145,291	95,794	51.7
Stationery & office supplies	8,780	7,106	23.6
Technical reports and legal expenses	46,097	29,184	58.0
Advertising and publicity	49,155	40,972	20.0
Insurance	10,025	5,024	99.5
Security and fund transport services	23,732	19,433	22.1
Travel	10,621	9,074	17.0
VAT & other taxes	97,167	76,503	27.0
Other general expenses	27,313	27,289	0.1
Total	**1,604,723**	**1,262,965**	**27.1**

As a result of the performance of income and expenses discussed above, Banco Popular achieved an efficiency ratio of 42.48%. This was higher than the sector where the ratio was around 60%.

CONSOLIDATED PROFIT FOR THE YEAR

Banco Popular made a big provisioning effort in 2012, leading the Bank to record book losses of €2,461 million. In order to comply with the new regulatory requirements introduced by Royal Decree-Laws 02/2012 and 18/2012 for the purpose of increasing the coverage of the impairment arising from the problem assets linked to the property business in Spain, Banco Popular booked massive writedowns of €9.6 billion.

The €9.6 billion total provisions booked in 2012 included credit loss provisions of €7,223 million. Of this amount €4,629 million (including €151 million released from the general allowance) were charged to earnings and €2,594 million were charged to equity. In real estate assets, the provisioning effort amounted to €2,242 million; €1,355 million were charged to earnings and €887 million were charged to equity. The amounts charged to equity related to the fair value adjustment of the Banco Pastor portfolio as a result of the business combination.

The coverages established in compliance with the aforementioned Royal Decree-Laws 02/2012 and 18/2012 amounted to €7,659 million (including Banco Pastor). Broken down by purpose, €5,899 million were allocated to credit loss allowances and €1,760 million to real estate. The amounts charged to equity form part of those booked for the fair value adjustment of the business combination with Banco Pastor.

In 2012, Banco Popular succeeded in generating capital gains of €195 million thanks to the sales of property (€122 million), the POS terminal business (€68 million) and a small technology business (€5 million).

ATTRIBUTED RESULT

The big writedowns booked in 2012 led Banco Popular to post book losses under the Attributed result heading of €2,461 million compared with a profit of €480 million in 2011.

The proposed distribution of the result for 2012 that the Bank's Board of Directors will submit to the General Meeting of Shareholders for approval, and the distribution of the profit for 2011 that was approved at the General Meeting of Shareholders on 11 June 2012, may be consulted in Note 4 to the Financial Statements.

Activity by business line

This section provides a segmentation of Banco Popular Group earnings by geographical area and activity. The methodology applied in the segmentation by business area is described in Note 7 to the Financial Statements.

From a geographical point of view, the Group operates in Spain, Portugal and the United States. The main business is done in Spain and contributes more than 93.6% of the consolidated total assets and 93.1% of the gross operating income. There was a slight increase in the weight of Spain in 2012, thanks to the acquisition of Banco Pastor, both in terms of earnings generation and the size of the assets, although the levels remained stable with those of recent years. Table 15 shows the contribution of each geographical and business area to the different income statement and balance sheet aggregates. It also shows the increase in employees and branches as a result of the integration of Banco Pastor.

I TABLE 15. Segmentation by geographical area

	SPAIN (*)		PORTUGAL	
	2012	2011	2012	2011
Total Assets	93.65%	92.31%	6.35%	7.69%
Net interest income	91.72%	90.15%	8.28%	9.85%
Gross operating income	93.14%	92.17%	6.86%	7.83%
Net operating profit (1)	(2,370.8)	83.75%	39.4	16.25%
Headcount	15,101	12,639	1,400	1,423
Number of branches	2,283	1,994	192	209

(*) The figures for Spain include the business done in the United States because of its scant amount as well as the 50% stake in TargoBank
(1) The amounts for 2012 are shown in thousands of euros

From the point of view of the different business areas, the Bank's management information has traditionally been divided into four main areas: commercial banking, the institutional and markets area, the asset management area and the insurance business. As explained in Note 7 to the Financial Statements, 2012 brings the addition of a new segmentation of the information covering the asset management and insurance business areas, information on which is provided jointly under a segment called "Asset Management and Insurance". A new "Property Area" segment has also been created covering the activities of the Group's property companies and the real estate activities of the Group banks which have been segregated from the "Institutional and Markets" area. In order to facilitate comparison with previous years the information is presented from both approaches.

When analysing the year's performance, what first stands out is that the Bank recorded a loss in 2012 as a result of the advance provisioning effort made to meet the requirements of the Royal Decree-Laws on the Reorganisation of the Financial Sector. The Bank would have expected to book these provisions in the course of 2012 and 2013. However, the capital shortfall arising out of the adverse scenario in the Oliver Wyman stress tests prompted the decision, as explained in other chapters, to recognise maximum impairments in order to offer a more positive view for 2013 and 2014. As a result, Banco Popular posted a loss after taxes of over €2,460 million. Had it not been for this effort, there would have been a profit over of over €520 million. However, this provisioning effort and the restructuring of the capital without public support and given the widespread backing of the market, have placed the Group in a better position to face the future.

With regard to the traditional segmentation, the main weight is still with commercial banking, which accounted for 65.8% of the total assets and contributed 62.8% of the pre-provision profit. Obviously the heavy weight of the credit loss provisions booked in the year against the income statement - €4,493 million of the total of €5,984 million booked via this means, are the reason for the loss. The institutional and markets area contributed 34.5% of the pre-provision profit. In this case, the fact that this is the segment where the property allowances are located, I.e. the remaining €1,355 million charged to the income statement, the result becomes negative. The two less significant segments are asset management and insurance business (combined under the new methodology). They obtained pre-provision profit that accounted for 0.9% and 1.7% of the total for the year and contributed a positive result. They accounted for only 0.3% and 0.5% of the Group's total assets.

| TABLE 16. Segmentation by business area (%)

	COMMERCIAL BANKING		ASSET MANAGEMENT		INSURANCE ACTIVITY		INSTITUTIONAL AND MARKETS	
	WEIGHT 2012 (%)	WEIGHT 2011 (%)	WEIGHT 2012 (%)	WEIGHT 2011 (%)	WEIGHT 2012 (%)	WEIGHT 2011 (%)	WEIGHT 2012 (%)	WEIGHT 2011 (%)
Net interest income	79.6	82.5	0.1	(0.3)	0.9	1.0	19.4	16.8
Gross operating income	75.8	82.1	1.0	1.1	1.1	1.2	22.1	15.5
Pre-provision profit	62.8	75.2	0.9	1.1	1.7	1.9	34.5	21.8
Net operating profit (*)	62.8	43.2	0.9	2.3	1.7	4.5	34.5	50.0
Profit before taxes	(84.5)	65.7	0.4	3.5	1.0	6.8	(16.9)	24.0
Total assets	**65.8**	**69.9**	**0.3**	**0.5**	**0.5**	**0.4**	**33.4**	**29.2**

(*) Given the loss booked in 2012, the weights of the segments are shown with the sign of their contribution.

The table below shows the distribution based on the new segment definition.

| TABLE 16bis

	COMMERCIAL BANKING	ASSET MANAGEMENT AND INSURANCE	PROPERTY AREA	INSTITUTIONAL AND MARKETS
	WEIGHT 2012 (%)	WEIGHT 2012 (%)	WEIGHT 2012 (%)	WEIGHT 2012 (%)
Net interest income	79.6	1.0	(4.6)	24.1
Gross operating income	75.8	2.1	(3.0)	25.1
Pre-provision profit	65.2	2.6	(7.9)	40.1
Net operating profit (*)	(124.5)	2.0	(7.0)	29.4
Profit before tax	(84.8)	1.4	(35.9)	19.3
Total assets	**67.1**	**0.8**	**4.8**	**27.3**

(*) Given the loss booked in 2012, the weights of the segments are shown with the sign of their contribution.

COMMERCIAL BANKING

Commercial banking is the core business of the Banco Popular Group, and its operations are focused on providing financial services to businesses and households. The extensive network of branch offices is the main channel of communication with customers and makes it possible to implement the business model of the Bank, the objective of which is to anticipate customers' needs by offering them the most appropriate services at all times.

At 2012 year end this area was managing 7,773,916 customers, 844,053 more than in 2011. Obviously the reason for this substantial 11.6% increase was the acquisition of Banco Pastor. However, if we eliminate the latter's contribution, the variation is still positive by 60,710 customers, in line with the constant advance of recent years.

I TABLE 17. Results of the commercial banking activity (Amounts in thousands of euros)

	31.12.12	31.12.11	% Variation
Net interest income	2,164,486	1,721,518	25.73%
Net fee and commission income	771,030	664,122	16.10%
± Other financial transactions	55,312	46,510	18.92%
± Other operating results	(126,908)	29,247	<
Gross operating income	2,863,920	2,461,397	16.35%
Operating costs	1,549,493	1,237,315	25.23%
Pre-provision profit	1,314,427	1,224,082	7.38%
Impairment losses and other provisions (net)	4,216,504	932,243	>
Net operating profit	(2,902,077)	291,839	<
± Other results (net)	(57,434)	-	
Profit before taxes	(2,959,511)	291,839	<

The income statement in Table 17 reflects the strong generation of earnings in what was a difficult year as well as the effects of the deterioration of the economic situation that was amplified by the Bank's decision to book the provisions required by the Royal Decree-Laws. The contribution of Banco Pastor impacted both these aspects, and the synergies of the integration are beginning to become apparent, although they will be most noticeable in 2013-2014.

The net interest income totalled over €2,164 million, an increase on 2011 of 25.7% due to the increase in loans and receivables contributed by Banco Pastor, the effort made to recover spreads in lending transactions and the temporary use of the liquidity facilities made available by the European Central Bank.

The gross operating income was strengthened mainly with the assistance of the net balance of fees and commissions that rose by 16.4%. The gains on financial assets and liabilities continued to provide their stable positive support to the income and were slightly up due to the success of various debt repurchasing transactions that were carried out. In contrast, 2012 saw a change in trend in the Other operating results caption due to the contributions to the Deposit Guarantee Fund of €166 million, which this year were higher as a result of the inclusion of Banco Pastor and above all due to the increased regulatory requirements.

Overall, the contribution to the gross operating income made by the income additional to the net interest income was 24.4%, thereby consolidating the good performance of these difficult years.

In the expenses caption there was an increase of 25.2%, since the process of integration with Banco Pastor is in the early stages and will not begin to bring its greatest results until 2013. In this respect Banco Popular has traditionally shown its ability to achieve operating efficiency targets. Lastly the net operating result reflects the impact of fully booking against the income statement the provisions required under the Royal Decree-Laws and others amounting to €4,629 million. It should be clarified that the majority of these relate to healthy loans and will make it possible to face any additional impairment of the property portfolio. Thanks to this, the Group has one of the portfolios with the highest coverage in the sector.

All of these factors resulted, for the first time, in a loss before taxes of almost €2,960 million.

Commercial banking in the Iberian Peninsula

The business in Spain is conducted through Banco Popular (which includes Banco Pastor), whose core business is commercial banking, and four specialist banks: Popular Banca Privada (private banking), bancopopular-e (online banking), Oficina Directa (online banking from Banco Pastor) and Targobank, 50% owned by Crédit Mutuel. The four banks operate throughout Spain. In turn, Banco Popular Portugal, also specialising in commercial banking, operates throughout Portugal.

Table 18 presents the segmentation of the customer funds and lending (on- and off-balance sheet lending) of commercial banking in Spain for businesses and private individuals. This year includes Banco Pastor, although this did not bring about any major changes in the distribution, which illustrates the strong complementarity of the business with Banco Popular.

I TABLE 18. Segmentation of average total assets and ordinary income in Spain (%)

	Average total assets		Ordinary income	
	2012	2011	2012	2011
BUSINESSES	**69.44%**	**70.96%**	**83.59%**	**80.99%**
Self-employed & retail traders	8.21%	9.28%	11.59%	12.24%
SMEs	29.22%	29.81%	56.14%	54.67%
Big companies	27.00%	27.86%	8.41%	10.30%
Non-commercial undertakings	5.01%	4.01%	7.45%	3.79%
PRIVATE INDIVIDUALS	**30.56%**	**29.04%**	**16.41%**	**19.01%**
Mass banking	2.87%	3.43%	2.02%	3.87%
Banking for private individuals	12.14%	13.02%	10.63%	13.08%
Personal banking	15.55%	12.59%	3.76%	2.06%

Banking for businesses

Banking for businesses was managing 1,219,861 customers at 2012 year end and contributed 83.6% of the gross operating income and 69.4% of the average total assets. During the year, including the contribution made by Banco Pastor, a net total of 124,222 new businesses was added. Despite including Banco Pastor, in comparison with 2011 the weight of this segment remained very stable in the consolidated Group, albeit with a slight increase in its contribution to the generation of earnings (over 2.5%) while its relative importance at balance sheet level was very slightly lower, indicating increased profitability. This is therefore the main segment of the Group's operations, which in recent years has undergone most notably the divestment in property activities in favour of other productive activities, but has always maintained its total weight.

This segment consists of big companies, SMEs, self-employed individuals and retail traders, and non-commercial undertakings. A big company is defined as a company with total assets of over €100 million and income of over €100 million. The SME category includes medium-sized companies with assets and income of €10-100 million, small companies with assets and income of €1-10 million and micro-companies with assets and income of under €1 million. Also set apart because of their special nature are self-employed persons and retail traders, the rating of whom depends on the commercial network, and other undertakings, which is a segment that includes legal entities such as associations, sports clubs, etc.

As Table 18 shows, the SME segment is the one with the greatest weight at the level of gross operating income. Its contribution, which consolidates both the Bank's vocation and the segment's profitability, was 56.1%, slightly higher than in 2011. From the point of view of contribution to assets, most of the weight is divided between SMEs and Big Companies, as usual.

Noteworthy also is the weight of the segment of self-employed individuals and retail traders towards whom the Group's strategy is also targeted; it contributed 11.6% of the Bank's gross operating income and 8.2% of the assets. Both aggregates were slightly down as a result of the greater intensity of the crisis being experienced by this segment. Lastly, mention should also be made of the progress made by the segment of non-commercial undertakings.

Banking for Private Individuals

Banking for private individuals was managing 6,514,055 customers at 2012 year end and contributed 16.4% of the gross operating income and 30.6% of the assets. The year-on-year increase in customers of 631,046 was substantial, due both to Banco Pastor's contribution and to the commercial efforts made. In fact, the latter resulted in the net addition of 247,170 new customers. In comparison with the previous year, within the overall stability there was a slight increase in the weight of assets and a decrease in the contribution to gross operating income in favour of banking for businesses.

The segment is broken down into personal banking, banking for private individuals and mass banking. Personal banking customers are those with funds of over €60,000. The difference between banking for private individuals and mass banking lies in the level of personalised attention and the degree of connection with the Bank.

As Table 18 shows, the banking for private individuals segment is the one with the greatest weight in contribution to gross operating income, although personal banking has taken a slight lead in terms of average total assets, due to the fact that, as in the previous year, the commercial efforts to increase customer liabilities was directed mainly at personal banking customers.

Noteworthy within banking for private individuals is the weight of the specific groups of customers which the Group's business strategy focuses on because they require a higher level of service. These are homogeneous groups of customers, generally in the same profession.

The commercial banking business in Portugal is conducted mainly through the Banco Popular Portugal subsidiary and is also focused on retail banking, primarily SMEs. The Portuguese bank's total assets amounted to €8,946 million, of which €6,051 million related to gross lending to customers. These figures were down from 2011 by 7.6% and 8.0%, respectively, as a result of the economic situation in Portugal. The funding structure remained stable, with a decrease in customer deposits of 6.5% down to nearly €3,932 million at year end. However, this decrease was neutralised by the sale of EMTNs through the network, with the result, in essence, that there was barely any variation in the retail customer funds.

Individually, Banco Popular Portugal saw its gross operating income rise by a substantial 17.5%, mainly due to the performance of the net interest income which was up by 16.9%. This improvement was driven by the interest rate effect, with a 124 basis points increase year on year in the spreads of all non-mortgage lending, which represents two thirds of the loan portfolio. This increase was complemented with tight control of the cost of time deposits, which rose by 5 basis points.

The stable net figure for fees and commissions and the slight improvement in the gains on financial assets and liabilities complete the picture. In contrast, there was a sharp increase of almost €55 million in loan impairment allowances, due to the deterioration of the Portuguese economy, which offset the initial advantage, leading to a decrease in the post-provision profit of €16 million (35.9%). This all led to a profit before taxes of €6.4 million compared with €24.4 million in 2011.

United States

The commercial banking business in the United States is conducted through TotalBank, which was acquired at the end of 2007 and operates in the State of Florida. At year end TotalBank had 16 branches and 421 employees. Its total assets amounted to USD 2,347 million and included USD 1,220 million in loans and receivables, with increases year on year of 5.6% and 11.9% respectively, thereby consolidating the trend of the past three years.

In a macroeconomic and financial environment that is still returning to normal, the Bank achieved a satisfactory result in 2012. Thus, after a period of stabilisation in 2009, the subsidiary consolidated its return to recurring profits begun in 2011 after the write-down and provisioning effort made in the previous years, by obtaining profit before taxes of USD 15.2 million, which was 7.4% more than in 2011.

ASSET MANAGEMENT AND INSURANCE

As explained earlier, from now on information on the activities of Asset Management and Insurance will be combined. Table 19 shows the performance of this area in 2012 compared with 2011. For clearer understanding and traceability with regard to previous years' reports, the details have been broken down into each of the two segments included.

The unit's performance was flat, but favourable, and it contributed €47.4 million of profit before tax.

I TABLE 19. Results of the asset management and insurance activity (Amounts in thousands of euros)

	ASSET MANAGEMENT AND INSURANCE			ASSET MANAGEMENT			INSURANCE		
	31.12.2012	31.12.2011	% Variation	31.12.2012	31.12.2011	% Variation	31.12.2012	31.12.2011	% Variation
Net interest income	26,643	15,518	71.69%	2,032	(5,489)	>	24,611	21,007	17.16%
Net fee and commission income	19,936	21,410	(6.88%)	13,207	15,298	(13.67%)	6,729	6,112	10.09%
± Other financial transactions	31,442	28,080	11.97%	28,971	25,183	15.04%	2,471	2,897	(14.70%)
± Other operating results	572	6,497	(91.20%)	(8,188)	(758)	>	8,760	7,255	20.74%
Gross operating income	78,593	71,505	9.91%	36,022	34,234	5.22%	42,571	37,271	14.22%
Operating costs	25,208	23,334	8.03%	17,573	16,536	6.27%	7,635	6,798	12.31%
Pre-provision profit	53,385	48,171	10.82%	18,449	17,698	4.24%	34,936	30,473	14.65%
Impairment losses and other provisions (net)	5,928	2,264	>	5,656	2,112	>	272	152	78.95%
Net operating profit	47,457	45,907	3.38%	12,793	15,586	(17.92%)	34,664	30,321	14.32%
± Other results (net)	-	1	-	-	1	-	-	-	-
Profit before taxes	47,457	45,908	3.37%	12,793	15,587	(17.93%)	34,664	30,321	14.32%

The asset management business unit comprises, on the one hand, the asset management activities and the collective investment institution management activities (management of mutual funds, pension fund portfolios); on the other, the life insurance and general insurance activities carried on by the Portuguese entities Popular de Seguros, S.A. and Allianz Popular Vida, as well as the insurance activities in Spain carried on through Allianz Popular, S.L., which is 40% owned by the Group.

2012 was another difficult year due to the competition from bank deposits. However, they were able to face the competition with good results in the assets under management and a gain in market share.

As Table 19 shows, the earnings from asset management in 2012 reflect the combined impact of the strong competition from deposits and the adverse performance of the markets, particularly the bond market. As a result there was a slight drop in profit down from €15.6 million in 2011 to €12.8 million in 2012, mainly due to the increase in impairment losses in the form of special allowances booked at Popular Banca Privada.

Collective investment institution management

Like the other business lines, this activity takes place mainly in Spain, through two managers: Popular Gestión and Popular Gestión Privada.

2012 was once again characterised by the focus placed by domestic institutions on attractive deposits which obviously led to a shift from this channel of investment.

At year end, the assets under management in collective investment institutions in Spain amounted to €6,205 million, which was slightly more (2.6%) than the €6,049 million at the end of 2011. There were 289,298 investors, which was slightly fewer than the 290,222 investors at the end of the previous year. It should be mentioned that neither the 2011 nor the 2012 figures include any contribution arising out of the acquisition of Banco Pastor, which at the date of acquisition had already disposed of this business. Nevertheless, Banco Popular performed better than the sector, which recorded decreases of 4.3% in assets under management and 9% in the number of investors.

With regard to the composition of the Group's portfolios, 2012 was a year of stability with slight rises in guaranteed products and fixed income at the expense of equities. As for the sector, the trend continued in the loss of importance of fixed income funds in favour of equities funds and money market funds, with a resulting gain in market share from 4.73% to 5.07%.

Individual and collective pension plans management

This activity is conducted mainly through Europensiones, a Spanish company which is 40% owned by the Group with the remaining 60% owned by the Allianz insurance company. The business in Portugal is conducted by Eurovida Portugal, a wholly-owned subsidiary of Banco Popular.

The assets managed by Europensiones totalled €4,270 million at 2012 year end, which was 6.1% more than the €4,026 million at the end of December 2011.

This is remarkable progress given the adverse performance of the markets. The assets managed in individual schemes at 31 December 2012 totalled €3,296 million, with €942 million in occupational plans and €31 million in associated schemes. The Group's market share rose slightly during the year in Spain. Thus, at 31 December 2012 it was 4.93% based on assets and 6.20% based on the number of investors. The market shares in the main business, individual schemes, were 6.20% and 7.64% at that same date, with increases in both cases on 2011, when the shares were 6.03% and 7.39% respectively.

Private Banking

This activity is conducted mainly through Popular Banca Privada, in which the Group holds 60% of the capital stock and voting rights. The remaining 40% is held by the Franco-Belgian bank Dexia. This bank is orientated to providing advisory and management services to high net worth customers with assets under management or advisory services of at least €300,000.

Despite the difficult economic climate, Popular Banca Privada demonstrated its staying power during the year, thanks to management that is known for its prudence in a sector hit hard by the economic and financial turmoil. Accordingly, it succeeded in achieving a significant increase in income of 19.1%.

At 31 December 2012 Popular Banca Privada had 4,595 specific customers, 32 more than in 2011, and was managing assets of €5,066 million, 5.9% less than in December 2011.

INSURANCE ACTIVITY

The bancassurance business unit is focused on pension and insurance products that include life insurance (both as a means of saving and life policies linked to credit transactions), miscellaneous insurance (mainly home, health and car insurance) and those linked to retirement. The range of products is adapted to each of the Bank's individual businesses and customer segments, be they private individuals, businesses or institutions.

Eurovida España and Eurovida Portugal are the Group's two main life insurance companies. The former is 40% owned by the Banco Popular and Eurovida Portugal is wholly-owned by the Group.

At 31 December 2012, the on-balance sheet assets of Eurovida España had risen to almost €1,289 million from €1,188 million at 31 December 2011. This was an increase of 8.5%, which consolidated the growth achieved in recent years. The premiums collected recorded growth of 5.5%, similar to that of 2011.

The non-life insurance business in Portugal is managed by Popular Seguros. There is also a bancassurance operator called Popular de Mediación. Both are wholly-owned by the Group.

The good performance of the insurance business made it possible to end the year with growth in pre-tax profit of 14.3% and a contribution to the Group's profit of €34.7 million. Comparison with the adjusted figures for the previous year reveals a uniform improvement in the performance of all the recurring headings and a slight decrease in earnings from financial transactions.

INSTITUTIONAL AND MARKETS ACTIVITY AND PROPERTY AREA

This segment mainly includes all the centralised activities plus those not assigned to any of the previous segments. Among the most significant are: (i) the raising of funds in the wholesale and inter-bank markets, (ii) the treasury activity, (iii) asset and liability hedging operations, and (iv) management of tangible and intangible assets including non-current assets for sale. Also assigned to this business area are the asset and liability balances arising from pensions, tax assets and liabilities, risk provisions, and all remaining assets and liabilities not expressly mentioned in the previous points. From the results standpoint, in addition to those arising from the activities listed above, the operating costs of the central services and non-recurring earnings are also included.

As already mentioned, from this report on, the property activity has been segregated from the other activities in order to avoid a more precise view of the operations, and to adapt to the Bank's management framework. Consequently, subsequent analysis will be done separately. However, in order to facilitate analysis with respect to 2011, Table 20 presents the combined comparison.

As will be seen below, the figures reflect very different performances of the two components: markets and buildings.

I TABLE 20. Combined results of the Institutional, Markets and Property Area activity (Amounts in thousands of euros)

	31.12.12	31.12.11	% Variation
Net interest income	527,627	349,875	50.80%
Net fee and commission income	2,704	-	-
± Other financial transactions	300,407	109,197	>
± Other operating results	4,565	4,660	(2.04%)
Gross operating income	835,303	463,732	80.13%
Operating costs	186,741	108,507	72.10%
Pre-provision profit	648,562	355,225	82.58%
Impairment losses and other provisions (net)	125,288	17,831	>
Net operating profit	523,274	337,394	55.09%
± Other results (net)	(1,102,939)	(231,000)	>
Profit before taxes	(579,665)	106,394	>

Institutional and markets activity

With the new segmentation, this heading includes asset and liability transactions with credit institutions, the trading and available-for-sale financial asset portfolios, hedging derivatives, held-to-maturity investment and investments portfolio, pension-related asset and liability balances, and raising of funds by issues on wholesale markets. Table 21 shows the results of this area during the year.

I TABLE 21. Results of the institutional and markets activity (Amounts in thousands of euros)

	2012
Net interest income	653,974
Net fee and commission income	-
± Other financial transactions	300,401
± Other operating results	(7,272)
Gross operating income	947,103
Operating costs	139,013
Pre-provision profit	808,090
Impairment losses and other provisions (net)	121,764
Net operating profit	686,326
± Other results (net)	(11,708)
Profit before taxes	674,618

As the table shows, 2012 ended with a pre-tax profit of over €674 million based on both recurring business and financial transactions.

The Bank's activity in this area was concentrated on managing the fixed income portfolio which, supported by the Bank's ability to finance itself in the best conditions, produced an appreciable margin, with net interest income of almost €654 million. In addition, the gains on financial assets and liabilities were particularly high, over €300 million as a result of a number of liability management transactions carried out during the year within the framework of the process of rationalising liabilities in hybrid instruments issued by the Group.

Property Area

In line with the growth of this area in the banking business, which in the case of Banco Popular has taken the form of setting up a separate business line, it has been decided to provide separate analysis of the related activities. Accordingly, hereafter this heading will cover the activities of the Group's property companies and also the real estate activities of the Group banks.

Table 22 shows the results obtained in 2012.

I TABLE 22. Results of the Property Area activity (Amounts in thousands of euros)

	2012
Net interest income	(126,347)
Net fee and commission income	2,704
± Other financial transactions	6
± Other operating results	11,837
Gross operating income	(111,800)
Operating costs	47,728
Pre-provision profit	(159,528)
Impairment losses and other provisions (net)	3,524
Net operating profit	(163,052)
± Other results (net)	(1,091,231)
Profit before taxes	(1,254,283)

As can be seen from the table, the area made a negative contribution to the Group's loss for two reasons, the first being its negative contribution to income due to the need to finance property assets and the second being the early booking of property provisions relating to the Royal Decree-Laws and additional provisions amounting to €1,355 million. In comparison with 2011, this provision was €860 million higher, i.e. 4.70 times more. Thanks to this and to the provisions charged to equity of €887 million, the Group has one of the property portfolios with the highest coverage in the sector: 49%.

Solvency

The worsening of the macroeconomic situation both at European level and particularly in Spain, once again put the focus on the soundness of financial institutions. Against this backdrop and within the framework of the process of sector restructuring currently under way, Banco Popular continued to give priority to one of the pillars of its management: the strengthening of its solvency. Capital strength is an unwaivable objective for ensuring that business continues, particularly at times of intense crisis.

The Banco Popular capital model is based on operating comfortably above the minimum levels established with the support of a system of measurement, planning and control which enables it to identify its requirements in both normal conditions and under stress so that it can take early action. This intention is supplemented by favouring a capital structure that gives precedence to own funds of the highest category, since they provide greater, more stable protection.

This strength was exceptionally put to the test in 2012, as a consequence of the transaction to acquire Banco Pastor, the numerous regulatory changes and further stress tests. The regulatory changes included the Royal Decree-Laws on the reorganisation of the financial sector, together with the adaptation of the core capital ratio, the European capital exercise for national systemic banks carried out by the European Banking Authority (EBA), and the stress tests conducted on Spanish banks by Oliver Wyman within the framework of the programme of aid for the Spanish financial sector.

The start of the year was marked by the implementation of the acquisition of Banco Pastor as announced. Apart from the undoubtable strategic value and future synergies of this transaction, what most stands out about it is that it was completed without State aid, and therefore at an estimated cost in terms of core capital of 68 basis points. This impact was reduced as the year progressed, as a result of the measures to optimise the risk-weighted assets and, above all, the provisioning effort,

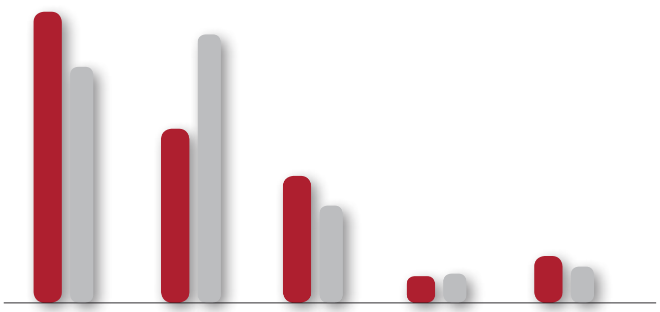
Banco Popular also submitted to two regulatory exercises to measure its solvency. These exercises had very different characteristics and resulted in two distinct visions of the Group's solvency.

Firstly, as a result of the worsening of the sovereign debt crisis in the euro area, it was decided in 2011 that the EBA should conduct a further capital assessment exercise of systemic banks in order to ensure a very ample EBA Core Tier 1 capital ratio of 9%. This was the EBA Capital Exercise for systemic banks. The deadline for achieving this ratio was 30 June 2012, and its structure remained in line with Basel III, but it carried the added difficulty of having to meet the so-called "sovereign debt buffer". The need to meet this very demanding requirement meant that the European financial system had to be strengthened by almost €115 billion. In the case of Banco Popular, the requirement was set at €2,581 million. Thanks to the measures adopted, most of which involved transforming a series of convertible instruments available to the Bank into similar instruments that comply with EBA rules, Banco Popular achieved an EBA Tier 1 core capital ratio of 10.3% in June 2012. As a result, on 4 October 2012 it was announced that Banco Popular was one of the entities to successfully pass the test by achieving an EBA Tier 1 core capital ratio of 10.3%, above the average of the other banks that passed the test.

Secondly, as a result of the financial aid requested by the Spanish Government within the context of the restructuring and recapitalisation of the financial sector, it was decided that stress tests were necessary to assess the ability of Spanish banks to withstand an extreme scenario. This process was arranged in two phases (top-down and bottom-up) and comprised two scenarios: a base scenario and a stressed scenario. The latter considered a hypothetical very adverse macroeconomic situation in 2012-2014, with a likelihood of occurrence of less than one per cent. The results published in September 2012 showed that under the base scenario Banco Popular would have a capital cushion of €677 million and under the stressed scenario it would have a capital requirement in the future of €3,223 million.

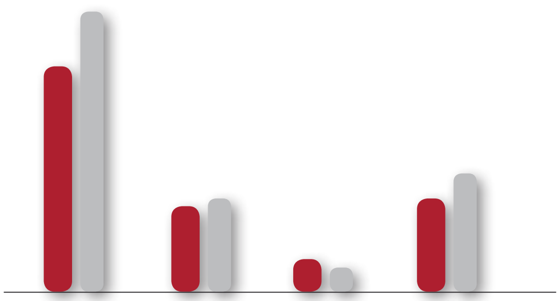
There are two aspects requiring clarification here that have a big impact on the final results. First, the Bank's business model, with its traditional focus on financing SMEs and self-employed persons, was penalised by the methodology used in the exercise, although the credit quality of the portfolio is above average, as can be seen in Figures 22 and 23 showing the results of the adverse scenario.

| FIGURE 22. Banco Popular business model compared with Sector



SMEs	Home loans	Property Development	Other retail	Foreclosed
42.8 35	45.9 39.5	19.5 14.9	4.1 4.9	7.7 5.7

| FIGURE 23. Expected loss Banco Popular compared with Sector



Property Development	SMEs	Other retail	Other
34.8 43.4	13.26 14.31	5.4 3.9	14.7 18.7

Popular Sector

Second, the excessively conservative assumptions regarding the estimate of pre-provision profit should be taken into account. Thus, in the adverse scenario, the estimated figure for Banco Popular for all three years was €4,153 million, in sharp contrast with this year's figure of €2,016 million.

Without further analysing the methodology of the exercise, the fact is that the Bank, which already intended to strengthen its capital to address the consumption of capital as a result of the acquisition of Banco Pastor and to book the provisions required under the Royal Decree Laws through June 2013, thereby offsetting their impact on capital, found itself obliged to bring forward and increase its capital strengthening plans in order to comply with the instructions of the Memorandum of Understanding and not receive State aid. As a result a €2.5 billion capital increase was announced seeking the support of the market. The remainder of the amount was obtained by realising capital gains and taking other action with an impact on capital.

The capital increase, which was the biggest undertaken by a bank since 2010, was completed most successfully within two months of the announcement, evidencing once again investors' support for the Bank. Despite the tight discount on the theoretical price, the capital increase was amply oversubscribed (83.3%) and was distributed among both current shareholders and institutional and retail investors.

In addition, as mentioned in connection with the compliance with the capital exercise, a number of transactions were undertaken for the exchange and conversion of instruments issued previously for shares or new issues that meet both the EBA and the new core capital requirements. In particular, in order to be eligible, both institutions require the mandatory early conversion of instruments in the event of Core Tier 1 dropping below 7% (contingency event). The new instruments are commonly known as CoCos (contingent convertible). The exchange and conversion operations undertaken in 2012 were as follows:

- Exchange of retail Preferred Shares for Mandatorily Convertible Subordinated Notes amounting to €1,109 million in April 2012.
- Exchange of Mandatorily Convertible Notes issued in 2009 for new Mandatorily Convertible Subordinated Notes amounting to €657 million in May 2012.
- Conversion to shares of Mandatorily Convertible Notes issued in 2010 amounting to €455 million in June 2012.
- Exchange of wholesale Preferred Shares and Subordinated Debt for new Mandatorily Convertible Subordinated Notes amounting to €257 million in June 2012.

Banco Popular also issued subordinated MCNs amounting to €50 million in June 2012.

The efforts of our shareholders made it possible to strengthen the capital and therefore to accelerate the rate of provisioning initially intended, thereby enabling the Bank to achieve a year-end level of coverage above that of its peers.

In addition, despite the deferral of Basel III in 2013, the implementation of the Accord is imminent. The new framework will change the rules on capital, the exact nature of which will become more apparent with the finalisation of the regulatory pack: Regulation on prudential requirements for the credit institutions and investment firms (CRR)-Directive on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firm (CRD IV). Implementation in Europe will be gradual, and will largely be completed by 2019, with the progressive increase in minimum ratios from 8% to 10.5%, after the inclusion of a conservation buffer. However, the main change is the raising of the minimum core capital requirement from the present 2% to 7%, subject to a transition period that will end in 2019. The impact on Banco Popular is expected to be limited given the gradual conversion of our convertible instruments, which will be complete in 2018 and the progressive disappearance of the deferred tax assets. Since our business is commercial banking, many of the penalties of the new framework will not be applicable.

In addition, the Group continued to focus on improving its risk control and management policies with the aim of reducing the risk of its assets and thereby improving its long-term solvency. In this respect, it should be mentioned that the Bank has internal models approved by the Bank of Spain for measuring the credit risk of a large part of its portfolios and the ongoing enhancement of the tools for capital planning and stress scenarios in line with the guidelines of Pillar II.

Accordingly, Banco Popular ended 2012 in a privileged position and in the best conditions to take advantage of the opportunities for growth that arise in the future. This strategy was successfully combined with adequate remuneration of capital and diversification in both instruments and terms.

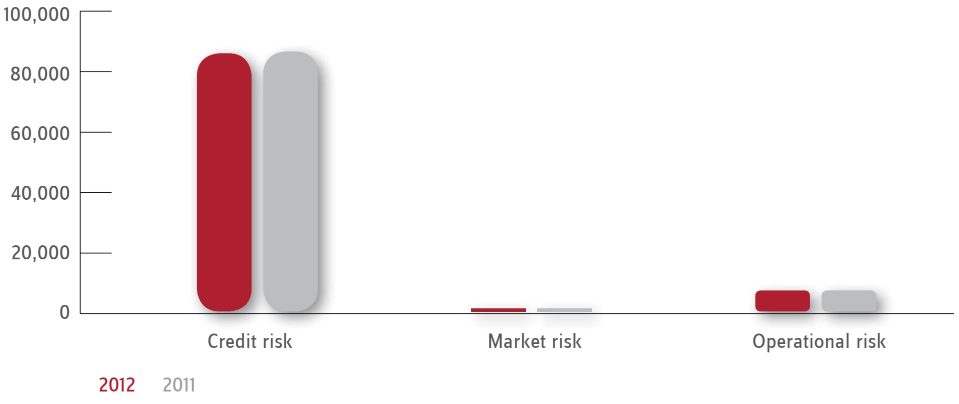
When comparing the capital ratios with 2011 there are two aspects that call for clarification. Firstly, the new ratios comprise the contribution from Banco Pastor that was not included in 2011. Secondly, starting in 2012 and until the ratios converge with Basel III, in line with the EBA's requirement of having a core capital ratio calculated according to its guidelines of over 9% until the adoption of Basel III, Banco Popular will report the EBA Core Capital figure. This ratio is more demanding in its composition than the traditional core capital ratio calculated according to the Basel II methodology. For comparison purposes the ratios for 2011 have been calculated.

As Table 23 shows, there was an overall improvement in the ratios, particularly that of EBA Core Tier 1. In this respect, with the impact of the year's losses almost neutralised by the capital increase, the increase of over €2.4 billion in the EBA Core Tier 1 capital was mainly determined by the transformation of the non-eligible instruments into MCNs and shares and the elimination of the deduction of the unprovisioned expected loss thanks to the substantial provisioning effort. The impact on the ratio remained despite including the weighted assets from Banco Pastor, due to the combined provisioning effort and optimisation of consumptions addressed during the year making it possible to absorb the initial contribution of Banco Pastor to an amount of over €10 billion. The result of this was a rise in the ratio of 268 basis points.

The increase of €255 million in Tier 1 capital own funds was more moderate because the replacement of instruments explained above is cancelled out at this level because both the original instruments and those replacing them are already included. Once again the growth translates into a linear advance of the ratio since the level of risk-weighted assets remained very similar.

Lastly, there was an appreciable improvement of 88 basis points in the BIS ratio due to the elimination of the portion relating to the deduction for expected loss thanks to the substantial provisions booked. The final ratio was a considerable 11.03%.

I FIGURE 24. Risk-weighted assets (Amounts in thousands of euros)



I TABLE 23. Basel II Solvency (Amounts in thousands of euros)

	31.12.12	31.12.11
Total EBA Core capital	8,933,933	6,527,878
EBA Core capital (%)	10.06	7.38
Total Tier 1 capital	9,099,459	8,843,749
Tier 1 ratio (%)	10.25	10.00
BIS eligible capital	9,788,006	8,972,365
BIS ratio (%)	11.03	10.15
Leverage(1)	14.13	14.56
Memorandum items		
Total BIS risk-weighted assets (2)	88,756,823	88,438,305

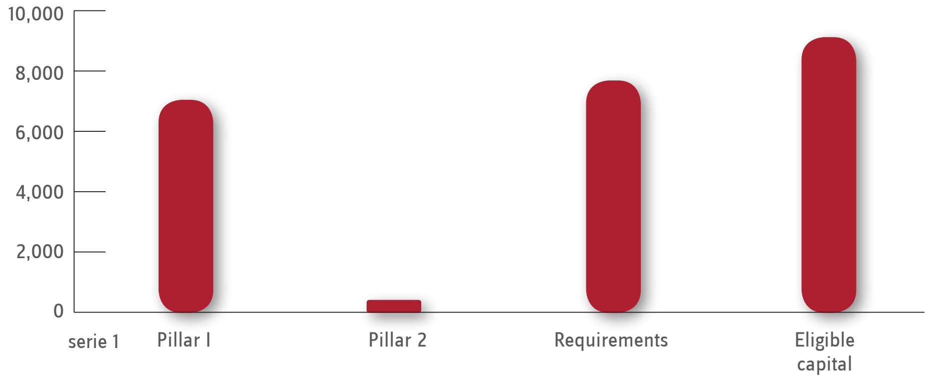
(1) Calculated using the closing figure for each period
(2) Includes credit risk, exchange rate risk, market risk and operational risk

With regard to the leverage ratio (tangible equity / tangible assets), Banco Popular confirmed its lead not only in Spain but also internationally, with a ratio of 7.07% (14.13 times if the ratio is inverted: tangible assets / tangible equity), well over the 3% initially set by Basel III.

In order to evaluate capital adequacy and ensure proper measurement and coverage of all its risks, Banco Popular has developed an internal economic capital model. This model incorporates methodologies for measuring the risks covered by Basel Pillars I and II, and makes it possible to carry out stress exercises. Figure 25 shows the capital requirements estimated by the Group using the economic capital model. As can be seen, the Bank's eligible capital adequately covers the Pillars I and II risks.

Lastly, it should be pointed out that as part of the process of strategic planning Banco Popular continuously evaluates its short- to medium-term capital requirements including the impact of Basel III by developing different scenarios based on macroeconomic aggregates and their impact on both non-performing loans and earnings in both normal conditions and under stress. The results of this process enable Banco Popular to face the coming years with assurance as regards solvency. Although the economic environment is still uncertain, because of the structure of its capital and the characteristics of its business the Bank is optimistic about the entire period of adoption of the new regulatory framework.

I FIGURE 25. Minimum capital requirement v. Eligible capital (Amounts in thousands of euros)



Risk management

The various risks implicit in the banking activities conducted by the Banco Popular Group are managed with criteria of prudence, permanently safeguarding the basic objectives of solvency, profitability, efficiency and adequate liquidity.

The risk policy is a synthesis of strictly professional criteria for the study, assessment, assumption and monitoring of risks by all the entities comprising the finance group, which are conducive to maximisation of the risk/return concept inherent to credit and market risk, and minimisation of all other risks (operational, liquidity, interest rate, concentration, business, reputational and other).

The in-house policies, which are known to and applied by all the Group's business areas to achieve comprehensive risk management and control, are set out in a lending policies manual, approved by management, which vigilantly verifies effective compliance with them.

Noteworthy in risk management, as signs of identity and management criteria, are those relating to:

- Involvement of senior management: Among other functions, the Group's senior management regularly monitors the progress made in the internal management of risk with the aim of ensuring proper implementation of the international capital regulations (Basel II) that are now being used in the day-to-day risk management, allocating the necessary material and human resources, as well as defining a comprehensive risk framework, setting an appropriate risk policy and taking care to ensure its ongoing adaptation to any changes in markets, customers and regulations that may occur.
- Separation between the risk and commercial areas.
- Formal system of attributions for the extension of credit, under which the various hierarchical levels in the organisation have been assigned delegated powers for the authorisation of transactions.
- Priority of risk policies intended to guarantee the Group's stability, the short- medium- and long-term viability, and to maximise the risk-return ratio.
- Scrupulous compliance with all aspects of the applicable legislation, paying particular attention to following the instructions for the prevention of money laundering and the financing of terrorism.
- "Bespoke tailoring": terms and conditions are negotiated with the customer depending on their connection to the Bank, the risk being assumed and the return thereon.
- Nimble response in deciding on proposed transactions, as a basic competitive instrument, without detriment to the thoroughness of the analysis.
- Pursuit of maximum equilibrium between lending and funds.
- Diversification of the risk attached to lending, setting or complying with the limits extended to borrowers, sectors and distribution by maturities.
- Profitable, quality lending, opting for profitable, balanced and sustained growth overall and for risk-adjusted return at individual borrower level.
- Flexibility of the target-oriented organisational structure.
- Evaluation and rigorous documentation of the risk and the guarantees.
- Application of in-house automatic rating or scoring systems.
- Monitoring of risk from analysis to termination.

The Group has in place risk control systems covering the entire range of its activities, mainly that of commercial banking. These systems address credit risk, including concentration risk, market risk, liquidity risk, interest rate risk, operational risk, counterparty risk, business risk and reputational risk, and embody formal procedures for analysis, authorisation, monitoring and control, which are applied in a way consistent with the nature and amount of the risks and under the supervision, as appropriate, of collegiate decision-making bodies, specifically the Risk Committee, the General Management Committee and the Assets and Liabilities Committee.

In accordance with the framework of International Convergence of Capital Measurement and Capital Standards (Basel II), the comprehensive management of the different risk exposures and their coverage in terms of regulatory and economic capital is performed by the General Management Risks Department on the premises defined by the Board of Directors through its Risk Committee.

For the purposes of the following analysis, seven major categories of risk are addressed: credit risk, cross-border risk, structural balance sheet risk, market risk, liquidity risk, operational risk and reputational risk.

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 granted to third parties (in the form of credits, loans, deposits, securities and others), credit risk arises as a consequence of non-recovery of principal, interest and other items in the terms regarding amount, period and other conditions stipulated in the contracts.

For the correct management of credit risk, the Group has established a methodology whose main elements are described in the following paragraphs.

Credit risk analysis

The Group has in place a formal system of attributions for the extension of credit, under which the various hierarchical levels in the organisation have been assigned delegated powers for the authorisation of transactions, which vary depending on a number of factors, such as:

- The likelihood of default according to internal Bis II models / Technical Alerts.
- The amount of the transaction.
- The type of transaction.
- The maximum term of the transaction.
- The party to the transaction.
- The sector of activity.
- The yield (the financial terms of the transaction).

For these purposes, the steps in the organisation with delegated powers for authorising transactions are as follows:

- Branch Office.
- Regional Management.
- Territorial Management / Corporate Banking / Group Banks & Companies.
- Investment / Corporate Risks / Risks with Financial Institutions and Market Risk / Retail Risks
- General Management Risk Department.
- Risk Committee.
- Board of Directors or Executive Committee.

The initiative to undertake a new transaction always starts at a branch office: for decision there if within its attributions, or for reporting and passing to the next higher step, if it exceeds those attributions. The same rule applies at subsequent levels, and thus the biggest transactions will have been evaluated throughout the chain of attributions. No other office or area in the Group, regardless of the hierarchical level of its management personnel, is empowered to make, nor even to propose, risk transactions outside the established circuit. Exceptions to this principle are the:

- International Financial Institutions and Risk Management (Financial Management) offices, which through the units that report directly to them may propose to the Risk Department the acceptance of financial institution risks, or public and private sector fixed income issues covering a range of financial assets traded on capital markets.

- Wholesale Banking, which through Investment or Corporate Risks may propose the acceptance of risks to the Risk Department, if the complexity of the risk structures and designs so requires.

In the other business areas, the procedure is similar: risk assumption proposals originate in the relevant operating office, which likewise has decision-making powers delegated to it. Above this level, the transaction travels with its preliminary reports to the General Management Risk Department and, if beyond its powers, to the Risk Committee.

Transactions originated by the network of commercial agents also commence through a Branch Office and are subject to the control of attributions as described above.

Risks with related parties, such as transactions with significant shareholders, members of the Board of Directors, General Managers or their equivalents, or with companies related to them, and with Group companies, are expressly excluded from the foregoing delegated powers, and can only be authorised by the Board of Directors or the Executive Committee, after receiving a report from the Risk Committee, unless they are performed under standardised contracts or with generally stipulated conditions or involve low amounts, and other exceptions established by the regulations.

For the admission of risks and the rating of customers based on their credit profile, and as support for decision-making, the Group has internal credit risk rating and scoring models. For the retail segment (private individuals and micro-businesses), the credit-scoring models used are tailored to each kind of product. For the businesses segment, the internal rating is calculated on the basis of analysis of variables representative of their economic and financial position and their activity sector. For the big companies and financial institutions segments, the Group has replication models.

At 31 December 2012 Banco Popular was continuing to use advanced models for risk management within the framework of Basel II for its portfolios of big companies, small and medium-sized companies, financial institutions and retail mortgages.

Lastly, the Bank has developed its own complete model for measuring credit risk and concentration risk in order to estimate the adequate economic capital for its risk profile and comply with the capital self-assessment obligations under Pillar II of the Accord, which is supported by and integrated with the developments undertaken to estimate the risk parameters included in the models described above.

To increase permanent internal transparency, in line with the standards of Pillar III of the New Capital Accord, the Group's network has received numerous training actions on the philosophy and objectives of Basel II for adaptation to its requirements, and to the new concepts, tools and management models. In addition, the Bank has an authorised lending policies manual containing:

- The Bank's risk profile.
- Credit risk operating standards.
- Risk analysis, admission and monitoring policies.
- System of attributions and delegation procedure.
- Credit rating models.
- Definition of and exposure to other risks.

Internal Validation

The Group has an Internal Validation unit in line with the guidelines established by the Supervisor in "Validation Document no. 2: Internal validation criteria of risk management advanced models."

The opinion of the Internal Validation unit is a fundamental requirement for the approval of the internal risk rating models, and for the monitoring thereof and any changes that are required in them after approval.

The scope of the validation covers the essential elements of an advanced risk management system, involving the review of the following items:

- Methodology: adequacy of the statistical method, the assumptions and the techniques applied.
- Documentation: quality and sufficiency of the documents supporting the models.
- Data Used: quality of the data used when developing the models and in estimating the risk parameters, as well as other databases used to calculate the minimum capital requirement.
- Quantitative Items: a number of measures are developed that permit the periodic evaluation of the validity and efficiency of the various parameters and models.
- Qualitative Items: review of the information generated by the models, and compliance with the minimum regulatory qualitative requirements, which include the Use Test, the role of the credit risk control units, the aspects relating to corporate governance and the adequacy of the internal controls.
- Technological Environment: review of the systems integration, the applications environment and the quality of the information provided by the systems.

Risk monitoring

The monitoring of the transactions approved makes it possible to evaluate risk quality at borrower level and establish mechanisms for special supervision of their evolution, and to react to avoid situations of default. In this respect, the Group has a surveillance system in place, based on "Technical Alerts" and "Information Alerts", that uses the evolution of the rating levels to enable it to anticipate potential situations of difficulty by taking preventive measures for current risks. The Technical Alerts are based fundamentally on the analysis of a set of variables relating to transactions and to customers, in order to detect possible anomalous deviations in their behaviour and be warned of situations such as:

- Negative information.
- Financial statements.
- Variation in rating levels.
- Past due credit accounts.
- Overruns.
- Overdrafts.

- Non-payment of trade discounts.
- Loan repayments not made at due date.
- Etc.

The Information Alerts are generated by any unit with risk responsibilities, and respond to the need to review the rating of the firm/signature as a result of receiving notice of a material event.

Alerts are processed by the Risk Monitoring teams located at each of the territorial headquarters, among other units, and the Risk Monitoring office is responsible for allocating ratings to customers, as the senior level of decision, in addition to supervising the process.

The system for rating customers assesses the overall quality of the risk of the customer and proposes the policy to be followed regarding the risks assumed. Based on the circumstances of each case analysed, this classification is inserted graphically in the borrower's electronic file using a teleprocessing application that includes all the customer's information with their positions, for consideration in risk-related decisions, as well as the BIS II probability of default parameters. This system of alerts is supplemented by an analyst's report, also included in the electronic file for customers whose situation or level of risk call for more detailed analysis, which reviews the most significant aspects and explains the reasons for the analyst's decision regarding the customer rating, the policy to be followed, action to be taken and action plan for the satisfactory outcome of the risks.

The Risk Monitoring office performs thorough monitoring of certain customer risks and economic groups with a high volume of risk exposure or that present certain incidents.

In coordination with the monitoring teams at the territorial headquarters and other units, the Risk Monitoring office also performs periodic monitoring of various risk portfolios which by their nature require control over their evolution, it prepares sectoral reports, and has developed a number of computer applications which have made it possible, among other things, to monitor firms in receivership under Article 5-bis of the Spanish Law on Bankruptcy by preparing a monthly status report, and a monthly report on the monitoring of rated property developments.

MANAGEMENT OF NON-PERFORMING BALANCES AND RECOVERY OF IMPAIRED ASSETS

To manage non-performing balances and recover impaired assets, the Group has a General Management with Debt Restructuring offices which report to it at each of the territorial headquarters, Claims and Recovery Management offices, the Default Analysis and Claim Centre, and the Document Preparation office, as well as the recovery units at Banco Popular Portugal and Totalbank.

The management of Banco Pastor contracts has been incorporated into the various teams (restructuring; TER (Special Recovery Technicians); recoveries, etc.).

This structure has largely been separated from the commercial activity in order not to interfere in the latter, and to maximise the results of the management of both potential and confirmed delinquent debts. In order to streamline and strengthen recoveries, new responsibilities for action have been defined at the different levels of the Organisation, and the headcounts of the recovery teams set up at the regional and territorial headquarters have been increased, with more than 600 staff currently engaged in managing troubled debt, in addition to the network.

The non-performing loans area has been reorganised by setting up teams specialising in different types of customer portfolios for the recovery of defaulting and delinquent balances, in order to:

- Manage and analyse for each customer and transaction the most appropriate solution for the troubled risk, expediting litigation proceedings in cases where it is not possible to restructure the transaction.
- Manage and monitor cases classified as non-performing for their final recovery. For the purpose of recovering defaulting balances cases have been classified according to the amount of the customer risk:
  - Under €60,000
  - €60,000 - €1,000,000
  - Over €1,000,000

Also, since March 2011 the work to prepare the documentation for litigation in cases in which it has not been possible to restructure the transaction has been centralised.

In addition, the Group has invested heavily in strengthening the IT systems and applications that support this area in order to systematise, centralise and rationalise by integrating and adapting the processes to the changes made in the management and control of irregular debt, thereby achieving greater efficiency and better results.

I. Defaulting balance recovery management

Applying a policy of early action, risk management begins with the "Risks for Special Monitoring", i.e. those requiring special treatment: upcoming undamaged maturities and defaulting balances of a certain amount, with the aim of stabilising them to prevent them becoming troubled.

The following areas are involved in the defaulting balance recovery process:

Central Unit

This unit is responsible for matters allocated by the Area General Management, mainly transactions shared by several territorial managements and banking pool transactions.

Restructuring Teams at the territorial headquarters

The recovery teams at the territorial headquarters handle cases involving over €1,000,000 directly with the customer. Each manager deals with the cases allocated by the Central Unit with the same aim of regularising and stabilising the balances.

Restructuring Teams at the regional headquarters

The recovery teams at the regional headquarters handle cases involving amounts of €60,000-€1,000,000, with support from the branch as necessary.

These teams are also responsible for monitoring and controlling the management of cases of customer risk under €60,000.

Default Analysis and Claim Centre, in coordination with the network

The Default Analysis and Claim Centre (CARI, in Spanish) is responsible, in the first instance, for handling defaults; it analyses the risks in an irregular situation and establishes the most effective claim strategies, based on individual analysis of the particular circumstances of each customer or transaction. It also liaises with the Group branch offices in taking the appropriate steps for balance regularisation.

Depending on how old the debt is and/or the characteristics of the asset, recovery is handled by recovery managers (CARI Contact Centre) or by the TER team (Special Recovery Technicians) from the branch and Banco Popular Group employees. The action taken by both teams is similar, although it is more personalised and specialised in the case of the TER, who intervene in the pre-non-performing phase and in the situations of greatest difficulty, handling a customer portfolio with a proactive approach directed at finding final solutions in coordination with the network.

The CARI also has a specialist TER team that liaises on a daily basis with the controllers of what are classified as "supervised branches". These are the ones recording the poorest quarterly results: monthly delinquent balances of > €50,000 and over 15 cases classified as non-performing in a month. The TER team's function is to support and work with the controllers to achieve greater recovery of defaulting transactions.

II. Managing the recovery of non-performing loans

The process of recovering non-performing assets is arranged in the following stages:

Preparation of documents

In order to facilitate taking legal action in cases in which it has proved impossible to restructure the transaction, the preparation of documents for litigation begins before the balance is classified as non-performing.

The Document Preparation office requests the documents from either the branches or the Documentation Centre and is responsible for monitoring their dispatch; after their receipt and analysis it first decides on the procedure to follow and completes the necessary formalities.

Litigation

Once a balance is classed as non-performing, the protocol to be followed varies depending on the amount outstanding:

- If the debt is under €60,000 (except for mortgage debt), recovery is handled by an external debt collection firm through the relevant legal proceedings depending on the legal support and solvency criteria.
- If the debt is over €60,000 euros and under €1,000,000 external law firms are engaged to take legal action to recover the amount outstanding.

- If the debt is over €1,000,000 euros, in-house counsel are responsible for the legal action taken to recover the amount outstanding. They are also responsible in all cases involving bankruptcy proceedings.
- For amounts under €60,000 the collection procedure comprises two separate stages:

Amicable settlement (prior to dispute resolution): all the necessary actions are taken to recover the outstanding amount by a set deadline (initially the time it takes to complete the documentation for filing the claim with the courts). If it has been agreed that a partner company will handle the matter, the deadline for amicable settlement is that agreed by the companies.

Litigation: if payment is not made by the deadline specified in the previous stage, the relevant documentation is sent to collection firms for the filing of legal claims.

Recovery handling by the territorial headquarters' Collection and Recovery Teams

The fact that legal action is being taken does not put an end to negotiations with the customer. Once the balance has been classified as non-performing, regardless of whether or not legal action has been taken, the various territorial headquarters collection and recovery teams continue to negotiate with the customer the best possible solution, which if reached would put an end to any legal action.

III. Delinquent balance recovery management

An asset is considered doubtfully collectible or uncollectible in one or more of the following circumstances:

- The legal time limit since going into default has expired.
- When independently of the personal or collateral guarantees there are certain circumstances of the borrower that make recovery of the assets doubtful.

These assets are removed from the balance sheet assets and transferred to suspense accounts, triggering the application of the relevant provisions. This classification does not halt the Banco Popular Group negotiations and legal action aimed at the ultimate recovery of the assets.

IV. Tools and systems applied

For adequate management of non-performing balances, the CARI, the branches, and the regional and territorial headquarters have applications that enable them to manage contact with customers who have contracts in irregular situations. The platforms are located in HOST and in departmental applications developed by CRM such as the ‘Recovery Manager’ which contains the following information:

- The details of accounts receivable that are past due and outstanding. Both current and past information is included.
- Recovery file, to define the interaction with the various units involved in decisions.
- Management of recovery activity with customer (decision tree).
- Monitoring of recovery activity.

In turn, the branches and regional and territorial headquarters share software for managing non-performing loans - 'GESMOR', which makes it possible to:

- Process at different levels of the Organisation the actions taken regarding a set of files.
- Monitor the actions taken by the different players (branch, regional, territorial, and central).
- Have an overview of the defaulting balances of cases under management, with the ability to descend to the information at file and contract level.
- Establish interactive communication between the various management units.

Likewise, to manage and monitor cases assigned to partner companies, the non-performing loans management units have a tool called 'SIGRE', in Spanish, (Comprehensive External Collection Management System) which makes it possible to systematise, automate and control cases that have been outsourced, mainly in relation to:

- Automating processes for the exchange of information with the collection companies.
- Dynamic portfolio assignation according to the needs of the business at any given time and the evolution thereof.
- Constant availability of information in real time regarding the status of the various portfolios and the evolution of them.
- Controlling settlements for the invoicing of the collection company success fees.
- Centralising the management and monitoring of all the stages of external collection procedures.

The Group also has an internal computer application integrated with the teleprocessing system, which permits prompt and precise monitoring of the evolution of all delinquent risks and, in particular, of the legal proceedings initiated to reclaim its receivables.

TOTAL EXPOSURE TO CREDIT RISK

The Group's total exposure to credit risk at 31 December 2012 amounted to €162,665 million, which was an increase of 17.36% year on year (it should be noted that most of this increase was due to the inclusion of Banco Pastor). If we add to this amount the €8,866 million of exposure in lines drawable by third parties, the maximum exposure was €171,531 million. As Table 24 shows, the Group's credit risk is primarily the outcome of its main field of business, commercial banking. At 2012 year end, 88.53% of its exposure consisted of lending to customers and the remaining 11.47% related to contingent exposures. The markets activity (which includes counterparty risk) accounted for 18.55% of the total.

I TABLE 24. Overall credit risk exposure (Amounts in thousands of euros)

	31.12.12	31.12.11	% Variation
Commercial banking activity:			
Lending to customers	117,298,902	98,872,768	18.64%
Contingent exposures	15,199,483	13,978,129	8.74%
Total	**132,498,385**	**112,850,897**	**17.41%**
Markets activity (including counterparty risk)	30,166,972	25,750,676	17.15%
Total exposure	**162,665,357**	**138,601,573**	**17.36%**
Unused portion of credit lines	8,866,047	9,516,816	(6.84%)
Maximum credit risk exposure	**171,531,404**	**148,118,389**	**15.81%**

In the Commercial Banking activity, as shown in Table 25, 92.8% of the risk exposure is concentrated in Spain, with the remaining 7.2% outside Spain.

Of the risk in Spain, 83.5% related to businesses and private individuals, and the remaining 9.3% related mainly to risk with general government and asset repos.

TABLE 25. Commercial banking credit risk exposure (%)

	Weight (%) 2012	Weight (%) 2011
Spain	92.8%	93.1%
Businesses and private individuals	83.5%	80.8%
Other risks	9.3%	12.3%
Outside Spain	7.2%	6.9%
Total commercial banking risk	100.00%	100%

As regards the unused portion of credit lines (see Table 26), Spain again accounted for the majority with 95.45%. Of the business in Spain, the major portion was concentrated in the segment of businesses and private individuals, which accounted for 60.19%. Balances available through credit cards are considered to be subject to unilateral cancellation by the Bank and therefore although these balances figure in the tables they do not represent a risk in and of themselves.

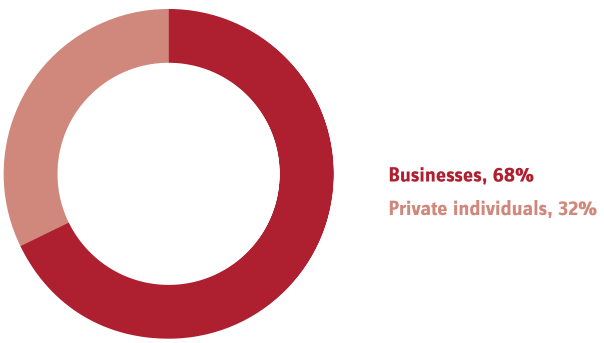
TABLE 26. Unused portion of credit lines (%)

	Weight (%) 2012	Weight (%) 2011
Spain	95.45%	92.60%
Businesses and private individuals	60.19%	67.30%
Credit cards and other	35.26%	25.30%
Outside Spain	4.55%	7.40%
Total unused portion of credit lines	100.00%	100.00%

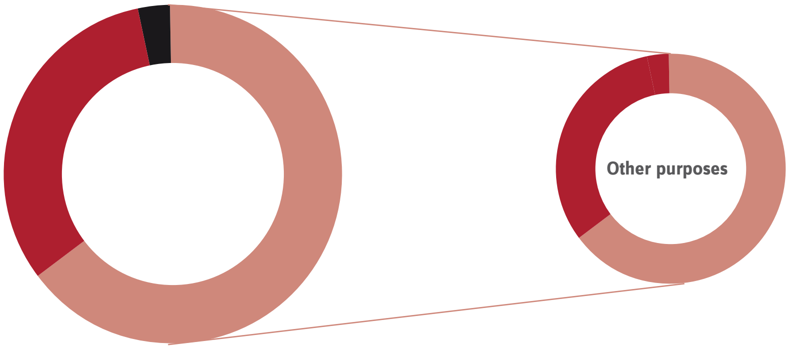
Figure 26 shows the breakdown of credit risk in Spain based on the type of counterparty. As the figure shows, the main concentration of Banco Popular's risk is with businesses, the Bank's core business.

On the basis of the purpose of the loans granted, Figure 27 gives the breakdown of the Bank's risk with businesses in Spain. As the figure shows, most of this risk is concentrated on SMEs that have no connection with property construction and development.

FIGURE 26. Distribution of risk in Spain



I FIGURE 27. Distribution of risk with businesses in Spain



The coverage of the total property construction and development portfolio in Spain was 32%.

Risk with businesses

45.58% of Banco Popular's portfolio is backed by some type of security, mostly mortgage guarantees (38.50%).

I FIGURA 28. Distribution of businesses in Spain by product (%)

Noteworthy in 2012 was the variation in the percentages of risks with mortgage and other guarantees: although the total weight of both remained practically unchanged at around 45%, there was an increase in mortgage guarantees as compared with other types of security.

	Weight (%) 2012	Weight (%) 2011
Mortgage	38.50%	36.70%
Other guarantees	7.08%	9.20%
	45.58%	**45.90%**

Table 27 provides information on lending in Spain for property development and/or construction purposes and includes the troubled assets and their related coverage. The lending for property development and/or construction purposes amounted to €21,160 million (€16,481 million in 2011 and €21,519 million as the pro-forma figure with Pastor at 2011 year end).

Disregarding the changes in the scope of consolidation, the exposure was down year on year by 1.7%. This exposure was covered by a total specific allowance of €6,747 million, including €3,679 million of general allowance booked to comply with Royal Decrees 02/2012 and 18/2012.

68% of all this exposure was still profitable lending comprising €12,030 million of healthy loans and €2,352 million of loans that are classified as substandard but were up to date with payments.

Of the total lending for property development and/or construction purposes, 32.0% related to doubtful loans amounting to €6,778 million, and 11.1% to substandard risk of €2,352 million which despite being classified as substandard was up to date with payments.

The doubtful loans were covered by an allowance of €2,286 million, providing coverage of 35.3%, while there were €6,747 million of provisions providing 31.9% coverage of the total portfolio risk. If the delinquent balances of this portfolio were also taken into account, the coverage would rise to 35.4%.

This results in unusually high coverage in the sector, placing Banco Popular Group among the banks with the best coverage to face the coming years.

I TABLE 27. Finance for property construction and development purposes and related coverage (Amounts in millions of euros)

	Gross amount	Excess of credit over value of guarantee	Coverage
1. Credit recorded by Group credit institutions (Business in Spain)	21,160	6,423	6,747
1.1. Of which: Doubtful	6,778	2,286	2,392
1.2. Of which: Substandard	2,352	845	676
1.3. Of which: RDL general allowances			3,679
Memorandum items:			
Total general coverage (total businesses)			0
Other provisions not allocated individually			0
Assets written off	1,156		

The table below presents the breakdown by type of guarantee of the gross lending to the property development and construction sector.

I TABLE 28. Breakdown of financing for property construction and development purposes and related coverage (Amounts in millions of euros)

	Gross credit amount	Total Coverage (*)
1. Without in rem guarantees	2,798	454
2. With in rem guarantees	18,362	2,614
2.1. Finished buildings	9,002	719
2.1.1. Housing	4,786	378
2.1.2. Other	4,216	341
2.2. Buildings under construction	1,479	229
2.2.1. Housing	1,291	180
2.2.2. Other	188	49
2.3. Land	3,524	559
2.3.1. Developed land	3,153	504
2.3.2. Other land	371	55
2.4. Other in rem guarantees	4,357	1,107
Total	**21,160**	**3,068**

(*) Not including the €3,679 million available under the RDL general allowance.

Assets acquired in payment of debts

Table 29 shows the breakdown of the portfolio of property in Spain acquired or foreclosed. The net carrying value of these assets at 31 December 2012 was €5,125 million and they were covered by provisions of €4,350 million. Without any change in the scope of consolidation, this was 11% less than in 2011.

TABLE 29. Foreclosed assets held by Group institutions (business in Spain) (Amounts in millions of euros)

	Carrying value	Of which: coverage
1. Real estate assets from financing of property construction & development companies	3,772	3,613
1.1 Finished buildings	**1,791**	**898**
1.1.1 Housing	1,418	685
1.1.2 Other	373	213
1.2 Buildings under construction	**391**	**440**
1.2.1 Housing	353	403
1.2.2 Other	38	37
1.3 Land	**1,590**	**2,275**
1.3.1 Developed land	790	1,179
1.3.2 Other land	800	1,096
2. Real estate assets from mortgage financing to households for home purchase	665	351
3. Other foreclosed real estate assets	688	386
Total	**5,125**	**4,350**

To manage these assets, the Group has a property company, Aliseda S.A., that combined with the commercial network of the Bank, and with agreements with outside real estate networks, gives it a high management and sales capability. As a result of this effort, in 2012 2,601 units were sold for a sale value of €398 million.

With the aim of further enhancing the management of this activity, the Bank has announced the setting-up of a Specialist Business management department to take charge of assets related with the property business.

In addition to the assets discussed under the previous heading, there is also a portfolio of investments in Spain, as shown in Table 30, consisting of rented assets (offices, hotels, shopping centres and commercial premises, industrial premises and housing) with a carrying value of €611 million and provisions of €214 million, and other equity instruments with a net carrying value of €271 million and coverage of €824 million. The equity instruments include the Group's investments in Metrovacesa and Colonial with a book value of €254 million and €17 million, respectively.

The coverage of the foreclosed assets and other equity instruments was 49.0% in December 2012, compared with 32.0% in December 2011.

The provisioning effort made by the Bank in 2012 has positioned it among the entities with the highest coverage in the sector.

TABLE 30. Other foreclosed assets: Investments portfolio (Amounts in millions of euros)

	Carrying value	Of which: coverage
Equity instruments, investments in and financing to non-consolidated companies that hold such assets	271	824
Rented	611	214
Total	**882**	**1,038**

Risk with private individuals

As regards risks with private individuals, Table 31 shows the breakdown of these risks by type of product. 87.30% of the risk with private individuals is concentrated in loans with mortgage guarantees.

Table 32 presents information on finance provided to households for home purchase in Spain.

Mortgage lending to private individuals to finance home purchase amounted to €19,871 million and the non-performing loans ratio was 4.35% at 31 December 2012 compared with 3.0% at the end of 2011.

As Table 33 shows, these are high-quality loans, since 86% of them have a risk-to-guarantee-value ratio of 80% or less, an improvement on the 2011 figure of 81%.

In line with the prudence that characterises the Group when it comes to extending credit, the average rate of effort (the loan instalments as a percentage of net disposable income) in the private individuals' mortgage portfolio remained at 23.71%.

I TABLE 31. Breakdown of risk of private individuals at Group banks in Spain (Amounts in millions of euros)

	Total risk	Weight (%)
Mortgage loans	29,225	87.30%
For home purchase	19,871	59.36%
Non-mortgage loans	3,945	11.78%
Consumer loans	1,264	3.78%
Loans and receivables	2,332	6.97%
Other	349	1.04%
Off-balance sheet risks	289	0.86%
Derivatives	19	0.06%
Total risk	**33,478**	**100.00%**

I TABLE 32. Loans for home purchase (Amounts in millions of euros)

	Gross amount	Of which: doubtful
Loans for home purchase	**19,983**	**867**
Without mortgage guarantee	112	2
With mortgage guarantee	19,871	865

I TABLE 33. Breakdown of loans with mortgage guarantees to households for home purchase by percentage of LTV (latest available appraisal) (Business in Spain) (Amounts in millions of euros)

	LTV ≤ 40 %	40 % < LTV ≤60 %	60 % < LTV ≤80 %	80 % < LTV ≤100 %	LTV > 100 %	TOTAL
Gross amount	3,593	5,561	7,971	2,226	520	**19,871**
Of which: doubtful	107	130	376	142	110	**865**

Credit risk exposure - Commercial banking in Portugal

The credit risk exposure of Banco Popular Portugal decreased 8.4% during the year. Most of this exposure (91.2%) related to gross lending to customers with the rest accounted for by contingent risks. These proportions remained constant year on year.

Noteworthy was the deleveraging that occurred in 2012 as a result of the strategy of prudence followed by the Group in Portugal given the country's difficult economic situation. This situation led to a 65.7% rise in doubtful assets, for which there was coverage of 113.1%. The biggest decreases were in the discount portfolio and other overdrafts.

I TABLE 34. Risk exposure of Banco Popular Portugal (Amounts in thousands of euros)

	Balances		Variation		Weight (%)	
	2012	2011	Amount	%	2012	2011
Lending to customers, gross	5,939,582	6,484,669	(545,087)	(8.4%)	91.2%	91.1%
Commercial portfolio	121,320	150,065	(28,745)	(19.2%)	1.9%	2.1%
Mortgage loans	1,987,838	2,180,390	(192,552)	(8.8%)	30.5%	30.6%
Other term loans	2,965,759	3,041,542	(75,783)	(2.5%)	45.5%	42.7%
Finance leases	331,658	355,097	(23,439)	(6.6%)	5.1%	5.0%
Overdrafts and other	413,533	684,546	(271,013)	(39.6%)	6.3%	9.6%
Doubtful assets	117,057	70,638	46,419	65.7%	1.8%	1.0%
Other financial assets	2,417	2,391	26	1.1%	0.0%	0.0%
Contingent exposures	574,670	630,839	(56,169)	(8.9%)	8.8%	8.9%
Total gross risk	**6,514,252**	**7,115,508**	**(601,256)**	**(8.4%)**	**100.0%**	**100.0%**

Markets activity

In the markets activity, issuer and counterparty risk arises from the treasury and capital market activities. For analysis purposes, the types of products are classified in three groups depending on the credit risk exposure measurement: (i) principal issuer risk, which affects held-to-maturity fixed income instruments and temporary acquisitions; (ii) counterparty risk consisting of the market value plus a factor that reflects the estimated future potential risk based on the term and volatility of the underlying, which affects interbank deposits, repos and simultaneous exchanges, and foreign currency dealing; and (iii) derivative counterparty risk (interest rates, equities, exchange rate and commodities) consisting of the market value plus a factor that reflects the estimated future potential risk based on the term and volatility of the underlying. In the case of exchange rate transactions that are not completed through a clearing house, delivery risk is included.

At the end of the year the issuer and counterparty risk amounted to €30,167 million, with an overall increase of 17.15% compared with 2011 (mainly as a result of the inclusion of Banco Pastor) €4,416 million as a result of the increase in risk in fixed income, €4,557 million, mainly in Government debt securities and, to a lesser extent, in financial derivatives, €253 million, partially offset by the reduction in the risk of other activities (€-394 million) such as repos.

2012 ended with 41 collateral agreements concluded with the counterparties that are most active in derivatives trading (one more than in 2011), with daily review of the guarantee for the majority of the agreements, resulting in a favourable mitigation effect of €2,988 million. Without the mitigation gains, the overall risk would be €33,155 million. Excluding the mitigation effect, 89.03% of the total exposure related to fixed income financial assets, 10.97% related to interest rate, exchange rate and equity derivatives, and the remaining 0.20% to repos, simultaneous exchanges and interbank deposits. With regard to the geographical distribution, 98.66% of the risks were concentrated in the euro area, 0.82% in non-euro Europe, and 0.52% in the dollar-yen area.

Analysis of credit risk quality

For credit risk analysis purposes, problematic assets are classified on the basis of differing criteria: breach of the loan repayment schedule (past due assets); the unsatisfactory state of the borrower's asset or financial situation (doubtfully collectible assets); or the existence of litigation that makes recovery uncertain (disputed assets). In the following text, these three components are generically classified as non-performing loans or troubled balances receivable. Risks that it has not been possible to recover after expiration of a given term and that are virtually fully provisioned, as regulatorily required, are classified as bad debts and are removed from the balance sheet. Regardless of whether they have been written off for accounting purposes, the Bank maintains its collection rights against the debtor and continues to pursue repayment of them.

In addition, all debt instruments and contingent exposures that do not meet the criteria for individual classification as doubtful or delinquent but present weaknesses that may result in the Bank incurring losses that are higher than the coverage for impairment of the risks subject to special monitoring are grouped under substandard risk. This category includes: transactions with customers who belong to groups in difficulties (such as the residents of a given geographical area within the country, or those belonging to a specific economic sector facing economic difficulties), for whom overall losses are expected to be higher than those of the categories described in the preceding paragraphs, and transactions not adequately documented. It is important to highlight that risks classified as substandard are still up to date with their payments and form part of the profitable portfolio.

As coverage for its credit risk, the Bank has credit loss provisions booked as described below.

First, there is a specific provision for non-performing loans in accordance with a regulatorily established calendar and, in the case of the doubtful, disputed or substandard balances, based on a reasonable estimate of their recoverability.

Secondly, as a result of the new Royal Decrees 02/2012 and 18/2012 there is a collective insolvency allowance to cover certain assets connected with property construction and development purposes.

The aggregate amount of the two allowances described above constitutes the credit loss provision.

In 2012 the Group continued to suffer the consequences of the economic crisis and its effects on businesses and households. As Table 38 shows, net additions to delinquent balances totalled €7,864 million in 2012, compared with €2,162 million the previous year, reflecting a sharp deterioration in non-performing loans. The performance of recoveries was acceptable, with an increase of 76.5%.

The principal detailed figures of the Group's risk quality are shown below:

I TABLE 35. Risk management (Amounts in thousands of euros)

	31.12.12	31.12.11	Variation Amount	Variation %
Non-performing loans				
Balance at 1 January	7,323,272	6,055,019	1,268,253	20.9
Increases	9,436,275	4,278,997	5,157,278	120.5
Recoveries	3,735,750	2,117,129	1,618,621	76.5
Other variations*	2,163,204	-	2,163,204	
Net variation	7,863,729	2,161,868	5,701,861	>
Increase in %	107	36		
Writeoffs	(1,210,268)	(893,615)	(316,653)	35.4
Balance at 31 December	**13,976,733**	**7,323,272**	**6,653,461**	**90.9**

*Basically Banco Pastor

	31.12.12	31.12.11	Variation Amount	Variation %
Credit loss allowances				
Balance at 1 January	2,530,076	2,448,164	81,912	3.3
Annual provision				
Gross	7,286,282	2,459,381	4,826,901	>
Recoveries	(2,786,154)	(1,402,190)	(1,383,964)	98.7
Net	4,500,128	1,057,191	3,442,937	>
Other variations *	3,324,809	(105,948)	3,430,757	
Doubtful balances written off	(1,208,969)	(869,331)	(339,638)	39.1
Balance at 31 December	**9,146,044**	**2,530,076**	**6,615,968**	**>**
Of which: substandard allowances	1,075,207	803,290	271,917	33.9

*Basically Banco Pastor

	Specific	General	Cross-border risk	Total
Credit loss allowances				
Beginning balance	2,414,460	113,537	2,079	2,530,076
Net provisions	4,613,556	(113,537)	109	4,500,128
Amounts used	(1,208,969)	-	-	(1,208,969)
Other variations and transfers*	3,324,809	-	-	3,324,809
Ending balance	**9,143,856**	**-**	**2,188**	**9,146,044**

*Basically Banco Pastor

	31.12.12	31.12.11	Variation Amount	Variation %
Risk quality measures				
Total risks (in thousands of euros)	155,582,005	122,301,714	33,280,291	27.2
Non-performing ratio (Non-performing loans/Total risks) (%)	8.98	5.99	2.99	
Credit risk premium (%)	3.92	1.00	2.92	
Net operating income/Lending to customers (average) (%)	1.88	1.72	0.16	

	31.12.12
Coverage by type of non-performing loan	
Non-performing loans without mortgage or collateral guarantee	3,736,261
Non-performing loans with mortgage or collateral guarantee	10,240,472
Value of guarantees (including regulatory haircuts)	7,609,518
Total non-performing loans	13,976,733
Loans fully written off	4,355,998
Non-performing loans + Loans fully written off	18,332,731
Total value of guarantees (*)	7,609,518
Credit loss allowances	9,146,044
Credit loss allowances including written-off balances	13,502,042
Coverage of non-performing loans and written-off balances (%)	73.65
Coverage of non-performing loans without written-off balances (%)	65.44
Coverage with guarantees (%)	115.16

(*) Not including value of guarantees of written-off balances

			Variation	
	31.12.12	31.12.11	Amount	%
Asset impairment				
Financial assets	4,347,720	952,338	3,395,382	>
For credit risk and provisions to allowances	4,248,423	922,126	3,326,297	>
Of which: recovery of delinquent balances	281,542	148,254	133,288	89.9
For investments	99,297	30,212	69,085	>
Non-financial assets & buildings	1,310,507	737,852	572,655	77.6
Total	**5,658,227**	**1,690,190**	**3,968,037**	**>**

At 31 December 2012, the balance of troubled risks or non-performing loans amounted to €13,977 million, an increase of €6,653 million in the year (see Table 37). It should be pointed out that the inclusion of Banco Pastor entailed the direct addition of €1,977 million of non-performing loans that were not the result of the natural evolution of the business. In addition, this variation was the outcome, on the one hand, of a gross addition to the exposure for non-performing loans of €9,436 million and recoveries of €3,736 million and, on the other, of the writeoff of €1,210 million of non-performing balances, of which €1,209 million were already covered by provisions.

The non-performing ratio was 8.98% at the end of 2012 compared with 5.99% in December 2011. This meant that the Group's non-performing loans ratio continued to be well below that of the sector, which was 11.38% in December 2012.

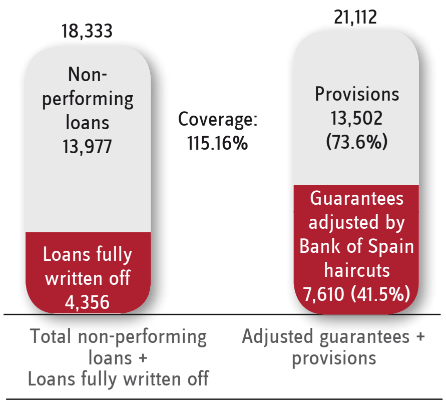
The total risk premium (losses for impairment of loans and receivables / average balance of lending to customers) was 3.92% at year end compared with 1.00% in December 2011, i.e. a rise of 292 basis points, as a result of the substantial write-down effort made by the Bank to meet all of the requirements of the new Royal Decrees 02/2012 and 18/2012. As a result the credit loss allowances totalled €9,146 million at the end of 2012 compared with €2,530 million in 2011.

In order to keep its risks covered, and in keeping with the Group's manifest prudence, it has a set of instruments to provide coverage of its non-performing loans. The first are the guarantees received and the second are the provisions booked.

This coverage is shown in Figure 29. It is important to point out that the guarantees calculated for these purposes have been reduced in accordance with the regulatory discounts applied for the calculation of provisions under Bank of Spain rules.

As may be observed, the rate of coverage of doubtful and delinquent balances including guarantees, after applying these regulatory haircuts, is 115.16% compared with 97.72% in 2011. This represents a substantial improvement in coverage and allows the Bank to face 2013 with a very clean balance sheet.

I FIGURE 29. Analysis of coverage (millions of euros)



Credit risk of refinancing and restructuring transactions

As explained in detail in Note 23 to the Financial Statements, Banco Popular has refinanced risk amounting to €14,043 million that accounts for 12% of the total gross lending. Of this total, 55% relates to normal risk (€7,662 million), 10% to substandard risk (€1,355 million) and 36% to doubtful risk (€5,027 million).

By segments of activity, 91% is risk that relates to businesses and the remaining 9% is with private individuals. Within the business segment, 55% relates to finance for property construction and development and 45% relates to other businesses.

By portfolio, the refinanced or restructured risk associated with finance for property construction and development amounts to €7,016 million. Of this amount, 45% relates to normal status loans, 17% to substandard risk and 38% to delinquent balances. This portfolio has coverage of 33% and 32% for risk classified as substandard and doubtful, respectively. In addition, 60% of the substandard risk and 69% of the doubtful risk is covered by full mortgage guarantees. 84% of the normal status risk is backed by full mortgage guarantees and the total is covered by the provisions of the general allowance that at 31 December 2013 amounted to €3,679 million, thereby easily covering any scenario of expected loss.

As for the refinanced lending to businesses that have no connection with property construction and development, 62% is classified as healthy, 3% as substandard, and 35% as doubtful. Most of the substandard risk was reclassified as doubtful in 2012.

This portfolio has coverage of 20% and 27% for risk classified as substandard and doubtful, respectively. Also, 60% of the substandard risk and 51% of the doubtful risk is fully covered by mortgage guarantees. 67% of the risk classified as normal is backed by full mortgage guarantees. The Bank also intends to book provisions of over €2 billion in 2013 if the assumptions of the business plan are met. Most of these provisions would be allocated to the non-property portfolio, including the refinanced part.

Lastly, the refinanced portion of lending to private individuals totalled €1,330 million, 72.0% of which was classified as healthy risk and 27.8% as doubtful risk. This portfolio has coverage of 9% and 10% for risks classified as substandard and doubtful, respectively, but they are 80% and 87% backed by full mortgage guarantees. Likewise, 80% of the risk classified as normal is backed by full mortgage guarantees.

CROSS-BORDER RISK

Cross-border risk, also known as country risk, is an additional component of credit risk. It arises from the difficulties being experienced by borrowers in certain foreign countries in meeting their payment obligations. Breach of these obligations may be due to the financial situation of the borrower (in which case the risk is treated as credit risk), or to the fact that, even though the loans could be repaid in local currency, the funds cannot be transferred abroad due to the country's economic difficulties. Under the applicable regulations, provisions must be recorded for these risks on the basis of the estimated impairment.

The principles for managing cross-border risk continued to reflect a policy of maximum prudence, with cross-border risk being assumed very selectively in transactions that were clearly profitable for the Group and strengthened global relations with its customers.

At the end of the year, all of the Group's risks affected by country risk totalled €50 million, which was 3.6% lower than the figure of €51.9 million recorded at the end of 2011. These figures are not significant as regards the Group's total risk, since they represented 0.03% and 0.04% of it in 2012 and 2011, respectively.

The provision recorded for country risk amounted to €1.9 million, the same as in 2011 and the balance of the allowance recorded therefore represents country risk coverage of 3.9%, compared with 3.8% in the preceding year. Table 36 shows the variation in country risk in 2012 and 2011, broken down by groups of countries with differing degrees of difficulty, the related provisions and a comparison with total risks. Table 37 shows the distribution of cross-border risk by balance sheet captions: loans and advances to credit institutions, loans and advances to other customers, and contingent liabilities, together with the respective coverages.

I TABLE 36. Country risk and provisions recorded (Amounts in thousands of euros)

	2012		2011	
	Balance	Coverage	Balance	Coverage
Countries				
Negligible risk	38,743	-	38,894	-
Without substandard risk	10,037	1,137	11,907	1,052
With doubtful risk	1,255	835	1,098	920
Total	**50,035**	**1,972**	**51,899**	**1,972**
Coverage (%)		3.94		3.80
Memorandum item:				
Total risks		155,582,005		122,301,714
Country risk/Total risks (%)		0.03		0.04

I TABLE 37. Country risk and provisions recorded (Amounts in thousands of euros)

	2012		2011		% coverage	
	Balance	Coverage	Balance	Coverage	2012	2011
Loans & advances to credit institutions	12,274	313	15,847	273	2.55	1.72
Loans & advances to other debtors	15,000	769	6,966	758	4.74	10.88
Contingent liabilities	22,761	890	29,086	941	4.13	3.24
Total	**50,035**	**1,972**	**51,899**	**1,972**	**3.94**	**3.80**

STRUCTURAL BALANCE SHEET RISK

This consists of the risks arising from possible variations in the interest rates on the balance sheet assets and liabilities, in the exchange rates of the currencies in which the on- (asset and liability) or off-balance sheet aggregates are denominated, and in the market prices of marketable financial instruments.

It also includes business risk, defined as the possibility that the gross operating income is not sufficient to cover the fixed costs due to changes in the volumes of the balance sheet items and the fee and commission income, caused in turn by changes in the economic conditions. Given Banco Popular's efficiency ratio, this risk is completely remote. Nevertheless, estimates of growth and changes in the balance sheet structure are made periodically and their impact on the gross operating income is measured.

The exchange rate risk of the business in Spain and Portugal is practically non-existent as a result of the criterion applied in this respect: cash and financial asset positions in currencies other than the euro are confined to the placement of surplus cash arising from the commercial banking activities in the same currency and at similar terms.

The investment in TotalBank, a US-domiciled institution, represents an open position in dollars on the Bank's goodwill. This risk is monitored and on occasion is partially hedged, based on the expected evolution of the dollar.

Interest rate risk

The Assets and Liabilities Committee (ALCO) is responsible, among other functions, for analysing and controlling interest rate risk. It also evaluates the sensitivity of the interest income to variations in the balance sheet aggregates and the structure of new arrangements, setting short- and medium-term policies to manage this.

To control interest rate risk, the sensitivity of the interest income to variations in rates is analysed, monitoring the maturities and re-pricing gap in the consolidated balance sheet, broken down by the sensitivity or not to interest rates of the assets and liabilities.

For sensitive assets and liabilities that mature or change the interest rate in a given period, regard is had only to the first contract revision. For balance sheet items with no maturity but with interest rate revision, albeit not on a fixed date, the frequency of review is based on historical performance.

The impact on the economic value of an adverse variation in rates is also assessed. The Group periodically measures its value variation as well as its sensitivity to variations in interest rates. This is done by considering all of the positions sensitive to interest rates, including both the implicit and explicit interest rate derivatives, and excluding the positions that form part of the held-for-trading portfolio, the risk of which is measured separately.

The economic value is calculated as the sum of the fair value of the net interest rate sensitive assets and liabilities and the net carrying amount of the asset and liability items that are not sensitive to interest rates. The fair value of the interest-rate sensitive items is obtained as the adjustment, using the interest rate curve of the interbank market at the date of reference, of the future flows of principal and interest of all the interest-rate sensitive items, also considering the sensitive positions that form part of the held-for-trading portfolio.

At the end of the year, the effect of a 200 basis points increase in euro interest rates with respect to the current implicit rates had a negative impact of 1.36% on economic value, equal to 2.20% of eligible capital. Conversely, falling interest rates would benefit the economic value. The impact due to the variation in rates of other currencies is considered to be immaterial because of the Group's scant position at year end.

As may be observed, the sensitivity of the economic value to very stressed variations in interest rates is well below the maximum thresholds permitted by current legislation.

I TABLE 38. Maturity and repricing gap in the consolidated balance sheet at 31 December 2012

	TOTAL	Not Sensitive	Total Sensitive	1 month	2 months	3 months	3 to 6 months	6 to 12 months	Over 12 months
Loans and receivables	114,444	7,099	107,345	23,344	11,665	13,916	19,579	29,940	8,901
Loans & advances to credit institutions	4,659	-	4,659	4,473	101	36	18	1	30
Loans & advances to other debtors	108,809	6,123	102,686	18,871	11,564	13,880	19,561	29,939	8,871
Other assets & value adjustments	976	976	-	-	-	-	-	-	-
Securities market	24,671	1,598	23,073	989	1,038	171	2,203	2,869	15,803
Other assets	18,503	17,447	1,056	48	47	7	100	131	723
TOTAL ASSETS	**157,618**	**26,144**	**131,474**	**24,381**	**12,750**	**14,094**	**21,882**	**32,940**	**25,427**
Financial liabilities at amortised cost	141,726	18,510	123,216	45,972	6,420	10,749	15,317	23,761	20,997
Deposits from central banks	20,564	-	20,564	20,564	-	-	-	-	-
Deposits from credit institutions	14,402	1,051	13,351	7,104	253	420	722	407	4,445
Deposits from other creditors	79,830	15,531	64,299	15,880	4,466	8,349	13,126	19,477	3,001
Debt certificates including bonds	23,443	618	22,825	1,467	1,701	1,514	1,469	3,826	12,848
Subordinated liabilities	2,170	-	2,170	957	-	466	-	51	696
Other financial liabilities	1,317	1,310	7	-	-	-	-	-	7
Other liabilities	5,937	3,084	2,853	2,744	34	-	75	-	-
Equity	9,955	9,955							
TOTAL LIABILITIES	**157,618**	**31,549**	**126,069**	**48,716**	**6,454**	**10,749**	**15,392**	**23,761**	**20,997**
Off-balance sheet transactions				**5,017**	**94**	**(976)**	**2,141**	**(478)**	**(5,798)**
Gap		**(5,405)**	**5,405**	**(19,318)**	**6,390**	**2,369**	**8,631**	**8,701**	**(1,368)**
Cumulative gap				**(19,318)**	**(12,928)**	**(10,559)**	**(1,928)**	**6,773**	**5,405**

At 31 December 2012, interest-rate sensitive assets totalled €131,474 million, compared with €126,069 million of similarly sensitive liabilities, with an aggregate positive gap of €5,405 million. For a good part of 2013 the maturities of sensitive liabilities exceed those of sensitive assets, which means that falling interest rates would have a positive impact in the short term, and vice versa. A scenario of rising rates would have a negative impact on the Bank's interest income.

Interest rate risk is mainly managed with derivatives. The policy is to arrange the most perfect possible hedges, and this is why the preference is to arrange individual hedges. As a result, most of the hedges are concentrated in wholesale market funding operations. An exceptional case is that of liability and interest rate derivatives sold to customers of the commercial network which, due to their amount, are hedged by aggregates as soon as a volume permitting this is accumulated. The interest rate risk of the fixed income portfolio is also partially hedged with swaps.

A special characteristic of the Group's interest rate management is the existence of lower limits or "floors" in a significant number of the transactions that comprise the lending to customers, which gives an added enhancement to the financial margin in the face of falling rates. At 31 December 2012, transactions with floors accounted for 37.86% of the total gross lending to customers (42% of gross lending in Spain). 72% of the total floors were activated.

In 2012, taking advantage of the favourable market conditions with low interest rates and high volatility, €3,824 million of the Banco Popular floors portfolio (9.38%) was sold on the market to enhance the stability of the financial income. The transaction was booked under Macro hedging.

At the end of 2012 the Group had an ALCO investment portfolio with a face value of €19.995 million. As the table shows, 44% of the portfolio relates to available-for-sale investments, 52% to held-to-maturity investments and 4% to loans and receivables.

I TABLE 39. ALCO portfolio (millions of euros)

	Nominal value	Relative weight
ALCO available-for-sale portfolio	8,708	44%
ALCO held-to-maturity investment portfolio	10,467	52%
ALCO loans & receivables portfolio	820	4%
TOTAL ALCO PORTFOLIO	**19,995**	**100%**

The total duration of the ALCO portfolio at 31/12/2012 was 1.75 years, down from 2.01 years in 2011. The individual duration of the portfolios is as follows: available-for-sale portfolio, 0.76 years, held-to-maturity investment portfolio, 2.65 years, and loans and receivables portfolio 0.79 years.

The assets that make up this portfolio were selected applying criteria of high credit quality, attractive coupon amounts, credit spreads with a downward range and the ability to be self-financed. The breakdown by product of the investment portfolios at year end is shown in the figures below:

I FIGURE 30. Composition of the available-for-sale portfolio

I FIGURE 31. Composition of the held-to-maturity portfolio

I FIGURE 32. Composition of the loans and receivables portfolio

MARKET RISK

Market risk consists of the risks arising from possible adverse variations in the market prices of the marketable financial instruments managed by the Group's Treasury as a result of adverse variations in interest rates, credit spreads, exchange rates, share or commodity prices, or the volatility thereof.

It also includes the liquidity risk associated with these positions, i.e. the impossibility of undoing positions in the market in a short space of time. For this purpose, positions are valued over a time scale equal to the estimated time it will take to close the risk.

Treasury activity risk

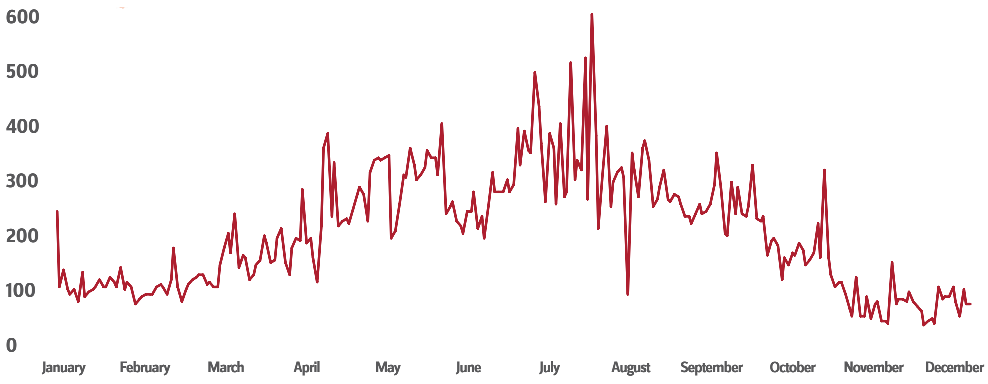
In order to control the market risk of the Treasury activity, on a daily basis the Treasury Risks Management area monitors the trades, calculates the impact on positions of market performance, quantifies the market risk assumed, the regulatory capital consumed, monitors compliance with the limits established and analyses the ratio between the result obtained and the risk assumed.

The Bank's Treasury trading activities in the financial markets are exposed to market risk due to unfavourable variations in the following risk factors: interest rate, exchange rate, share price, credit spread and volatility. The indicator used to measure market risk is Value at Risk (VaR), defined as the estimated maximum potential loss based on historical data on the evolution of the risk factors, calculated with a given level of confidence and over a given period of time. To standardise the Group's overall risk measurement, the parametric VaR methodology is used. It is calculated with a 99% confidence level, based on past 75-day variations, giving greater weight to more recent observations, taking a time period of one day to measure the possible losses, since all the open positions are highly liquid.

To round out the parametric VaR estimates obtained, for trades with optionality, the delta-gamma-vega VaR is estimated. The methodology for measuring the risks is based on analysing the sensitivity of the Treasury activity positions to variations in the risk factors. These sensitivities provide information about the impact of an increase in each risk factor on the economic value of the positions. Past variations in the risk factors over the preceding 75 days are taken into account, and the calculation is performed with a confidence interval of 99% and taking a time period of 1 day. It should be mentioned that the risk of the trading in structured or exotic products is very low because there is active management to hedge the risk: in the case of smaller branch network trades, the positions are closed on reaching the minimum amount that can be hedged efficiently, and in the case of big custom trades the hedging is immediate, on a trade-by-trade basis.

In 2012, the average VaR of the Treasury trading activity was €0.203 million. After the upturns in the months of August and September as a result of the increased volatility of the risk factors in the market and the bigger position taken in asset trading, public debt and financial investment activities, the risk assumed progressively decreased, due to the significant drop there was in the volatility of these investments in comparison with the preceding months. The financial investments portfolio position was also substantially reduced. The variation is shown in Figure 33.

I FIGURE 33. Variation of risk of Treasury trading activity in 2012. Daily evolution of VaR (thousands of euros)



I TABLE 40. Average VaR 2012 (Amounts in thousands of euros)

	Money & Capital Markets	Equities	Structured derivatives	Financial Investments	Aggregate VaR
Average VaR 2012	81	32	15	161	203

Table 40 gives an estimation of the average VaR attributable to the various Treasury trading activities: Money Market and Capital Market, which includes interest rate risk and exchange rate risk; Equities, which includes share price risk and volatility risk; Structured Derivatives, which includes interest rate risk and volatility risk, and Investments which includes share price risk and volatility risk. The risk can be seen to be concentrated mainly in the equities price risk of Financial Investments.

The aggregate risk presents a substantial diversification benefit of 31% on average, as a result of the correlation between the prices of equities and the yield curves. In the months of March and July 2012, the diversification benefit was lower (at around 20%), but since November there has been a trend of growth in the mitigation benefits of the market risk due to the diversification.

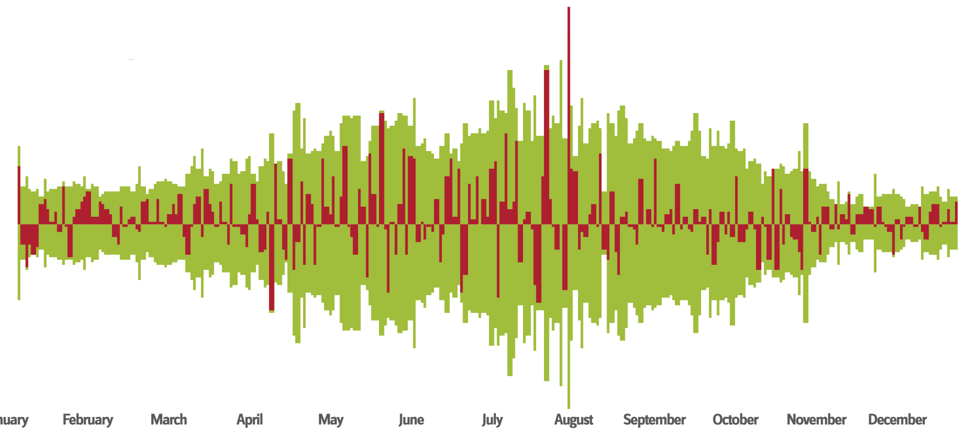
To check the suitability of the risk estimates and the consistency of the VaR model, the daily results are compared with the VaR estimated loss. This exercise is called Backtesting. Following the recommendations of the regulator and of the Basel Supervisory Committee, two exercises are performed to validate the risk estimation model:

- Clean backtesting: this relates the portion of the daily result of transactions alive at the close of the previous session with the estimated VaR amount over a time horizon of one day, calculated on the transactions alive at the close of the previous session. This exercise is the most appropriate for self-assessment of the methodology used for measuring market risk.
- Complementary backtesting: this evaluates the result obtained during the day (including any intraday trades) with the VaR amount over a horizon of one day calculated on the transactions alive at the close of the previous session. This makes it possible to evaluate the importance of the intraday trading in the generation of earnings and in the estimation of the total portfolio risk.

The findings in excess of VaR are tabulated by nature, identifying those which might potentially indicate a deficiency in the model. The results of both backtesting models are compared and reconciled daily.

The results of the clean backtesting analysis are shown in Figure 34, which evidences that in 2012 only one excess due to risk factor variations higher than those envisaged in the model was recorded at the aggregate Treasury Trading level. Under the evaluation procedure proposed by the Basel Supervision Committee, the Group's model would be in the green zone, indicating adequate accuracy.

I FIGURE 34. **Clean backtesting 2012 (Amounts in thousands of euros)**



VGroup Var -Group VaR Group earnings

In addition to calculating VaR and conducting backtesting analysis, two types of stress tests are performed on the value of the Treasury positions in order to estimate the possible losses of the portfolio in extraordinary situations of crisis:

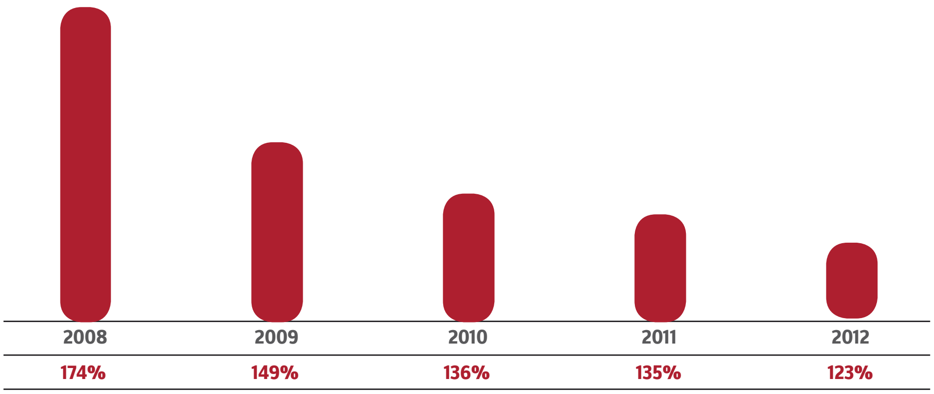
- Analysis of theoretical scenarios (systematic stress): this calculates the value of the portfolio in response to certain extreme changes in the principal risk factors. According to the composition of the Bank's portfolio, the principal risk factors are interest rate risk and equity price risk, since they account for more than 95% of the total VaR. In order to reflect the possible combinations of the different variations in risk factors, the following three scenarios are analysed each day: greatest impact expected a priori on earnings; most probable scenario; and maximum value of VaR at the time of revision.

- Analysis of historical scenarios: this considers the impact that actual situations would have on the value of the positions. The market conditions of the most significant crises in the past for each group of risk factors since 1990 were reproduced. These crises were: (i) the credit and fixed income crisis at the end of 2008 and beginning of 2009; (ii) the equity crisis in the spring/summer of 2002; (iii) the global consequences of the 9/11 attacks in the US in 2001; (iv) the equity crisis in emerging markets in 1998.

LIQUIDITY RISK

Liquidity risk reflects the possible difficulties for a bank to have available, or to have access to, liquid funds of sufficient amount and at appropriate cost for meeting its payment obligations at all times. Since the beginning of the global economic crisis in 2007, Banco Popular has considered it essential to reduce its dependence on the capital markets (short and long term) and to extend the terms of financing. In this respect, the Group's priority financing strategy has been the attraction of retail liabilities through products that meet customer requirements and at the same time provide stability to the Banco Popular balance sheet. This strategy rests on the ability to access private individuals and business customers afforded by the Group's extensive commercial network. At 31 December 2012, the commercial gap was €18,855 million, resulting in a loan-to-deposit (LTD) ratio of 123%. This means that the gap was reduced by over €8,634 million in 2012 and the LTD ratio fell by 10 percentage points, as shown in Figure 35.

I FIGURE 35. Loans to Deposits Ratio



Note: Lending to customers - temporary acquisitions; Customer deposits with valuation adjustments + tax collection accounts - repos + ICO funding + securitisations + retail subordinated liabilities + MCNs + commercial paper placed through the network + Retail preferred shares + retail notes

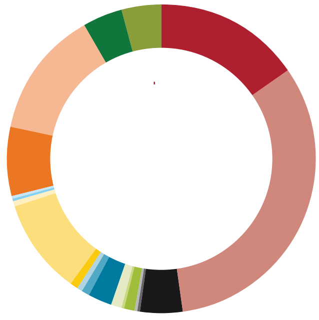
The Credits figure includes the credit loss allowances contributed by Banco Pastor (€2,641 million at Dec-12)

In what was a particularly volatile year, the Group increased its retail funding year on year by 23.5% to €14,818 million, with the result that it accounted for 55.2% of all the Group's funding, with the following breakdown: (i) 48.0% in demand and time deposits and (ii) 7.3% in products placed through the commercial network. Wholesale funding, which accounted for 15.9% of borrowed funds, was down by €1,407 million. It was diversified among a wide variety of financing sources, most notably covered mortgage bonds that accounted for 62.0% of this heading and the collateral of which may be re-usable. Funding from the counterparty clearing houses and other market repos accounted for 7.3% of the total funding. Lastly, funding from official agencies, which includes the funds obtained through public or supranational institutions, accounted for 21.5%. Specifically, it includes the funding obtained from the ECB, the Spanish Treasury and the Spanish Official Credit Institution (ICO) and Public Administrations. The structure of funding and variations in it are shown in Table 41 and Figure 36.

Retail financing is proving to be very stable in this part of the economic cycle. The demand and time deposits placed through the network increased by €9,755 million year on year, and the commercial paper placed through the network was up by €4,922 million, demonstrating the loyalty of our customers.

As for wholesale financing, Banco Popular took advantage of the issuance opportunities that arose on the wholesale markets in 2012 by placing €1,850 million in the year, comprising €850 million of senior debt, €950 million of covered mortgage bonds and €50 million in convertible notes.

I FIGURE 36. Structure of borrowed funds



Demand deposits	15.5%
Time deposits	32.5%
Commercial paper, network & businesses	4.4%
Senior debt, network	0.2%
Subordinated debt & preferred shares, network	0.3%
Convertible notes, network	1.1%
Asset repos	0.4%
Tax collection accounts & Other	0.9%
Interbank deposits (net)	2.6%
Other deposits from credit institutions	0.7%
Institutional commercial paper & ECP 0.6%	0.
Institutional senior debt	1.0%
Covered mortgage bonds	9.8%
Asset securitisation	0.5%
Subordinated debt & wholesale preferred shares	0.4%
Institutional convertible notes	0.2%
Counterparty clearing houses & market repos	7.3%
Call on European Central Bank	13.4%
Call on Spanish Treasury	4.1%
CO deposits	3.9%

I TABLE 41. Variation in sources of funds of Banco Popular Group

				Weight (%)	
	Dec-12	Dec-11	% Var.	Dec-12	Dec-11
Retail funding	**77,951**	**63,133**	**23.5%**	**55.2%**	**53.6%**
Demand deposits	21,886	19,287	13.5%	15.5%	16.4%
Time deposits	45,804	38,649	18.5%	32.5%	32.8%
Commercial Paper, network & businesses	6,252	1,330	>	4.4%	1.1%
Senior debt, network	309	0	>	0.2%	0.0%
Subordinated debt, network	450	450	-	0.3%	0.4%
Preferred shares, network	19	878	(97.8%)	0.0%	0.7%
Convertible notes, network	1,537	1,180	30.3%	1.1%	1.0%
Asset repos	442	203	118.1%	0.3%	0.2%
Tax collection accounts & Other	1,251	1,156	8.2%	0.9%	1.0%
Wholesale financing	**22,394**	**23,801**	**(5.9%)**	**15.9%**	**20.2%**
Interbank deposits (net)	3,664	2,906	26.1%	2.6%	2.5%
Other deposits from credit institutions	1,006	800	25.8%	0.7%	0.7%
INSTITUTIONAL COMMERCIAL PAPER & ECP	855	1,104	(22.6%)	0.6%	0.9%
Senior debt	1,447	4,330	(66.6%)	1.0%	3.7%
Covered mortgage bonds	13,879	12,782	8.6%	9.8%	10.8%
Asset securitisation	699	867	(19.3%)	0.5%	0.7%
Wholesale subordinated debt	431	681	(36.8%)	0.3%	0.6%
Institutional convertible notes	283	0	>	0.2%	0.0%
Wholesale preferred shares	132	331	(60.3%)	0.1%	0.3%
Counterparty clearing houses & market repos	**10,359**	**12,951**	**(20.0%)**	**7.3%**	**11.0%**
Official agencies	**30,408**	**17,932**	**69.6%**	**21.5%**	**15.2%**
Call on European Central Bank	18,900	13,659	38.4%	13.4%	11.6%
Call on Spanish Treasury	5,850	0	>	4.1%	0.0%
ICO deposits	5,545	4,081	35.9%	3.9%	3.5%
Public authority repos	113	192	(41.3%)	0.1%	0.2%
Total	**141,112**	**117,817**	**19.8%**	**100.0%**	**100.0%**

Measurement and oversight of liquidity risk

The Group supervises liquidity risk through the Assets and Liabilities Committee (ALCO) by using formal procedures to analyse and monitor the Group's liquidity, including contingency plans for possible deviations in liquidity due to internal causes or to market behaviour. For this purpose periodic analyses are made of the sensitivity of liquidity in different scenarios of asset and liability cancellation in time brackets from 1 day to 1 year in the short term, from 1-5 years in the medium and long term, and over 5 years in the very long term. The starting point for liquidity risk analysis is a consolidated balance sheet broken down by the residual terms to maturity of assets and liabilities. Comparison of these maturities discloses the positive or negative liquidity gap in each time interval. In the case of securities issues, the first shortest term for cancellation is always used, as a measure of prudence. This balance sheet is used to simulate situations in the face of different liquidity scenarios in the capital markets, combined with hypotheses of variations in the asset and fund aggregates and with the use of the available liquidity facilities. It is thus possible to estimate the sensitivity of the balance sheet to changes in these variables. The simulations cover two different risks: systemic, which would affect the entire financial system and specific, which would only affect Banco Popular. Therefore, the assumptions on which they are based are different, as are the consequences for the Bank's balance sheet and liquidity situation. The measures to be taken as defined in the contingency plan respond in each case to the different nature of both types of crisis. These simulations allow a minimum amount of available eligible assets to be quantified as a second line of liquidity, thereby assuring that the scenarios may be successfully faced.

TABLE 42. Liquidity gap (Amounts in millions of euros)

	Through Mar-13	Through Jun-13	Through Sep-13	Through Dec-13	2-5 years	Over 5 years	Total maturities	No maturity	TOTAL
Money market	1,436	-	-	-	-	-	1,436	681	2,117
Loans and receivables	19,620	5,853	4,932	4,826	27,220	45,040	107,491	6,953	114,444
Securities market	2,058	2,352	1,040	1,814	7,822	7,531	22,617	30	22,647
Other assets	-	-	-	-	-	-	-	18,410	18,410
Total assets	23,114	8,205	5,972	6,640	35,042	52,571	131,544	26,074	157,618
Retail liabilities	19,512	11,317	9,344	8,928	4,612	1,101	54,814	23,137	77,951
Wholesale liabilities	15,878	1,136	2,804	246	10,560	2,560	33,184	-	33,184
Official agency liabilities	7,717	111	68	70	19,496	2,947	30,409	-	30,409
Other liabilities	-	-	-	-	-	-	-	6,799	6,799
Equity*	-	-	-	-	-	-	-	9,275	9,275
Total liabilities	43,107	12,564	12,216	9,244	34,668	6,608	118,407	39,211	157,618
Gap	**(19,993)**	**(4,359)**	**(6,244)**	**(2,604)**	**374**	**45,963**	**13,137**	**(13,137)**	
Accumulated gap	**(19,993)**	**(24,352)**	**(30,596)**	**(33,200)**	**(32,826)**	**13,137**		-	
Available liquid assets & other	30,401	30,751	34,570	34,596	41,346	42,855			
Adjusted accumulated gap	10,408	6,399	3,974	1,396	8,520	55,992			

*For the purposes of this table, this includes the MCNs placed through the branch network under the caption Retail liabilities

At 31 December 2012 the assets with fixed maturities amounted to €131,544 million, compared with €118,407 million of liabilities with fixed maturities, with a positive differential of €13,137 million. However, in the first twelve months, the liabilities mature more quickly than the assets, giving rise to a negative gap of €33,200 million in December 2013. This situation is primarily the result of the maturities of short-term asset repos with financial institutions, since they finance a portion of the portfolio assets with maturities of over one year. Taking into account the high credit quality of the assets involved, most of them government bonds, the renewal of the transactions at maturity is highly likely.

To cope with this situation, at 31 December 2012 the Group had available effective liquid assets with which it could obtain funding of €14,552 million. Table 42 includes the balance of the effective liquid assets available at any given time considering that maturities of temporary and firm acquisitions reduce the balance and that of repos increases it. As may be observed, the Banco Popular has sufficient liquid assets available at all times to cover the negative liquidity gap.

The effective liquid assets available are eligible both for discounting transactions at the European Central Bank and as collateral for transactions with financial institutions and customers. Therefore, in the face of liquidity contingencies the Banco Popular Group could obtain funds without sustaining losses in a time scale of not more than one week.

In order to increase sources of liquidity guaranteed by liquid assets that are an alternative to the ECB, in 2010 Banco Popular, as part of its strategy of diversifying sources of financing and reducing costs, joined the three European counterparty clearing houses, LCH London, Paris and Eurex Repo, together with other international banks. This operating procedure makes it possible to raise funds at terms that range from one day to one year at market interest rates. The counterparty houses act as guarantors of transactions between financial institutions, making it possible to minimise risks. In 2012 the transactions with the houses remained active, although the balance and that of other

I TABLE 43. Extreme scenario of non-renewal of current liabilities

	Mar-13	Jun-13	Sep-13	Dec-13	TOTAL
MATURITIES					
Interbank deposits (net)	3,392	148	26	93	3,659
Institutional commercial paper & ECP	207	408	176	60	851
Senior debt	474	7	736	0	1,217
Covered mortgage & territorial bonds	1,083	200	1,796	0	3,079
Wholesale subordinated debt	0	0	0	0	0
Institutional CCDs	0	0	0	0	0
Wholesale preferred shares	0	0	0	0	0
Total maturities	**5,156**	**763**	**2,734**	**153**	**8,806**
SOURCES OF LIQUIDITY					
Commercial gap	250	250	250	250	1,000
Available liquid assets	14,552	0	0	0	14,552
Variation in liquid assets	4,236	490	2,006	300	7,032
Total sources of liquidity	**19,038**	**740**	**2,256**	**550**	**22,584**
Liquidity surplus	13,882	13,859	13,381	13,778	

market repos was 20% down from 2011, being replaced by a greater call on funding from official agencies.

To evaluate the adequacy of the available effective liquid assets, Banco Popular carries out stress tests that assume the non-renewal of all the maturities of wholesale financing sources. As shown in Table 43, the current liquid assets easily cover all of the maturities in 2013. This liquidity surplus allows the Group to continue focusing on its traditional model of retail banking based on the extension of loans and the attraction of customer deposits. This stress exercise is performed without including repos with financial institutions since, as discussed earlier, they are arrangements made with assets of a high credit quality and therefore their renewal on maturity is highly likely.

The Basel Committee on Banking Supervision has been introducing a number of further recommendations for banks with the aim of strengthening their balance sheets in the face of potential situations of liquidity stress. For this purpose, the Committee has proposed two ratios that are intended, on the one hand, to ensure the resilience of banks to liquidity stress in the short term and, on the other, to strengthen their balance sheet structure in the long term. The Liquidity Coverage Ratio (LCR) measures the adequacy of high quality liquid assets against estimated net cash flows over a 30-day period. The purpose of the Net Stable Funding Ratio (NSFR) is to increase the weight of banks' medium- and long-term funding. In January 2013, the Committee published a review of the LCR criteria that introduces greater flexibility in comparison with the previous document of December 2010. The LCR must have reached at least 60% by January 2015 and increase annually thereafter to 100% by January 2019, while the NSFR will be under review until mid-2016 and, in principle, should have reached the established minimum of 100% with effect from 1 January 2018.

In order to meet these future regulatory requirements, since the measures were published Banco Popular has been gradually adapting its management, balance sheet and composition of its liquid assets, which will enable the Bank to achieve an efficient liquidity position comfortably and in advance of the deadlines set, both in the short term and structurally.

OPERATIONAL RISK

The Banco Popular Group has adopted the definition of operational risk in the 2004 Basel II Accord: "the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events", and its comprehensive risk management includes the design of procedures to identify, assess, monitor and mitigate/control this risk.

The senior management approved the "Framework for managing Operational Risk" which includes the design of policies and functions for the development and implementation of methodologies and tools that will permit better management of the Group's operational risk. In addition, since 2008 there is an Operational Risk Committee that meets quarterly in which important areas of the Group participate and whose basic function is the control and overall management of operational risk in the organisation. The committee is therefore responsible for the process of managing and monitoring operational risk from an overall standpoint.

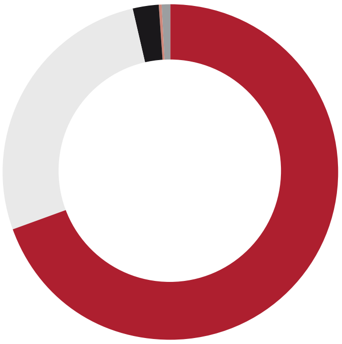
Initially, the Group has opted for the standard method envisaged in Basel II for calculating the capital for operational risk, the methodology of which was also approved by the senior management, although progress is being made in order to be in a position to apply the advanced method in the future. In this respect, a historical database is being created for operational risk events since January 2004. In addition, since December 2006 the Group has been a member of ORX (Operational Risk Data Exchange Association), an international consortium that maintains a database to which the main financial institutions around the world contribute events and we participate in the Spanish Service exchanging data on a quarterly basis.

Apart from that, the Group has qualitative tools that have been used to prepare the Group's risk and control maps, which are reviewed and updated regularly, to measure the frequency and impact of operational risk and to assist in establishing action plans and improving controls and hedges in the areas of highest exposure, as well as the analysis by the Business Continuity Office of the necessary contingency plans to ensure the continuity of the Bank's operations.

There are also training courses and frequent meetings with all the areas to raise awareness throughout the Organisation regarding familiarity with and control of this risk, with a view to mitigating its impact on both the commercial activities and the operating procedures, etc. For this purpose officers have been appointed in each of the Organisation's units.

Figure 37 shows the business areas into which the Group has been divided for operational risk purposes, matching those defined by Basel II, and the impact of each of them calculated on the basis of the gross amounts of operational risk events recorded in 2012. The distribution of events recorded in 2012 is shown in Tables 44 and 45 by amount buckets and business lines, respectively.

I FIGURE 37. Operational risk by business area



Retail banking[1], 69.58%
Commercial banking[2], 26.86%
Retail brokering, 2.50%
Trading & sales, 0.39%
Asset management, 0.67%

(1) Retail banking: this includes events of private individuals, small and micro businesses.
(2) Commercial banking: this includes events of medium-sized and big companies.

I TABLE 44. Operational risk events by amount buckets (euros)

	Number of events	Net total sum (1)
Less than €600	22,581	1,752,119.36
Between €600 and €3,000	1,664	2,094,941.33
Between €3,000 and €6,000	265	1,128,674.31
Between €6,000 and €20,000	334	3,710,335.07
Between €20,000 and €60,000	153	4,912,860.63
Between €60,000 and €100,000	38	2,885,829.45
Between €100,000 and €600,000	23	4,620,614.80
Over €600,000	4	11,359,092.08
Total	**25,062**	**32,464,467.03 (2)**

(1) Amounts adjusted (in euros) as of 31/12/2012 for events booked/allocated in the year.
(2) Total gross amount: €36,301,510.07.

I TABLE 45. Operational risk events by line of business (euros)

	Number of events	Net total sum
Corporate finance	0	0.00
Trading and sales	46	128,263.11
Retail banking	23,271	22,587,235.76
Commercial banking	1,621	8,721,546.61
Payments and settlements	0	0.00
Agency services	0	0.00
Asset Management	29	216,997.75
Retail brokering	95	810,423.80
Total	**25,062**	**32,464,467.03**

REPUTATIONAL RISK

The Regulatory Compliance Office, which reports to the Deputy Secretary to the Board and for Regulatory Compliance, is responsible for identifying, evaluating and preventing possible risks of material breaches from the economic or reputational standpoint which might arise in connection with laws and regulations, codes of conduct and standards of good practice, and proposing appropriate corrective measures for incidents detected in connection with the securities markets, market abuse, and the privacy and protection of personal data and business activities. In connection with this last aspect, it identifies and assesses risks of non-compliance associated with the development of new products and business practices, ensuring respect for the regulations on transparency and customer protection. It also analyses, advises on and promotes the development of the systems established for providing staff training on the aforementioned areas. It issues a periodic report on all these activities for the Audit and Control Committee.

Banco Popular ratings

In 2012 the ratings of Spanish banks and savings banks were once again negatively impacted by the deterioration of the macroeconomic and financial situation. The eurozone crisis, and in particular the situation of the so-called peripheral countries, was followed closely by the rating agencies. In this context, the weakness of the Spanish economy, the uncertainties about the packages of aid for the financial system as well as the demanding adjustments required, weighed heavily on Spain's credit quality ratings, which in 2012 alone were downgraded by 5-3 notches depending on the agency. At 31 December 2012, the ratings assigned to the Kingdom of Spain were at the upper limit of Standard and Poor's and Moody's investment grades (BBB- y Baa3, respectively). The Fitch rating was BBB and the DBRS rating was A (low).

It was precisely the high correlation between the sovereign rating and that of Banco Popular that negatively impacted the Bank's ratings in 2012. Nevertheless, the Bank's ratings fell less, reducing the gap between the solvency of Banco Popular and that of the State. The agencies also reviewed Banco Popular's ratings after the integration of Banco Pastor. Three out of the four assessed the potential impact of this corporate transaction in 2012, with the isolated effect of it on the ratings being practically imperceptible.

By the final quarter of the year, all of the ratings agencies had assessed Banco Popular's capital increase and early write-down plan very positively. They all praised the Bank's strong franchise, its tradition of high net return and efficiency and the recent strengthening of solvency and coverage ratios. Although in the short term the ratings are still heavily constrained by the sovereign rating, the conditions necessary for the prospective stability, if not improvement, of the ratings in the medium term are beginning to arise. However, an improved economic environment, a reduction in problematic exposure and stronger profitability are perceived as equally necessary.

Banco Popular has credit ratings from the four internationally recognised rating agencies: Moody's, Standard & Poor's, Fitch Ratings and Dominion Bond Rating Service (DBRS). The ratings assigned by the different rating agencies at 31 December 2012 are presented in Table 46. Based on these ratings Banco Popular would have an average rating* of BBB-.

I TABLE 46. Rating agency credit ratings

	Long term	Short term	Outlook
Moody's	Ba1	NP	Review for possible downgrade
Standard & Poor's	BB	B	Negative
Fitch	BB+	B	Stable
DBRS	A (low)	R1 (low)	Negative

*Average rating: Internal calculation consisting of the average resulting from assigning a single numerical scale to the ratings of the different agencies.

MOODY'S

Moody's rating of Banco Popular's long- and short-term debt and deposits is Ba1 and NPA2, respectively.

On 25 June 2012, Moody's downgraded the Banco Popular rating from A2 to Ba1 as a result of the 3-notch downgrade of the rating of the Kingdom of Spain at the beginning of that month and a further 2-notch downgrade in February. Twenty-eight Spanish financial institutions were affected by rating actions at the same time.
The current ratings remain under review for possible downgrade while the agency evaluates the capital strengthening measures taken after the integration of Banco Pastor and the publication of the results of the stress test performed by Oliver Wyman. It is to be expected that the write-down and recapitalisation efforts taken will neutralise any negative impact on the ratings.

Among the Bank's strengths, Moody's cites its long-standing strategy of customer focus underpinned by a leading franchise in several retail market segments, its proven ability to generate recurring income, high profitability ratios and reinforced solvency.

STANDARD & POOR'S

Standard & Poor's ratings of Banco Popular at 31 December 2012 were BB for the long term and B for the short term.

On 17 February 2012, as a result of the cut in the Kingdom of Spain's rating from AA- to A, S&P reviewed the rating of Spanish financial institutions as a whole. In this context, Banco Popular's rating went down from BBB+ to BBB-. The ratings were then placed on negative review pending the incorporation of the possible additional impact of the deterioration of sovereign solvency at the different institutions. On 25 May 2012, the agency made further across-the-board cuts in the system that took Banco Popular's rating to BB+.

A further cut in Spain's rating in October triggered another review of Banco Popular's ratings. On 15 October 2012 the Bank's ratings, together with those of other financial institutions, were downgraded from BB+ to BB. Subsequently, on 23 November 2012, Standard & Poor's confirmed the Bank's ratings at BB. The agency placed both the Bank's and the sovereign ratings on negative outlook.

In its analysis, S&P continues highlighting Banco Popular's systemic importance, the strength of its franchise and its better operating efficiency than its peers.

FITCH RATINGS

At 31 December 2012, Fitch's ratings of Banco Popular long-term and short-term debt were BB+ and B, respectively.

On 18 May 2012, the agency revised the Bank's rating from BBB+ to BBB when it incorporated both the deterioration of the operating environment and the impact of the integration of Banco Pastor.

At the beginning of June, after the 3-notch downgrade of Spain's rating from A to BBB, Fitch revised the ratings of Spanish financial institutions downward, cutting those of Banco Popular from BBB to BBB-.

Finally, on 21 September 2012 Fitch cut Banco Popular's rating from BBB- to BB+. The economic recession, the severe crisis in the property and construction sectors, and the demands for further provisions as part of the restructuring and recapitalisation process of the Spanish financial system were what triggered this rating action. As a counterweight, the agency emphasises the Bank's strong franchise, particularly in its operations with SMEs, which have enabled it to maintain exceptional operating income over the years, and its track record of operating efficiency. Since then, the outlook for the ratings has been classified as stable.

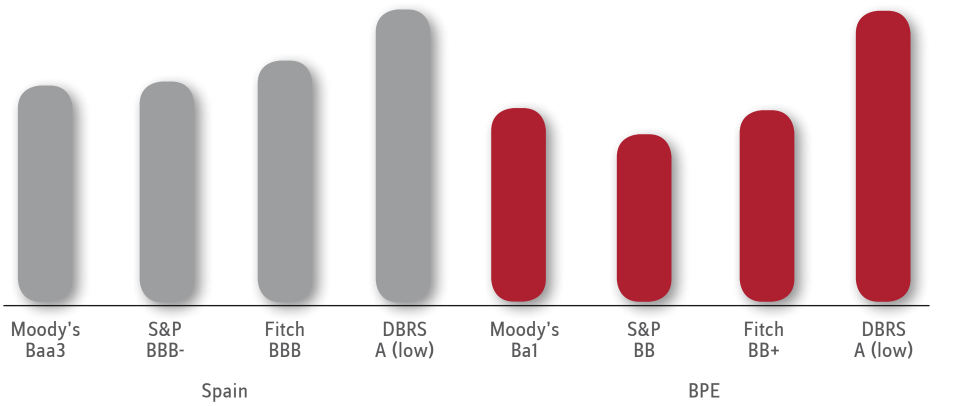
DBRS

The ratings assigned to Banco Popular by DBRS at 31 December 2012 were A (low) for the long term and R1 (low) for the short term.

On 16 April, DBRS confirmed its A (high) ratings of Banco Popular after resolving the negative alert it had placed the Bank under following the announcement of the operation for the integration of Banco Pastor.

On 10 August 2012, after downgrading the Kingdom of Spain's rating to A(low) from A(high), DBRS did the same with the ratings of Banco Popular, cutting them to A(low) from A(high). The outlook given to both the sovereign and the Bank's rating were negative. Despite the deterioration of sovereign solvency, which acts as a ceiling on the Bank's ratings, the high rating awarded by DBRS is a reflection of the strength of the Bank's fundamentals, most notably the strength of its franchise, the resilience of its profitability and efficiency, and the strengthening of the levels of coverage and capitalisation.

I FIGURE 38.



Shareholders

At 31 December 2012, Banco Popular had 316,050 shareholders, compared with 149,618 at the end of the previous year. This was an increase of 166,432 shareholders year on year. This increase is primarily due to the takeover of Banco Pastor and the capital increase at the end of the year.

Table 47 presents a breakdown of the spread of share ownership and of the percentages of holding in the common stock of the Bank at the end of 2012 and 2011.

I TABLE 47. Distribution of shareholders

	Number of Shareholders		% Weight		% CS	
	2012	2011	2012	2011	2012	2011
Up to 1,000	107,100	81,532	33.89%	54.49%	0.42%	2.05%
From 1,001-4,000	82,557	44,668	26.12%	29.85%	2.23%	6.18%
From 4,001-10,000	58,658	14,215	18.56%	9.50%	4.55%	6.18%
From 10,001-20,000	31,928	5,138	10.10%	3.43%	5.44%	4.98%
From 20,001-40,000	18,164	2,272	5.75%	1.52%	6.10%	4.39%
From 40,001-200,000	15,224	1,471	4.82%	0.98%	14.27%	8.25%
From 200,001-400,000	1,396	140	0.44%	0.09%	4.61%	2.68%
From 400,001-800,000	574	74	0.18%	0.06%	3.71%	2.85%
Over 800,000	449	108	0.14%	0.08%	58.67%	62.44%
TOTAL	**316,050**	**149,618**	**100.00%**	**100.00**	**100.00%**	**100.00**

I FIGURE 39. Breakdown of share ownership

Board R[1] 12.29%

Board NR[2] 13.02%

Institutional R 5.59%

Institutional NR 24.09%

Retail R 44.11%

Retail NR 0.90%

R: Resident

NR: Non-resident

(1) Includes 1.098% owned by a number of families, habitually represented by several directors.

(2) Includes 4.374% owned by the Crédit Mutuel Group, habitually represented by Alain Fradin

The structure of the Bank's body of shareholders has changed since last year, since the capital increase has given rise to a logical increase in the average number of shares per shareholder from 9,300 to 26,600. The vast majority of the Bank's shareholders (78.57%) own fewer than 10,000 shares. The number of shareholders owning more than 800,000 shares has risen to 449 and they control 58.67% of the capital.

Figure 39 shows the distribution of the Bank's common stock at 31 December 2012. In 2012, the proportion of free-float shares rose from 60.40% to 74.69% due to the dilution of the Board as a result of the capital increases that took place during the year. The Board of Directors continues to hold 25.31% of the common stock. Particularly significant is the sharp increase in the retail tranche, which rose by 12.15 percentage points year on year to 45.01%. This growth is due to the takeover of Banco Pastor and the capital increase. The increase in the institutional tranche was smaller (2.14 percentage points) but more even throughout the year, closing at 29.68% of the common stock.

Shareholders who are employees of the Group numbered 13,604, representing 4.30% of the total number of shareholders, and in aggregate owned 1.60% of the common stock. The Board of Directors controls 2,128.1 million shares, 25.31% of the capital compared to 39.60% in the previous year, including shares owned directly or indirectly by the directors and those habitually represented by them. At the Ordinary Shareholders Meeting held on 11 June 2012 the appointments of José Mª Arias Mosquera, Fundación Pedro Barrié de la Maza and Maianca Inversión, S.L. as proprietary directors was approved.

The breakdown of the shares controlled by the Board is shown in the following table:

I TABLE 48. Shares controlled by the Board of Directors at year end

Directors	Direct	%	Indirect	%	Represented *	%	Total	%
Allianz SE	10	0.000	382,192,639	4.545	0	0.000	382,192,649	4.545
Aparicio Valls, Francisco	1,428,741	0.017	1,317,841	0.016	16,477,914	0.196	2,746,582	0.033
Arias Mosquera, José María	1,370,910	0.016	0	0.000	125,449	0.001	1,370,910	0.016
Asociación de Directivos de BPE	266,688	0.003	0	0.000	0	0.000	266,688	0.003
Ferreira de Amorim, Americo	2,268	0.000	339,897,780	4.042	0	0.000	339,900,048	4.042
Fradin, Alain	10	0.000	0	0.000	367,775,828	4.374	10	0.000
Fundación Pedro Barrié de la Maza	278,086,513	3.307	0	0.000	0	0.000	278,086,513	3.307
Gancedo, Eric	131,508	0.002	106,192	0.001	3,264,551	0.039	237,700	0.003
Herrando, Luis	16,556	0.000	149,209	0.002	8,176,419	0.097	165,765	0.002
Higuera, Roberto	301,512	0.004	0	0.000	0	0.000	301,512	0.004
Maianca Inversión, S.L.	416	0.000	0	0.000	0	0.000	416	0.000
Molins, Ana María	4,340	0.000	0	0.000	6,573,011	0.078	4,340	0.000
Nigorra, Miguel	1,060,592	0.013	5,186,996	0.062	36,040	0.000	6,247,588[2]	0.074
Revoredo, Helena	0	0.000	24,052,276	0.286	0	0.000	24,052,276	0.286
Rodríguez, José Ramón	650,000	0.008	1,110,000	0.013	1,388,943	0.017	1,760,000	0.021
Ron Güimil, Angel	328,268	0.004	0	0.000	35,800,473	0.426	328,268	0.004
Sindicatura de Accionistas de BPE	63,837,609	0.759	567,403,837[2]	6.748	47,148	0.001	631,241,446	7.507
Solís y Mtnez.-Campos, Miguel A. de	3,172,447	0.038	2,161,436	0.026	15,053,201	0.179	5,333,883	0.063
Tardío, Vicente	70,592	0.001	0	0.000	0	0.000	70,592	0.001
Unión Europea de Inversiones, S.A.	313,537,380[2]	3.729	0	0.000	5,366,069	0.064	313,537,380[2]	3.729[2]
Total: (held directly & indirectly)	**664,266,360**	**7.900**	**1,003,793,238**	**11.938**	**460,085,046**	**5.472**	**1,668,059,598**	**19.838**
Shares represented (habitually)							***460,085,046[1]***	***5.472[1]***
Total Shares							**2,128,144,644**	**25.309**

(1) Shares represented: This table does not include the breakdown of the shares represented habitually by Members of the Board amounting to approximately 5.47% of the capital. Within this percentage the following holdings are noteworthy: 4.374% of the Crédit Mutuel Group, represented by Alain Fradin; the remainder, i.e. 1.098%, relate to the holdings of a number of families represented by various directors.

(2) Indirect holding of Sindicatura de Accionistas de BPE: includes the 313,537,380 syndicated shares held directly by Unión Europea de Inversiones, S.A. and 6,247,588 syndicated shares held by Miguel Nigorra directly and indirectly. Both holdings have been deducted from the total number of shares and from the total percentage of voting rights controlled by the Board of Directors in order to avoid duplication.

The following table gives the breakdown of the capital increases completed in the course of 2012, indicating the type of transaction.

I TABLE 49. Capital increases in 2012

	Transaction		Share capital (Par value= €0.10 per share)
Date of admission to trading	Type	No. of shares	No. of shares
31/12/11	-	-	1,400,929,691
20/01/12	Voluntary exchange of 2010 MCNs	13,799,003	1,414,728,694
23/02/12	Voluntary takeover B. Pastor	370,433,845	1,785,162,539
9/3/12	Compulsory takeover B. Pastor	11,565,876	1,796,728,415
13/4/12	Dividend (Scrip Dividend- 1x21)	17,010,145	1,813,738,560
28/6/12	Mandatory exchange of 2010 MCNs	233,640,171	2,047,378,731
21/9/12	Voluntary exchange MCNs II/2012	571,840	2,047,950,571
19/10/12	Voluntary exchange MCNs I/2012	126,035,134	2,173,985,705
9/11/12	Voluntary exchange ONC´s I/ 2009	91,401	2,174,077,106
6/12/12	Rights issue	6,234,413,964	8,408,491,070
21/12/12	Voluntary exchange MCNs II/2012	59,157	8,408,550,227

With these increases, at the end of 2012 Banco Popular had share capital of €840,855,022.7 comprised of 8,408,550,227 shares, represented by book entries, with a par value of €0.10 each.

The shares are listed on the four Spanish Stock Exchanges and are traded on the Spanish computerised trading system. They are also listed on the Lisbon Exchange. Banco Popular shares are included in the Madrid Stock Exchange General Index (IGBM), with a weighting of 1.27% of the total and in the Ibex-35 index, which comprises the thirty-five most liquid stocks in the Spanish market, with a weighting of 1.50%.

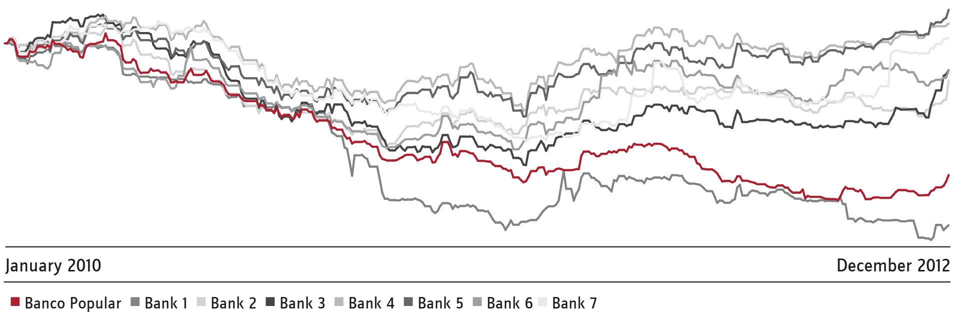
2012 was a good year for equity indexes worldwide, with appreciation of over 10% in both the United States and Europe. These increases occurred mainly in the second half of the year after ECB President Mario Draghi said that the ECB was "ready to do whatever it takes to preserve the euro". However, the IBEX-35 ended 2012 down, for the third year in a row, by 4.7%.

2012 was a very bad year for Banco Popular shares, which fell by 69.4%. The provisions required under the February and May Royal Decrees, the Oliver Wyman stress test and the capital increase all made 2012 an extremely difficult year. On the positive side, the shares' volatility in 2012 (β of 1.05), was a relative improvement on that of 2011 (β of 1.095).

Banco Popular shares performed very well after the completion of the capital increase. After bottoming out at €0.53 at the start of the increase, the shares picked up strongly in the final days of the pricing of rights, with the adjustment being initiated at a price more in line with that of the Bank's peers. This led to Banco Popular shares reaching levels of €0.78 per share at the beginning of 2013, offering a good return for the investors who took part in the increase.

Figure 40 plots the variations in the Banco Popular share price compared with other Spanish banks during 2012:

I FIGURE 40. Performance of Banco Popular shares compared with other Spanish banks



At 31 December 2012, Banco Popular shares were offering a high intrinsic value in the form of a market value that was lower than their book value, specifically a Price/Book value ratio of 0.50 (sector average: 0.70), and a P/E ratio of just 2.4 (sector average: 3.6).

Table 50 presents share valuation measures for the last two years;

I TABLE 50. Stock market ratios for Banco Popular shares 2011-2012

Year	Closing price	Book value	Price/ book value	Capitalisation/ Operating income
2011	3.520	5.57	0.63	3.03
2012	0.586	1.17	0.50	2.44

Table 51 shows the evolution of the share price in the last two years, compared with the variation in the Madrid Exchange General Index and the Ibex 35.

I TABLE 51. Variation in price of Banco Popular shares

	PRICE (2)					
	High	Low	Closing	IGBM	Ibex35	POP
2010 (1)			2.0867	100	100	100
2011						
January	2.47	1.91	2.39	110.12	109.60	114.38
February	2.52	2.32	2.38	110.71	110.06	114.09
March	2.40	2.22	2.25	107.50	107.28	108.02
April	2.40	2.16	2.20	110.52	110.34	105.42
May	2.27	2.08	2.20	106.24	106.26	105.23
June	2.20	1.97	2.11	104.59	105.08	101.07
July	2.19	1.79	1.96	96.97	97.68	94.04
August	2.01	1.64	1.97	87.81	88.43	94.53
September	1.97	1.68	1.89	85.96	86.69	90.63
October	1.96	1.77	1.81	89.78	90.83	86.74
November	1.77	1.50	1.72	84.28	85.70	82.55
December	1.96	1.69	1.91	85.45	86.89	91.67
2012						
January	1.96	1.76	1.79	85.20	86.31	85.68
February	2.00	1.63	1.67	84.93	85.87	80.24
March	1.69	1.45	1.46	80.45	81.22	70.05
April	1.48	1.23	1.31	70.49	71.11	62.89
May	1.33	0.87	0.89	61.49	61.77	42.45
June	1.06	0.84	0.97	71.58	72.04	46.43
July	0.97	0.68	0.83	67.80	68.34	39.82
August	0.99	0.73	0.99	74.71	75.27	47.21
September	1.05	0.91	0.92	77.42	78.19	44.29
October	0.89	0.65	0.65	78.72	79.55	31.33
November	0.68	0.53	0.64	79.51	80.48	30.77
December	0.65	0.53	0.59	82.16	82.84	28.08

(1) Indexes at 31.12.10: Madrid Stock Exchange General Index (IGBM): 1,003.73 points; Ibex-35: 9,859.10 points

(2) The share prices prior to the capital increase at the end of the year have been adjusted so that the series is uniform. The adjustment factor is 0.54, the result of applying the formula: (1 + (N x S) / P)) / (1 + N) where N is the swap equation; S the subscription price and P the closing price the day before the rights pricing began.

The market capitalisation of Banco Popular at 2012 year end was €5,957 million (including the securities resulting from the mandatorily convertible notes), an increase of €186 million on the 2011 figure of €5,771 million.

Trading in Banco Popular shares in 2012 again reflected the high liquidity of the stock. The Bank's shares were traded at the 256 trading sessions during the year, and the 5,920 million shares traded signified a daily average of 23,125,003 shares. The matching figures for 2011 were 2,304 million shares during the year and 8,963,955 as a daily average.

During 2012 the Group notified the CNMV that it had performed direct and indirect transactions with its own shares as a purchaser for 5.59% of its share capital, and as a seller for 4.88% of its share capital.

I TABLE 52. Market Information

	Liquidity ('000)			Market price (€) (5)				
Quarter	Shares listed (average no.)	Shares traded	%	High	Low	Closing	Dividend paid (€)	Market return*
2011 I	1,375,285	772,152	56.14%	2.52	1.91	2.25	0.0500	10.42%
II	1,382,863	556,331	40.23%	2.40	1.97	2.11	0.0500[1]	(4.22%)
III	1,398,200	612,198	43.78%	2.19	1.64	1.89	0.0500[2]	(7.96%)
IV	1,400,636	363,695	25.97%	1.96	1.49	1.91	0.0500	3.79%
Total for the year	**1,389,246**	**2,304,376**	**165.87%**	**2.52**	**1.49**	**1.91**	**0.2000**	**1.25%**
2012 I	1,424,964	594,986	41.75%	2.00	1.45	1.46	0.0400[3]	(21.49%)
II	1,835,251	853,425	46.50%	1.48	0.84	0.97	0.0800[4]	(28.36%)
III	2,006,128	569,895	28.41%	1.05	0.68	0.92	0.0000	(4.49%)
IV	3,718,176	3,902,246	104.95%	0.89	0.53	0.58	0.0000	(37.22%)
Total for the year	**2,246,130**	**5,920,552**	**263.59%**	**2.00**	**0.53**	**0.58**	**0.1200**	**(63.40%)**

* Appreciation (depreciation) plus dividend as % of starting price in each period
(1) Scrip dividend: cash payment of €0.05 (gross) or swap for newly issued shares at 1 x 85. (reference price €4.222)
(2) Scrip dividend: cash payment of €0.05 (gross) or swap for newly issued shares at 1 x 78. (reference price €3.881)
(3) Scrip dividend: cash payment of €0.04 (gross) or swap for newly issued shares at 1 x 77. (reference price €3.058)
(4) Scrip dividend: cash payment of €0.08 (gross) or swap for treasury shares at 1 x 21. (reference price €1.684)
(5) The share prices prior to the capital increase at the end of the year have been adjusted so that the series is uniform. The adjustment factor is 0.54, the result of applying the formula: (1 + (N x S) / P)) / (1 + N) where N is the swap equation; S the subscription price and P the closing price the day before the rights pricing began.

In 2012 the maximum treasury stock held at the Group was 128,548,340 shares (1.53% of the total common stock outstanding), the average was 40,057,879 shares (0.48%), and the minimum was 1,427,237 (0.02%). The average purchase price at year end was €2.09 compared to €3.75 in 2011. The total treasury shares in the last two years, broken down by quarters, is shown in Table 56. At 31 December 2012, the Group held 96,593,827 Banco Popular shares. A year earlier, at the close of 2011, the Group held 42,715,078 treasury shares.

I TABLE 53. Treasury stock (Thousands of shares)

							Treasury stock*	
	Average	High	Low	Closing	Total outstanding (a)	Total traded (b)	as a % of (a)	as a % of (b)
2011								
First quarter	16,090	31,374	1,427	1,427	1,375,284	772,152	1.17%	2.08%
Second quarter	15,943	28,736	1,427	22,506	1,387,298	556,331	1.15%	2.87%
Third quarter	38,898	47,148	19,192	35,600	1,400,147	612,198	2.78%	6.35%
Fourth quarter	40,422	48,314	30,752	42,715	1,400,930	363,695	2.89%	11.11%
2012								
First quarter	30,848	43,705	7,145	41,378	1,796,728	594,986	1.72%	5.18%
Second quarter	56,423	73,372	1,427	1,337	2,047,379	853,425	2.76%	6.61%
Third quarter	41,348	55,486	2,286	47,725	2,047,951	569,895	2.02%	7.26%
Fourth quarter	88,255	128,548	48,213	96,594	8,408,550	3,902,246	1.05%	2.26%

* Based on quarterly average number held

Post balance sheet events

There have been the following events since the accounts were closed:

On 21 January 2013 the terms of an agreement were finalised with EOS Group for the sale of the outsourced 0-90 day defaulted debt recovery business in Spain. The business being transferred was valued at €135 thousand, giving rise to an extraordinary gain of €132,925 thousand, which forms part of the Group's 2012-2014 Business Plan.

On 30 January 2013, the Board of Directors unanimously adopted the following resolutions concerning changes in the Bank's management that were proposed by the Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee:

- To appoint Francisco Gómez Martín Chief Executive Officer of the Bank, with full executive functions.

- To adapt the size of the Board of Directors and the upper age limit for directorships to the best corporate governance practices of listed companies, by reducing the maximum number of Board members from twenty to fifteen and setting an upper age limit for directors of 75. The number of Board members will be reduced gradually until the Ordinary Shareholders Meeting in 2014 and the age limit may be modulated by the Board in the case of the proprietary directors.

In January 2013, there were issues of senior debt with a maturity of 30 months amounting to €750,000 thousand and covered mortgage bonds with a maturity of 6 years amounting to €500,000 that were well-received by international and Spanish investors.

Research & Development

In 2012, expenses totalling €17,225 thousand were capitalised relating to two strategic projects that are being developed on accounting and customer information.

Both projects meet the requirements for recognition as intangible assets. Based on their estimated useful life, the period of amortisation has been set at 10 years.

The Customer Platform project, which began in 2011, will integrate the customer service interfaces of each channel into a new multichannel interface providing a full and shared online view of the situation of customers and the transactions completed with them or that are pending.

The Accounting and Financial Information System (in Spanish, SICYF) project, which began in 2011, seeks to adapt and improve the existing accounting and management information systems to meet the Group's new challenges and needs.

The breakdown of the expenses capitalised in 2012 is as follows:

I TABLE 54.

Thousands of euros	Internal expenses			External expenses	Total
	Personnel expenses	General expenses	Subtotal		
Customer Platform project	1,332	214	1,546	4,865	6,411
SICYF project	1,521	343	1,864	8,950	10,814
Total expenses capitalised	2,852	558	3,410	13,815	17,225

The expenses capitalised in 2011 were:

I TABLE 55.

Thousands of euros	Internal expenses			External expenses	Total
	Personnel expenses	General expenses	Subtotal		
Customer Platform project	1,621	153	1,774	4,586	6,360
SICYF project	1,061	182	1,243	5,226	6,469
Total expenses capitalised	2,682	335	3,017	9,812	12,829

Environment

The Group's global operations comply with the laws on environmental protection. The Group considers that it has adopted appropriate measures with respect to environmental protection and enhancement and to minimising environmental impact where appropriate, and that it complies with the relevant current regulations, and has in place procedures designed to safeguard and promote the matters regulated in those specific legal provisions. The Group made the necessary environmental investments in 2012 and 2011 and it was considered unnecessary to record provisions for environmental risks and charges. Lastly, Management considers that there are no contingencies relating to environmental protection and enhancement.

BANCO POPULAR ESPAÑOL, S.A.

Corporate Governance Report

A STRUCTURE OF OWNERSHIP

A.1 Complete the following table on the capital stock of the company:

Date of last change	Capital stock (€)	Number of shares	Number of voting rights
12-12-2012	840,855,022.70 €	8,408,550,227	8,408,550,227

Indicate whether or not there are various classes of stock with different associated rights:
NO

Class	Number of shares	Par value	Unit number of voting rights	Different rights

A.2 Detail the direct and indirect owners of significant shareholdings in the company at year enD. excluding the directors:

Name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights (*)
Banque Fédérative du Crédit Mutuel	367,775,828	-	4.374%

(*)According to the notifications made that are publicly available in the registers of CNMV.

Detail the most significant changes in the shareholder structure during the year:

Name of the shareholder	Transaction date	Transaction description

A.3 Complete the following tables on directors of the company that hold voting shares in the company::

Name of the director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights (*)
Allianz, SE	10	382,192,639	4.545%
Aparicio, Francisco	1,428,741	1,317,841	0.033%
Arias Mosquera, José María	1,370,910	0	0.016%
Asociación de Directivos de BPE	266,688	0	0.003%
Ferreira de Amorim, Américo	2,268	339,897,780	4.042%
Fradin, Alain	10	0	0%
Fundación Barrié de la Maza	278,086,513	0	3.307%
Gancedo, Eric	131,508	106,192	0.003%
Herrando, Luis	16,556	149,209	0.002%
Higuera, Roberto	301,512	0	0.004%
Maianca Inversión, S,L,	416	0	0%
Molins, Ana María	4,340	0	0%

Name of the director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights (*)
Nigorra, Miguel	1,060,592	5,186,996	(2) 0.074%
Revoredo, Helena	0	24,052,276	0.286%
Rodríguez, José Ramón	650,000	1,110,000	0.021%
Ron, Ángel	328,268	0	0.004%
Sindicatura de Accionistas de BPE	63,837,609	(2) 567,403,837	7.507%
Solís, Miguel Ángel	3,172,447	2,161,436	0.063%
Tardío, Vicente	70,592	0	0.001%
Unión Europea de Inversiones, S.A.	(2) 313,537,380	0	3.729%

Total (direct and indirect) (1)	664,266,360	1,003,793,238	(2) 19.838%
Voting rights habitually represented (1)			(1) 5.472%
Total rights			25.309%

1) Shares represented: This table does not include a breakdown of the shares habitually represented by the members of the Board of Directors, which account for approximately 5.472% of the share capital. Of that percentage, the following interests are noteworthy: 4.374% owned by the Credit Mutuel Group, represented by Alain Fradin; the rest, i.e., 1.098%, represents various family-owned interests represented by different Directors.

(2) Indirect participation in the BPE Shareholders' Syndicate: The calculation of the indirect interest held by the BPE Shareholder Syndicate includes 313,537,380 syndicated shares owned directly by Unión Europea de Inversiones, S.A. and 6,247,588 syndicated shares directly and indirectly controlled by Miguel Nigorra. All of these shares were deducted from the calculation of the total number of shares and the percentage of voting rights controlled by the Board of Directors in order to prevent duplication.

(*) Through:

Director's name
Allianz. SE

Name of the direct owner of the shareholding	Number of direct voting rights	% of total voting rights
Allianz Participations. BV	221,608,017	2.636
Other	160,584,622	1.910
Total:	382,192,639	4.545

Director's name
D. Américo Ferreira de Amorim

Name of the direct owner of the shareholding	Number of direct voting rights	% of total voting rights
Topbreach Holding. B.V,	339,897,780	4.042
Total:	339,897,780	4.042

Director's name
SINDICATURA DE ACCIONISTAS DE BPE

Name of the direct owner of the shareholding	Number of direct voting rights	% of total voting rights
Pluralidad de inversores particulares	253,866,457	3.019
Unión Europea de Inversiones. S.A.	313,537,380	3.729
Total:	567,403,837	6.748

% Total voting rights held by the Board of directors	**19.838% (**)**

(**) This percentage does not include the shares habitually represented by Board Members, amounting to approximately 5.472 % of the capital stock.

The total share capital represented by the Board of Directors amounts to 25.309%.

Complete the following tables about Board members holding rights on company shares:

A.4 If there are family, commercial, contractual or corporate relationships between owners of significant shareholdings, to the extent that the company has knowledge of them, detail them below unless they are scantly relevant or arise from ordinary commercial transactions.

Related entity's name	Type of relationship	Brief description
Topbreach Holding. B.V, y Unión Europea de Inversiones. S.A.	Corporate	Topbreach Holding, B.V. holds a significant share of Unión Europea de Inversiones, S.A.
Sindicatura de Accionistas de BPE y Unión Europea de Inversiones. S.A.	Corporate	Unión Europea de Inversiones, S.A.- is part of Sindicatura de Accionistas de BPE

A.5 If there are commercial, contractual or corporate relationships between the owners of significant shareholdings and the company, detail them below unless they are scantly relevant or arise from ordinary commercial transactions:

Related entity's name	Type of relationship	Brief description
Popular de Mediación. S.A. (100% owned by) and Allianz	Contractual	Marketing of Allianz's general insurance policies through the banks pertaining to Banco Popular Group.
Banco Popular - Allianz	Contractual	Outsourcing of pension commitments to serving and retired staff.
Grupo Banco Popular - Allianz	Contractual	Outsourcing of pension commitments to serving and retired staff.
Allianz Popular	Corporate	Eurovida, S.A., Cía Seguros y Reaseguros, a life insurance company in which the stake held is 49%-51% and Europensiones, S.A., a pension fund, in which the stake is 51%-49%. and Popular Gestión, an investment fund in which Allianz controls 60% Allianz and Banco Popular control 40%.
Banco Popular - Banque Fédérative du Crédit Mutuel	Corporate	Targobank, both shareholders having equal shareholdings of 50%; this entity's business is focused on private individuals and small and medium sized companies.

A.6 Indicate whether any pact between shareholders affecting the company have been reported in accordance with the provisions of Article 112 of the Stock Market Act. If any, provide a brief description and list the shareholders bound by the pact:

YES

Parties to the pact	% of stock capital affected	Brief description of the pact
Multiple minority shareholders (2,013 at 31-12-2012)	7.507%	A gentleman's agreement by which the syndicated shareholders are bound for such time as they freely decide.

Indicate whether or not there are any pacts regarding shares between shareholders of the company of which the company is aware:

NO

Parties to the pact	% of stock capital affected	Brief description of the pact
-	-	-

State below any change in or termination of such pacts or agreements or share pacts during the year:

A.7 State whether there is any individual or legal entity that exercises or may exercise control over the company in the terms of Article 4 of the Securities Market Law. If so, indicate them:

NO

Name	Observations
-	-

A.8 Complete the following tables about the company's treasury stock:

At year end:

Number of directly owned shares	Number of indirectly owned shares (*)	% of total capital stock
96,374,758	219,069	1.150

(*) Through:

Name of the direct owner of the holding	Number of directly owned shares
Finespa. S.A.	0
Inmobiliaria Viagracia. S.A.	0
Gestora Popular. S.A.	0
Gestora Europea de Inversiones. S.A.	219,069
Total	219,069

Detail the significant variations, as defined in Royal Decree 1362/2007, during the year:

Date reported	Total direct shares acquired	Total indirect shares acquired	% total of capital stock
26-01-2012	--	10,896,294	0.775%
27-02-2012	--	17,287,184	1.222%
27-02-2012	--	1,328,365	0.094%
20-03-2012	--	4,754,106	0.265%
22-03-2012	--	23,531,036	1.320%
27-03-2012	4,873,014	13,392,524	1.017%
19-04-2012	--	34,666,299	1.929%
19-04-2012	7,556,594	--	0.416%
08-05-2012	175,318	18,593,218	1.034%
08-05-2012	--	19,118,925	1.055%
18-05-2012	--	20,169,365	1.112%
06-06-2012	--	23,949,825	1.321%
11-06-2012	54,749	18,912,517	1.046%
25-06-2012	510,352	709,701	0.060%
26-06-2012	67,698,748	16,248,633	4.630%
16-07-2012	4,623,337	17,297,882	1.071%
24-07-2012	2,030,021	24,865,997	1.315%
01-08-2012	10,934,057	10,001,557	1.022%
08-08-2012	2,503,966	18,527,084	1.027%
21-09-2012	4,682,309	15,497,782	0.986%
10-10-2012	300,714	20,661,402	1.024%
19-10-2012	351,442	14,262,102	0.712%
02-11-2012	234,895	23,586,872	1.095%
13-11-2012	1	7,155,776	0.328%
14-11-2012	72,425,537	15,333	3.332%
07-12-2012	2,961,500	--	0.035%
27-12-2012	288,335	49,044,738	0.587%

Surplus (deficit) of treasury stock disposed of during the year	(81,076,322 €)

A.9 Detail the conditions and the period(s) of the authorization(s) granted by the Shareholders' Meeting to the Board of Directors for the purchases or sales of treasury stock.

The General Shareholders' Meeting held on April 19, 2010 authorized the Bank's Board of Directors to acquire treasury stock, in the forms permitted by law, subject to the limits and requirements indicated below:

* That the face value of the shares acquired, when added to that of those already owned by the Bank and its subsidiaries, does not at any time exceed 10% of the capital stock.
* The acquisition must not cause the net equity to fall below the amount of the share capital plus the legally or statutorily unavailable reserves and all other legal requirements must be met.
* That the shares acquired have been fully paid.

* That the acquisition price is not lower than the face value or 20% higher than the market price at the Stock Exchange session on the day of purchase.

This authorization, which is granted for the maximum legal period, is without prejudice to the application of the cases addressed in the law as of free acquisition.

The Board of Directors was also authorised to dispose of any treasury stock acquired now or in the future and to redeem it with a charge to shareholders' equity, reducing the share capital and amending the articles of association accordingly in the amount considered necessary or advisable at any given moment, up to a maximum of the total amount of treasury stock existing at any given time. This may be done one or more times within a five-year period starting on the date of the General Meeting.

A.10 Indicate the legal and bylaw restrictions, if any, on the exercise of voting rights and the legal restrictions on the purchase or sale of ownership interests in the capital stock.

Indicate the legal and bylaw restrictions, if any, on the exercising of voting rights:

NO

Maximum percentage of voting rights that may be exercised by a shareholder due to bylaw restrictions	

Describe any legal and bylaw restrictions on the exercising of voting rights:

NO

Maximum percentage of voting rights that may be exercised by a shareholder due to bylaw restrictions	

Describe any legal and bylaw restrictions on the exercising of voting rights

Indicate whether or not there are legal restrictions on the purchase or sale of ownership interests in capital stock:

YES

Describe the legal restrictions on the purchase or sale of ownership interests in capital

Articles 57, 58 and 60 of Law 26/1988 on Discipline and Intervention of Credit Institutions establishes a procedure for prior reporting to the Bank of Spain of the acquisition or sale of a significant holding in a Spanish credit institution or the increase or decrease thereof in excess of the percentages of capital stated in Article 57.2. The Bank of Spain will have a maximum period of three months from the date of its being notified to oppose, if appropriate, the intended acquisition.

A.11 Indicate whether or not the Shareholders' Meeting has adopted any measures to neutralize any public acquisition offer in accordance with the provisions of Law 6/2007.

NO

Explain any measures approved and the terms under which the restrictions would become inefficient:

B STRUCTURE OF GOVERNANCE OF THE BANK

B.1 Board of Director

B.1.1 Maximum and minimum number of directors per the bylaws:

Maximum number of directors	20
Minimum number of directors	12

B.1.2 Complete the following table with information regarding members of the Board (*):

Director's name	Representative	Title	First appointed	Last appointed	Election procedure
Allianz, SE	J.R. Carendi	Director	15-12-2008	26-06-2009	Shareholders Mtg
Aparicio, Francisco		Secretary	18-12-2003	11-06-2012	Shareholders Mtg
Arias, José María		Vice President	11-06-2012	11-06-2012	Shareholders Mtg
Asociación de Directivos de BPE	Francisco Aparicio	Director	27-11-1980	30-05-2008	Shareholders Mtg
Ferreira de Amorim, Américo		Director	27-05-2003	30-05-2008	Shareholders Mtg
Fundación Barrié de la Maza	Ana José Varela	Director	11-06-2012	11-06-2012	Shareholders Mtg
Fradin, Alain		Director	20-12-2011	20-12-2011	Shareholders Mtg
Gancedo, Eric		Director	20-06-2002	30-05-2008	Shareholders Mtg
Herrando, Luis		Vice President	21-06-2001	11-06-2012	Shareholders Mtg
Higuera, Roberto		Vice President	30-05-2008	11-09-2008	Shareholders Mtg
Maianca Inversión, S,L,	José Gracia	Director	11-06-2012	11-06-2012	Shareholders Mtg
Molins, Ana María		Director	28-04-2011	20-12-2011	Shareholders Mtg
Nigorra, Miguel		Director	19-12-1974	30-05-2008	Shareholders Mtg
Revoredo, Helena		Director	30-05-2007	11-06-2012	Shareholders Mtg
Rodríguez, José Ramón		Director	01-12-1987	30-05-2008	Shareholders Mtg
Ron, Ángel		Chairman	Director 14-03-2002	30-05-2008	Shareholders Mtg
			Chairman 19-10-2004		
Sindicatura de Accionistas de BPE	Carlos Figuero	Director	28-06-1988	11-06-2012	Shareholders Mtg
Solís, Miguel Ángel		Director	18-12-1996	30-05-2008	Shareholders Mtg
Tardío, Vicente		Director	19-12-2007	30-05-2008	Shareholders Mtg
Unión Europea de Inversiones, S.A.	Jorge Oroviogoicoechea	Director	19-05-2009	26-06-2009	Shareholders Mtg

Total number of directors	**20**

Directors who left the Board during the year:

Director's name	Board position at the time	Date of departure
Osuna, Nicolás	Propietary	01-06-2012

B.1.3 Complete the following tables about Board members and their classification:

EXECUTIVE DIRECTORS

Name	Commission proposing Appointment	Profile
Ron, Ángel	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Chairman Degree in Law. Has held various posts in the Bank and at Spanish financial entities since 1984; appointed General Manager of the Bank in 1998, CEO in March 2002. On October 19, 2004 he was appointed Chairman.
Asociación de Directivos de BPE (representante Francisco Aparicio)	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Director Associate. It gathers those employees part of the management team who have decided to join the association.
Aparicio, Francisco	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Secretary In practice since 1979. On joining the Bank he ceased to be a partner of an international law firm, of which he is still "off counsel" but unpaid.

Total number of Executive Directors	3
% of the total Board	15%

EXTERNAL PROPRIETARY DIRECTORS

Name	Commission proposing Appointment	Name of significant shareholder or proposed appointment	Profile
Allianz, SE (Represented by J.R.Carendi)	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Grupo Allianz	Allianz SE is one of the world's largest insurers and providers of financial services, in addition to being one of the first S.E. (Societas Europaea) companies. Founded in 1890, it currently has a presence in over 70 countries, with more than 170,000 employees. Allianz offers its customers worldwide - which number more than 80 million - a broad range of services in the Nonlife, Life and Health insurance, banking and Asset management areas. Jan R. Carendi. Occupied various positions of responsibility with the Swedish Skandia Group from 1970 to 200. Sat on the Board of Directors of Allianz from 2003 to 2007. Was named an adviser to the Board of Directors of Allianz SE in 2008.

Name	**Commission proposing Appointment**	**Name of significant shareholder or proposed appointment**	**Profile**
Arias, José María	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee		Deputy Chairman of the Board Law degree from the University of Santiago de Composteal and PADE from the Instituto de Estudios Superiors de la Empresa (IESE). Has worked for Banoc Pastor since 1980, where he was appointed Chairman in 2001. President of the Barrié de la Maza Foundation. Director of AEB (Spanish Banking Association) and APD (Association for Management Progress), in addition to Vice President of the Galician chapter of the latter. Active participant in diverse associations and entities dedicated to enabling citizens to understand and improve the environment in which they live.
Ferreira de Amorim, Américo	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Topbreach Holding, B.V.	Businessman. Chairman of the Amorim Group, founded in 1870, world leader in the cork industry, with substantial investments in the property, tourism and financial areas. The Amorim Group operates in 32 countries.
Fradin, Alain	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Crédit Mutuel	Chairman of the Board of Directors of Targobank and CIC IBERBANCO, member of the Board of Targo Deutschland and Cofidis, member of the Management Committee of Euro-Information and Managing Director of Caisse Centrale du Crédit Mutuel, Crédit Mutuel Antilles-Guyane, Crédit Mutuel Sud-Est, Directeur Général Adjoint de la Confédération Nationale du Crédit Mutuel and the la Fédération du Crédit Mutuel Centre Est Europe and Caisse Fédérale de Crédit Mutuel.
Fundación Barrié de la Maza	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee		The Barrié Foundaiton is a private equity foundation created in November 1966 whose resources are used to fund programmes and projects in support of sustainable development in Galicia. Declared by the Department of Education of the Galician Government to be a public interest foundation on 13 June 1986, the Foundation's activities are financed by the revenues earned on its assets. Under the leadership of Carmela Arias and Díaz de Rábago (1920-2009), the Foundation, with two locations in A Coruña and Vigo, has become a reference for European foundations. The Foundation is currently presided over by José María Arias Mosquera.
Maianca Inversión, S,L,	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee		Company founded in February 2012 and wholly-owned by the Barrié de la Maza Foundation whose social objective is to supervise and represent the direct and indirect economic interests of the Barrié Foundation.

Name	Commission proposing Appointment	Name of significant shareholder or proposed appointment	Profile
Sindicatura de Accionistas de BPE (Represented by Carlos Figuero)	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee		Association. Groups together small Bank shareholders, which allows them to be represented on the Board of Directors. Carlos Figuero García. For ten years he was responsible for the administrative, tax and labour management of various Spanish and foreign companies. He is a member of the Employers' Association of various foundations.
Tardío, Vicente	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Grupo Allianz	Degree in Economics and Actuary, received from the University of Barcelona. He is the Chairman and CEO of Allianz Seguros, a member of the International Executive Committee of Allianz Group, and Regional CEO of the Alliance Group for the Iberian Peninsula and South America. He currently sits on the Boards of Directors of various companies of the Allianz Group in Spain, Portugal and South American. He is the Vice President of UNESPA.
Unión Europea de Inversiones, S.A. (Represented by Jorge Oroviogoicoechea)	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee		A company listed on the Madrid, Barcelona and Bilbao stock exchanges, in the fixing market, and which pursues its activity within the various financial markets, investing its resources in equities, fixed-income securities and other financial assets. Jorge Oroviogoicoechea is a businessman who has occupied a variety of executive and corporate posts in the business world. He has been the Managing Director of the Boyaca Group since 2002.

Total number of proprietary directors	**9**
% of total Board	**45**

EXTERNAL INDEPENDENT DIRECTORS

Name	Profile
Gancedo, Eric	Degree in Law. Businessman. Active in the fields of trade, wine-making and property. He is a member of the Bank's founding family which has always been represented on the Board.
Herrando, Luis	Vice-chairman. Doctorate in industrial engineering and economics degree. He commenced his professional career at Babcock & Wilcox, and ion 1967 he joined Induban (Banco Vizcaya). He was CEO at Aurora Group (78-93), now AXA. Director of companies in the insurance, property and venture capital fields. Honorary President of the Asociación para el Progreso de la Dirección (APD) in northern Spain. Chairman of the Fundación del Instituto de Educación e Investigación and of the Fundación de la Escuela de Ingenieros de Bilbao.
Molins, Ana María	With a degree in law, has been a practicing attorney since 1972, focusing primarily on family-owned businesses. Secretary of the Boards of Trustees of different foundations and non-profit organisations. Legal Adviser and Secretary of the Board of Directors of different companies.

Name	Profile
Revoredo, Helena	She holds a degree in Business Administration from Universidad Católica de Buenos Aires and a PADE masters from IESE in Madrid. From 2004 she is the Chairwoman of the Security Company Prosegur and Euroforum, and since 2006 she is a member of the International Consultation Committee at IESE. She is also the Chairwoman of the Prosegur Foundation since it was founded in 1997. Between 1997 and 2004, she was the Vice Chair of Prosegur and a member of the Executive Board at the Family Business Institute, and between 2002 and 2005 she was the Chair of Adefam (Family Business Development Association in Madrid) and Director of Telecinco.
Rodríguez, José Ramón	Engineer and Businessman. In addition to his professional activity as a Civil Engineer, he has held several executive posts and directorships at companies in the textile, food and construction sectors.
Solís, Miguel A. de	Businessman. Very active business involvement, particularly in the real estate, agriculture/livestock and tourism industries.

Total number of external independent directors	**6**
% of total Board	**30**

OTHER EXTERNAL DIRECTORS

Name	Commission proposing appointment	Profile
Higuera, Roberto	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Vice President An Aeronautical Engineer, most of his professional career has been spent at Banco Popular where he has held numerous positions including Director of International Activities, Managing Director of Banco Popular Hipotecario and Director of Finance. In May, 2008 he was named Vice President and in September 2008, Managing Directors, a post which he occupied until 26 June 2009.
Nigorra, Miguel	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Businessman and professional. Land Registrar. While working for the Group he has also been actively involved in other organisations such as the Junta de Obras del Puerto de Palma de Mallorca and companies like Mare Nostrum or Inmobiliaria Urbis.

Total number of external directors	**2**
% of total Board	**10**

State the reasons why they may not be regarded as proprietary or independent directors and their relations with the company, its directors or its shareholders:

Name	Reasons	Associated company, executive or shareholder
Nigorra, Miguel	Owing to the absorption of Banco de Crédito Balear, S.A. by Banco Popular Español, S.A., Mr. Nigorra no longer owns the significant interest which he held in that company; at the same time, his holding in the capital of Banco Popular is not sufficient to make him a proprietary director. He cannot be classed as an independent director in view of his family tie to a Director of Union Europea de Inversiones, S.A., which is a significant shareholder of the entity, and because his directly-owned shares are syndicated within Syndicatura de Accionistas de BPE.	Unión Europea de Inversiones. S.A.

Name	Reasons	Associated company, executive or shareholder
Higuera, Roberto	He stepped down as Managing Director in 2009 and can no longer be classified as an independent or proprietary director.	

State any changes that have taken place during the period in status of each director:

Name	Date of change	Prior status	Current status
-	-	-	-

B.1.4 State any reasons for which proprietary directors have been appointed at the request of shareholders with less than a 5% stake in capital stock.

Name	Reason

State whether or not there have been formal requests for positions on the Board from shareholders whose interest is equal to or exceeds that of others who have been designated Proprietary Directors. If appropriate, explain why such requests were denied.

NO

Name	Explanation

B.1.5 State whether or not any Director has left the position before the end of the term, if the Director provided an explanation, and how, to the Board and, in the event this was done in writing to the entire Board, explained at least the reasons provided:

YES

Name	Reason
Osuna, Nicolás	Professional motives

B.1.6 State the powers, if any, delegated to the CEO:

Name	Brief description
Ron Güimil, Angel	Chairman

The powers delegated include all the powers of the Board of Directors, except those which cannot be delegated by law and those which cannot be delegated pursuant to Article 5.2 of the Board Regulations. The differing scopes of the powers corresponding to the President and to the General Management Committee are detailed in section B.1.21 of this report.

B.1.7 List the Board members, if any, that are directors or executives of other companies included in the group of the listed company:

Name	Name of Group company	Title
Arias, José María	Banco Popular Pastor	Chairman
Aparicio, Francisco	Banco Popular Pastor	Director
Gancedo, Eric	Bancopopular-e Aliseda Popular Banca Privada Banco Popular Pastor	Non-Executive Chairman Director Director Director
Herrando, Luis	Popular Banca Privada Aliseda	Non-Executive Chairman Director
Higuera, Roberto	Popular de Mediación Popular de Factoring	Chairman Chairman
Rodríguez, José Ramón	Aliseda Banco Popular Pastor	Non-Executive Chairman Vice President

B.1.8 Indicate whether or not any Directors at your company are members of the Board of Directors at other nongroup companies listed on the official stock exchanges in Spain, as reported to the Company:

Director's name	Name of Group company	Title
Ferreira de Amorim, Américo	Unión Europea de Inversiones, S.A.	Director
Molins, Ana María	Cementos Molins, S.A.	Director
Revoredo, Helena	Prosegur, S.A. Gestevisión Telecinco	Chairwoman Director

B.1.9 State and, if appropriate, explain whether or not the Company has established rules regarding the number of Boards to which its Directors may pertain:

YES

Explanation of the rules

The Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee, in accordance with Article 25.4 of the Board Regulations, verifies compliance with internal rules that have been established regarding the number of Boards to which Directors may form part, which are those established by Law 31/1968 (27 July) on the incompatibilities and limitations of senior management at private banks, as provided for in article 18.2 of the Rules of the Board of Directors.

In addition, as it is stipulated by Article 18.2 of the Board Regulations, during the time the post is held a rector may accept any appointment as Director or Executive of another bank, Investment Services Company, insurance Company or any other financial entity without the express and prior authorization of the Full Board of Directors, when such an entity carries out its activities, in full or in part, within the area in which Banco Popular or its subsidiaries operate.

B.1.10 With regard to Recommendation 8 of the Unified Code, indicate the general policies and strategies at the Company which must be approved by the full Board:

The policy of investments and financing	YES
The definition of the structure for the group of companies	YES
The corporate governance policies	YES
The corporate responsibility policy	YES
The strategic or business plan, as well as management and annual budget targets	YES
The policy for evaluating senior management performance and compensation	YES
The risk management and control policy, as well as regular monitoring of internal information and control systems	YES
The policy for dividends, as well as treasury stock and, in particular, their limits	YES

B.1.11 Show in the following tables the aggregate compensation of the directors earned during the year:

Note 10 of the Notes to the Financial Statements contained in the Annual report provides individualised data on all remunerative items received by the Board members (page 239).

a) At the Company covered by this report:

Compensation category	**Thousand euros**
Fixed remuneration	1,819
Variable remuneration	0
Per diems	0
Directors' fees	0
Stock options and/or other financial instruments	0
Other	0
Total	1,819

Other benefits	**Thousand euros**
Advances	0
Loans granted	52,040
Pension plans and funds: Contributions	676
Pension plans and funds: Obligations	18,419
Life insurance premiums	6
Guarantees secured by the Company in favour of Directors	223

Fixed compensation:

The amount of 1,819,000 euros in fixed compensation is broken down into 1,234,000 euros paid to the Chairman of the Board of Directors, Ángel Ron and 585,000 euros paid to the Secretary of the Board, Francisco Aparicio, the only members of the Board of Directors who are remunerated. The totals are broken down into 1,000,000 euros in fixed salary and 234,000 euros in performance bonus in the case of Mr. Ron and 470,000 euros in fixed salary and 115,000 euros in performance bonus for Mr. Aparicio.

Deferred bonus plan:

Regarding the deferred bonus plan approved by the General Meeting of Shareholders on 11 June 2012, the Directors, Messrs. Ron and Aparicio, did not receive any bonus payment due to the fact that the conditions for receiving the bonus were not met in financial year 2012.

Other:

The proprietary Director and Vice Chairman of the Board, José María Arias Mosquera, was not compensated for his performance since the directorship is an unremunerated position. However, pursuant to the agreements reached in the past and in effect prior to his joining the staff of Banco Pastor , he did receive the sum of 939,000 for early retirement as the Chief Executive Officer of Banco Pastor and his resignation from the bank's Board. This compensation was paid out of provisions that had already been set up by Banco Pastor before he joined Banco Popular.

The cost in 2012 to cover the pension commitments to Mr. Arias, likewise assumed and funded by Banco Pastor prior to his joining Banco Popular, totalled 3,500,000 euros, and the vested rights and mathematical reserves connected with retirement pension totalled 13,883,000 euros.

The total cost to the Bank in 2012 of the contributions to the retirement pensions of Messrs. Ron and Aparico was 676,000 euros, which breaks down to 266,000 euros for Mr. Ron and 410,000 euros for Mr. Aparicio. In 2011, the total was 251,000 euros. The Company also paid a total of 11,000 euros in life and health insurance premiums for these Directors.

The vested rights and mathematical reserves connected with the pensions of the current directors, Messrs. Ron, Aparicio and Higuera, were 6,070,000, 2,408,000 and 9,941,000, respectively, for a total of 18,419,000 euros, plus 36,625,000 euros pertaining to past Director, bringing the total at 31 December 2012 to 55,044,000 euros. At 31 December 2011 this figure was 55,636,000.

b) For membership by Board members of other boards of directors and/or of senior management of Group companies:

Compensation category	**Thousand euros**
Fixed remuneration	0
Variable remuneration	0
Per diems	0
Directors' fees	0
Stock options and/or other financial instruments	0
Other	0
Total	0

Other benefits	**Thousand euros**
Advances	0
Loans granted	0
Pension plans and funds: Contributions	0
Pension plans and funds: Obligations	0
Life insurance premiums	0
Guarantees secured by the Company in favour of Directors	0

c) Total remuneration by type of director:

Type of Director	By company	By group (€000)
Executive	1,819	0
External proprietary	0	0
External independent	0	0
Other external	0	0
Total	1,819	0

d) With respect to the attributed income of the parent company

Total Director Compensation (thousand euros)	1,819
Total Director Compensation Profit attributed to the Parent Company (expressed in %)	- 0.739%

B.1.12 List the members of senior management who are not executive directors and show the total remuneration earned by them during the year:

Name	Title
Jesús Arellano Escobar	Control and Default General Management
Francisco Gómez Martín	General Risk Management
Jacobo González-Robatto Fernández	Director of Corporate Finance
Eutimio Morales López	Comptroller
Alberto Muñoz Fernández	Office of the Chairman
Ángel Rivera Congosto	General Business Management
Fernando Rodríguez Baquero	Director of Technical Resources
Francisco Sancha Bermejo	Technical Secretariat

Total remuneration of members of senior management (thousand euros)	3,733

This amount includes the cost of life and health insurance premiums, as analysed in Note 10 to the Financial Statements in the Annual Report.

B.1.13 State, on an aggregate basis, whether there are guarantee or protective measures in the event of dismissal or changes of control for members of the senior management, including executive directors, of the company or of its group. State whether these contracts have to be notified to and/or approved by the governing bodies of the company or of its group:

Number of beneficiaries	0

	Board of Directors	Shareholders Mtg
Body that approves the clauses	-	-

Is the general Meeting informed of clauses?	-

B.1.14 Describe the process for setting Board members' remuneration and the relevant Bylaw articles.

Process for establishing remuneration for the Members of the Board of Directors and the bylaws:

Article 17 of the bylaws stipulates that the policy for remuneration of directors shall conform to the Bank's traditional criterion of not remunerating discharge of the office of Board Member.

The foregoing rule is compatible with receipt of such fees or salaries as may correspond to Board members that render professional or employment services, for other executive, advisory or representation functions, if any, which they perform other than those of supervision, deliberation, and adoption of resolutions that are proper to their status as directors.

Directors with no professional or employment relationship with the Bank shall have no remuneration except for group and third-party liability insurance for their actions as Directors.

Article 21 of the Board Regulations establishes that the Board of Directors shall review the policy of directors' remuneration, adopting such measures as it deems appropriate for the maintenance, correction or improvement thereof and, in particular, to conform it to the principles of moderation and relation to the earnings of the Bank. When establishing this policy, the Board will follow the recommendation of the Unified Code of Good Governance.

The Appointments, Remuneration, Corporate Governance and Conflicts of Interests Committee assists the Board in these areas and, in this connection, verifies that the remuneration paid to Executive Directors and Senior Management personnel conforms to the principles established by the Group: i) moderation and alignment with the Bank's performance, ii) transparency in the information publicly disclosed, iii) variable remuneration must be related to the professional performance of its beneficiaries and not be derived merely from the general development of markets or the sector, iv) no per diems are to be established for participating in the Board of Directors and its Committees.

It also assesses remuneration policies and practices and checks that the composition and amount of remuneration paid to the Executive Directors and Senior Management personnel conforms to the remuneration principles established by the Group and to the criteria laid down in the Remuneration policy which is submitted to the General Shareholders' Meeting.

In this respect, it checks that the fixed remuneration paid to Executive Directors and Senior Management personnel is line with the services rendered and responsibilities assumed; that variable remuneration conforms to the principles of moderation, professional performance and relation to the Bank's performance; and that the combination of both these types of remuneration is in line with the risk assumed by the Bank.

Remuneration and consultation policy for the Board of Directors

At the proposal of the Appointment, Remuneration, Corporate Governance and Conflict of Interest Commission, the Board of Directors shall approve the remuneration policy for Directors, which must cover at least the following matters: the amount of fixed components, broken down if appropriate, regarding the per diems paid for participation on the Board and its Commissions, and an estimate of the fixed annual remuneration they represent; variable remuneration, including in particular the main characteristics of the applicable retirement plans and the conditions that the agreements with those exercising these senior management duties of Executive Directors must meet.

The report approved by the Board of Directors regarding Director's remuneration policy is submitted by the Board to a vote by the General Meeting as a separate point of the agenda and on a consultation basis. This report is made available to shareholders.

This report particularly focuses on the remuneration policy approved by the Board for the year already in progress, as well as any expected to be in force in future years. It covers all matters regarding the compensation policy, except for any that could involve the revelation of sensitive business information. It emphasizes the most significant changes in these policies compared with the policy applied last year to which the General Meeting refers. It also includes an overall summary of how the compensation policy was applied last year. The Board will also provide information of the role played by the Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission when preparing the compensation policy and, if any external advisory services were used, the identity of the external consultants will be revealed.

Information regarding Compensation

Director remuneration is transparent. The Board of Directors reports in on the remuneration received by Directors in both the Annual Financial Statements and the Annual Corporate Governance Report. The annual financial statements detail the individual compensation received by directors during the year, with an itemised breakdown of the compensation received by each Director along with information on the ratio of the compensation received by the executive directors to the company's performance. The report also provides itemised information on any shares, stock options or other instruments tied to the value of the company's stock delivered to Directors.

Application of the Code of Good Corporate Governance

The rules regarding compensation set out in the Board Regulations and the General Meeting Regulations are applied and interpreted in accordance with the recommendations established in the chapter regarding compensation in the Unified Code of Good Governance dated May 22, 2006.

Similarly, and in accordance with Bank of Spain recommendations, the Board of Directors, following a report by the Appointments, Remuneration, Corporate Governance and Conflicts of Interests Committee, has reviewed the extent to which the Bank's Remuneration policy conforms to the remuneration Principles and Standards for financial institutions issued by the "Financial Stability Board" and the "Committee of European Banking Supervisors" and has adopted the aforementioned Principles and Standards to guarantee that its remuneration policy conforms to good practice in this area.

In order to bring Banco Popular's remuneration policies in line with the requirements of Directive 2010/76/EU of 24 November 2010 on the supervision of remuneration policies and CEBS principles, the General Meeting of Shareholders held on 11 June 2012 approved a deferred and conditional Variable Remuneration Plan for 2012 applicable to officers and directors and other employees who assume risks or perform control functions.

The Plan establishes specific conditions that must be met in order for bonuses to be paid:

1. For all bonuses, 50% will be paid in cash and the other 50% will be in the form of Banco Popular shares.

2. 50% of the each bonus item, that is both the cash portion and the portion payable in the form of shares, will be deferred in time, with the deferred portion being paid in equal amounts over a three-year period. Hence, the non-deferred portion of the 2012 bonuswill be paid in 2013, while the deferred portion will be paid in three instalments in 2014, 2015 and 2016.

3. The shares delivered as bonuses may not be disposed of for one year. This applies to the net value of the shares after deducting the amount needed to pay the taxes on the shares received.

4. In addition, there are certain situations in which the bonus payment may be reduced or cancelled altogether if, in the opinion of the Board of Directors and based on recommendations of the Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee: i) the Bank's financial performance is deficient; ii) the beneficiary fails to comply with internal codes and standards; iii) the Bank's financial statements have to be reformulated, except due to changes in the applicable accounting standards and iv) significant changes in the company's capital and the qualitative assessment of the Group's risks.

The remuneration policy for 2012 shall also take into consideration the Directive of the European Parliament and of the Council 2010/76/EU of 24 November 2010, which was published in 2010 and lays down provisions regarding the remuneration policies and practices of credit entities, as well as the guide to the interpretation of this Directive which was published in December 2010 by the Committee of European Banking Supervisors (CEBS), the purpose of which is to clarify and set out in detail the interpretation criteria to be applied in relation to the provisions of the Directive

The terms of Royal Decree 771/2011 of 3 June were taken into account when preparing the report this year, which contains the information required in article 61. ter of the Stock Market Act in the wording introduced by the Sustainable Economy Act.

Indicate whether the Full Board approves the following decisions.

At the proposal of the Chief Executive Officer, the appointment and dismissal of senior executives, as well as their indemnities	YES
Compensation for Directors, as well as additional compensation for executive duties, in the case of Executive Directors, and any other conditions that their contracts must respect.	YES

B.1.15 Indicate whether or not the Board of Directors approves a detailed compensation policy and specify the matters it covers:

YES

A breakdown of any fixed components of the per diems paid for participation on the Board and its Commissions and an estimate of the fixed annual compensation they represent	YES
Any variable compensation	YES
Main characteristics of retirement plans, including an estimate of their amount or equivalent annual cost.	YES
The conditions that must be respected by the contracts for members of senior management such as executive Directors, including the term, advance notice requirements and any other clause relating to contract bonuses such as indemnities or "golden parachutes" invoked upon early completion or termination of the contractual relationship.	YES

B.1.16 Indicate whether or not the Board submits a report regarding the compensation policy for Directors to a vote by the General Meeting. If so, explain the content of the report regarding the compensation policy approved by the Board for future years, the most significant changes in these policies compared with the policy applied during the year and an overall summary of how the compensation policy was applied during the year. Provide details of the role played by the Compensation Commission and whether or not external advisory services were used and if so, reveal the identity of the external consultants that rendered these services:

YES

Matters covered by the compensation policy report

In line with the corporate culture at the Bank, the compensation policy for the year followed these principles:

1. No remuneration is paid for the holding of office as Director, but rather for the performance of other duties and services rendered to the Bank which are performed by Directors classed as Executive Directors.
2. Transparency in information regarding remuneration paid to Board Members.
3. Coherence with the Bank's long-term business strategy, objectives, values and interests.
4. Application of the principles of moderation and alignment with the performance of the Bank when establishing remuneration for Executive Directors, such principles being reflected in the Bank's remuneration policy for Senior Management.
5. Variable remuneration must be related to the professional performance of its beneficiaries and not be derived merely from the general development of markets or the sector, or other similar circumstances.
6. Proportionality between fixed and variable remuneration.
7. No per diems may be established for participating in the Board of Directors and its Committees. No relevant changes in the compensation policy are expected to take place in future years.

Role of the Remuneration Committee

The Appointments, Remuneration, Corporate Governance and Conflicts of Interests Committee evaluates remuneration policies and practices annually and checks that the remuneration paid to Executive Directors and Senior Management personnel is in accordance with the remuneration principles established by the Group and with the criteria reflected in the Remuneration policy which is submitted to the General Shareholders' Meeting.

It checks that the fixed remuneration paid to Executive Directors and Senior Management personnel is appropriate to the level of the service provided and responsibilities assumed; that variable remuneration is concordant with the principles of moderation, professional performance and relation to the Bank's performance; and that the combination of both is in accordance with the risk assumed by the Bank.

Finally, based on the work performed, the Committee prepares and proposes to the Board of Directors its Annual Report on the Remuneration Policy for Directors and Senior Management, presenting this to the Board of Directors so that it may be submitted to the General Meeting of Shareholders as a separate point on the Agenda so that a consultation vote may be taken.

Were external advisers used?	NO
Identity of the external consultants	

B.1.17 State the names of Board members, if any, that are also Board members or executives of companies with significant shareholdings in the listed company and/or in its Group companies:

Name	Name of the significant shareholder	Title
Arias, José María	Fundación Barrié de la Maza	Chairman
Ferreira de Amorim, Américo	Unión Europea de Inversiones. S.A.	Director
Tardío, Vicente	Allianz. S.A.. CíA.Seguros y Reaseguros	Chairman-CEO

State the relevant relationships, if any, other than those addressed above, of Board members linking them with the significant shareholders and/or Group entit

Name of related party director	Name or related shareholder	Relationship
Ferreira de Amorim, Américo	Topbreach Holding. B.V.	Controlling shareholders
Nigorra, Miguel	Unión Europea de Inversiones. S.A.	Related to a Director

B.1.18 Indicate whether or not there has been any modification made to the Board Regulations during the year:

NO

Description of modifications

B.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing Directors. List the competent bodies, the procedures to be followed and the criteria to be employed within the each procedure.

The procedures for the appointment, re-election, evaluation and dismissal of Directors are regulated in detail in the Bylaws and Board Regulations.

Appointment

The Appointment of Directors and the determination of their number, in accordance with the bylaws, is the responsibility of the General Meeting, such that due representation and efficient operations are guaranteed.

If, during the term for which Directors were appointed any vacancy arises, the Board may designate from among shareholders the person that will occupy this post until the next General Meeting is held by Shareholders.

Furthermore, the full Board of Directors retains the authority to approve the Appointment of the Bank's CEO.

Proposals with respect to the appointment and re-election of Directors which are submitted by the Board of Directors for the consideration of the General Meeting, and appointments of Directors made by co-optation, are required to refer to individuals who, apart from meeting the pertinent legal requirements and requirements of the Bylaws for the position concerned, enjoy prestige and a reputation of commercial and professional honourability, as well as having the professional knowledge and experience necessary for the performance of their functions.

Procedure for appointment and re-election

The nomination and re-election of Directors is done through a formal and transparent procedure. Proposals to nominate or re-elect Directors made by the Board of Directors to the General Meeting, as well as the appointment of Directors through designation, must be covered by a prior proposal from the Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission, in the case of independent Directors, or a report from that Commission in the case of all other Directors.

The Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission ensures that new vacancies are filled:

a) By ensuring that selection procedures do not have any implicit bias that could raise obstacles to the selection of women Directors;

b) By ensuring that the Company deliberately seeks, and includes among potential candidates, women that have the target professional profile.

Consideration shall be had in the appointment of directors to the conditions, experience and skills and, accordingly, the executive or external, independent or proprietary nature of the Director appointed.

The Board of Directors shall exercise its powers of proposing appointments to the Shareholders' Meeting and of appointment by co-option in such a way that the external directors constitute an ample majority over the Executive Directors on the Board. The number of directors with executive functions shall not exceed one third of the members of the Board.

Also, the Board shall endeavour to ensure that the directors as a whole represent a relevant percentage of the capital stock.

Term of office, re-election and evaluation

The term of office of the directors four (4) years, unless the Director was appointed for a longer term of office prior to 11 June 2012, in which case they will continue until the expiration of their terms of office. At the end of this term, the directors may be re-elected for one or more periods of the same maximum duration, at the proposal of the Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee, evaluating the work done by the director and his effective commitment to the office during the latest period.

The Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission is the competent body for revising the criteria that must be applied with respect to the composition of the Board of Directors and the selection of candidates. In this respect, the competencies, knowledge and experience that is necessary on the Board must be evaluated and the necessary duties and aptitudes for candidates that cover each vacancy must be determined, while bearing in mind the time and dedication that are necessary to adequately perform the duties of the position.

At the time the Corporate Governance report is approved and before the report from the Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission is received, the Board evaluates the quality and efficiency of the operations carried out by the Board, it's Commissions as well as the fulfilment of the duties of the Chairman of the Board.

The Board may contract external consultants to carry out this evaluation process.

Removal

The Board of Directors is the competent body to determine the cause of termination of Directors and to accept resignations.

The Board of Directors will not propose the removal of any independent Director prior to the end of the statutory period for which they were appointed, unless there is just cause appreciated by the Board after having received a report from the Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission, or as a result of public share offerings, mergers or other similar corporate transactions.

B.1.20 Indicate cases in which Directors are obliged to resign.

Directors shall resign when the term of office for which they were appointed has elapsed or when the Shareholders' Meeting so decides, and in all such other cases as may be applicable by law or under the Bylaws. Article 16 of the Board Regulations states that Directors must offer to resign and, if the Board considers it advisable, must formally submit their resignation in the following cases:

a) In the case of executive directors, when they cease to occupy the posts to which their appointment as directors was connected.
b) When they are affected by any of the legally envisaged situations of incompatibility or prohibition.
c) If their continuation as Board members may negatively affect the functioning of the Board or the standing and reputation of the Bank in the marketplace, or may jeopardize its interests.

If a Director is prosecuted or if the opening of oral proceedings takes place with respect to any of the crimes indicated under Article 213 of the Capital Companies Act, the Board will examine the case as soon as possible, and in the light of the specific circumstances at hand must reach a decision as to whether or not the Director will remain on the Board. Any such action will be explained by the Board in the Annual Corporate Governance Report.

d) In the case of a proprietary Director, when the shareholder whose interests are being represented on the Board disposes of its stake in the Company or significantly reduces that shareholding or reduces it below the percentage that the Board determines at any given moment, or to the point at which a reduction in the number of its proprietary Directors is required, notwithstanding their possible re-election as Executive Director, independent Director or proprietary Director representing another shareholder.

When a Director leaves the Board before the end of his/her term, whether due to resignation or any other reason, the reasons must be explained in a letter sent to all of the members of the Board of Directors.

In all cases in which a Director resigns or leads before the end of his/her term for any other reason, the Bank will report this decision under Relevant Events in the Annual Corporate Governance Report.

B.1.21 State whether the Bank's chief executive is also Chairman of the Board of Directors. If so, describe the measures taken to limit the accumulation of powers in a single person:

YES

Measures to limit risks

Mr. Ángel Ron Güimil, Chairman of the Board of Directors, is the Bank's CEO.

The Entity's governing bodies have differing areas of authority. On the one hand, the day-to-day management of the Bank is entrusted to the General Management Committee, which is made up of the General Financial and Corporate Manager, the General Business Manager, the General Control and Default Manager, the General Risks Manager, the General Comptroller, the Technical Resources Manager and the General Technical Secretary.

In the distribution of functions, consideration has been given to the nature of Banco Popular's business and the increasing complexity and specialisation which its financial activity and the Group's international presence require. The corporate and finance units, commercial business, risks, the comptroller, control and default and technical resources units and the office of the general technical secretary, plus those units directly related to them, are supervised by the General Management Committee.

Each of the members of the General Management has been granted extensive powers in his/her respective area of competence. The Management Committee analyses and decides upon proposals made by the different business areas, giving the General Management a broader and more thorough view of these areas, and undertakes the implementation and practical application of policies established by the Group.

The bylaws stipulate that in the event of the absence, illness, resignation or force majeure the Vice-Chairman, or one of them if there are more than one, will stand in for the Chairman. If no Vice-chairman has been appointed, or in the event of absence or impossibility of that or those appointed, the Chairman shall successively be replaced by the Chairman of the Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee and the Chairman of the Audit and Control Committee, who are independent directors.

Indicate and explain, if appropriate, whether or not rules have been established to facilitate the calling of a Board meeting or adding new points to the agenda by and Independent Director in order to coordinate and express the concerns of external Directors and to direct evaluations by the Board of Directors

YES

Explanation of the rules

Article 7 of the Board Regulations stipulates that when the Chairman of the Board is also the Bank's CEO, the Board of Directors will authorize one of the independent Directors to call a meeting of the Board and include new points in the agenda in order to coordinate and express the concerns of external Directors and to direct evaluations by the Board of its Chairman. In the event that an independent Director has not been expressly authorized to exercise these powers, they will fall to the Vice-Chairman of the Board or, successively, the Chairman of the Appointments, Compensation, Corporate Governance and Conflicts of Interests Commission and the Chairman of the Audit and Control Commission, in the case of an absence of the first party.

B.1.22 Is a reinforced majority, other than those legally stipulated, required for any kind of decision?

NO

State how the Board adopts resolutions, indicating at least the minimum quorum and types of majority for adoption of resolutions:

Quorum of attendance:

Article 17 of the Bylaws states that: The Board of Directors will be validly called to order when half plus one of its members are present or represented at the meeting.

In addition, Article 12 of the Board Regulations states that: "For the Board of Directors to be validly convened, half plus one of the Board members must be present or represented at the meeting, unless the meeting has not been formally called, in which case the attendance of all Board members is required. If the number of directors attending is uneven, a sufficient quorum will be deemed to exist if those present are more than half of the Directors."

Quorum for the passing of resolutions:

Article 17 of the Bylaws states that resolutions are to be adopted by an absolute majority of Directors present.

Article 22 of the Bylaws, in turn, states that the valid delegation on a permanent basis of any power of the Board of Directors to the Chairman, to the Executive Committee or to the CEO, and the valid appointment of directors to these offices, shall require the vote in favour of two thirds of the Board members.

The Board Regulations state that resolutions are to be adopted with the vote in favour of an absolute majority of Directors present or represented at the meeting, except in those cases in which a higher quorum is required by law or by the Bylaws; voting without an actual session being held, whether in written form, by videoconference or any other electronic distance communications system, is acceptable only when there is no Director who opposes such procedure and the requirements of the Spanish Companies Law and Mercantile Registry Regulations are met.

B.1.23 State whether there are specific requirements, other than those relating to directors, for appointment as Chairman.

YES

Description of requirements

In accordance with Article 17, the Chairman of the Board must be a Director definitively ratified or elected as such by the General Meeting.

B.1.24 State whether the Chairman has a casting vote:

NO

Matters for which there is a casting vote

-

B.1.25 State whether the Bylaws or the Board Regulations set any age limit for Directors

NO

Age limit for Chairman -
Age limit for CEO -
Age limit for director -

B.1.26 State whether the Bylaws or the Board Regulations set a limited term of office for independent directors:

NO

Article 15 of the Board Regulations stipulates that in the event a Director holds his/her position for 12 or more years the Board of Directors, based on a Report from the Appointments, Compensation, Corporate Governance and Conflicts of Interests Commission will decide, at the time the Annual Corporate Governance Report is issued for the period in which this deadline is reached, whether or not circumstances are in place that make it advisable to change the category of that Director or whether it is appropriate for that Director to maintain his/her classification as Independent. When evaluating independence the Director's dedication and performance in the post without receiving any compensation whatsoever, maintaining a continuous and considerable stake in capital stock as compared with all of his/her financial investments and precise compliance with all other independence conditions mentioned in this Article will all be taken into consideration.

Maximum years of term of office -

B.1.27. In the event that there are few or no women Directors, explain the reasons and the initiatives taken to correct this situation

Explanation of the reasons and the initiatives

As a consequence of the agreements reached with the Barrié de la Maza Foundation in connection with the Banco Popular's takeover bid for Banco Pastor, three new Directors were appointed to the Board during the year.

One of the new Directors, Barrié de la Maza Foundation, designated Ana José Varela, the Foundation's Director of Investments, as it representative on the Board.

Article 14.5 of the Board Regulations stipulates that the Appointments, Compensation, Corporate Governance and Conflicts of Interests Commission will ensure that selection procedures to fill vacancies will not be biased in such a way that raises obstacles for the selection of women which the Company deliberately seeks to include, and does include among potential candidates women that meet the target professional profile.

In particular, indicate whether or not the Appointments, Compensation, Corporate Governance, and Conflicts of Interest Commission has established procedures to prevent selection processes from being implicitly biased and raising obstacles for the selection of women Directors and that it deliberately seeks candidates that meet the required profile:

YES

Indicate the main procedures

The procedure established by Banco Popular for the selection of Directors is not implicitly biased in such a way as to impede the inclusion of women in the Board of Directors.

The Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee assists the Board in its functions relating to the appointment and re-election of Directors, and is required to oversee the integrity of the process for the selection of Directors, ensuring that candidatures refer to persons whose profile is suited to the vacancy in question and who enjoy a reputation of commercial and professional honourability, as well as having the professional knowledge and experience necessary for the performance of their functions.

This Commission evaluates the knowledge and experience of Directors and defines the duties and aptitudes that are necessary for candidates, evaluates the time and dedication necessary for the tasks to be successfully discharged and ensures that the procedures established for the selection process do not have any implicit biases that could raise obstacles against the selection of women Directors and that the Bank deliberately seek and include women that meet the desired professional profile among the potential candidates.

B.1.28 State whether or not there are formal processes for delegating votes within the Board of Directors. Briefly explain any that exist.

Article 17 of the Bylaws envisages the possibility for Directors to appoint another Director to represent them at Board meetings.

Article 12 of the Board Regulations stipulates that: Directors will make all efforts to attend Board meetings and ensure that any absences are absolutely essential, and that all such absences be reported in the Annual Corporate Governance Report. If a meeting cannot be attended, another member of the Board may be appointed representative and communicate all relevant instructions. Notification of representation may be given in writing by any means, including telegram, fax or e-mail, to the Chairman or Secretary of the Board.

B.1.29 Indicate the number of meetings that have been held by the Board of Directors during the year. Also indicate any meetings that were held in the absence of the Chairman:

Number of Board meetings	11
Number of meetings held in the absence of the Chairman	0

State how often the various Board committees met during the year:

Meetings of the Executive Committee	33
Number of meetings of the Audit Committee	9
Number of meetings of the Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	11

B.1.30 Indicate the number of meetings held by the Board of Directors during the year that were not attended by all members. The calculation will take into consideration all representation without specific instructions as absences:

Number of absences of Directors during the year	0
% of absences compared with total votes during the year	0

B.1.31 State whether the individual and consolidated financial statements submitted to the Board for approval are previously certified:

YES

The Office of the Bank's General Comptroller is responsible for the drafting and presentation of all the financial documentation which appears in the Financial Statements. The General Comptroller, as the person ultimately responsible for this financial information, signs the accounts and certifies their accuracy.

The Audit and Control Committee assists the Board of Directors with supervising the financial statements and the Bank's internal control systems in place within its Financial Group and the Board of Directors prepare the financial statements that are signed by all Directors.

State, if appropriate, the person(s) that certified the company's individual and consolidated financial statements for formulation by the Board:

Name	**Title**
Javier Moreno	Controller

B.1.32 Describe the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements prepared and submitted to the Shareholders' Meeting from containing qualifications in the auditors' report.

The Board of Directors tries to ensure that the individual and consolidated financial statements that it prepares and submits to the General Meeting do not contain any reservations or qualifications in the Audit Report, and when it must be so both the Chairman of the Audit and Control Committee and the external auditor will clearly explain to shareholders the content and scope of the discrepancies and these reservations or qualifications.

The mechanisms established by the Board of Directors are, among others, the following:

1. With respect to the Bank's Internal Services.

The Bank's Internal Services will prepare the individual and consolidated financial statements with rigor and in accordance with generally accepted accounting principles and standards, ensuring:

a) That the financial statements give a true and fair view of the net worth, financial position and results of operations and contain the necessary information sufficient for understanding thereof.
b) An adequate definition of the scope of consolidation and the proper application of accounting standards.
c) That they clearly and simply explain economic, financial and legal risks that may be incurred.
d) That the principles and standards applied are in line with those applied in the previous year.

2. With respect to the Audit and Control Committee.

That the Audit and Control Committee assist the Board of Directors with its duties to supervise and control the Bank through:

a) The review of the individual and consolidated financial statements prepared by the Bank's Internal Services and the monitoring of the operation of procedures and internal financial control manuals adopted by the Bank.
b) Regular reviews of the Bank's internal control and risk management systems, so that the main risks are identified, managed and adequately reported.
c) Hold meetings with the external auditor to receive any information relating to the audit process that is necessary, as well as to analyse and review any matters that are considered to be of special importance.

B.1.33 Is the Secretary of the Board a Director?

YES

B.1.34 Explain the procedures for appointing and removing the Secretary to the Board, indicating whether or not the appointment and removal have been reported by the Appointments Committee and approved by the full Board of Directors.

Procedure for appointment and removal

The position of Secretary is regulated by Article 9 of the Board Regulations, which establishes the authorities granted and procedure for the appointment of a Secretary.

To safeguard the independence, impartiality and professionalism of the Secretary, the appointment to and removal from this position must be the subject of a prior report from the Appointments, Compensation, Corporate Governance and the Conflicts of Interest Committee. When the Board does not follow the recommendations of this Committee, reasons for justifying this action must exist and be formally stated in the minutes to the meeting concerned.

Proposals for nominations or re-elections must involve candidates holding a Degree in Law and they must also comply with the legal and statutory requirements for the position, be of recognized prestige and possess the knowledge and professional experience that are adequate to discharging the duties of Secretary.

Each year, when the Board of Directors is evaluated, the performance of the Secretary of the Board is evaluated as well.

Does the Appointments Committee report nominations?	YES
Does the Appointments Committee report removals?	YES
Does the full Board approve nominations?	YES
Does the full Board approve removals?	YES

Is the Secretary to the Board entrusted with the duty, in particular, to follow good governance recommendations?

YES

Comments

Article 9 of the Board of Directors' regulation establishes that, besides of their duties assigned by Law or by the companies' by-laws, it is its duty to take care that the principles of Corporate Governance of Banco Popular are observed.

B.1.35 Describe the mechanisms, if any, established by the Bank to safeguard the independence of auditors, financial analysts, investment banks and rating agencies.

Articles 24 and 31 of the Board Regulations identify the mechanisms established to preserve the independence of the external auditor. The relationship between the Board of Directors and the external auditor are channelled through the Audit and Control Committee, which is the competent body for:

a) Proposing to the Board of Directors for submission to the Shareholders' Meeting the appointment of external auditors, the conditions of hiring, the scope of the professional mandate and, when appropriate, the revocation or non-renewal of such mandate and replacement of the auditor.

b) Supervising fulfilment of the audit contract, endeavouring that the auditors' opinion on the financial statements and the main contents of the auditors' report are drafted clearly and accurately.

c) Receiving regular information from the external auditor regarding the audit plan and the results of management, evaluate the results of each audit and verify that senior management takes into account the auditor's recommendations, as well as mediate in any case of discrepancy between these parties and with the auditor with respect to the principles and standards applied when preparing the financial statements.

d) Liaising with the external auditors to receive information about any issues potentially jeopardizing the auditors' independence and any other issues connected with the process of performance of the audit, as well as the other communications stipulated in audit legislation and technical auditing standards.

e) Receiving annually written confirmation from the Auditors about its independency in front of the Company and the information about the additional services they render. The Committee will issue annually, previously to the issuance of its Auditors' Report, an opinion on the independency of the Auditors.

f) Ensuring that the financial statements that the Board of Directors submits to the General Meeting do not contain any reservations or qualifications in the Audit Report and, when this must be the case, ensure that both the Chairman of the Committee and the auditors provide clearer explanations to the public and, in particular, to shareholders, including the content and scope of the discrepancies and any reservations or qualifications.

Furthermore, to ensure the independence of the external auditor:

a) Any change in the auditor will be reported as a Relevant Event to the Spanish Securities and Exchange Commission and indicate any disagreements with the exiting auditor and any discrepancies with the content of the Report.

b) The Committee will ensure that the Bank and the auditor respect current regulations regarding the rendering of services other than audit, limits to the concentration of the Auditor's business and, in general, any other regulation established to ensure the independence of auditors;

c) Should the external auditor resign, the Audit and Control Committee will examine the reasons for doing so.

Similarly, no services other than audit services are to be contracted with the external auditor, so as not to jeopardise such auditor's independence.

In any event, the Committee is required by the provisions of the audit law (Law 19/1988 of 12 July)to receive annually from the auditors written confirmation as to their independence vis-à-vis the bank or entities related to it either directly or indirectly, and information on additional services of any kind provided to these entities by the auditors or by persons or entities related to them.

The Committee is required to issue annually, prior to the issue of the audit report, a report expressing its opinion as to the auditors' independence. This report, where appropriate, is required to comment upon the provision of additional services, as referred to in the previous section.

Finally, in accordance with the provisions of Board Regulations, under the heading B.1.37 below information is provided of the overall fees paid during the year to the audit firm for services other than audit.

The Investor Relations Department with is entrusted with maintaining communications with institutional shareholders and financial analysts who cover the Banco Popular share, ensuring that they are given no privileged information which is not disclosed to other shareholders.

Regarding the rating agencies, the Bank has hired the services of the three main international rating agencies. The designated area to maintain the relationship with the rating agencies is the Financial Management of Group Banco Popular.

B.1.36 State whether or not the Company changed its external auditor during the year. If so, identify the exiting and entering auditor:

NO

Outgoing auditor	Incoming auditor
-	-

If there were any disagreements with the exiting auditor, explain:

NO

Explanation of disagreements

B.1.37 State whether the audit firm has done work for the Bank and/or its group other than audit work and, if so, state the fees received by it for such work and the amount of such fees as a percentage of the fees billed to the Bank and/or its group:

YES

	Company	Group	Total
Amount (€k) of work other than audit work	1,160	1,334	2,494
Amount of non-audit work / Total amount invoiced by audit firm (%)	33.66%	28.64%	30.77%

B.1.38 State whether the audit report for the financial statements for the preceding year contain any reservations or qualifications. If appropriate, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of any such reservations or qualifications.

NO

Explanation of reasons

B.1.39 State the number of years that the current audit firm has performed the audit of the company's and/or its group's financial statements without interruption. In addition, state the percentage that the number of years audited by the current audit firm represents with respect to the total number of years that the financial statements have been audited:

	Company	Group
Number of uninterrupted years	31	31

	Company	Group
Number of years audited by the present audit firm as a % of the years for which audits have been performed:	96	96

B.1.40 Indicate the holdings by members of the Bank's Board of Directors in the capital of companies engaging in activities identical, similar or supplementary to those of the corporate purpose of the Bank or of its group which have been reported to the Bank. Furthermore, indicate the positions or duties that are fulfilled at these companies:

Name	Name of the company	% interest	Position or functions
Asociación de Dir, BPE	-	-	-
Aparicio, Francisco	Targobank	-	Director
	Banco Popular Pastor	-	Director
Arias, José Maria	Banco Popular Pastor	-	Chairman
	B. Santander	0	-
	BBVA	0	-
F, de Amorim, Américo	Millenium bcp	0	-
	Banco BIC (Angola)	25.00	Director
	Banco BIC Portugués	25.00	Director
	Banco LJ Carregosa	7.94	Director
	Banco Único (Mozambique)	72.89	-
	Banco Luso Brasileiro	33.33	Chairman
Fradin, Alain	CrédIt Mutuel-CIC Bail	-	Chairman Managing Director
	Targobank	-	Chairman
Fundación Barrié de la Maza	B.Santander	0	-
Gancedo, Eric	Bancopopular-e	-	Chairman
	Popular Banca Privada	-	Director
	Targobank	-	Vice President
	Banco Popular Pastor	-	Director
Higuera, Roberto	-	-	-

Name	Name of the company	% interest	Position or functions
Herrando, Luis	Popular Banca Privada	-	Chairman
Maianca Inversión, S,L,	-	-	-
Molins, Ana María	-	-	-
Nigorra, Miguel	-	-	-
Revoredo, Helena	Banco Santander	0	-
Rodríguez, José Ramón	Banco Popular Pastor	0	Vice President
Ron, Ángel	-	-	-
Sindicatura de Accs, BPE	-	-	-
Solís, Miguel Ángel de	-	-	-
Tardío, Vicente	BBVA	0.00	-
	Unicrédito Italiano	0.00	-
	B.Santander	0.00	-
Allianz, SE	Bulbank AD	2.91	-
	Zagrebacka banka d.d.	11.72	-
	Oldenburgische Landesbank AG	90.19	-
	Gruppo Banca Leonardo S.p.A.	2.91	-
	Unicredit Spa (Italy)	2.04	-
	Allianz Bank Bulgaria ISC (Bulgaria)	99,9	-
	Allianz Banque SA (France)	100	-
	Allianz Bank Financial Advisors S.p.A. (Italy)	100	-
	Banco BPI, SA (Portugal)	8.83	-
	FHB Mortgage Bank plc (Hungary)	10.57	-
Unión Europea de Inversiones, S.A.	-	-	-

At 31 December 2012, persons related to the members of the Board of Directors owned 12,822 shares of Banco de Santander, 500 shares of Banco Español de Crédito, 104,869 shares of BBVA, 1,789 shares of Bankinter, 1,810,884 shares of Banco BIC (Angola), 18,750,000 shares of Banco BIC Portugués, 47,642,229 shares of Banco LJ Carregosa, 636,276 shares of Banco Luso Brasileiro and 3,805,020 shares of Banco Único Mozambique.

B.1.41 State and, if appropriate, indicate if there is a procedure enabling directors to obtain external advice:

YES

Description of the procedure

All the directors have the right and the duty to request and obtain information and advice appropriate for discharge of their functions of supervision, in the broadest terms, routing their requests in this respect through the office of the Secretary of the Board, which will act by either directly furnishing the information, or by naming the appropriate interlocutors or arranging the measures enabling them to conduct examination in situ.

Article 20 of the Board Regulations establishes the right to receive expert assistance. In order to facilitate the work of the Directors, the Board guarantees them access to the services of the Bank's in-house experts. The Directors have the authority to propose to the Board of Directors the engagement, at the Bank's expense, of such external advisers as they may consider necessary to advise them on issues arising in the performance of their duties, when these issues are of a specific nature and are of a certain importance and complexity. The proposal must be conveyed to the Chairman through the Secretary of the Board. The Board may veto its approval by majority vote if it considers the proposal unnecessary, if its cost is disproportionate considering the level of importance of the issue in question and the assets and revenues of the Bank, or if there exists the possibility of such technical assistance being adequately provided by the Bank's own experts and technical staff.

B.1.42 State and, if appropriate, detail if there is a procedure enabling directors to obtain the necessary information to prepare with sufficient time for meetings of the governing bodies:

YES

Description of the procedure

The directors receive specifically prepared and focused information in good time to enable them to prepare on a timely basis for Board meetings, provided that the urgency and nature of the matter make this possible, with no limitations other than those imposed by the current legal and regulatory framework covering privileged information.

There is an Internet portal available to the members of the Board of Directors through which they have exclusive access to the documentation and information reserved for the Board, such as meeting agendas, presentations and other documentation needed for the sessions, as well as the minutes of past meetings.

Furthermore, the Secretary's Office has established a permanent channel of communication with Directors through a text-messaging system, through which they are informed of the public dissemination of information regarding the Bank, the posting of information and documentation of their interest to the aforementioned portal, etc.

Article 19 of the Board Regulations regulates the Directors' right to information in the following terms: The Directors have the broadest of powers to demand information on any aspect of the Bank, to examine its books, records and documents, to contact those in charge of the various departments, and to visit the Bank's installations and facilities, provided that this is necessary for the performance of their duties. This right to information is to be channelled through the Chairman or the Secretary of the Board, who are to deal with such requests from the Directors either by furnishing the information required directly, or by indicating the appropriate interlocutors, or by arranging such measures as may be necessary so that the information requested may be examined. The Board may refuse to grant the request for information if it feels the disclosure could be harmful to the Bank's corporate interests, without prejudice to the provisions of the Capital Companies Law.

B.1.43 State and, if appropriate, indicate whether the Company has established rules that require Directors to report and, if appropriate, resign, cases in which the credit and reputation of the Bank may be damaged:

YES

Explain these rules

Article 16.3.c) of the Board Regulations establishes the requirement that Directors make their post available to the Board of Directors and to prepare, if deemed advisable by the Board, their resignation in cases in which their remaining on the Board may negatively affect its operation or the credit and reputation of the Bank in the market or may endanger the interests of the Bank.

If a Director is prosecuted or if the opening of oral proceedings takes place with respect to any of the crimes indicated under Article 213 of the Capital Companies Act, the Board will examine the case as soon as possible and in the light of the specific circumstances at hand, must reach a decision as to whether or not the Director will remain on the Board.

In all cases in which a Director leaves his/her post before the end of the relevant term, whether through resignation or for any other reason, the reasons behind in this action must be explained in a letter that will be sent to all members of the Board of Directors, and the Bank will report this decision through the communication of a Relevant Event, indicating the aforementioned reasons in the Annual Corporate Governance Report.

B.1.44 State whether or not any member of the Board of Directors informed the Company of any prosecution or the start of any oral proceedings with respect to any of the crimes indicated under Article 124 of the Spanish Companies Act.

NO

Name of Director	Criminal Proceeding	Observations
-	-	-

State whether or not the Board of Directors has analysed the case. If yes, explain the decision taken as to whether or not the Director will remain on the Board.

NO

Decision taken	Reasoned explanation
-	-

B.2 Board of Directors Committees

B.2.1 State all the committees of the Board of Directors and the members thereof:

EXECUTIVE COMMITTEE

Name	Title	Type
Ron, Ángel	Chairman	Executive
Arias, José Maria	Director	Propietary
Higuera, Roberto	Director	Other external
Herrando, Luis	Director	Independent
Gancedo, Eric	Director	Independent
Rodríguez, José Ramón	Director	Independent
Aparicio, Francisco	Secretary	Executive

AUDIT AND CONTROL COMMITTEE

Name	Title	Type
Rodríguez, José Ramón	Chairman	Independent
Gancedo, Eric	Director	Independent
Higuera, Roberto	Director	Other external

APPOINTMENTS, COMPENSATION, CORPORATE GOVERNANCE AND CONFLICTS OF INTEREST COMMITTEE

Name	Title	Type
Herrando, Luis	Chairman	Independent
Gancedo, Eric	Director	Independent
Molins, Ana María	Director	Independent

RISK COMMITTEE

Name	Title	Type
Gancedo. Eric	Chairman	Independent
Herrando. Luis	Director	Independent
Unión Europea de Inversiones. S.A. (Oroviogoicoechea. Jorge)	Director	Proprietary
Rodríguez. José Ramón	Director	Independent
Aparicio. Francisco	Secretary	Executive
Gómez. Francisco	Spokesman	-

B.2.2 State whether or not the following duties fall to the Audit Committee.

Supervise the preparation and the integrity of financial information relating to the Company and, if appropriate, to the Group, reviewing compliance with legislative requirements, adequate definition of the scope of consolidation and the proper application of accounting standards.	YES
Regular reviews of the Bank's internal control and risk management systems, so that the main risks are identified, managed and adequately reported.	YES
Ensure the independence and efficiency of the internal audit function; proposed new selection, nomination, re-election and removal of the person responsible for internal audit; propose the budget for this service; receive regular information regarding its activities; and verify that senior management takes into account the conclusions and recommendations and its reports.	YES
Establish and supervise a mechanism that allows employees to confidentially, and if considered appropriate, anonymously, report any potentially significant irregularities, particularly those of a financial or accounting nature, observed within the company.	YES
Bring to the Board proposals for selecting, nominating, re-electing and replacing the external auditor and establish the conditions of the auditor's contract.	YES
Regularly receive information from the external auditor regarding the audit plan and the results of execution, and verify that senior management takes the recommendations made into account.	YES
Ensure the independence of the external auditor.	YES
In the case groups, ensure the group's auditor takes responsibility for the audit of group companies.	YES

B.2.3 Describe the rules of organization and operation and the responsibilities of each of the Board committees.

EXECUTIVE COMMITTEE

The Executive Committee is formed by the number of Directors designated by the Board of Directors at any given moment. The Chairman of the Bank and the CEO are standing members of this Committee.

The Board of Directors decides the composition of the Executive Committee and the appointment and removal of its members. The Members of the Committee cease to hold this position when they cease to be Directors of the Bank, or when so decided by the Board of Directors. The resolutions appointing members of the Executive Committee require the votes in favour of at least two thirds of the members of the Board of Directors.

The Chairman of the Board of Directors presides over the Committee, the CEO is the spokesman and the Secretary is the Secretary to the Board. The Secretary may be replaced by the Committee member chosen at the start of any meeting, or by one of the Vice-Secretaries to the Board of Directors.
The Executive Committee holds ordinary meetings regularly on a bimonthly basis and the meetings are considered to be validly convoked when half plus one of its members are present or represented. Its resolutions are adopted by absolute majority of the directors present or represented at the relevant meeting.

The resolutions adopted by the Executive Committee are valid and binding without any need for subsequent ratification by the full Board, although the Board must be informed of the issues discussed and the decisions taken at its meetings, and the minutes to those meetings must be made available to the Board.

The Board of Directors has currently delegated to the Executive Committee all its powers except those that pursuant to the law and to Article 5.2 of the Board Regulations cannot be delegated.

AUDIT AND CONTROL COMMITTEE

The Audit and Control Committee must consist of a minimum of three (3) and a maximum of five (5) Directors, designated by the Board of Directors, bearing in mind their knowledge, aptitudes and experience in the areas of accounting, audit and risk management, as well as the other tasks assigned to the Committee.

The Committee is composed of two independent Directors and one external other Director and is chaired by an independent Director.

The Board of Directors designates the Chairman of the Committee from among the Committee Members, as well as the Secretary, who does not necessarily have to be a member of the Committee. When the appointment of a Secretary is not necessary, the Secretary to the Board of Directors will assume this position. If the Chairman is absent the meeting is presided by the Director designated by the Committee and in the absence of the Secretary, these duties will be performed by the Committee member so designated, or the Vice Secretary or one of the Vice Secretaries to the Board of Directors.

The Members of the Committee cease to hold this position when they cease to be Directors of the Bank or when so decided by the Board of Directors.

Notwithstanding the above, the Chairman must be replaced every four years and may be re-elected once one year has passed since leaving the office, and may remain as a member of the Committee if so agreed by the Board of Directors.

The Audit and Control Committee must meet as often as may be necessary for the proper performance of its functions and whenever called to meet by its chairman or requested to do so by any of its members; it must hold at least two meetings a year and in any case whenever the Board requests the issuance of reports, the presentation of proposals or the adoption of resolutions within the sphere of its functions.

The proposals made by the Committee must be approved by the vote of a majority of the Members attending the meeting.

The Committee may request the attendance of the Group's external Auditors at its meetings in which their report on the financial statements and the management report of the Bank and of its consolidated group are to be examined. Furthermore, this Committee may request the attendance for reporting purposes of the Group's senior management, other Group directors and personnel, as well as other advisors or consultants, as appropriate. Any of the persons mentioned in this paragraph who are asked to attend the meetings shall be under the obligation to do so, offering their full cooperation and making all information they hold available. The Committee may seek the cooperation of these same persons to carry out work which it considers necessary for the performance of its duties, and may seek the advice of external professionals. In addition, the Committee may, in the performance of its duties, request the collaboration of the Board of Directors and its other Committees, the Directors and the Secretary and Vice- Secretaries of the Board.

The principal task of the Committee is to assist the Board of Directors with its duty to supervise and control the Bank by evaluating the system of accounting verification of the Group, by verifying the independence of the external auditors and by reviewing the internal control system. The Committee will keep the Board of Directors permanently informed of the performance of the duties for which it is responsible.

Notwithstanding other duties assigned by the Board of Directors, the Committee will have the following competencies:

a) Supervise the process of preparing financial information, verify its integrity and that all periodic information offered to markets is prepared in accordance with professional practices and principles applicable to financial statements, supervise this information and report to the Board of Directors prior to the Board adopting any relevant decisions and before being published for public use.

b) Inform the Shareholders' Meeting about issues raised by shareholders regarding matters within its sphere of competence.

c) Propose to the Board of Directors, for submission to the Shareholders Meeting, the appointment of external auditors, the conditions of hiring, the scope of the professional mandate and, when appropriate, the revocation or non-renewal of such mandate and replacement of the auditor. Supervise the fulfilment of the audit contract, endeavouring that the auditors' opinion on the financial statements and the main contents of the auditors' report are drafted clearly and accurately.

d) Supervise internal audit services and, in this respect, ensure its independence and efficiency; propose the selection, nomination, re-election and removal of the person responsible for internal audit; propose its budget; receive periodic information regarding its activities; and verify that senior management takes into consideration the conclusions and recommendations set out in its reports.

e) Serve as a channel of communication between the Board of Directors and the auditor and receive regular information from the external auditor regarding the audit plan and the results of management, evaluate the results of each audit and verify that senior management takes into account the auditor's recommendations, as well as mediate in any case of discrepancy between these parties and with the auditor with respect to the principles and standards applied when preparing the financial statements.

f) Liaise with the external auditors to receive information about any issues potentially jeopardizing the auditors' independence and any other issues connected with the process of performance of the audit, as well as the other communications stipulated in audit legislation and technical auditing standards

To ensure independence:

1. Any change in the auditor will be reported as a Relevant Event to the Spanish Securities and Exchange Commission and indication will made of any disagreements with the exiting auditor and any discrepancies with the content of the Report;

2. The Committee will ensure that the Bank and the auditor respect current regulations regarding the rendering of services other than audit, limits to the concentration of the Auditor's business and, in general, any other regulation established to ensure the independence of auditors;

3. In the event that the external auditor withdraws from the mandate, it will examine the circumstances giving rise to this situation.

In any event, the Committee is required by the provisions of the audit law (Law 19/1988 of 12 July) to receive annually from the auditors written confirmation as to their independence vis-á-vis the bank or entities related to it either directly or indirectly, and information on additional services of any kind provided to these entities by the auditors or by persons or entities related to them.

The Committee is required to issue annually, prior to the issue of the audit report, a report expressing it opinion as to the auditors' independence. This report, where appropriate, is required to comment upon the provision of additional services, as referred to in the previous section.

g) Endeavour that the financial statements submitted by the Board of Directors to the Shareholders' Meeting do not contain any reservations or qualifications in the auditors' report; if this is not possible, the auditors must clearly explain to the public, and to shareholders in particular, the content and scope any such reservations or qualifications.

h) Perform regular reviews of the Bank's internal control and risk management systems, so that the main risks are identified, managed and adequately reported.

i) Review the accounts for the Bank, supervise compliance with legal requirements and the proper application of generally accepted accounting principles and the adequate definition of the scope of consolidation. Monitor the operation of internal financial control procedures and the use of manuals adopted by the company, check compliance therewith and review the appointment and replacement of those responsible.

j) Consider the suggestions that may be made to the Committee by the Chairman or other members of the Board, senior executives or shareholders of the company, as well as report and submit proposals to the Board of Directors about measures that the Committee considers appropriate.

k) Establish and supervise a mechanism that allows employees to report, on a confidential basis and, if deemed advisable, anonymously, any irregularities that are potentially important, particularly those of a financial and accounting nature, that are observed within the Company.

l) Detect and manage conflicts of interest that may arise between Group entities.

m) Inform the Board of Directors, prior to the adoption of the relevant decisions, of the creation or acquisition of shares in special-purpose vehicles or any domiciled in countries or territories classified as tax havens, as well as of any other transactions or operations of a similar nature that could harm the transparency of the Group due to their complexity.

n) Evaluate its operation on an annual basis and present the Board of Directors with a report on the activities carried out during the year.

o) All others established by Law or in Board Regulations.

THE APPOINTMENTS, COMPENSATION, CORPORATE GOVERNANCE AND CONFLICTS OF INTEREST COMMITTEE

The Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee must consist of a minimum of three (3) and a maximum of five (5) Directors, designated by the Board of Directors, bearing in mind the knowledge, aptitudes and experience of the Directors and the tasks assigned to the Committee.

The Committee must be made up exclusively of External Directors, mainly independent, and chaired by an independent Director. The Committee is currently formed by three Directors, two of which are Independent, including its Chairman, and one proprietary Director.

The Board of Directors designates the Chairman of the Committee from among the Committee Members, as well as the Secretary, who does not necessarily have to be a member of the Committee. When the appointment of a Secretary is not necessary, the Secretary to the Board of Directors will assume this position.

If the Chairman is absent, the meeting is presided over by the independent Director designated by the Committee, and in the absence of the Secretary these duties will be performed by the Committee member so designated, or the Vice Secretary or one of the Vice Secretaries to the Board of Directors.

The Members of the Committee cease to hold this position when they cease to be Directors of the Bank or when so decided by the Board of Directors.

The Committee must meet as often as may be necessary for the proper performance of its functions and whenever called to meet by its chairman or requested to do so by any of its members and, in any case, whenever the Board requests the issuance of reports, the presentation of proposals or the adoption of resolutions within the sphere of its functions.

The proposals made by the Committee must be approved by the vote of a majority of the Members attending the meeting.

This Committee may require the Group's senior management, Directors and personnel to provide reports, as well as other advisors or any consultants rendering services to the Group. Any of the persons mentioned in this paragraph that are requested to attend are obliged to attend the meetings, offer all collaboration and make all information held available. The Committee may call for the cooperation of these same persons to carry out work which it considers necessary for the exercise of its functions, and may seek advice from external professionals. In addition, the Committee may call for the collaboration of the Board of Directors and its Committees, Directors and the Secretary and Vice Secretaries to the Board of Directors, during the performance of its duties.

The main task of the Committee is to assist the Board of Directors in its functions of appointing, re-electing, dismissing and compensating Directors and senior management, endeavouring to ensure that the Directors receive all the necessary information for the proper performance of their duties, and keeping a close watch on compliance with the company's rules of governance and periodically reviewing the results. The Committee will keep the Board of Directors permanently informed of the performance of the duties for which it is responsible.

Notwithstanding other duties assigned by the Board of Directors, the Committee will have the following competencies:

a) Keeping a close watch on the integrity of the process of selection of directors and senior executives of the Bank, endeavouring to ensure that candidates are persons who conform to the profile of the vacancy.
b) Formulating and reviewing the criteria to be followed as regards the composition of the Board of Directors and the selection of candidates. In this respect, the competencies, knowledge and experience that is necessary on the Board must be evaluated and the necessary duties and aptitudes for candidates that cover each vacancy must be determined, while bearing in mind the time and dedication that are necessary to adequately perform the duties of the position.
c) Examine or organize, in the manner deemed most adequate, the succession of the Chairman and the CEO and, if appropriate, make proposals to the Board so that said succession takes place in an ordered and well-planned fashion.
d) Make proposals to the Board of Directors regarding the nomination, re-election and removal of Independent Directors or issue a Committee Report in the case of other Directors, so that the Board may proceed directly to the appointment of these directors or submit their nominations to be General Meeting, providing information regarding the Directors in all cases.
e) Submitting to the Board of Directors the proposals for appointment, re-election and termination of the members who should form part of each of the Board Committees.
f) Report proposals to appoint or remove the Secretary or Vice Secretaries to the Board of Directors.
g) Submitting to the Board of Directors proposals for the appointment and re-election of members of the senior management and of the supervisory body stipulated in the internal regulations of conduct in the sphere of securities markets.
h) Examining any suggestions for appointments sent to it by the Chairman, the members of the Board, executives or shareholders of the Bank, evaluating them and reporting on them with criteria of objectivity and impartiality so that the Board may act in full knowledge of all the relevant information.
i) Report to the Board of Directors regarding any gender diversity matters indicated in its Regulations.
j) Review, on an annual basis, the classification of each Director when preparing the Corporate Governance Report.
k) Propose a compensation policy for Directors and senior management to the Board of Directors, the individual compensation for Executive Directors and other contractual conditions and the basic conditions for contracts extended to senior executives.
l) Ensure compliance with the compensation policy established for the Board of Directors and make proposals to the Board of Directors regarding the measures deemed most advisable to maintain, correct or improve this policy, in particular to adjust the policy to meet the principle of moderation and to match the Bank's performance.
m) Provide guidance to the new directors, warn them of their legal obligations, inform them of the company's rules of governance, and familiarize them with the characteristics, situation and environment of the company.
n) Examine the information sent by Directors regarding their other professional obligations and evaluate whether or not they could interfere with the dedication required to properly carry out their duties, as well as to verify compliance with the rules established regarding the number of Directors that form part of the Board.
o) Taking care to ensure that the directors receive information of sufficient quantity and quality to enable them to adequately perform their functions.
p) Endeavouring to detect cases in which the relation of a director to the Bank may negatively affect its functioning or its standing and reputation.
q) Detect and manage possible conflicts of interest between Directors or senior executives and the Bank, ensuring fulfilment of the obligations of discretion and passivity and of the duties of confidentiality, diligence and loyalty of the directors and, if appropriate, any such issues that arise between significant shareholders and the Bank.
r) Inform the Board of Directors of associated transactions, prior to its taking any decisions in this respect.
s) Propose the Annual Corporate Governance Report to the Board of Directors.
t) Propose and verify compliance with the Group's Corporate Responsibility Policy and the preparation of the Annual Report on Corporate Responsibility.
u) Supervise compliance with the Bank's Regulations and, in general, internal codes of conduct and the rules of Company governance, and make all necessary proposals for improvement.
v) Evaluate the Board of Directors on an annual basis, as well as the Chairman and the Bank's CEO.
w) Evaluate its operation on an annual basis and present the Board of Directors with a report on the activities carried out during the year.
x) All others established by Law or in Board Regulations

RISK COMMITTEE

The Board of Directors is responsible for establishing the number of members, which will include the CEO, appointing and removing members and to determine, ask the proposal of the Chairman, the presiding Director. The Director General for Risk is the spokesman and, if appropriate, other members of senior management designated by the Board of Directors. The Chairman and other members of the Board of Directors may also attend. In the event that the Chairman of the Board of Directors attends, he may preside at a meeting. The Secretary to the Board of Directors will serve as the Secretary to the Committee, or this position may be taken by the member elected by the Committee or, if none of the above are available, the Vice-Secretary or one of the Vice-Secretaries to the Board of Directors. The Committee meets once per week.

The Committee supervises the market and operational credit risks affecting the Group's activity and permanently evaluates overall risk assumed, its industry and geographic diversification and the hedges that are deemed advisable to preserve the solvency level considered necessary, proposing the most adequate policies to obtain these objectives at any given moment.

The Committee proposes the Group's risk control and management policy to the Board of Directors, which must identify at least:

a) The various types of risk (operational, technological, financial, legal, reputational and others) faced by the Company, including financial or economic risks, contingent liabilities and other off-balance-sheet risks;

b) The establishment of the risk level that the Company considers acceptable;

c) The measures established to mitigate the impact of identified risks should they materialize;

d) The information and internal control systems that will be used to control and manage these risks.

The Committee analyses and reaches a decision regarding requests for credit and guarantees that exceed the risk authority delegated to other units within the Group that have signature or a group of signature authority. A list of the competencies delegated to the Risk Committee is set out under the chapter on Risk Management in the Directors' Report. At its meetings policies regarding risk, general business and industry issues are also discussed.

B.2.4 Indicate, where appropriate, the faculties of advice, consultation and delegation, if any, of each of the Committees:

Committee name	Brief description
Executive Committee	See section B.2.3.
Audit and Control Committee	See sections B.2.2. and B.2.3.
Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	See section B.2.3.
Risk Committee	See section B.2.3.

B.2.5. State whether there are regulations, if any, for the Board Committees, wherein the regulations can be consulted, and any amendments thereto during the year. Indicate whether any annual report has voluntarily been prepared on the activities of each Committee.

The Board Regulations contain the rules of internal procedure and functioning of the Board committees. The regulations can be consulted at the Bank's headquarters and on its website www.grupobancopopular.com.

Finally, the Audit and Control Committee and the Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee reported on functions and activities carried out during the year.

B.2.6. State whether the composition of the Executive Committee reflects the participation in the Board of the various directors depending on their category:

YES

If this is not the case, explain the composition of the Executive Committee

The Board of Directors ensures that the composition of the Executive Committee, together with the Executive Directors, reflects a number of independent Directors that is congruent with the structure of the participation of external Directors in the Board of Directors.

The Board of Directors currently has twenty members, four of whom are Executive Directors, nine are classed as Proprietary Directors, six as Independent Directors, and two as other External Directors. The Executive Committee has seven members: two Executive Directors, one Propietary and three Independent Directors.

Given that this is a delegate body pertaining to the Board of Directors with decision-making authority, three of the four Executive Directors form part of the Committee. In addition, for the proper performance of its duties it is necessary that the non-executive Directors who form part of this Committee should be appointed in all cases from among the Independent Directors, without any Proprietary Directors forming part of the Executive.

As a result, the percentage of Independent Directors on the Executive Committee (42%) is higher than the percentage on the Board ofDirectors (30%).

The relations between the Board and the Committee are governed by the principle of transparency. At each of its meetings, the Board has full knowledge of all the matters discussed and the decisions adopted by the Executive Committee.

C RELATED PARTY TRANSACTIONS

C.1 State whether or not the full Board has reserved approval, until a report from the Audit Committee or any other Committee to which this responsibility has been delegated has been received, the transactions that the Company carries out with Directors, significant shareholders or parties represented on the board, or associated persons:

YES

C.2 List the material transactions involving a transfer of resources or obligations between the Bank or its group entities and the Bank's significant shareholders:

Name of the company or entity in its group	Name of the company or entity in its group	Nature of the relationship	Type of transaction	Amount (€ thousand)
-	-	-	-	-

With regard to significant shareholders, in 2012 Banco Popular carried out transactions with Allianz, Banque Fédérative du Crédit Mutuel, Unión Europea de Inversiones and Américo Ferreira de Amorim, all under market conditions.

C.3 List the material transactions involving a transfer of resources or obligations between the Bank or its group entities and the Bank's directors or executives:

Name of administrators or executives	Name of company or Group entity	Nature of the relationship	Type of transaction	Amount (€ thousand)
-	-	-	-	-

Transactions with members of the Board of Directors and the senior management of the Bank were performed in the ordinary course of business and at arm's length.

At 31 December 2012, the total amount of direct risks assumed by the Group in respect of the members of the Board of Directors stood at €52,263 thousand, of which €52,040 thousands took the form of loans and lines of credit, while 223,000 consisted of guarantees provided by the bank. Interest rates on these loans and lines of credit ranged between 2.0% and 3.0% and the commissions on guarantees ranged between 0.4% and 0.650% quarterly.

The overall amount of risks assumed by the Group in favour of each of the members of the Board of Directors is indicated in Note 10 to the Financial Statements in the Annual Report.

The risks contracted with management personnel listed in Section B.1.12 conform to the general criteria for the assumption of risks with Group employees, and in all cases form part of the Bank's ordinary business and have been contracted on an arm's length basis.

C.4 List the material transactions by the Bank with other companies in its group which are not eliminated in the process of preparation of the consolidated financial statements and were not performed in the ordinary course of the Bank's business as regards their purpose and conditions:

Name of Group company	Brief description of the transaction	Amount (€k)
-	-	-

No such transactions have taken place.

C.5 State whether or not the members of the Board of Directors came under any of the conflict of interest situations during the year, in accordance with Article 127 ter of the Spanish Companies Act.conflictos de interés. según lo previsto en el artículo 127 ter de la LSA.

NO

Name of Director	Description of the conflict of interest

Generally speaking, no situations of conflict were observed involving directors of the Bank that might affect the discharge of their office. However, in cases in which transitory conflict of interest situations arose (appointments, re-elections, loans to directors, etc.) the directors concerned refrained from intervening in the deliberations and from participating in the voting by the Board of Directors or its Committee

C.6 Detail the mechanisms in place for detecting, determining and solving possible conflicts of interest between the company and/ or its group and its directors, executives or significant shareholders.

Among the competencies of the Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee listed under Article 25 of the Board Regulations is the authority to detect and manage any possible conflicts of interest between Directors or Senior Management and the Bank, ensuring compliance with their obligations of discretion and passivity, as well as their duties of confidentiality, diligence and loyalty, as well as any that may arise between significant shareholders and the Bank.

In accordance with the provisions of Article 24 of the Board Regulations, the Audit and Control Committee has the authority to detect and manage any conflicts of interest that may arise between the Company and its Group.

1. Conflicts of interest affecting Directors and Executives:

In accordance with the Board Regulations, the Directors must notify the Board of any situation of direct or indirect conflict that they might have with the interests of the Bank. In the case of a conflict, the Director concerned must refrain from intervening in the transaction to which the conflict refers.

In any case, situations of conflict of interest involving Directors of the Bank must be disclosed in the annual corporate governance report.

In turn, the Internal Regulations of Conduct for Banco Popular Group entities in the sphere of securities markets details the information that must be provided by the Directors and Executives to the IRC Supervisory Body with respect to conflicts of interest:

a) In order to control possible conflicts of interest and, to the extent possible, prevent them, Directors and Executives will present and update statements of their ties–financial, family or of any other type–with customers of the Bank with respect to services relating to the stock market or with companies listed on the stock exchange.

b) The statement will also include any other ties that, in the opinion of an external unbiased observer, could compromise the impartiality of the Director or Executive.

c) Directors and Executives must endeavour to avoid conflicts of interest and, if they are personally affected thereby, must refrain from deciding or, if appropriate, casting their vote in such situations as may arise.

d) The oversight body may at any time, either occasionally or periodically, call for any information it considers necessary about the links of the persons subject hereto in order to make it possible for it to comply with its reporting or other obligations pursuant to the Securities Market Law and implementing regulations.

2. Conflicts of interest with significant shareholders:

In accordance with the provisions of Article 28 of the Board Regulations, the Board of Directors formally reserves to itself cognizance of any direct or indirect transaction between the Bank and a significant shareholder, giving due value to the equal treatment of the shareholders and market conditions.

The Board of Directors must adopt the necessary measures to avoid significant shareholders making use of their privileged position to obtain special advantages.

C.7 Is more than one Group company listed on a stock exchange in Spain?

NO

Identify the subsidiaries that are listed on a stock exchange in Spain:

Listed subsidiaries

State whether or not the respective areas of activity and any business relationships between them have been precisely and publicly defined, as well as those of the listed subsidiary with other group companies:

NO

Define any business relationships between the parent company and the listed subsidiary, and between the latter and other group companies.

Identify the mechanisms in place to resolve any conflicts of interest between the listed subsidiary and other group companies:

Mechanisms to resolve conflicts of interest

D RISK CONTROL SYSTEMS

D.1 General description of the risks policy of the company and/or its group, detailing and evaluating the risks covered by the system and justifying the adequacy of the systems for the profile of each type of risk.

The various risks implicit in the banking activities conducted by the Grupo Banco Popular are managed based on criteria of prudence, in such a way as to safeguard at all times the basic objectives of solvency, profitability, efficiency and adequate liquidity.

The risk policy is a synthesis of strictly professional criteria for the study, assessment, assumption and monitoring of risks by all the entities comprising the financial group, the aim of which is to optimise of the risk/return relationship inherent in credit and market risk, and to minimize all other risks (operational, liquidity, interest rate, concentration, business, reputational and other).

Internal policies, which are known and applied by all of the Group's business areas for an integral management and control of risks, are set out in an Investment Policies Manual.

Risk Management is characterised by the following key points and criteria:

- Involvement of senior management. Among other functions, the Group's senior management regularly monitors the process of evolution of internal risk management with a view to furthering the implementation of the new international regulations on capital (Basel II), which are already in use in day-to- day risk management, allocating the required material and human resources, defining a comprehensive risk framework, establishing a suitable risks policy and ensuring on-going adaptation of this policy to changes arising in markets, customers and regulations.
- Separation of risk and commercial areas.
- Formal system of attributions for the granting of risks, according to which the organisation's different hierarchical levels are assigned delegated powers for the authorisation of operations.
- Priority of risk policies aimed at guaranteeing the Group's stability and its viability in the short,- medium- and long-terms, and at maximising the risk/return relationship.
- Strict compliance with current legislation, in all aspects, particular attention being paid to compliance with current instructions for the Prevention of Money Laundering and Financing of Terrorist Activities.
- Tailoring. Terms are negotiated with the customer based on its bond with the entity, the risk assumed and the return it offers.
- Speed in deciding upon and responding to transaction proposals, as a basic competitive instrument, without detriment to thoroughness in analysis.
- Aiming to establish an optimum balance between loans and receivables and equity.
- Diversification of the risk inherent in loans and receivables, setting or adhering to the limits set for borrowers, sectors, and for distribution by terms.
- Profitable quality investment, focus on profitable, balanced and sustained growth at global level and on returns adjusted to risk at the level of each borrower.
- Objective-oriented flexibility of the organizational structure.
- Thorough assessment and documentation of risks and guarantees.
- Application of automatic internal systems based on rating or scoring.
- Monitoring of risk from analysis through to cancellation.

The Group has risk control systems in place covering the entire range of its activities, which correspond fundamentally to the commercial banking business. These systems address credit or counterparty risk, including concentration risk, market risk, liquidity risk, interest rate risk, operational risk, business risk and reputational risk, and include formal procedures for analysis, authorization, monitoring and control, which are applied in a manner consistent with the nature and amount of the risks and under the supervision, as appropriate, of collegiate decision-making bodies, particularly the Delegate Risks Committee, the General Management Committee and the Assets and Liabilities Committee.

In accordance with the new framework for the International Convergence of Capital Measurement and Capital Standards (Basel II), integral management of the various different risks and their coverage in terms of regulatory and financial capital are undertaken by the General Risks Management based on premises defined by the Board of Directors through its Delegate Risk Committee.

Seven major categories of risk are addressed for the purposes of the analysis set out below. These are: credit risk, cross-border risk, structural balance sheet risk, market risk, liquidity risk, operational risk and reputational risk.

CREDIT RISK

Credit risk arises from possible losses triggered by the breach of contractual obligations by the Bank's counterparties. In the case of refundable financing granted to third parties (in the form of credits, loans, deposits, securities and other), credit risk arises as a consequence of non-recovery of principal, interest and other items, in the terms – with respect to amount, period and other conditions - stipulated in the contracts.

For the correct management of credit risk, the Group has established a methodology whose main features are described in the following paragraphs.

Analysis of credit risk

The Group has established a formal system of attributions for the extension of credit, under which the various hierarchical levels in the organization are assigned delegated powers for the authorization of transactions which vary depending on various factors, such as: probability of default according to BISII internal models/Technical Alerts, amount, rate, maximum term, title-holder, business sector and profitability of the operation.

For these purposes, the tiers in the organization with delegated powers to authorise operations are, firstly, the Branch, then the Regional Management, followed by the Territorial Management, Corporate Banking, Wholesale Banking, and Banks and Group Companies. The final tiers would be the Investments Office, Corporate Risks, Risks with Credit Institutions and Market and retail Risks, the General Risks Management, the Delegate Risks Committee and, finally, the Board of Directors or Executive Committee.

The initiative for a new transaction always comes from a Branch. This may be for decision-making if this is within the scope of its authority, or it may be for reporting and passing on to the next higher tier, if the operation exceeds the scope of its authority. The same rule applies at the following levels, and thus the largest transactions are evaluated all along the chain of authority. No other office or area in the Group, regardless of the hierarchical level of its management personnel, is empowered to carry out, nor even to propose, risk transactions outside the established circuit. The following offices constitute exceptions to this principle: those of International Financial Institutions and Risks Management- Financial Management which, through its directly dependent units, can propose to the General Risks Management the acceptance of Risks corresponding to Financial Entities, or issues made by the Public and Private Sector of the various kinds of financial assets which are traded on capital markets. Wholesale banking is able to propose to the General Risks Management, through Investments or Corporate Risks, the acceptance of risks which, in view of the complexity of their structure and design, require such a procedure.

In the other business areas, the procedure is similar: risk assumption proposals originate in the relevant operating office, which likewise has decision-making powers delegated to it. Above this level, the transaction is referred, along with the pertinent preliminary reports, to the General Risks Management and, if it is outside the scope of its powers, is passed on to the Delegate Risks Committee.

Transactions originated by the network of retail agents always enter the system through a branch office and are subject to the controls described above. Risks with related parties, such as transactions with significant shareholders, members of the Board, General Managers or similar, or with companies related to these persons, and with Group companies, are expressly excluded from the aforementioned delegated powers, and can only be authorized by the Board of Directors or the Executive Committee, following a report from the Delegate Risks Committee. Exceptions are made when such operations are formalised through standardized contracts or with generally-stipulated conditions or involve very minor amounts, and in certain other cases established by the Regulations.

For the acceptance of risks and the rating of customers based on their credit profile, and as support for decision-making, the Group has internal credit risk analysis and measurement (rating and scoring) models. For the retail segment (individuals and micro-companies), credit scoring models adapted to each kind of product are used. For the business segment, an internal rating is calculated based on the analysis of variables representative of economic and financial position and business sector. The Group has replica models for the large companies and financial institutions segments.

At December 31, 2012, Banco Popular received the authorisation from the Bank of Spain enabling it to use advanced models for risk management within the Basel II framework for its portfolios of medium-sized companies and retail mortgages.

Lastly, the entity has developed its own complete model for the measurement of credit and concentration risk to estimate the financial capital appropriate to the Entity's risks profile and comply with the Capital self-assessment obligations detailed in Pillar II of the Accord. Support is

provided by integrated applications developed for the estimation of risk parameters which are included in these models.
To increase permanent internal transparency, in line with the standards of Pillar III of the New Capital Accord, the Network has carried out numerous training activities focusing on the philosophy and objectives of Basel II in order to adapt to its requirements and to the new concepts, tools and management models.

The new Investment Policies Manual has also been authorised and published. This manual covers the following areas:

- The Entity's risk profile.
- Rules of action in relation to credit risk.
- Policies for the Analysis, Acceptance and Monitoring of risks.
- System of attributions and delegation process.
- Credit rating models.
- Definition of and exposure to other risks.

Monitoring of risk

The monitoring of operations granted makes it possible to assess their quality at borrower level and establish mechanisms for the special surveillance of their progress and react to avoid situations of default. The Group has a surveillance system in place based on "Technical Alerts" and "Information alerts" which monitors trends in rating levels. This makes it possible to anticipate problematic situations and apply preventative measures in respect of current risks. This system is based primarily on the analysis of a set of variables relating to transactions and to customers, in order to detect anomalous deviations in their behaviour and situation alerts.

The informative alerts are generated by any unit that is responsible for risk management and respond to the need to review the creditworthiness of a firm based on the knowledge of a relevant event. The alerts are handled by the Risk Monitoring teams located in each territorial department. The Risk Monitoring office is responsible for assigning credit ratings to clients as the ultimate decision-making body and for supervising the entire process.

The client credit rating system evaluates the client's overall risk quality and proposes the policy to be followed in relation to the risks assumed. Depending on the particular circumstances of each case analysed, the information is introduced graphically into the borrower's electronic case file by means of a teleprocessing application which includes all the customer information and positions, for consideration in risk-related decision-making. This report, in its preparation and definition, also takes into consideration default probability parameters based on BISII. On the other hand, this alerts system is supplemented by the "analyst's report", also included in the customer's electronic case file, which, by means of a questionnaire regarding the evolution of the customer, of the customer's risks and incidents, assets position, guarantees, etc., summarizes the policy to be followed and identifies the measures required to ensure the satisfactory outcome of risks.

The Risk Management Office carefully monitors the risks of certain clients and economic groups with high volumes of assumed risk or those involved in certain incidents. Depending on the Intensity required, this monitoring is divided into three different groups: intensive or weekly review of risk situation; periodic or monthly review; and quarterly review.

Moreover, the Risk Management office, in coordination with the risk monitoring teams at territorial offices and other units, periodically reviews those risk portfolios which, because of their nature, require closer scrutiny. Numerous computer applications have been developed to monitor companies involved in bankruptcy proceedings under article 5-bis of the Bankruptcy Act. Monthly reports are prepared on these cases and on the qualified real estate developments being monitored.

Management of nonperforming operations and recovery of impaired assets

The Group has a General Management with offices which report to it located in each of the Territorial Managements, Debt Restructuring and Default Management offices and the Default Analysis and Claims Centre (DACC). This structure, which is comprised of approximately 600 employees, has been split off completely from the commercial activity so as not it interfere with it and maximise the results obtained through the management of potential and confirmed situations of default.

The structure of the Default Management Area was modified, creating specialised teams with portfolios of different types of clients which are responsible for analysing the situation and determining the most appropriate solution for each defaulted operation. For the cases in which it is not possible to reach a negotiated solution, the function of preparing the documents for court proceedings has been centralised.

In addition, the Group has made a major investment in reinforcing the computer applications and systems which support this area, with a view to systematizing, centralising and rationalising, integrating and adapting processes to the changes implemented in the management and control of irregular debt operations, and this has allowed for improved efficiency and results.

The Default Analysis and Claims Centre is responsible, initially, for the handling of defaults; it analyses risks in irregular situations and identifies the most effective claim strategies. It also implements, in coordination with the Group branches, appropriate measures for regularization.

Initially, an out-of-court or amicable approach is adopted, by means of direct negotiation with the debtors (by telephone, postal correspondence or personal contact), or by engaging the services of reputable debt collection firms.

If legal action through the courts is required, the procedure is as follows: (i) Depending on the type of operation, an internal or external manager-solicitor is assigned to the case. A statement of claim is generated and irrespective of whether the case is handled by an internal or external solicitor, there is on-going monitoring by such solicitors of the related court rulings, which may imply either the recovery of the investment or a loss for the Entity. (ii) For the adequate management of non-performing balances, the Group has an internal computer application, integrated in the teleprocessing system, which permits timely and precise monitoring of the evolution of all non-performing risks and, in particular, of the legal proceedings initiated for the recovery of receivables.

Cross-Border Risk

Cross-border risk, also referred to as country risk, is an additional component of credit risk. It derives from the difficulties which may be encountered by borrowers in certain foreign countries in meeting their debt repayment obligations. The default may be attributable to the financial position of the actual debtor (in which case the treatment is as for credit risk) or it may arise because the debtor, despite being able to repay its loans in the local currency, is unable to transfer funds abroad in view of economic difficulties in its country of residence. Applicable rules require that these risks be provided for based on the estimated impairment.

Structural Balance Sheet Risk

This risk category covers risks deriving from possible adverse changes in interest rates corresponding to assets and liabilities, in the exchange rates for currencies in which asset and liability groups or off-balance sheet items are denominated, and in the market prices of negotiable financial instruments. Also included under this heading is business risk, defined as the possibility that the gross margin may prove insufficient to cover fixed costs owing to changes in volumes of balance sheet items and fee revenues, generated in turn by changes in economic conditions.

Interest rate risk

The Assets and Liabilities Committee (ALCO) is responsible, among other tasks, for analysing and controlling interest rate risk. It also assesses the sensitivity of the margin to movements in equity components and in the structure of new operations contracted, establishing short- and medium-term management policies in this connection.

In relation to the control of the interest rate risk, an analysis is made of the sensitivity of the financial margin to changes in interest rates, monitoring the maturities and repricing gap in the consolidated balance sheet, analysed by sensitivity and non-sensitivity to interest rates.

Market Risk

This risk category covers the risks deriving from possible adverse changes in the market prices of negotiable financial instruments managed by the Group's Treasury area as a result of adverse changes in interest rates, exchange rates, prices of shares or raw materials, credit spreads, or volatility levels.

Also included is the liquidity risk linked to these positions. This is understood to refer to the impossibility of clearing positions in the market within a short period of time. For this, an evaluation is made of positions over a time span coinciding with the estimated time required for closure of the risk.

Risk of treasury area operations

The Treasury Risk Management area, for the purpose of controlling the market risk in this area's activity, undertakes daily monitoring of operations contracted, calculation of the result implied by the impact of market trends on positions, quantification of market risk assumed, calculation of regulatory capital consumed, monitoring of compliance with established limits, and analysis of the relationship between the result obtained and the risk assumed.

The activity of the Treasury area in financial markets is exposed to market risk resulting from unfavourable trends in the following risk factors: interest rate, exchange rate, share prices and volatility. The indicator used to measure market risk is the so-called Value at Risk (VaR) indicator, which is defined as the maximum potential loss estimated based on historical data with respect to price trends, calculated based on a specific confidence level and specific term. The parametric VaR methodology is used in order to standardise the Group's overall risk measurement. Calculations are made with a 99% confidence level, considering historical variations over 75 days, greater weight being given to those observations which are most recent, and considering a 1-day period for the measurement of possible losses in view of the high level of liquidity of open positions.

Liquidity risk

The liquidity risk reflects the possibility of a credit institution encountering difficulties in disposing of liquid resources, or of accessing liquid resources, of a sufficient amount and at adequate cost, in such a way that it is able to meet its payment obligations at all times.

Ever since the world economic crisis broke out in 2007, Banco Popular has been determined to reduce its dependence on capital markets (short and long term) and to prolong financing periods. In this regard, the Group's priority financing strategy has consisted of capturing retail liabilities through products that meet its clients' needs while at the same time adding stability to Banco Popular's balance sheet. This strategy rests on the ability to access private and business customers thanks to the Group's extensive commercial network. At 31 December 2012, the commercial gap stood at 18,885,000,000 euros, with a loan-to-deposit ratio of 123%. The gap was reduced by more than 8,634,000,000 euros in 2012 while the loan-to-deposit ratio was reduced by ten points, as shown in figures 31 and 32.

Operational risk

The Banco Popular Group has adopted the definition of operational risk established in the new Basel Accord (Basel II-2004): "the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events". The Group's overall management of this risk includes the design of procedures to identify, evaluate, monitor and control it. Senior management approved the "Operational Risk Management Framework" which includes the design of policies and functions for the development and implementation of methodologies and tools which allow for better management of the Group's operational risk. Additionally, since 2008 there has been an Operational Risks Committee which meets every quarter. Key areas of the Group participate in this Committee, the basic function of which is the overall control and management of the Operational Risk in the Organisation; it is therefore responsible for the Operational risk management and monitoring process from a global perspective.

Initially, the Group has opted for the Standard method envisaged in Basel II for calculating capital for operational risk, although it plans to apply the advanced method in the future. In this respect, a database with historic data on operational risk events as from January 2004 is being generated. Similarly, since December 2006 the Group has been a member of the Operational Risk data Exchange Association (ORX). This is an international consortium entrusted with the custodianship of a database of events reported by leading financial entities from around the world, with which we exchange information on a quarterly basis.

The Group also has qualitative tools and has advanced a great deal over the past year in the drawing up of Risk Maps - which are periodically updated and are used to measure the frequency and impact of this type of risk and to improve controls and coverage in the areas of greatest exposure -, as well as in the study of contingency plans required to guarantee the continuity of operations.
de Negocio. de los planes de contingencia necesarios para asegurar la continuidad de la operativa,

Reputational risk

The Regulatory Compliance Office, which reports to the Vice-Secretary of the Board and Regulatory Compliance, identifies, evaluates and prevents possible risks of material breach - from the economic or reputational standpoints - which might arise in relation to laws and regulations, codes of conduct and standards of good practice, especially as regards the prevention of money laundering and financing of terrorism, conduct in the securities markets, data privacy and protection and business activities. In relation to this latter aspect, it identifies and assesses the risks of non-compliance linked to the development of new products and practices in each business area, overseeing compliance with transparency and customer protection rules. It also analyses and promotes the development of systems for the training of the workforce in relation to these areas. Reports on these activities are submitted to the Audit and Control Committee periodically.

The Risk Management section of the 2012 Directors' Report describes the management of the aforementioned risks in greater detail.

D.2 State whether or not any of the various types of risk has materialized (operational, technological, financial, legal, reputational, tax, etc.), affecting the company and/or its group.

YES

If yes, indicate the causing circumstances and whether or not the established control systems worked.

Risks arising during the year

The risks affecting the Group which are broadly described in the preceding section are those corresponding to the normal activities carried out by Group companies.
See Risks chapter in the Financial Statements.

Causing circumstances
Circumstances deriving from the activity.

Operation of control systems
Established control systems have functioned adequately throughout the year.

D.3 State whether there is any committee or other governance body responsible for establishing and supervising these control mechanisms.

YES

If yes, provide details of their functions.

Name of the Committee or Body	Description of duties
Board of Directors	See Section B.1.10
Executive Committee	See Section B.2.3
Audits and Control Committee	See Section B.2.3
Risk Committee	See Section B.2.3
Assets and Liabilities Committee - ALCO	See Section D.1

D.4 Identification and description of the processes for compliance with the regulations affecting the company and/or its group.

The Bank has in place a set of internal standards and procedures for action in all its fields of activity that conform to current legislation and to the ethical and corporate governance standards applicable in its environment. The Bank has three different areas which are all involved in verifying compliance with these rules and procedures.

The Regulatory Compliance function within the Group is assumed primarily by the Regulatory Compliance corporate unit; there are also other control areas or units within the Group which may be involved for operational reasons or owing to the field in which they specialise. The Regulatory Compliance Unit is responsible for identifying, assessing and preventing possible risks of non-compliance which are significant from the economic or reputational perspectives, and which could arise in relation to laws and regulations, codes of conduct and standards of good practice, especially as regards the prevention of money laundering and financing of terrorism, conduct in securities markets, data privacy and protection and business activities. The Money Laundering Prevention Office reports to the Regulatory Compliance Unit, the task of this office being to prevent, investigate and, where appropriate, report suspicious operations.

In the securities markets area, it collaborates with the Surveillance Body responsible for overseeing compliance with the Group's Internal Code of Conduct, to ensure that the Group's employees and management personal adhere to internal rules on operations in the securities markets. It also contributes to the supervision of internal procedures established to guarantee the correct processing of personal data bases managed by the Group. Finally, it identifies and assesses risks of non-compliance linked to the Bank's business activities, including risks related to the development of new products and business practices, overseeing compliance with transparency and customer protection rules.

On the other hand, in relation to the management of and compliance with internal operational control procedures and the conformity thereof to applicable regulations, the Bank also has an Internal Audit Area which comprises the following Units: Branches Audit, Companies and Central Services Audit, IT Audit, and Risks Management Audit. It also has an Operational Control area, the functions of which are the verification of compliance with accounting regulations and of the conformity of the Bank's internal procedures to such regulations, detecting possible deviations therefrom and cases of fraud.

The persons in charge of the abovementioned areas submit their reports to the Audit and Control Committee.

Finally, the Delegate Risks Committee pertaining to the Board of Directors controls credit risk and proposes to the Board the overall market risk policy. The Committee assesses the global risk assumed, its sectorial and geographical diversification, and the level of coverage advisable in order to maintain the solvency level considered appropriate, and proposes as required the most effective policies for ensuring that these aims are achieved.

E SHAREHOLDERS' MEETING

E.1 State and, if appropriate, provide details about differences arising with respect to the minimum quorums established by the Spanish Companies Act (SCA) for calling a General Meeting to order:
NO

	% quorum different than that established under Article 102 SCA for general cases	% quorum different than that established under Article 103 SCA for special cases 103
Quorum required on 1st call	-	-
Quorum required on 2nd call	-	-

E.2 State and, if appropriate, provide details of differences with the system established by the Spanish Companies Act (SCA) for adopting resolutions.s,

YES

Describe the differences compared with the system established in the SCA.

	Reinforced majority different than that establis-hed under Article 103.2 SCA for cases covered by Article 103.1	Other cases of reinforced majorities
% established by the Company to adopt resolutions	66	66

Description of the differences

Shareholders' rights in relation to the general meeting are those established in the Spanish Companies Law, in the terms established in the Bylaws and in the General Meeting Regulations.

E.3 List the rights of shareholders in regard to Shareholders' Meetings that differ from those per the Corporations Law.

Los derechos de los accionistas en relación con las juntas generales son los que establece la Ley de Sociedades de Capital. en los términos previstos en los Estatutos Sociales y el Reglamento de la JuntA.

E.4 Describe the measures, if any, adopted to encourage participation of shareholders at Shareholders' Meetings.

The work of the Bank's Governing bodies is conceived as part of a business culture which seeks to establish closer links with shareholders; appropriate channels aimed at informing shareholders and enabling them to participate in key decision-making are being increased.

The Board of Directors is responsible for arbitrating the channels adequate for hearing the proposals that may be made by shareholders with respect to the Company's management. In this respect:

a) The Board will deal, with the greatest diligence and in any case within the legally stipulated periods, with the requests for information and enquiries from shareholders either before the Shareholders' Meeting or thereat.
b) The Board will establish the necessary mechanisms for proxy voting or voting by mail, electronically or any other means of remote communication, provided that the identity of the shareholder is duly guaranteed.
c) The Board will implement appropriate procedures to ascertain the proposals of shareholders about the management of the Bank.

d) The Board may organize briefings about the progress of the Bank and its Group for shareholders resident in the most important financial centres in Spain and abroad.

The following paragraphs describe the principal measures aimed at encouraging the participation of shareholders at Shareholders' Meetings.

La Approval of Shareholders' Meeting Regulations .The regular update of the Shareholders' Meeting Regulations is intended to encourage the participation of the shareholders in the life of the Bank, to facilitate their access to corporate information, and to strengthen the safeguarding of shareholders' interests in the governance of the Bank.

Open meeting. The principles that have shaped the modus operandi of the Shareholders' Meetings, and particularly Ordinary Meetings, include most notably their nature as an open meeting, with a policy of transparency, promptness, objectivity and depth of the information to shareholders whereby the annual information to the shareholders customarily starts to be disseminated at the end of January of each year and formally ends with the holding of the Shareholders Meeting. Shareholders thus have a long period of time in which to request clarification, to make inquiries and to submit proposals.

Shareholders' Electronic Forum. The bank's website now provides a forum which can be accessed by individual shareholders and any associations which they may voluntarily form, the purpose of which is to facilitate communications prior to General Meetings. The Forum may also be used to publish any proposals which may be presented to complement the agenda announced in the notice calling the meeting, requests for adhesion to such proposals, initiatives aimed at reaching a percentage sufficient to be able to exercise the minority voting rights envisaged in the law, and any other voluntary representation offers or requests.

Right to information. The shareholders may at any time submit enquiries, suggestions and comments of interest for the Bank or in connection with their status as shareholders. Whenever possible, the Bank will reply directly in writing to shareholders, individually or collectively, as soon as possible and not later than seven working days, unless the data required for the response cannot be obtained within that period, and will publish on the corporate website the replies, either globally or on an individualized basis, whose general interest makes it appropriate to do so, with the intention that any response furnished should be generally known and made available to all shareholders without giving privileged treatment to the shareholder that requested the information. With this same intention, and if considered appropriate, the Bank may deal with these issues, either globally or on an individualized basis, at the Shareholders Meeting, even if they were not included on the agenda.

Similarly, the shareholders may pose such questions as they consider appropriate, particularly with respect to all the information made public by the Bank and from the date of publication, and such questions shall be answered and the replies disseminated in accordance with the rules described in the preceding paragraph. In this respect, the Bank will endeavour to maintain its traditional practice of publishing the relevant financial information of the year during the first month of the following year.

Publication of the questions put forth by Shareholders. For the third consecutive year a Brochure has been published containing the questions put forth by shareholders at the General Meeting and is made available to the public at the corporate website.

Institutional investors and proprietary shareholders. In order to facilitate the most active contribution possible of institutional investors and significant direct or indirect shareholders in the formation of the corporate will, the Bank offers them the possibility of publicizing on its corporate website their policy of participation or not in the Shareholders' Meeting and how they would vote on each of the items on the agenda thereof.

Use of the various channels of information to shareholders. Pursuant to Article 7 of the Shareholders' Meeting Regulations the Board of Directors will establish the channels necessary to facilitate communication between the shareholders and the Bank. In any case, the Bank will make available to the shareholders at least the following channels of information:

- The Shareholders Office, where the available information may be consulted.
- A telephone number for direct contact with the Shareholders Office and an e-mail address that will be notified in the notice calling the Shareholders Meeting, for shareholders to request the related information.
- The Bank's website.

Corporate website. The corporate website www.bancopopular.es contains the applicable legally and regulatory required information, including most notably:

a) General information about the Bank, including its Bylaws, significant events, channels of communication with it, its capital and number of shares, dates of interest for shareholders, dividends and public offerings of shares.

b) The attached financial information. Includes periodic public information: annual, half yearly and quarterly reports, as well as the presentations made to the various market operators.

c) Information about corporate governance of the Bank, including the Shareholders' Meeting Regulations, information about the Shareholders' Meeting and the Board of Directors and its committees, the Board Regulations, the Annual Corporate Governance Report, the Annual Corporate Social Responsibility Report and the Internal Rules of Conduct in the sphere of securities markets.

d) Information regarding the members of the Board of Directors, including a professional profile and biography; other Boards of Directors to which they pertain; their category within the Board of Directors, reflecting in the case of proprietary directors the shareholder that they represent or with which they are associated; the date of first appointment and any subsequent re-appointments; the shares in the Company and any stock options they own.

The website also includes the leaflet of shareholder questions and answers, and any statements made to the Bank by its institutional and proprietary shareholders, pursuant to Article 15 of the Shareholders' Meeting Regulations.

As regards the conduct of Shareholders' Meetings, after the publication of the notice of a Shareholders Meeting, the corporate website announces:

a) the notice;
b) the full content of the proposed resolutions that the Board of Directors submits for the consideration of the General Meeting with respect to the points on the Agenda, including information regarding the Directors referred to under Recommendation 28 of the Unified Code of Good Governance;
c) all the documentation relating to the proposed resolutions (financial statements, directors' reports, reports of independent experts, etc.);
d) The procedures implemented to vote through remote communications systems.
e) Any other information or documentation that is relevant to shareholders.

After the Shareholders' Meeting has been held, the markets are informed by publication of a significant event notice and the corporate website reports the resolutions adopted at the last Shareholders Meeting, showing the results of the voting. The content of the speeches made during the Meeting is also reported.

Addition of new topics to the agenda. Shareholders representing at least 5% of the capital stock may request the publication of a supplement to the notice of the Shareholders' Meeting containing one or more topics for inclusion in the agenda.

Attendance rights. Shareholders who own shares with a par value of 100 years are entitled to attend the Shareholders' Meetings.

Separate voting on separate issues. Article 30 of the Rules of the Shareholders' Meeting recognises the need for shareholders to be able to vote separately on issues that are substantially independent and. In particular, the appointment of Directors are voted on separately and individually as are bylaw amendments which are voted on separately by independent articles and the annual report on the compensation policy for Directors.

Vote splitting. Article 30 of the Rules of the Shareholders' Meeting recognises the need for vote splitting so that financial intermediaries who are legitimate shareholders but act on behalf of different customers may issue their votes in accordance with the latter's instructions.

Remote voting. Votes on proposals regarding any point of the Agenda at any General Meeting may be delegated or exercised by a shareholder through postal or electronic correspondence or by mobile telephone.

Information about corporate governance criteria and observance thereof. The Board has drafted since 1998 an annual corporate governance report that sets forth in an orderly manner the principles guiding the Bank's actions in this respect. Since 2008, the Corporate Governance Report has been verified by PricewaterhouseCoopers to obtain an independent review and adaptation of the contents to the Unified Code of Good Corporate Governance.

Information about corporate social responsibility criteria and the observance thereof. The first Corporate Responsibility Report on the Group's policies was published in 2003.

Starting in 2004, the Corporate Social Responsibility Reports have been prepared in accordance with the GRI indicators and, from 2005 onward they have been reviewed by PriceWaterhouseCoopers to obtain an independent opinion about the quantitative and qualitative information contained therein.

E.5 State whether or not the position of Chairman of the General Meeting coincides with the position of Chairman of the Board of Directors. Indicate any measures taken to guarantee the independence and proper operation of the General Meeting:

YES

Measures adopted

Without prejudice to the relevant Bylaw provisions, the Shareholders' Meeting Regulations contain adequate measures to guarantee the sound functioning thereof.

Mention is to be made in this respect of the creation of a Meeting Committee to attend to the functions of the Chair. Its composition differs from that of the Board of Directors, in accordance with the rules established in this respect in the Bylaws. The Meeting Committee is permanently made up of seven shareholders, five of whom are current members of the Board of Directors. Three of these are classed as independent and the remaining two - the President and the Secretary - are classed as executive. Among other duties, the Meeting Committee is the body responsible for calling the Meeting to order, directing speakers and debates, declaring the approval of resolutions and declaring the meeting closed.

E.6 Indicate any changes in the Shareholders' Meeting Regulations during the year.

At the Ordinary Shareholders' Meeting held on 11 June, 2012, the shareholders approved the amendment of articles 12, 13, 14 and 15 of the Regulations in order to bring them in line with Legislative Royal Decree 1/2010 of 2 July which approved the revised text of the Capital Companies Act that replaced the revised text of the Public Limited Companies Act approved by Legislative Royal Decree 1564/1989 of 22 December.

E.7 State the attendance figures for the Shareholders' Meetings held during the reporting year:

Attendance					
Date of the Shareholders' Meeting	% of shareholders present	% of shareholders represented	% remote voting		Total
			Electronic voting	Other	
11-06-2012	14.55%	44.71%	0.07%	1.92%	61.25%
10-11-2012	19.08%	32.57%	0.27%	1.70%	53.62%

E.8 Summarize the resolutions adopted at the Shareholders' Meetings during the reporting year and the percentage of votes with which each was adopted.

The following resolutions were passed at the General Shareholders' Meeting on 11 June 2012:

RESOLUTIONS ADOPTED	Yea votes	Nay votes	Abstentions
1. Approval of the Financial Statements (balance sheet, income statement, statement of changes in equity, cash-flow statement and notes to the financial statements) and Directors' Report of Banco Popular Español, S.A. and its consolidated Group, of the proposed allocation of income and of the management of the company for 2012.	95.63%	4.36%	0.01%
2. Amendment of the Articles of Association and Regulations of the General Meeting of Shareholders: 2.1 Amendment of the Articles of Association. Amendment of Articles 13 (The General Meeting of Shareholers. Announcement); Article 15 (Meeting Committee. Delegation and Voting. Right to Information); Article 17 (The Board of Directors) and Article 29 (Allocation of Profit(loss) to bring them in line with the Capital Companies Act.	99.97%	0.03%	0.00%
2.2 Amendment of Article 17 of the Articles of Association (The Board of Directors) to reduce the Directors' term of office from six to four years.	99.98%	0.02%	0.00%
2.3 Amendment of the Regulations of the General Meeting of Shareholders: Amendment of Article 12 (Meeting Announcement); Article 13 (Publication of the meeting announcement and related documentation on the Company website); Article 14 (Right to supplement the agenda and propose additional resolutions); and Article 15 (Shareholders' information rights once the General Meeting is announced), to bring them in line with the Capital Companies Act.	99.98%	0.02%	0.00%
3 Appointment and re-election of Directors. 3.1 Appointment of José María Arias Mosquera as Proprietary Director.	96.64%	3.36%	0.00%
3.2 Appointment of Fundación Barrié de la Maza, Conde de Fenosa, as Proprietary Director.	96.58%	3.42%	0.00%
3.3 Appointment of Maianca Inversión, S.L. as Proprietary Director.	96.61%	3.39%	0.00%
3.4 Re-election of Luis Herrando Prat de la Riba as Independent Director.	96.85%	3.15%	0.00%
3.5 Re-election of Helena Revoredo Delvecchio as Independent Director.	97.03%	2.97%	0.00%
3.6 Re-election of Banco Popular Bondholders' Association as Proprietary Director.	95.04%	4.64%	0.32%
3.7 Re-election of Francisco Aparicio Valls as Executive Director.	98.02%	1.65%	0.33%
4 Re-appointment of Auditors to undertake the review and legal audit of the Bank's financial statements and the consolidated financial statements.	99.92%	0.08%	0.00%

RESOLUTIONS ADOPTED	Yea votes	Nay votes	Abstentions
5 Four capital increases charged to reserves: 5.1 Capital increase in the amount determined according to the terms of the agreement by issuing new ordinary shares with a par value of 0.10 euros each, no issue premium, all of the same class and series as those currently in circulation, charged to voluntary reserves from undistributed earnings for assignment to shareholders, free of charge. Shareholders are offered the opportunity to acquire the free assignment rights for a guaranteed price. Provision for incomplete subscription. Delegation of the Board of Directors, including the authority to empower the Executive Committee to set any conditions of the capital increase not covered by the Shareholders' Meeting, take the steps necessary to carry it out, adapt the wording of the final articles of the Bylaws to reflect the new capital figure and request permission for the new shares to trade on the stock markets where the Bank's shares are traded.	97.11%	2.72%	0.17%
5.2 Capital increase in the amount determined according to the terms of the agreement by issuing new ordinary shares with a par value of 0.10 euros each, no issue premium, all of the same class and series as those currently in circulation, charged to voluntary reserves from undistributed earnings for assignment to shareholders, free of charge. Shareholders are offered the opportunity to acquire the free assignment rights for a guaranteed price. Provision for incomplete subscription. Delegation of the Board of Directors, including the authority to empower the Executive Committee to: determine whether the capital increase will take the form of (i) new shares or (ii) new shares or cash, at the shareholder's discretion; set any conditions of the capital increase not already covered at the Shareholders' Meeting; take all actions required to enforce the resolution; adapt the wording of the final article of the Bylaws to reflect the new share capital figure and request permission for the new shares to trade on the stock markets where the Bank's shares are traded.	97.15%	2.68%	0.17%
5º.3 Capital increase in the amount determined according to the terms of the agreement by issuing new ordinary shares with a par value of 0.10 euros each, no issue premium, all of the same class and series as those currently in circulation, charged to voluntary reserves from undistributed earnings for assignment to shareholders, free of charge. Shareholders are offered the opportunity to acquire the free assignment rights for a guaranteed price. Provision for incomplete subscription. Delegation of the Board of Directors, including the authority to empower the Executive Committee to: determine whether the capital increase will take the form of (i) new shares or (ii) new shares or cash, at the shareholder's discretion; set any conditions of the capital increase not already covered at the Shareholders' Meeting; take all actions required to enforce the resolution; adapt the wording of the final article of the Bylaws to reflect the new share capital figure and request permission for the new shares to trade on the stock markets where the Bank's shares are traded.	99.96%	0.04%	0.00%
5º.4 Capital increase in the amount determined according to the terms of the agreement by issuing new ordinary shares with a par value of 0.10 euros each, no issue premium, all of the same class and series as those currently in circulation, charged to voluntary reserves from undistributed earnings for assignment to shareholders, free of charge. Shareholders are offered the opportunity to acquire the free assignment rights for a guaranteed price. Provision for incomplete subscription. Delegation of the Board of Directors, including the authority to empower the Executive Committee to: determine whether the capital increase will take the form of (i) new shares or (ii) new shares or cash, at the shareholder's discretion; set any conditions of the capital increase not already covered at the Shareholders' Meeting; take all actions required to enforce the resolution; adapt the wording of the final article of the Bylaws to reflect the new share capital figure and request permission for the new shares to trade on the stock markets where the Bank's shares are traded	99.97%	0.03%	0.00%
6 Authorisation of the Board of Directors, including the authorisation to delegate the Executive Committee to remunerate the shareholders in an alternative fashion to the ones mentioned in the fifth agenda item of this General Shareholders' meeting by distributing part of the share Premium reserves in the form of Bank shares from treasury stock or in cash against voluntary reserves and to establish the terms of the agreement not previously determined by the General Meeting and take all steps leading to enforcement of the this resolution.	99.98%	0.02%	0.00%

RESOLUTIONS ADOPTED	Yea votes	Nay votes	Abstentions
7 Authorisation of the Board of Directors, including powers of substitution, to issue promissory notes, bonds and debentures, simple or subordinated, with or without guarantees, non-convertible to shares, preferred shares, securitized mortgages and bonds, mortgage transfer certificates, covered bonds and other types of fixed income securities, in euros or other currencies, with fixed or floating rates. The unused portion of the authorization granted by the Ordinary Shareholders' Meeting on 8 April 2011 is rendered null and void.	99.62%	0.38%	0.00%
8 Authorisation of the Board of Directors, including powers of substitution, to issue fixed income securities that can be converted into/ swapped for Bank shares. Establishment of the criteria for determining the conditions of the conversion and/or swap. Authorisation of the Board of Directors, including powers of substitution, to establish the basic terms and conditions of the conversion and/or swap, to exclude the preferred subscription rights of shareholders and to increase the share capital by the necessary amount and modify the final article of the Bylaws accordingly. The unused portion of the authorisation granted by the Ordinary Shareholders' Meeting on 8 April 2011 is rendered null and void.	91.61%	8.35%	0.04%
9 Report and consultative vote on the remuneration policy applicable to officers and directors.	99.22%	0.45%	0.33%
10 Approval of a share-based bonus system for management, including executive directors and executive staff members.	99.76%	0.24%	0.00%
11 Approval of the Company's corporate website in accordance with the terms of article 11 bis of the Capital Companies Act.	97.03%	2.97%	0.00%
12 Authorisation of the Board of Directors, including powers of substitution, to formalise, interpret, correct and enforce the resolutions passed at the Shareholders' Meeting.	99.73%	0.10%	0.17%

The following resolutions were passed at the Extraordinary General Shareholders' Meeting on 10 November 2012:

RESOLUTIONS ADOPTED	Yea votes	Nay votes	Abstentions
1 Capital increase by means of cash contributions up to a maximum amount of six hundred twenty-five million euros (625,000,000 euros) by issuing and placing in circulation six billion, two hundred fifty million (6,250,000,000) shares with a par value of 0.10 euros each, in the same class and series as those currently in circulation with recognition of preferred subscription rights. Express provision for the possibility of incomplete subscription. Delegation of the Board of Directors, including the authority to empower the Executive Committee to set any conditions of the capital increase not covered by the Shareholders' Meeting, take the steps necessary to carry it out, adapt the wording of the final articles of the Bylaws to reflect the new capital figure and request permission for the new shares to trade on the stock markets where the Bank's shares are traded.	99.81%	0.16%	0.03%
2. Authorisation of the Board of Directors in the broadest possible terms, including powers of substitution, to formalise, interpret, correct and enforce the resolutions passed at the Shareholders' Meeting.	99.80%	0.17%	0.03%

E.9. State whether or not there is any bylaw restriction establishing a minimum number of shares required to attend the General Meeting.

YES

Number of shares necessary to attend the General Meeting

The owners of shares that represent at least a nominal value of €100 (currently 1000 shares) may attend the General Meeting. Shareholders owning less than that percentage may be represented by another shareholder entitled to attend or by any of those grouped together in order to reach the stipulated minimum. Standard practice is to invite shareholders that have stated an interest in attending the Meeting.

E.10 Describe and justify the Bank's policies on proxy voting at Shareholders' Meetings.

According to Article 18 of the Board Regulations, shareholders who are entitled to attend the General Meeting may be represented by a proxy who need not be a shareholder.

Proxy forms are intended to facilitate the participation of shareholders by enabling all of them to exercise their right to vote by signifying their intention of vote on each of the resolutions submitted to the meeting in the agenda. These proxies include a specific section for the shareholder to express voting instructions with respect to each of the points on the Agenda.

If no voting instructions are provided, the understanding is that the vote is favourable to the proposals made by the Board of Directors and, if a representing shareholder is not expressly indicated, or if representation is delegated to an ineligible person, it is understood that the delegation of this authority is conferred to the Chairman of the Meeting or the member of the Meeting Desk designated by the Chairman, who will take responsibility for the vote delegated by the shareholder being taken into consideration during the voting on resolutions.

Votes may be delegated via postal or electronic correspondence, or via mobile telephone, in accordance with the procedures established and published in the call to the Meeting and on the Bank's website.

E.11 State whether the Bank is cognizant of the policy of the institutional investors about whether or not to participate in the decisions of the Bank:

NO

Description of the policy

The Investor Relations Department holds regular meetings with institutional investors in which it informs them as to how the Bank and its business plan are evolving; care is taken to ensure that these institutional investors are not provided with privileged information which is not given out to other shareholders.

In order to facilitate the most active contribution possible of institutional investors and significant direct or indirect shareholders in the formation of the corporate will, the Bank offers them the possibility of publicizing on its corporate website their policy of participation or not in the Shareholders' Meeting and how they would vote on each of the items on the agenda thereof.

E.12 State where the corporate governance material is included on the website and how it can be accessed.

The Bank's corporate website is www.grupobancopopular.com and on the home page there is a section called "Legal information for shareholders and investors" which contains all the information about the corporate governance of the Bank.

F COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree to which the Company follows the recommendations of the Unified Code of Good Governance. In the event of any non-compliance, describe the recommendations, rules, practices or criteria applied by the company.

Recommendation 1. Bylaw restrictions.

The bylaws of listed companies should not restrict the maximum number of votes that can be cast by a single shareholder, nor contain other restrictions that make it difficult to take control of the Company through the acquisition of its shares in the market.

See headings: A10, B.1.22, B.1.23, E.1 and E.2

Compliant **Explain**

Recommendation 2. Listings of companies forming groups.

When the parent company and a subsidiary are both listed they should both be publicly defined with precision:

a) The respective areas of activity and any business relationships between them have been precisely and publicly defined, as well as those of the listed subsidiary with other group companies:

b) The mechanisms established to resolve any conflicts of interest that may arise.

See headings: C.4 and C.7

Compliant **Partially compliant** **Explain** **N/A**

Recommendation 3. Competitions of the Meeting.

Even though not expressly required by commercial law, operations that involve a structural modification to the Company and, in particular the following, are submitted to the General Meeting for approval:

a) The transformation of listed companies into holding companies, by "creating subsidiaries" or transferring essential activities previously carried out by the company to subsidiaries, even if the former maintains complete control;

b) The acquisition or disposal of essential operating assets, when they involve an effective modification to the corporate purpose;

c) Operations that have an effect equivalent to the liquidation of the Company.

Compliant **Partially compliant** **Explain**

Recommendation 4. Prior information regarding proposed resolutions.

Detailed proposals for resolutions to be adopted by the General Meaning, including the information referred to by Recommendation 28, should be made public at the time the notice for the Meeting is published.

Compliant **Explain**

Recommendation 5. Separation of issues for voting purposes.

During the General Meeting, separate votes should be cast for issues that are substantially independent so that shareholders may separately exercise their voting preferences. This rule should be applied, in particular, to:
a) The appointment or ratification of Directors, who should be subject to separate votes;

b) In the case of amendments to the Bylaws, each article or group of articles that is substantially independent.

See heading: E.8

Compliant **Partially compliant** **Explain**

Recommendation 6. Division of votes.

The fractioning of votes so that financial intermediaries legitimately participating as shareholders but acting on behalf of different customers may vote in accordance with the instructions of the latter.

See heading: E.4

Compliant **Explain**

Recommendation 7. Business interest.

The Board of Directors should carry out its duties with a common purpose and under independent criteria, treat all shareholders equally and be guided by the Company's interests, understood to be the sustained maximization of the company's financial value.

The board must also ensure that in its relationships with stakeholders the Company respects laws and regulations; complies with its obligations and contracts on a good-faith basis; respects common uses and good practices in the sectors and territorial areas in which it carries out its activities; and observes those additional principles of corporate responsibility that it has voluntarily accepted.

Compliant **Partially compliant** **Explain**

Recommendation 8. Authority of the Board of Directors.

The Board of Directors should assume its core mission of improving the Company's strategy and the organization necessary to put it into practice, as well as to supervise and ensure that Management complies with the established objectives and respects the Company's purpose and business interests. Therefore, for this purpose, the full Board reserves the authority to approve:

a) The Company's general policies and strategies and, in particular:
i) The strategic or business plan, as well as management and annual budget targets;
ii) The policy of investments and financing;
iii) The definition of the structure for the group of companies;
iv) The corporate governance policies;
v) The corporate responsibility policy;
vi) The policy for evaluating senior management performance and compensation;
vii) The risk management and control policy, as well as regular monitoring of internal information and control systems;
viii) The policy for dividends, as well as treasury stock and, in particular, their limits.

See headings: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

i) At the proposal of the Chief Executive Officer, the appointment and dismissal of senior executives, as well as their indemnities;
See heading: B.1.14

ii) Compensation for Directors, as well as additional compensation for executive duties, in the case of Executive Directors, and any other conditions that their contracts must respect;
See heading: B.1.14

iii) The financial information that the Company must make public on a regular basis due to the fact that it is listed on a stock exchange;

iv) All investments or transactions that, due to the large amount concerned or their special characteristics, are strategic in nature except for those that must be approved by the General Meeting;
v) The creation or acquisition of shares in special-purpose vehicles or domiciled in countries or territories that are considered to be tax havens, as well as any other similar transactions or operations that, due to their complexity, could harm the transparency of the Group.

c) The transactions that the Company carries out with Directors, significant shareholders or parties represented on the Board, or with persons to which they are associated ("associated transactions").

However, this authorization from the Board will not be understood to be necessary in those associated transactions that also comply with the three following conditions:

1. They are carried out by in accordance with standardized contracts that are applied to many customers;
2. They are carried out at prices or rates that are established in general by the party acting as the supplier of the asset or service concerned;
3. The amount does not exceed 1% of the Company's annual revenues.

The Board should approve associated transactions after having received a favourable report from the On that Committee or, if appropriate, from any other Committee charged with this duty; and affected Directors, in addition to not exercising or delegating their right to vote, should leave the meeting room while the Board deliberates and votes on this issue.

The authority attributed here to the Board should not be eligible for delegation, except those mentioned under letters b) and c), which may be adopted due to reasons of urgency by the Committee and subsequently ratified by the full Board.

See headings: C.1 and C.6

Compliant **Partially compliant** **Explain**

Recommendation 9. Size of the Board of Directors.

The Board should have the size necessary to achieve effective and collaborative operations, which makes it advisable for it to have not less than five and not more than fifteen members.

See heading: B.1.1

Compliant **Explain**

The Board currently has 20 members. This is considered a fair number, in view of the composition of the Bank´s body of shareholders, the strategic agreements entered into and its international presence, and bearing in mind, also, that the aim is for all points of view and the maximum possible percentage of capital to be represented on it, and that its size should guarantee that it can function efficiently and in a participative manner.

Recommendation 10. Functional structure of the Board of Directors.

External proprietary and Independent Directors should constitute a wide majority on the Board and the number of Executive Directors be as few as possible, bearing in mind the complexity of the corporate Group and the percentage of participation of the Executive Directors in the Company's capital stock.

See headings: A.2, A.3, B.1.3 y B.1.14

Compliant **Partially compliant** **Explain**

Recommendation 11. Other Directors.

If there is any External Director that cannot be considered to be Proprietary or Independent, the Companies should explain this circumstance and the Director's associations, whether they be with the Company, its Executives or shareholders.

See heading: B.1.3

Compliant **Explain** **N/A**

Recommendation 12. Proportion between Proprietary and Independent Directors.

Among External Directors, the ratio between the number of Proprietary Directors and Independent Directors should reflect the proportion between the Company's capital stock represented by the Proprietary Directors and the rest of the capital stock.

This strict proportionality criteria may be moderated, such that the weight of the Proprietary Directors exceeds that which would be the case based on the total percentage of capital stock that they represent:

1. At highly capitalized companies in which there are few or no shareholdings that are legally considered to be significant, but in which there are shareholding packages with high absolute values;

2. When concerning companies at which there are multiple shareholders represented on the Board that are not associated among themselves.

See headings: B.1.3, A.2, A.3

Compliant **Explain**

Recommendation 13. Sufficient number of Independent Directors.

The number of independent Directors represents at least one third of all Directors.

See heading: B.1.3

Compliant **Explain**

Recommendation 14. Explanation of the classification of Directors.

The classification of each Director should be explained by the Board to the General Meeting that must make or ratify their Nomination and this classification should be confirmed or, if appropriate, revised on an annual basis in the Corporate Governance Report, after having received verification from the Appointments Committee. This report should also explain the reasons for which Proprietary Directors have been nominated at the request of shareholders whose stake is less than 5% of capital stock; and the reasons for which, if any, formal requests were denied for a seat on the Board from shareholders whose interest is equal or higher than that of others whose request resulted in the designation of Proprietary Directors.

See headings: B.1.3, B.1.4

Compliant **Partially compliant** **Explain**

Recommendation 15. Gender diversification.

When there are few or no women Directors, the Board should explain the reasons and the initiatives taken to correct this situation; and, in particular, the Appointments Committee should ensure that this is taken into account when filling new vacancies:

a) By ensuring that selection procedures do not have any implicit bias that could raise obstacles to the selection of women Directors;
b) By ensuring that the Company deliberately seeks, and includes among potential candidates, women that have the target professional profile.

See headings: B.1.2, B.1.27 and B.2.3

Compliant **Partially compliant** **Explain** **N/A**

Recommendation 16. Chairman of the Board of Directors.

The Chairman, as the party responsible for the effective operations of the Board, should ensure that the Directors receive sufficient information before hand; stimulate debate and the active participation of Directors during Board meetings, safeguarding the right to freely take a position and express opinions; and organize and coordinate regular evaluations of the Board with the Chairman of relevant Committees, as well as an evaluation of the CEO or lead executive.

See heading: B.1.42

Compliant **Partially compliant** **Explain**

Recommendation 17. Authority of an Independent Director in the event of an accumulation of powers by the Chairman.

When the Chairman of the Board is also the Bank's CEO, the Board of Directors will authorize one of the independent Directors to call a meeting of the Board and include new points in the agenda in order to coordinate and express the concerns of external Directors and to direct evaluations by the Board of its Chairman.

See heading: B.1.21

Compliant **Partially compliant** **Explain** **N/A**

Recommendation 18. Secretary to the Board of Directors.

The Secretary to the Board of Directors should particularly ensure that the Board's actions:

a) Meet the letter and the spirit of Laws and regulations, including those approved by regulatory bodies;
b) Are in line with the Company's bylaws and with the Regulations governing the General Meeting, the Board and any others in force at the Company;
c) Take into account the recommendations regarding good governance established in this Unified Code that the Company has accepted.

In order to safeguard the independence, impartiality and professionalism of the Secretary, the appointment and removal from this position must be reported by the Appointments Committee and approved by the full Board, and the procedure for appointing and removing the Secretary should be established in the Board's Regulations.

See heading: B.1.34

Compliant **Partially compliant** **Explain**

Recommendation 19. Board Meetings.

The board should meet with the frequency necessary to efficiently perform its duties, following the schedule and agenda established at the start of the year and each Director may propose other points to be added to the Agenda.

See heading: B.1.29

Compliant **Partially compliant** **Explain**

Recommendation 20. Directors' Attendance.

Director absences should be reduced to unavoidable cases and should be indicated in the Annual Corporate Governance Report. If the delegation of representative authority is unavoidable, instructions should be given.

See headings: B.1.28 and B.1.30

Compliant **Partially compliant** **Explain**

Recommendation 21. Content of the minutes to Board Meetings.

When the Directors or the Secretary express any concern regarding any proposal or, in the case of Directors, regarding the Company's progress and these concerns are not resolved during the Board Meeting, the party expressing the concerns may request that they be recorded in the minutes to the Meeting.

Compliant **Partially compliant** **Explain** **N/A**

Recommendation 22. Regular evaluation of the Board of Directors

Once per year the Board should evaluate:

a) The quality and efficiency of the Board's operations;

b) Based on the report presented by the Appointments Committee, the performance of the Chairman and the Company's CEO;

c) The operation of its Committees, based on the reports that they issue

See heading: B.1.19

Compliant **Partially compliant** **Explain**

Recommendation 23. Information to Directors.

All Directors should be able to exercise the right to obtain all additional information that they deem necessary regarding the matters over which the Board has authority. Unless the bylaws or the Board Regulations establish otherwise, these requests should be directed to the Chairman or the Secretary to the Board.

See heading: B.1.42

Compliant **Explain**

Recommendation 24. Advisory services for Directors

All Directors should have the right to obtain all necessary advisory services from the Company in order to comply with their duties. The Company should create adequate channels for exercising this right, which under special circumstances may include external advisory services paid for by the Company.

See heading: B.1.41

Compliant **Explain**

Recommendation 25. Orientation program for Directors.

Companies should establish an orientation program providing new Directors with quick and sufficient knowledge of the Company, as well as its Corporate Governance rules. It should also offer Directors programs for updating knowledge when the circumstances make this advisable.

Compliant **Partially compliant** **Explain**

Recommendation 26. Directors' dedication.

Companies should require that Directors dedicate the time and effort that is necessary to perform their duties efficiently and, as a result:

a) Directors should inform the Appointments Committee of all other professional obligations to determine whether or not they could interfere with the dedication required;

b) Companies should establish rules regarding the number of Boards to which its Directors may pertain .

See headings: B.1.8, B.1.9 and B.1.17

Compliant **Partially compliant** **Explain**

Recommendation 27. Selection, appointment and re-election of Directors.

Proposals to appoint or re-elect Directors made at the General Meeting, as well as provisional appointments through designation, should be approved by the Board:

a) At the proposal of the Appointments Committee, in the case of Independent Directors;

b) After receiving a report from the Appointments Committee, in the case of all other Directors.

See heading: B.1.2

Compliant **Partially compliant** **Explain**

Recommendation 28. Public information regarding Directors.

Companies should make the following information regarding Directors public on its website and maintain it up-to-date:

a) Professional profile and biography;

b) Other Boards of Directors to which the individual pertains, whether or not involving listed companies;

c) An indication of the classification of the Director as appropriate, stating, in the case of Proprietary Directors, the shareholder represented or with which the individual is associated;

d) Date of first appointment as a Director of the Company, as well as all subsequent appointments and;

e) Shares and share options in the Company which are held by the Director.

Compliant **Partially compliant** **Explain**

Recommendation 29. Rotation of Independent Directors.

Independent Directors should not remain as such for a continuous period exceeding 12 years.

See heading: B.1.2

Compliant **Explain**

Mr. José Ramón Rodríguez García and Mr. Miguel Angel de Solís Martínez-Campos, two of the six members of the Board of Directors who are classed as independent, have been Directors for an uninterrupted period of over 12 years.

The Board of Directors - at the proposal of the Appointments, Remuneration, Corporate Governance and Conflicts of Interests Committee - has agreed to keep them on as independent directors, in accordance with the criteria established in the Board Regulations.

In evaluating their independence, consideration has been given to the fact that they have held office all this time without receiving any remuneration, to their continued and particular dedication and contribution to the Board and its Committees, to the fact that they have maintained a constant ownership interest in the Bank's capital, and to their compliance, in the strictest of terms, with all other conditions required for independent status.

Recommendation 30. Removal and resignation of Proprietary Directors.

Proprietary Directors should present their resignations when the shareholder they represent fully sells its stake in the Bank. This should also take place, by the relevant number, when that shareholder reduces its stake to a level that requires a reduction in the number of its Proprietary Directors.

See headings: A.2, A.3, B.1.2

Compliant **Partially compliant** **Explain**

Recommendation 31. Removal of Independent Directors.

The Board of Directors should not propose the removal of any Independent Director before the end of the term to which the individual was appointed, unless there is just cause appreciated by the Board after having received a report from the Appointments Committee. In particular, just cause will be understood to exist when the Director has failed to comply with the duties inherent to his/her position or is subject to any of the circumstances described in Section III.5 on definitions in this Code.

A proposal to remove Independent Directors may also be made as a result of Public Stock Offers, mergers or other similar corporate transactions that give rise to a change in the Company's capital stock structure, when such changes in the Board's structure are the result of the proportional criteria indicated in Recommendation 12.

See heading: B.1.2, B.1.5 and B.1.26

Compliant **Explain**

Recommendation 32. Obligation of Directors to inform and resign.

Companies should establish rules to require Directors to report and, if appropriate, resign in those cases in which they may harm the credit and reputation of the Company and, in particular, they should be required to inform the Board of any criminal proceedings in which they are involved, as well as all subsequent procedural issues.

If a Director is prosecuted or if the opening of oral proceedings takes place with respect to any of the crimes indicated under Article 124 of the Spanish Companies Act, the Board will examine the case as soon as possible and in the light of the specific circumstances at hand, must reach a decision as to whether or not the Director will remain on the Board. Any such action should be explained by the Board in the Annual Corporate Governance Report.

See headings: B.1.43 and B.1.44

Compliant **Partially compliant** **Explain**

Recommendation 33. Opposition to proposals by Directors.

Directors should clearly express their opposition when they consider that any proposal for a decision submitted to the Board may go against its business interests. Directors, particularly Independents and other Directors not affected by the potential conflict of interest, should also do this when decisions arise that may harm the shareholders not represented on the Board.

When the Board adopts significant or repeated resolutions on which the Director has stated serious reservations, the Director concerned should reach the appropriate conclusions and, if he/she chooses to resign, the reasons for doing so should be explained in a letter referring to the following recommendation.

This recommendation also covers the Secretary to the Board of Directors, even if the Secretary is not a Director.

Compliant **Partially compliant** **Explain** **N/A**

Recommendation 34. Explanatory letter in the case of resignation/removal from the Board of Directors

When a Director leaves the Board before the end of his/her term, whether due to resignation or any other reason, the reasons should be explained in a letter sent to all of the members of the Board of Directors. Notwithstanding the fact that this should be reported as a relevant event, the reason for the action taken should be reported in the Annual Corporate Governance Report.

See heading: B.1.5

Compliant **Partially compliant** **Explain** **N/A**

Recommendation 35. Compensation policy.

The Compensation policy approved by the Board should mention at least the following:

a) A breakdown of any fixed components of the per diems paid for participation on the Board and its Commissions and an estimate of the fixed annual compensation they represent.

b) Variable compensation, including in particular:

i) The classification of Directors to which it is applied, as well as an explanation of the relative importance of variable compensation compared with fixed compensation;
ii) Criteria for evaluating results on which any rights to shares, share options, or any other variable component, are based;
iii) Essential parameters and basis for any annual bonus or any other benefits not paid in cash; and

iv) An overall estimate of the absolute amount of variable compensation that could derive from the proposed compensation plan, based on the extent of compliance with assumptions or objectives used as a reference.

c) Main characteristics of retirement systems (for example, supplementary pensions, life insurance and similar items), with an estimate of the annual equivalent amount or cost.

d) Conditions that must be respected by contracts concluded with those exercising Executive Director duties, among which the following are included:

i) Term;
ii) Notice periods; and
iii) Any other clauses relating to contract bonuses, indemnities or "golden parachutes" deriving from early termination of the contractual relationship between the Company and the Executive Director.

See heading: B.1.15

Compliant **Partially compliant** **Explain**

Recommendation 36. Limitation of certain compensation for Executive Directors.

Executive Directors should be restricted to compensation consisting of shares in the Company or Group Companies, share options or instruments indexed to the share value, a variable compensation linked to the performance of the Company or retirement systems.

This recommendation will not cover the delivery of shares, when subject to the condition that the Directors hold them until they ceased to be Directors.

See headings: A.3, B.1.3

Compliant **Explain**

Recommendation 37. Compensation for External Directors.

Remuneration paid to External Directors should be that which is necessary to compensate their dedication, qualifications and responsibilities in the position, but not so high as to compromise their independence.

Compliant **Explain**

Recommendation 38. Compensation based on the results obtained by the Company .

The compensation relating to the results obtained by the Companies should take into account any qualifications that are included in the external auditor's report and reduce those results.

Compliant **Explain** **N/A**

Recommendation 39. Relationship of variable compensation with professional performance.

In the case of variable compensation, the compensation policies include the technical precautions necessary to ensure that such compensation is in line with the professional performance of its beneficiaries and does not derive merely from the general evolution of markets or the sector in which the Company operates or other similar circumstances.

Compliant **Explain** **N/A**

Recommendation 40. Consultation vote regarding the compensation policy by the General Meeting.

The Board should submit a report regarding the compensation policy for Directors to a consultation vote by the General Meeting, as a separate point on the Agenda. This report should be made available to shareholders, either separately or in any other manner that the Company considers advisable.

This report will particularly focus on the compensation policy approved by the Board for the year in progress and, if appropriate, the plan projected for future years. It will cover all matters referred to by Recommendation 35, except for any that could involve the revelation of sensitive business information. It will emphasize the most significant changes in these policies compared with the policy applied last year, to which the General Meeting refers. It will also include an overall summary of how the compensation policy was applied last year.

The Board will also provide information on the role played by the Compensation Committee when preparing the compensation policy and, if any external advisory services were used, the identity of the external consultants will be revealed.

See heading: B.1.16

Compliant **Partially compliant** **Explain**

Recommendation 41. Transparency of variable compensation.

The Notes to the financial statements should provide details of individual compensation paid to Directors during the year and should include:

a) An individual breakdown of the compensation paid to each Director which will include, if appropriate:
i) Per diems for attendance and other fixed compensation paid to the Director;
ii) Additional compensation paid for holding the position of Chairman or member of any Board Committee;
iii) Any compensation paid as profit-sharing or bonuses, and the reason for paying such amounts;
iv) Contributions made on behalf of the Director to defined contribution pension plan; or the increase of consolidated rights held by the Director, when involving contributions to defined benefit plans;
v) Any indemnities agreed or paid in the event of termination;
vi) Compensation received for holding the position of Director at other Group companies;
vii) Compensation paid for carrying out the senior management duties falling to Executive Directors;
viii) Any other compensation other than the items listed above, regardless of its nature or the group company making payment, particularly when it is considered to be an associated transaction or when omitting this item could distort the true and fair view of the total compensation received by the Director.

b) An individual breakdown of any shares, options or any other instrument indexed to the value of the share granted to Directors, indicating:
i) The number of shares or options granted during the year and the conditions for exercising these rights;
ii) The number of options exercised during the year, indicating the number of shares involved and the exercise price;
iii) The number of options pending at the end of the year, indicating their price, dates and other relevant information;
iv) Any modification made during the year to the conditions for exercising options already granted.

c) Information regarding the relationship, last year, between the compensation obtained by Executive Directors and the results or other performance measurements recorded by the Company.

Compliant **Partially compliant** **Explain**

Recommendation 42. Structure of the Executive Committee.

When there is an Executive Committee, the structure for the different categories of Directors should be similar to that of the Board and its Secretary should be the Secretary to the Board.

See headings: B.2.1, B.2.6

Compliant **Partially compliant** **Explain** **N/A**

The Board of Directors is made up of 17 external directors (85%), 9 of whom are classified as proprietary (45%), 6 as independent (30%), 2 as other external (10%), and 3 as executive directors (15%).

The Executive Committee is made up of 5 external directors (72%), 1 of whom is classified as proprietary (14.5%), 3 as independent (43%), 1 as other external (14.5%) and 2 as executive directors (28%).

The proportion of independent directors on the Executive Committee (43%) is higher than the percentage on the Board of Directors (30%).

The Board of Directors seeks to ensure that in the composition of the Executive Committee, together with the Executive Directors, there is a number of independent Directors congruent with the participation of external Directors in the Board itself.
It is essential for its correct functioning that the non-executive Directors forming part of this Committee be appointed in all cases from among the independent Directors.

The Secretary of the Board of Directors also acts as the Secretary of the Executive Committee.

Recommendation 43. Relationships between the Board and the Executive Committee.

The Board should always be aware of the issues being discussed and the Resolutions being adopted by the Executive Committee and all of the Members of the Board should receive a copy of the minutes to the meetings held by the Executive Committee.

Compliant **Explain** **N/A**

Recommendation 44. Audit and Control Committee and Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee.

The Board of Directors must form, in addition to the Audit Committee required by the Securities and Exchange Act, a Committee or two separate Committees, covering Nominations and Compensation. The rules governing the composition and operation of the Audit Committee and the Committee or Committees for Nominations and Compensation must be covered by the Board Regulations and include the following items:
a) The Board should designate the Members of these Committees, bearing in mind the knowledge, aptitudes and experience of the Directors and the duties of each Committee; it should deliberate with respect to its proposals and reports; and Reports must be given, at the first Board Meeting held after their meetings, regarding their activity and work performed;

b) These Committees should be formed exclusively of a minimum of three Directors. The above is understood to be notwithstanding the attendance of Executive Directors or senior executives, if expressly requested by the Members of the Committee;

c) The Chairmen should be Independent Directors;

d) External advisory services should be available when considered necessary to discharge their duties;

e) Minutes should be kept of all meetings held and a copy should be sent to all members of the Board.

See headings: B.2.1, B.2.3

Compliant **Partially compliant** **Explain**

Recommendation 45. Supervision of the Internal Code of Conduct and the Rules for Corporate Governance.

The supervision of compliance with internal codes of conduct and corporate governance rules is the responsibility of the Audit Committee, the Nominations Committee or, if existing separately, the Compliance Committee or the Corporate Governance Committee.

Compliant **Explain**

Recommendation 46. Knowledge and experience of the Members of the Audit and Control Committee.

The Members of the Audit Committee, and particularly its Chairman, should be appointed bearing in mind their knowledge and experience with respect to accounting, audit and risk management.

Compliant **Explain**

Recommendation 47. Internal Audit.

Listed companies should have an internal audit area which, under the supervision of the Audit Committee, ensures the proper operation of the internal control and information systems.

Compliant **Explain**

Recommendation 48. Reporting obligations relating to the person responsible for the Internal Audit Area.

The person responsible for the Internal Audit Area should present an annual plan to the Audit Committee; it should directly report any incidents that arise during the fulfilment of this plan; and at the end of the year a report on activities should be presented.

Compliant **Partially compliant** **Explain**

Recommendation 49. Risk management and control policy.

a) The various types of risk (operational, technological, financial, legal, reputational and others) faced by the Company, including financial or economic risks, contingent liabilities and other off-balance sheet risks.

b) The establishment of the risk level that the Company considers acceptable;

c) The measures established to mitigate the impact of identified risks should they materialize;

d) The Internal control and information systems that are used to control and manage these risks, including contingent liabilities or off-balance sheet risks.

See heading: D

Compliant **Partially compliant** **Explain**

Recommendation 50. Authority of the Audit and Control Committee.

With respect to the Audit Committee:

1º Internal Control and Information Systems:

a) Supervise the preparation and the integrity of financial information relating to the Company and, if appropriate, to the Group, reviewing compliance with legislative requirements, adequate definition of the scope of consolidation and the proper application of accounting standards.

b) Regular reviews of the Bank's internal control and risk management systems, so that the main risks are identified, managed and adequately reported.

c) Ensure the independence and efficiency of the internal audit function; proposed new selection, nomination, re-election and removal of the person responsible for internal audit; propose the budget for this service; receive regular information regarding its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

d) Establish and supervise a mechanism that allows employees to report, on a confidential basis and, if deemed advisable, anonymously, any irregularities that are potentially important, particularly those of a financial and accounting nature, that are observed within the Company.

2º The external auditor:

a) Present before the Board proposals for selecting, nominating, re-electing and replacing the external auditor, as well as the contract conditions;

b) Regularly receive from the external auditor information regarding the audit plan and the results of execution, and verify that Senior Management bears in mind the recommendations made.

c) Ensure the independence of the external auditor and, in this respect:

i) The Company reports any change in Auditor to the Spanish Securities and Exchange Commission and it provide a statement regarding the existence of any disagreements with the exiting auditor;
ii) The Committee should ensure that the Bank and the auditor respect current regulations regarding the rendering of services other than audit, limits to the concentration of the Auditor's business and, in general, any other regulation established to ensure the independence of auditors;
iii) In the event that the external auditor withdraws from the mandate, it will examine the circumstances giving rise to this situation.

d) In the case of Groups, ensure that the Auditor of the Group assumes the responsibility of auditing the Group companies.

See headings: B.1.35, B.2.2, B.2.3 and D.3

Compliant **Partially compliant** **Explain**

Recommendation 51. Appearance of employees or executives before the Audit and Control Committee.

The Audit Committee should be able to call any employee or executive at the Company, even without the presence of any other executive.

Compliant **Explain**

Recommendation 52. Information provided to the Board of Directors.

The Audit Committee should inform the Board prior to adopting any of the relevant decisions, of the following matters indicated in Recommendation 8:

a) The financial information that the Company must make public on a regular basis due to the fact that it is listed on a stock exchange; The Committee should ensure that the interim accounts are prepared using the same accounting criteria as are used for the Annual accounts and, in this respect, consider the appropriateness of a limited review performed by the external auditor;

b) The creation or acquisition of shares in special-purpose vehicles or domiciled in countries or territories that are considered to be tax havens, as well as any other similar transactions or operations that, due to their complexity, could harm the transparency of the Group.
c) Associated operations, unless this reporting duty has been delegated to a Committee other than the supervisory and control committees.

See headings: B.2.2, B.2.3

Compliant **Partially compliant** **Explain**

Recommendation 53. Financial Statements.

The Board of Directors should endeavour to present the financial statements to the General Meeting without reservations or qualifications in the Audit Report, and should any exceptional situations exist, both the Chairman of the Audit Committee and the Auditors will clearly explain the contents and the scope of any such reservations or qualifications to shareholders.

See heading: B.1.38

Compliant **Partially compliant** **Explain**

Recommendation 54. Composition of the Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee.

The majority of the Members of the Appointments Committee –or the Appointments and Compensation Committee, if consisting of only one body–should be Independent Directors.

See heading: B.2.1

Compliant **Explain** **N/A**

Recommendation 55. Authority regarding Appointments.

In addition to the duties indicated in the preceding Recommendations, the Appointments Committee is responsible for the following:

a) Evaluating the competencies, knowledge and experience that is necessary on the Board and the necessary duties and aptitudes for candidates that cover each vacancy must be determined, while bearing in mind the time and dedication that are necessary to adequately perform the duties of the position.

b) Examining or organizing, in the manner deemed most adequate, the succession of the Chairman and the CEO and, if appropriate, making proposals to the Board so that said succession takes place in an ordered and well-planned fashion.

c) Reporting nominations and removals of senior executives as proposed by the CEO to the Board.

d) Informing the Board of matters regarding gender diversity, as indicated in Recommendation 14 of this Code.

See heading: B.2.3

Compliant **Partially compliant** **Explain** **N/A**

Recommendation 56. Consultations by the Appointments Committee.

The Appointments Committee should consult the Chairman and the CEO of the Company, especially when involving areas relating to Executive Directors.

Any Director should be able to request that the Appointments Committee take into consideration, should it deem it appropriate, potential candidates to cover vacancies on the Board.

Compliant **Partially compliant** **Explain** **N/A**

Recommendation 57. Authority regarding Compensation.

In addition to the duties indicated in the preceding Recommendations, the Compensation Committee is responsible for the following:

a) Making proposals to the Board of Directors:
i) Regarding the compensation policy for Directors and senior management;
ii) Regarding the individual compensation for Executive Directors and other conditions regarding their contracts;
iii) The basic conditions regarding the contracts for senior management.

b) Ensure the observance of the compensation policy established by the Company.

See headings: B.1.14 and B.2.3

Compliant **Partially compliant** **Explain** **N/A**

Recommendation 58. Consultations by the Compensation Committee.

The Compensation Committee should consult the Chairman and the CEO of the Company, especially when involving areas relating to the Executive Directors and senior management.

Compliant **Explain** **N/A**

G OTHER INFORMATION OF INTEREST

If it is considered that any principles or significant aspects relating to corporate governance practices applied by the company have not been addressed in this report, describe and explain them below.

This heading may include any other information, clarification or nuance relating to the receding sections of the Report.

Specifically, state whether the company is subject to legislation other than Spanish law as regards corporate governance, and if so include such information as it is obliged to provide that differs from that contained in this report.

At the meeting of the Board of Directors of Banco Popular Español held on 30 January 2013 the Directors passed the following motions to:

1) Reduce the size of the Board to a maximum of fifteen members gradually by the Ordinary Shareholders' Meeting in 2014.
2) Limit the age of Directors to 75, except for proprietary directors who control more than 3% of the shares.
3) Accept the resignation of the following directors: Asociación de Directivos de BPE, Eric Gancedo, Miguel Angel de Solís and Miguel Nigorra.
4) Appoint Francisco Gómez as CEO and Jorge Oroviogoicoechea as Director.
5) Appoint Francisco Gómez as a member of the Executive Committee and remove José Ramón Rodríguez from the committee.
6) Accept the designation of Miguel Angel de Solís and Vicente Pérez as the new representatives of the Directors, Syndicate of Bondholders of Banco Popular and Unión Europea de Inversiones, S.A.
7) Appoint Roberto Higuera Montejo and José María Arias as Chairman and member, respectively, of the Audit and Control Committee.
8) Appoint Unión Europea de Inversiones, S.A as a member of the Appointments, Remuneration, Corporate Governance and Conflict of Interest Committee.

Binding definition of Independent Director:
State whether or not any of the Independent Directors has or has in the past had any relationship with the Company, it's a significant shareholders or Directors which, if sufficiently significant, could have led the Director to not being considered as Independent in accordance with the definition established by Section 5 of the Unified Code of Good Governance:

NO

Name of director	Type of relationship	Explanation
-	-	-

This annual Corporate Governance report was approved by the company's Board of Directors at its meeting of 27 February de 2013. This report has been reviewed by PricewaterhouseCooopers. The corresponding review report is set out in Appendix I to the Management Report, included at the end of this document.

State whether any directors voted against or abstained from approval of this report.

NO

Name of the Director that did not vote in favour of approving this report	Reasons (opposition, Abstention, absence)	Explain the reasons
-	-	-

Additional information on financial year 2011 to be included in the Annual Corporate Governance Report for of Popular Español, S.A. pursuant to article 61 bis of the Stock Market Act 24/1988 of 28 July, in the wording set out in the Sustainable Economy Act 2/2011 of 4 March.

Article 61 bis of the Stock Market Act 24/1988 of 28 July stipulates that the Board of Directors of publicly listed companies must present an annual explanatory report to the General Shareholders'' Meeting on the following aspects, which must also be included in the Directors' Report:

A. Description of the main characteristics of the internal control and risk management systems with regard to financial reporting (art. 61 bis 4, h, LMV);
B. Information on securities that do not trade on a regulated EC market, indicating the different types of shares and the rights and obligations associated with each type as well as the percentage of share capital that is represented by company's treasury stock and any significant changes (art. 61 bis 4, a.3, LMV);
C. Restrictions on the transferability of securities and voting rights (art. 61 bis 4, b, LMV);
D. Information on the rules for amending the company's bylaws (art. 61 bis 4, a.4, LMV);
E. Information on the powers of the members of the Board of Directors and in particular those relative to the possibility issuing or buying back shares (art. 61 bis 4, c.3, LMV);
F. Information on any significant agreements entered into by the company which take effect, are modified or conclude if there is a change in the company's control as a result of a public takeover bid and the effects, except when disclosing such information would be seriously harmful to the company. This exception does not apply if the company is legally obligated to publish this information (art. 61 bis 4, c.4, LMV);
G. Information on the agreements between the company and its directors, officers or employees who are entitled to severance packages when they resign or are unfairly dismissed or when the employment relationship comes to an end as a result of a public takeover bid (art. 61 bis 4, c.5, LMV).

The information on these aspects is set out below:

A. Description of the main characteristics of the internal control and risk management systems with regard to financial reporting (art. 61 bis 4, h, LMV).

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1. Control environment.

Indicator 1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective SCIIF; (ii) its implementation; (iii) its supervision?

Articles 4 and 5 of the Rules of the Board of Directors establish that the primary mission of the Board of Directors is to govern and supervise the Bank, leaving the ordinary management of the Bank in the hands of executive bodies and management staff and focusing its activities on general supervisory functions. The Board is also responsible for approving the risk management and control policy and for periodically monitoring internal reporting and control systems..

Furthermore, as established in article 24 of the Rules of the Board of Directors, the Audit and Control Committee assists the Board of Directors in its supervisory and control functions by evaluating the Group's accounting systems and reviewing its internal control system.

In this regard, the responsibilities of the Audit and Control Committee include supervising the integrity of financial information and the process of preparing and presenting it and overseeing the Bank's internal controls and risk management systems so that the main risks are properly identified, reported and managed..

The Corporate Audit and Control Department of Grupo Banco Popular (hereinafter the Group or GBP) assists the Audit and Control Committee in supervising the proper design and implementation of risk management and control systems, which includes the process of preparing financial information (SCIIF) and ensuring that they work properly and effectively.

Finally, the Group's Corporate Finance Department collaborates on the design and implementation of risk management and control systems, especially those related to the process of preparing and presenting the financial information that is distributed to the markets.

1.2 Indicate which departments and/or mechanisms are responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority and the appropriate distribution of tasks and functions and (iii) ensuring that there are procedures in place for making them known to company employees, especially with regard to the process of preparing financial information.

The Corporate Human Resources Department (hereinafter, HR) is responsible for designing and revising the organizational structure. Reporting directly to the Office of the Chairman, the HR Department establishes the different corporate areas around which the entity is structured and continuously analyses their personnel needs in order to perform the functions assigned to them.

As established in the Rules of the Board of Directors, the Appointments, Remuneration, Corporate Governance and Conflict of Interest Committee is responsible for reporting and proposing to the Board the appointments and removals of executive personnel and proposing the remuneration policy and overseeing its implementation.

The HR needs are defined in more detail by each area in collaboration with HR. Any significant changes or new appointments must be proposed by the General Managers of the affected areas to the Chairman and ratified by the Management Committee at its monthly meetings.

At Grupo Banco Popular (hereinafter GBP or the Group), each department defines its functions and HR has job descriptions which include: the category, department and job location along with the functions and responsibilities. There are job descriptions for the management positions (Area Directors and Office Managers) in the areas involved in preparing financial information: Comptroller, Corporate Finance and Technical Secretariat.

The office of the Comptroller, which is responsible for preparing the financial information that is presented to the markets, has its own functional organisational chart where the lines of responsibility, tasks and functions are defined.

- **Code of conducts, approval body, level of dissemination and instruction, principles and values contained in the code (indicate whether there are specific references to accounting procedures and financing reporting), body in charge of analysing noncompliance and proposing corrective/disciplinary actions.**

Grupo Banco Popular has a “Code of Conduct” that was approved by the Board of Directors. It is available on the Group’s intranet.

The Code applies to the members of the governing body and all employees of the member companies of Grupo Banco Popular, notwithstanding the fact that some of these peoples are also bound by the Stock Market Code of Conduct or other codes of contact specific to the functions they perform.

The Code of Conduct lays out the basic rules of conduct for both internal relations and relations with third parties applicable to the people who are bound by the Code and the rules for specific situations (privileged information, data protection, etc.), including internal procedures applicable to the integrity and preparation of the financial information that is reported to the markets.

There is an Oversight Unit which is responsible for monitoring the effectiveness of and compliance with the Code of Conduct.

A breach of the Code of Conduct may result in the application of the disciplinary measures provided for in labour laws, notwithstanding any administrative or criminal penalties that may apply.

The Group offers its employees training courses which cover the Code of Conduct.

The self-educational resources are permanently available to all Bank professionals and may be freely accessed by them at any time.

- **A reporting system which allows employees to report financial and / or accounting irregularities, breaches of the Code of Conduct and irregular activities within the organisation to the Audit Committee.**

Grupo Banco Popular has a reporting system where employees can confidentially report violations of the Code of Conduct, financial and / or accounting irregularities, and irregular or fraudulent activities within the organisation to the Oversight Unit.

The reports received through this cannel must be treated confidentially. Once analysed by the Oversight Unit of the Reporting System and Code of Conduct, they must be report to the Audit and Control Committee.

An ad hoc application which can be accessed directly via the Bank’s intranet has been implemented for the correct operation of the reporting channel.

- **Training programmes and periodic refresher courses for the personnel involved in preparing and reviewing financial information and evaluating the SCIIF which cover the accounting, auditing, internal control and risk management standards.**

The Grupo Banco Popular personnel involved in the different processes related to financial reporting (Comptroller, Risk Management, Corporate Finance, Technical Secretariat, Internal Audit) receive training and periodic refresher courses designed specifically to facilitate the correct performance of their functions.

These training programmes are taught by external and internal personnel and may be offered in person and/or online. Some of the most notable topics that are addressed include: “New General Accounting Plan: Adaptation to IFRS”, “Basel II Circular on Capital and Reserves”, “IFRS 10: Consolidated Financial Statements”, “Preventing Money-Laundering” “Analysis and Evaluation of Credit Institutions”, etc.

In addition, it should be noted that the staff assigned to the areas involved in preparing financial information members of areas involved in preparing financial information are participating in a Management Development Programme for highly experienced and competent employees who are committed to the corporate vision and values. The programme instructors are highly skilled individuals, some who are part of the Group and others who are prestigious consultants and members of academia. The MBA associated with this programme recognizes the effort and excellence of the participants.

Finally, GBP (represented by the Comptroller), as a member of AEB, periodically receives updates and attends meetings where regulatory changes are analysed. It also receives alerts from different professional service firms with technical updates.

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2 Risk assessment with regard to financial information.

2.1 What are the main characteristics of the process of identifying risks, including error or fraud?

- **Whether the process exists and is documented.**

- **Whether the process covers all financial reporting objectives (existence and occurrence; integrity; evaluation; presentation, disclosure and comparability; rights and obligations), whether it is regularly updated and how frequently.**

- **The existence of a process for identifying the scope of consolidation, bearing in mind the existence of complex business structures, instrumental entities or special purpose vehicles, among others.**

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.), to the extent that they affect the financial statements.**

- **Which governing body supervises the process.**

GBP has established a process for identifying the risk of error in the financial information. The process is documented in a procedure in which the Group's relevant processes or areas are identified and analysed.

The risk identification process is the responsibility of the Comptroller's office, while the supervision of the process is handled by the Audit and Control Committee through the Internal Audit function.

The risk identification process is reviewed annually using the most recent information available as a baseline. However, the Comptroller evaluates the need to add new risks to those already identified whenever any of the following occurs: (i) when previously unidentified circumstances bring to light possible errors in the financial information or (ii) when there are substantial changes in the Group's operations.

This evaluation process covers all of the objectives of the financial reporting system: (i) existence and occurrence; (ii) integrity; (iii) evaluation; (iv) presentation, (v) disclosure and comparability; (vi) rights and obligations and takes the effects of other types of risk into account (operational, technological, financial, legal, reputational, environmental, etc.).

Risks related to the proper identification of the scope of consolidation are documented in the "Consolidation Process" which is one of the Bank's three critical processes and is therefore audited annually.

Finally, it should be mentioned that according to article 5.2 of its Rules, "the Board of Directors has the authority to approve the creation or acquisition of interests in special purpose vehicles or entities domiciled in countries or territories considered to be tax havens and any other transactions or operations of a similar nature which, because of their complexity, could impair the Group's transparency".

3 Control activities.

State whether the following exists and, if so, describe the main characteristics:

3.1. Procedures for reviewing and authorising financial information and description of the SCIIF to be reported to the stock markets, and persons responsible for the. Documentation that describes the activity flows and controls (including those relative to the risk of fraud) of the different types of transactions that can have a material effect on the financial statements, including closing procedures and special reviews of the most relevant judgments, estimates and forecasts.

According to article 5.1 of the Rules, the Board of Directors is charged with "adopting and performing any and all actions and measures as may be required to ensure the Bank's transparency to the financial markets and approving the Annual Corporate Governance Report as well as the financial information that is published periodically and any other functions that are required pursuant to the company's status as a publicly listed company."

The procedures for reviewing and authorising the financial information reported by GBP to the markets begin with a review by the Comptroller's office and Corporate Finance. Following this, the six-monthly financial reports, the individual accounts, the consolidated annual accounts and the Directors' Report are reviewed by the Audit and Control Committee as the step immediately prior to their formulation by the Board of Directors (as stipulated in article 5.1 of the Rules). In addition, the Audit and Control Committee supervises the quarterly financial reports as part of information that is reported to the markets on a regular basis. All of these reviews are documented in the minutes of the Audit and Control Committee meetings.

As mentioned in Indicator 1, the Audit and Control Committee performs the following functions, among others:

a) Supervises the integrity of the financial information and the process of preparing and presenting it.

b) Checks to make sure that all periodic information reported to the markets is prepared according to accounting principles applicable to annual accounts, overseeing the information and reporting to the Board of Director prior to decisions being taken by the Board and being made public.

c) Supervises the effectiveness of the Bank's internal controls and risk management systems so that the most serious risks are properly identified and managed; discussing with auditors the significant weaknesses in the internal control system detected during audits.

The Audit and Control Committee meets at least twice a year (half-year and annual year-end) with the external auditors to go over the financial reporting review process and identify incidents, among other things.

GBP has documented all of the processes at risk of having a material impact on the Group's financial statements, identifying the key risks and controls associated with each one. It should be noted that the closing and consolidation processes and the judgments and estimates made are critical processes in the preparation of financial reports.

For each one of these processes, the Group has documentation describing the activity flows, the identified risks and the controls in place to mitigate those risks. This documentation describes: the control activities, the risks they mitigate, how often they take place, the degree of automation and the persons responsible for them.

With regard to the review of relevant judgments and estimates, GBP reports on the most critical estimates or judgments and the key hypotheses used by the Group in the Consolidated Financial Statements. The most relevant estimates refer to: the value of goodwill; the useful life and impairment losses on intangible assets and PPE; the value of certain non-traded shares; corporate income tax; the calculation of post-employment liabilities and commitments assumed; the addition and write-off of assets and liabilities; and the integrity and accuracy of the consolidation scope.

It should also be noted that GBP has a general policy in place for making judgments, estimates and forecasts which takes all of the pertinent aspects into account (type, importance, item, frequency of review, supporting studies) as well as the persons responsible for preparing and reviewing them.

3.2 Internal control policies and procedures for information systems (safe access, change control, operations, continuity of operation and segregation of functions, among others) that support the Bank's relevant processes in relation to the preparation and publication of financial information.

The Information Technology Office is responsible for the systems that directly or indirectly support the financial information and contain the information used to prepare the financial reports. The Comptroller is responsible for overseeing the preparation of financial information.

The Information Safety office has a set of rules in place that includes specifications on the policies and procedures for the information systems that support the preparation and publication of financial information. This body of rules and all other security measures that have been implemented apply to all areas of Grupo Banco Popular and to all of the systems which director or indirectly support the financial information and the transactions associated therewith.

The Information Technology Office is divided into different areas that handle the following processes:

- Physical and logical safety: controlling access to data and safeguarding the information.
- Design and development transversal applications and infrastructures that support the group's business applications.
- Software maintenance quality validation in computer programme development.
- Managing the supply of services and communications, performance control and scheduled tasks.
- Continuity of operations, back-ups and technological contingency plan.

The Information Safety office has the appropriate tools in place to control and supervise access and, in coordination with the different business areas, to ensure that functions are properly segregated and that access to systems and information is effectively controlled.

The development methodology used by Grupo Banco Popular establishes the steps to be followed over the software's life cycle, including both new applications and modifications of existing ones, to guarantee the quality, control and validation of phases and optimise computer developments in order to bring them in line with standards such as CMMI and ITIL, which in turn guarantees that these applications are processing the transactions correctly and providing reliable information.

The Information Technology area has a Contingency Plan which ensures that the bank's operations can continue (continuity of operations and registration of transactions) even when one or more systems go down. The procedures described in the plan include instructions for the failed functions to be supported by an alternate system, thus guaranteeing that operations are not interrupted and that the situation returns to normal as soon as possible. In addition, backup and restore procedures guarantee that the information can be recovered if it is lost. Grupo Banco Popular has extensive experience with backup and restore procedures and the Contingency Plan is revised dynamically to accommodate new releases of platforms and applications. The availability and efficiency of these processes are verified by the Bank periodically.

3.3 Internal control policies and procedures intended to supervise the management of the activities outsourced to third parties and the evaluation and calculation responsibilities entrusted to independent experts which can have a material effect on the financial statements.

GBP does not believe that any of the work subcontracted to third parties can have a relevant impact on the process of preparing the Group's financial information.

The use of specialists and experts can have an effect on appraised values (real estate appraisals, actuarial calculations and, to a lesser extent, the assignment of values to certain financial assets).

The areas of the Group responsible for engaging the services of such experts work only with highly reputable professionals in keeping with the terms of the "Internal Policy on Selecting and Evaluating the Work of Independent Experts". However, for actuarial calculations, the Group's Pension and Surety Department conducts internal evaluations of pension commitments which it compares against those received from the independent experts.

4 Reporting and communication.

State whether the following exists and, if so, describe the main characteristics:

4.1 A specific function responsible for defining accounting policies and keeping them up to date (accounting policy area or department) and resolving questions or conflicts arising from their interpretation, keeping the lines of communication open with the people responsible for operations within the organisation as well as a manual of accounting policies that is kept up to date and distributed to the Bank's operating units.

Within the GBP Group, the Technical Accounting Area (which reports to the Comptrollers) is responsible for:

(i) Identifying, defining and communicating the Group's accounting policies and critical judgments (i.e., default estimates, goodwill, value of real estate assets, value of financial assets, etc.).
(ii) Defining new accounting policies to be applied to any new transactions carried out by GBP in the future.
(iii) Responding to accounting questions raised by subsidiaries and other business units.
(iv) Reviewing the implications of regulatory changes and passing them on to the pertinent departments and staff. To this end, the Group plans to issue a quarterly bulletin with the most important accounting and financial updates which will be accessible to all areas involved in the preparation of financial information.
(v) Finally, this department is in charge of reporting to the Group's upper management on new accounting standards and principles, the results of their implementation and their impact on the financial statements.

4.2. Mechanisms for gathering and preparing standardised financial information that apply to and are used by all business units and that support the primary financial statements and notes to the financial statements, as well as detailed information on SCIIF

At GBP, the process of preparing and consolidating the financial information is centralised in the Consolidation Office, which reports to the Comptroller.

This department uses the closing information entered by the Group's member companies into the mainframe computer, which then automatically loads the information in consolidated format based on pre-defined map (which is reviewed and updated monthly). With this process it is possible to consolidate around al 90% of the Group's financial statements automatically thereby reducing the risk of human error.

For the rest of the Group's affiliates (particularly foreign subsidiaries), the Consolidation Office gathers and analyses the information and then goes through the different consolidation phases – standardisation, harmonisation and consolidation.

At the GBP Group, the Accounting Analysis and Forecasting Office (which reports to the Technical Accounting Area) is responsible for gathering information and supervising the preparation of the notes to the Group's financial statements.

5 Supervision of system operation.

State whether the following exists and, if so, describe the main characteristics:

5.1. State whether there is an internal audit function whose responsibilities include assisting the Audit Committee with the task of supervising the internal control system, including SCIIF. Also describe the scope of the SCIIF evaluation performed during the year and the procedure whereby the person responsible for the evaluation reports his or her findings, and whether the entity has an action plan with the corrective measures referred to in the evaluation, considering the impact on the financial information.

GBP's Internal Audit Department reports directly to the Office of the Comptroller and all of its members work exclusively on internal audits. This department's functions include reporting to and assisting the Audit and Control Committee in supervising the correct design, implementation and operation of risk management and control systems, including SCIIF..

According to article 24.4.d of the Rules, the functions of the Audit and Control Committee include "Supervising internal audits to ensure their independence and effectiveness; proposing the selection, appointment, re-election and removal of the persons responsible for them; proposing budgets; receiving information on internal audits on a regular basis and verifying that upper management heeds the conclusions and recommendations contained in the reports".

The Internal Audit area has a three-year SCIIF Supervision Plan approved by the Audit and Control Committee. This Plan calls for testing to be conducted on all relevant areas of the Grupo Banco Popular over the three-year period covered by the Plan, with the exception of certain areas or processes considered to be of the utmost importance, such as critical closing procedures, consolidation, judgments and estimates used, etc., which are evaluated once a year.

The scope of the evaluation conducted in 2012 included:

i. Critical processes including closing, consolidation and judgments and estimates used.
ii. Other processes included in the Three-year SCIIF Supervision Plan for 2012: Corporate issues by BPE Group, Non-current assets for sale, loans, credit lines and deposits.

The review conducted by Internal Audit did not reveal any significant weaknesses.

5.2 State whether there is a discussion procedure whereby the auditor (pursuant to the terms of NTA), the internal audit area and/or other experts are able to report any serious weaknesses found in the internal control system to upper management and the Audit Committee during the year. Also, state whether there is an action plan for correcting or mitigating any weaknesses encountered

The Audit and Control Committee meets at least once every three months (prior to the publication of the regulated financial reports) to obtain and analyse the information needed to perform the functions entrusted to it by the Board of Directors.

At those meetings, the Audit and Control Committee: (i) reviews all of the financial information reported to the markets (annual accounts, six-monthly accounts and interim quarterly reports), (ii) discusses any weakness observed in the SCIIF and proposes solutions.

The external auditors have direct access to upper management, holding regular meetings with management to gather the information needed to do their work and to report any weaknesses detected in the internal control system during the audit.

In addition, the external auditors present an annual report to the Audit and Control Committee detailing the internal control incidents observed, the comments of the group's management and the measures implemented to remediate the weaknesses.

In addition, the Director of Internal Audit meets quarterly with the Audit Committee to discuss the scope of the work being done; monthly with upper management (Management Committee) and twice a year with the Board of Directors (Executive Committee and Plenary Board of Directors).

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6. Other relevant information

There is no other relevant information.

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7. Report of the external auditors

Report on:

7.1 State whether the SCIIF information reported to the markets is reviewed by an external auditor, in which case the entity should include the auditor's report. Otherwise, a reason should be given for not having done so.

The information on the "Financial Reporting Internal Control Systems" reported to the markets by GBP in 2012 was examined by the external auditors. The scope of the auditor's review was in keeping with the terms of Circular E 01/2012 of the Spanish Institute of Certified Public Accountants dated 25 January 2012.

B. Information on securities that do not trade on a regulated EC market, indicating the different types of shares and the rights and obligations associated with each type as well as the percentage of share capital that is represented by company's treasury stock and any significant changes (art. 61 bis 4, a.3, LMV).

There are no securities that do not trade on regulated EC markets.

With regard to the percentage of treasury stock held by the company, see point A8 of the Annual Corporate Governance Report.

C. Restrictions on the transferability of securities and voting rights (art. 61 bis 4, b, LMV).

Restrictions on the transferability of securities:
N/A. See section A10 of the Annual Corporate Governance Report.

Restrictions on voting rights:
There are no restrictions on voting rights

D. Information on the rules for amending the company's bylaws (art. 61 bis 4, a.4, LMV).

The rules that apply to amending the Bylaws are set out in articles 285 et seq of the Capital Companies Act, which state that such amendments must be approved by the Shareholders' Meeting with the majorities established in article 194 of the law.

As a credit institution, bylaw amendments are subject to a procedure whereby they must be authorised and registered by the Ministry of the Economy as provided for in Royal Decree 1245/1995 of 14 July on the creation of Banks, cross-border business and other questions relative to the rules governing credit institutions.

E. Information on the powers of the members of the Board of Directors and in particular those relative to the possibility issuing or buying back shares (art. 61 bis 4, c.3, LMV).

The Board of Directors is vested with powers of representation and administration under the law and the Bylaws and these powers encompass all of the acts falling within the business objectives defined in the Bylaws.

The Chairman of the Board of Directors is vested with all of the powers of the Board with the exception of those which cannot, either by law or according to article 5.2 of the Rules of the Board of Directors, be delegated..

Delegation to issue shares:

At the Shareholders' Meeting held on 8 April 2011 the shareholders authorised the Board of Directors, pursuant to the terms of articles 297.1.b) and 506.2 of the Capital Companies Act, to increase the share capital and to suppress preferred subscription rights by raising the par value of existing shares or by issuing new ordinary, privileged, redeemable shares, with or without a premium, with or without voting rights, in any of the classes and types allows by law and the Bylaws. The deadline for exercising this power is five years.

The Board of Directors did not carry out any operations of this kind in 2012.

Delegation to issue convertible fixed income securities:

At the Shareholders' meeting held on 11 June 2012, the shareholders authorised the Board of Directors, pursuant to the terms of article 319 of the Business Register Regulations, to issue convertible fixed income securities by issuing new shares and/or securities that could be swapped for Bank shares in circulation. The deadline for exercising this power is five years.

At the Board of Directors meeting held on 11 June 2012, the Board agreed to is subordinated bonds necessarily convertible to Banco Popular shares in the amount of fifty million euros.

F. Information on any significant agreements entered into by the company which take effect, are modified or conclude if there is a change in the company's control as a result of a public takeover bid and the effects, except when disclosing such information would be seriously harmful to the company. This exception does not apply if the company is legally obligated to publish this information (art. 61 bis 4, c.4, LMV);

The Bank has not signed any agreement that takes effect, is modified or concludes if there is a change in the company's control as a result of a public takeover bid.

G. Information on the agreements between the company and its directors, officers or employees who are entitled to severance packages when they resign or are unfairly dismissed or when the employment relationship comes to an end as a result of a public takeover bid (art. 61 bis 4, c.5, LMV).

There are no agreements of this kind.

3 FINANCIAL STATEMENTS

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Report of Independent Auditors

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This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AUDITORS' REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

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

We have audited the consolidated annual accounts of Banco Popular Español, S.A. (Parent Company) and its subsidiaries (the Group) consisting of the consolidated balance sheet as at 31 December 2012, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 2, the Directors of the Company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2012 present fairly, in all material respects, the consolidated financial position of Banco Popular Español, S.A. and its subsidiaries at 31 December 2012 and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' Report for 2012 contains the explanations which the Parent Company's Directors consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' Report is in agreement with that of the consolidated annual accounts for 2012. Our work as auditors is limited to checking the consolidated Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of Banco Popular Español, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Jose María Sanz Olmeda
Partner

28 February 2013

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Reporting responsibility

The Bank's General Management, as the technical and executive body of Banco Popular pursuant to Article 22 of the Bank's Bylaws, is responsible for the preparation and presentation of all the financial information appearing hereinafter. In Management's opinion, this information presents a true and fair view of the Bank's financial position, and the operational and accounting processes applied comply with current legal and administrative regulations and with Bank of Spain instructions and recommendations.

To this end, certain procedures, which are periodically reviewed and optimized, have been implemented to ensure that a uniform accounting record is kept of all transactions by means of an appropriate system of internal controls.

These procedures include monthly management controls at all decision-making levels, the scrutiny and approval of transactions in the framework of a formal system of functional delegation, ongoing professional training of the staff and the issuance and updating of manuals and operating standards. Also, the professional independence of the related control bodies is formally established in the organization.

The financial statements which were audited by PricewaterhouseCoopers, include such explanations and disclosures as were considered necessary for a clearer understanding. For a thorough understanding of the financial statements, reference should be made to the events and major results impacting them, which are described in the Directors' Report contained in the preceding pages of this document.

Consolidated Balance Sheets as of December 31, 2012 and 2011

(€ thousand)

ASSETS	Notes	2012	2011
Cash and balances with central banks	**19**	**2,117,182**	**522,205**
Financial assets held for trading	**20**	**2,096,851**	**1,316,564**
Due from credit institutions		-	-
Loans and advances to other debtors		-	-
Debt securities		126,436	140,417
Other equity instruments		169,068	25,768
Trading derivatives		1,801,347	1,150,379
Memorandum item: Loaned or pledged		-	-
Other financial assets through profit or loss	**21**	**493,623**	**377,504**
Due from credit institutions		-	-
Loans and advances to other debtors		-	-
Debt securities		383,241	265,475
Other equity instruments		110,382	112,029
Memorandum item: Loaned or pledged		-	-
Available - for- sale financial assets	**22**	**10,843,000**	**10,405,746**
Debt securities		10,501,094	9,860,805
Other equity instruments		341,906	544,941
Memorandum items: Loaned or pledged		5,196,453	2,450,083
Loans and receivables	**23**	**114,444,133**	**100,741,920**
Due from credit institutions		4,658,658	3,970,821
Loans and advances to other debtors		108,809,293	96,771,099
Debt securities		976,182	-
Memorandum items. Loaned or pledged		20,162,821	20,216,532
Held-to-maturity investment portfolio	**24**	**11,014,472**	**7,568,415**
Memorandum item: Loaned or pledged		6,213,030	2,932,355
Changes in the fair value of the hedged items in portfolio hedges of interest rate risk	**25**	**222,647**	**19,546**
Hedging derivatives	**26**	**678,357**	**1,092,040**
Non-current assets held for sale	**27**	**4,896,644**	**3,601,723**
Investments	**28**	**811,356**	**595,184**
Associates		811,356	595,184
Jointly -controlled entities		-	-
Insurance contracts linked to pensions	**29**	**144,530**	**141,809**
Reinsurance assets	**30**	**4,878**	**3,033**
Tangible assets	**31**	**1,892,725**	**1,734,231**
Property, plant and equipment		886,531	689,735
For own use		859,793	689,735
Assigned under operating lease		26,738	-
Used in Community projects		-	-
Investment properties		1,006,194	1,044,496
Memorandum items: Acquired under a finance lease		-	-
Intangible assets	**32**	**2,655,084**	**649,131**
Goodwill		2,269,397	537,497
Other intangible assets		385,687	111,634
Tax assets	**33**	**3,703,759**	**1,212,610**
Current		176,561	171,097
Deferred		3,527,198	1,041,513
Other assets	**34**	**1,598,877**	**944,042**
Inventories		741,680	450,106
Other		857,197	493,936
TOTAL ASSETS		**157,618,118**	**130,925,703**

Consolidated Balance Sheets as of December 31, 2012 and 2011

(€ thousand)

LIABILITIES	Notes	2012	2011
Financial liabilities held for trading	**20**	**1,491,141**	**1,104,323**
Deposits from central banks		-	-
Deposits from credit institutions		-	-
Deposits from other creditors		-	-
Debt certificates including bonds		-	-
Trading derivatives		1,486,842	1,104,323
Short positions		4,299	-
Other financial liabilities		-	-
Other financial liabilities at fair value through profit or loss	**21**	**93,060**	**93,761**
Deposits from central banks		-	-
Deposits from credit institutions		-	-
Deposits from other creditors		-	-
Debt certificates including bonds		-	-
Subordinated liabilities		-	-
Other financial liabilities		93,060	93,761
Financial liabilities at amortized cost	**35**	**141,726,166**	**118,279,831**
Deposits from central banks		20,564,157	13,993,728
Deposits from credit institutions		14,402,480	11,336,547
Deposits from other creditors		79,830,212	68,742,520
Debt certificates including bonds		23,442,605	20,448,938
Subordinated liabilities		2,170,454	2,834,927
Other financial liabilities		1,316,258	923,171
Changes in the fair value of the hedged items in portfolio hedges of interest rate risk	**25**	**-**	**-**
Hedging derivatives	**26**	**2,048,864**	**1,414,056**
Liabilities associated with non-current assets for sale		**-**	**-**
Insurance contract liabilities	**37**	**814,599**	**571,109**
Provisions	**38**	**508,047**	**281,552**
Provisions for pensions and similar obligations		336,263	169,268
Provisions for taxes and other tax contingencies		70,854	41,508
Provisions for contingent exposures and commitments		85,336	67,086
Other provisions		15,594	3,690
Tax liabilities	**33**	**461,230**	**279,630**
Current		89,303	73,736
Deferred		371,927	205,894
Other liabilities	**39**	**519,590**	**513,217**
TOTAL LIABILITIES		**147,662,697**	**122,537,479**

Consolidated Balance Sheets as of December 31, 2012 and 2011

(€ thousand)

EQUITY	Notes	2012	2011
Own funds	**41**	**10,797,878**	**9,124,148**
Capital or assigned capital		840,855	140,093
Issued		840,855	140,093
Less: uncalled (-)		-	-
Share premium		5,648,966	1,968,111
Reserves		6,222,809	6,071,691
Accumulated reserves (losses)		6,215,931	6,043,097
Reserves (losses) of equity method companies		6,878	28,594
Other equity instruments		680,894	685,814
Equity component of equity method companies		-	-
Rest		680,894	685,814
Less: Treasury shares		(134,623)	(152,795)
Results attributed to parent company		(2,461,023)	479,653
Less: Dividends and remuneration		-	(68,419)
Valuation adjustments	**42**	**(886,614)**	**(841,923)**
Available-for -sale financial assets		(917,734)	(912,391)
Cash flow hedges		-	33,857
Hedges of a net investment in a foreign operation		-	-
Exchange differences		31,120	36,611
Non-current assets held for sale		-	-
Equity method entities		-	-
Other valuation adjustments		-	-
Minority interests	**43**	**44,157**	**105,999**
Valuation adjustments		(1,358)	(2,903)
Rest		45,515	108,902
TOTAL EQUITY	**40**	**9,955,421**	**8,388,224**
TOTAL LIABILITIES AND EQUITY		**157,618,118**	**130,925,703**
MEMORANDUM ITEM			
Contingent exposures	**47**	**15,199,483**	**13,978,129**
Contingent commitments	**48**	**10,291,450**	**10,904,964**

Consolidated income statements for the years ended December 31, 2012 and 2011 (€ thousand)

	Notes	2012	2011
Interest and similar income	**49**	**5,496,413**	**4,580,521**
Interest expense and similar charges	**50**	**2,777,657**	**2,493,610**
NET INTEREST MARGIN		**2,718,756**	**2,086,911**
Return on equity instruments	**51**	**4,106**	**8,495**
Results equity method entities	**52**	**23,070**	**46,068**
Fees and commissions received	**53**	**964,890**	**821,904**
Fees and commissions paid	**53**	**171,220**	**136,372**
Gains or losses on financial assets and liabilities (net)	**54**	**304,837**	**81,479**
Held for trading		153,457	6,454
Other financial instruments at fair value through profit or loss		(19,603)	(1,884)
Financial instruments not carried at fair value through profit or loss		177,719	53,310
Other		(6,736)	23,599
Exchange differences (net)	**55**	**55,148**	**47,745**
Other operating income	**56**	**135,452**	**144,477**
Insurance and reinsurance premiums collected		23,206	19,590
Sales and income for provision of non-financial services		25,134	21,848
Other operating income		87,112	103,039
Other operating expenses	**57**	**257,223**	**104,073**
Expenses relating to insurance and reinsurance contracts		15,260	12,975
Variation in inventories		26,907	27,914
Other operating expenses		215,056	63,184
GROSS MARGIN		**3,777,816**	**2,996,634**
Administration expenses		**1,604,723**	**1,262,965**
Personnel expenses	58	949,734	778,756
Other administrative expenses	59	654,989	484,209
Depreciation and amortization	**60**	**156,719**	**106,191**
Provisioning expense (net)	**61**	**37,647**	**(18,032)**
Impairment losses on financial assets (net)	**62**	**4,310,073**	**970,370**
Loans and receivables		4,210,776	940,158
Other financial instruments not carried at fair value through profit or loss		99,297	30,212
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		**(2,331,346)**	**675,140**
Impairment losses on other assets (net)	**63**	**511,494**	**398,741**
Goodwill and other intangible assets		57,677	30,000
Other assets		453,817	368,741
Profits (losses) on disposal of assets not classified as non-current held for sale	**64**	**150,134**	**506,853**
Negative difference on business combinations	**65**	**-**	**-**
Profits (losses) on non-current assets held for sale not classified as discontinued operations	**66**	**(799,013)**	**(339,111)**
PROFIT /(LOSS) BEFORE TAX		**(3,491,719)**	**444,141**
Corporate income tax	**44**	**(1,030,776)**	**(39,835)**
PROFIT /(LOSS) FROM CONTINUING OPERATIONS		**(2,460,943)**	**483,976**
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**(2,460,943)**	**483,976**
Profit/(loss) attributed to the Parent Company		(2,461,023)	479,653
Profit/(loss) attributed to minority interests	67	80	4,323
BASIC EARNINGS PER SHARE	**5**	**(1.104)**	**0.352**
DILUTED EARNINGS PER SHARE*	**5**	**(0.602)**	**0.317**

* Includes the diluting effect of the issue of necessarily convertible debentures

Consolidated recognized income and expense for the years ended December 31, 2012 and 2011 (€ thousand)

	2012	2011
CONSOLIDATED PROFIT/(LOSS)	**(2,460,943)**	**483,976**
OTHER RECOGNIZED INCOME AND EXPENSE	**(44,031)**	**(253,465)**
Available-for-sale financial assets	**(14,525)**	**(394,818)**
Measurement gains/(losses)	127,819	(342,047)
Amounts transferred to income statement	142,344	52,771
Other reclassifications	-	-
Cash flow hedges	**(48,367)**	**9,177**
Measurement gains/(losses)	-	9,177
Amounts transferred to income statement	(48,367)	-
Amounts transferred at the initially carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedges of net investments in foreign operations	-	-
Measurement gains/(losses)	-	-
Amounts transferred to the income statement	-	-
Other reclassifications	-	-
Exchange differences	**(7,844)**	**8,819**
Measurement gains /(losses)	(7,844)	8,819
Amounts transferred to the income statement	-	-
Other reclassifications	-	-
Non-current assets held for sale	-	-
Measurement gains /(losses)	-	-
Amounts transferred to the income statement	-	-
Other reclassifications	-	-
Actuarial gains /(losses) on pension plans	**(1,154)**	**26,878**
Equity method companies	-	-
Measurement gains /(losses)	-	-
Amounts transferred to the income statement	-	-
Other reclassifications	-	-
Other recognized income and expense	-	-
Corporate income tax	**27,859**	**96,479**
TOTAL RECOGNIZED INCOME AND EXPENSE	**(2,504,974)**	**230,511**
Attributed to parent company	(2,506,599)	229,091
Attributed to minority interests	1,625	1,420

Changes in consolidated equity for the years ended December 31, 2012 and 2011 (€ thousand)

	OWN FUNDS								
	Capital	Share premium	Reserves (accumulated losses)	Equity method entities reserves	Other equity instruments	Less: Treasury shares	Profit/(loss) for the year attributed to parent company	Less: Dividends and remuneration	Total Own Funds
Opening balance at (01/01/2012)	**140,093**	**1,968,111**	**6,043,097**	**28,594**	**685,814**	**152,795**	**479,653**	**68,419**	**9,124,148**
Adjustments for changes in criteria	-	-	-	-	-	-	-	-	-
Adjustments for errors	-	-	-	-	-	-	-	-	-
Adjusted opening balance	**140,093**	**1,968,111**	**6,043,097**	**28,594**	**685,814**	**152,795**	**479,653**	**68,419**	**9,124,148**
Total recognized income and expense	**-**	**-**	**(885)**	**-**	**-**	**-**	**(2,461,023)**	**-**	**(2,461,908)**
Other changes in equity	**700,762**	**3,680,855**	**173,719**	**(21,716)**	**(4,920)**	**(18,172)**	**(479,653)**	**(68,419)**	**4,135,638**
Capital increases	663,342	3,084,442	-	-	-	-	-	-	3,747,784
Capital decreases	-	-	-	-	-	-	-	-	-
Conversion of equity financial liabilities	37,420	672,489	-	-	(5,018)	-	-	-	704,891
Increases in other equity instruments	-	-	-	-	98	-	-	-	98
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	76,076	89,978	-	-	-	68,419	68,419	166,054
Transactions with own equity instruments (net)	-	-	(72,637)	-	-	(18,172)	-	-	(54,465)
Transfers between equity items	-	-	432,950	(21,716)	-	-	(411,234)	-	-
Increases/ (decreases) due to business combinations	-	-	-	-	-	-	-	-	-
Equity settled payments	-	-	-	-	-	-	-	-	-
Other increases /(decreases) in equity	-	-	(96,616)	-	-	-	-	-	(96,616)
Closing balance at (31/12/2012)	**840,855**	**5,648,966**	**6,215,931**	**6,878**	**680,894**	**134,623**	**(2,461,023)**	**-**	**10,797,878**

	OWN FUNDS								
	Capital	Share premium	Reserves (accumulated losses)	Equity method entities reserves	Other equity instruments	Less: Treasury shares	Profit/(loss) for the year attributed to parent company	Less: Dividends and remuneration	Total Own Funds
Opening balance at (01/01/2011)	**137,528**	**1,962,703**	**5,689,586**	**(11,038)**	**691,302**	**117,337**	**590,163**	**167,275**	**8,775,632**
Adjustments for changes in criteria	-	-	-	-	-	-	-	-	-
Adjustments for errors	-	-	-	-	-	-	-	-	-
Adjusted opening balance	**137,528**	**1,962,703**	**5,689,586**	**(11,038)**	**691,302**	**117,337**	**590,163**	**167,275**	**8,775,632**
Total recognized income and expense	**-**	**-**	**18,996**	**-**	**-**	**-**	**479,653**	**-**	**498,649**
Other changes in equity	**2,565**	**5,408**	**334,515**	**39,632**	**(5,488)**	**35,458**	**(590,163)**	**(98,856)**	**(150,133)**
Capital increases	2,565	5,408	(2,487)	-	-	-	-	-	5,486
Capital decreases	-	-	-	-	-	-	-	-	-
Conversion of equity financial instruments	-	-	-	-	-	-	-	-	-
Increases in other equity instruments	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	36,961	-	-	-	-	(68,419)	105,380
Transactions with own equity instruments (net)	-	-	(5,723)	-	-	35,458	-	-	(41,181)
Transfers between equity items	-	-	383,256	39,632	-	-	(590,163)	(167,275)	-
Increases /(decreases) due to business combinations	-	-	-	-	-	-	-	-	-
Equity settled payments	-	-	-	-	-	-	-	-	-
Other increases /(decreases) in equity	-	-	(3,570)	-	(5,488)	-	-	-	(9,058)
Closing balance at (31/12/2011)	**140,093**	**1,968,111**	**6,043,097**	**28,594**	**685,814**	**152,795**	**479,653**	**68,419**	**9,124,148**

	Total own funds	Valuation adjustments	Total	Minority interests	Total equity
Opening balance at (01/01/2012)	**9,124,148**	**(841,923)**	**8,282,225**	**105,999**	**8,388,224**
Adjustments for changes in criteria	-	-	-	-	-
Adjustments for errors	-	-	-	-	-
Opening adjusted balance	**9,124,148**	**(841,923)**	**8,282,225**	**105,999**	**8,388,224**
Total recognized income and expense	**(2,461,908)**	**(44,691)**	**(2,506,599)**	**1,625**	**(2,504,974)**
Other changes in equity	**4,135,638**	**-**	**4,135,638**	**(63,467)**	**4,072,171**
Capital increases	3,747,784	-	3,747,784	-	3,747,784
Capital decreases	-	-	-	-	-
Conversion of equity financial liabilities	704,891	-	704,891	-	704,891
Increases in other equity instruments	98	-	98	-	98
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-
Distribution of dividends	166,054	-	166,054	137	166,191
Transactions with own equity instruments (net)	(54,465)	-	(54,465)	-	(54,465)
Transfers between equity items	-	-	-	-	-
Increases /(decreases) due to business combinations	-	-	-	-	-
Equity settled payments	-	-	-	-	-
Other increases /(decreases) in equity	(96,616)	-	(96,616)	(63,330)	(159,946)
Closing balance at (31/12/2012)	**10,797,878**	**(886,614)**	**9,911,264**	**44,157**	**9,955,421**

	Total own funds	Valuation adjustments	Total	Minority interests	Total equity
Opening balance at (01/01/2011)	**8,775,632**	**(572,365)**	**8,203,267**	**49,052**	**8,252,319**
Adjustments for changes in criteria	-	-	-	-	-
Adjustments for errors	-	-	-	-	-
Adjusted opening balance	**8,775,632**	**(572,365)**	**8,203,267**	**49,052**	**8,252,319**
Total recognized income and expense	**498,649**	**(269,558)**	**229,091**	**1,420**	**230,511**
Other changes in equity	**(150,133)**	**-**	**(150,133)**	**55,527**	**(94,606)**
Capital increases	5,486	-	5,486	-	5,486
Capital decreases	-	-	-	-	-
Conversion of equity financial liabilities	-	-	-	-	-
Increases in other equity instruments	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-
Distribution of dividends	105,380	-	105,380	11,761	117,141
Transactions with own equity instruments (net)	(41,181)	-	(41,181)	-	(41,181)
Transfers between equity items	-	-	-	-	-
Increases /(decreases) due to business combinations	-	-	-	-	-
Equity settled payments	-	-	-	-	-
Other increases /(decreases) in equity	(9,058)	-	(9,058)	67,288	58,230
Closing balance at (31/12/2011)	**9,124,148**	**(841,923)**	**8,282,225**	**105,999**	**8,388,224**

Consolidated cash flow statements for the years ended December 31, 2012 and 2011 (€ thousand)

	2012	2011
A) CASH FLOWS FROM OPERATING ACTIVITIES	**854,133**	**1,822,462**
1. Consolidated profit for the period	(2,460,943)	483,976
2. Adjustments to arrive at cash flows from operating activities	5,402,946	1,799,409
2.1 Amortization /depreciation	156,719	106,191
2.2 Other adjustments	5,246,227	1,693,218
3.Net increase /decrease in operating assets	(3,842,226)	28,242
3.1 Trading portfolio	128,661	116,087
3.2 Other financial assets at fair value through profit or loss	(86,439)	(87,271)
3.3 Available-for-sale financial assets	(2,835,342)	(457,423)
3.4 Loans and advances	(2,140,448)	518,170
3.5 Other operating assets	1,091,342	(61,321)
4. Net increase/(decrease) in operating liabilities	(5,930,096)	(281,209)
4.1 Trading portfolio	(942,432)	(14,306)
4.2 Other financial liabilities at fair value through profit or loss	(118,622)	(34,692)
4.3 Financial liabilities at amortized cost	(2,084,856)	285,891
4.4 Other operating liabilities	(2,784,186)	(518,102)
5. Collections / payments corporate income tax	-	(151,472)
B) CASH FLOWS FROM INVESTING ACTIVITIES	**(1,363,259)**	**(2,204,292)**
6. Payments	1,636,402	2,439,159
6.1 Tangible assets	199,166	205,003
6.2 Intangible assets	92,021	60,366
6.3 Investments	-	-
6.4 Subsidiaries and other business units	40,071	-
6.5 Non-current assets and associated liabilities for sale	-	-
6.6 Held-to-maturity investment portfolio	1,305,144	2,173,790
6.7 Other payments related to investing activities	-	-
7. Collections	273,143	234,867
7.1 Tangible assets	81,586	109,935
7.2 Intangible assets	-	-
7.3 Investments	-	72,325
7.4 Subsidiaries and other business units	3,759	-
7.5 Non-current assets and associated liabilities for sale	187,798	52,607
7.6 Held-to-maturity investment portfolio	-	-
7.7 Other collections related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**2,104,306**	**221,611**
8. Payments	1,511,185	1,069,987
8.1 Dividends	89,978	105,725
8.2 Subordinated liabilities	238,866	-
8.3Redemption of own equity instruments	-	-
8.4 Acquisition of own equity instruments	1,097,319	938,298
8.5 Other payments related to financing activities	85,022	25,964
9. Collections	3,615,491	1,291,598
9.1 Subordinated liabilities	-	388,757
9.2 Issue of own equity instruments	2,500,000	-
9.3 Disposal of own equity instruments	1,115,491	902,841
9.4 Other collections related to financing activities	-	-
D) EFFECT OF EXCHANGE RATE FLUCTUATIONS	**-**	**-**
E) NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**1,595,180**	**(160,219)**
F) CASH AND CASH EQUIVALENTS AT END OF PERIOD	**521,627**	**681,846**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,116,807**	**521,627**
MEMORANDUM ITEM:	-	-
COMPONENTS OF CASH FOR THE PERIOD		
1.1 Cash	523,190	364,490
1.2 Cash equivalent balances at central banks	1,593,617	157,137
1.3 Other financial assets	-	-
1.4 Less: bank overdrafts repayable on demand	-	-
Total cash and cash equivalents at end of period	2,116,807	521,627
Of which: held by consolidated companies by not drawable by the group .	-	-

Notes to the consolidated financial statements for the year ended December 31, 2012

1. Nature of the institution

Banco Popular was incorporated on July 14, 1926, and is domiciled at Velázquez 34, Madrid. Banco Popular Español, S.A. is a private law company whose corporate purpose, per Article 4 of its bylaws, is banking. Its activities are subject to the rules and regulations applicable to banks operating in Spain.

The shares of Banco Popular are listed on the four Spanish stock exchanges and are traded on the continuous market, and Euronext Lisbon. The Group has also issued fixed income securities (Euronotes, preferred shares, covered bonds, securitization bonds, subordinated bonds, etc.) which are listed on the following markets: AIAF Fixed Income Market, London Stock Exchange, Frankfurt Stock Exchange, Luxembourg Stock Exchange, Euronext Amsterdam, Euronext Lisbon and Irish Stock Exchange. Banco Popular is the controlling company of a group of companies comprising the Banco Popular Group. Accordingly, Banco Popular is obliged to prepare, in addition to its own individual financial statements, which are also submitted to obligatory audit, consolidated financial statements of the Group which include, as appropriate, the related investments in dependent and jointly-controlled companies and the investments in associates. The companies comprising the Group engage basically in financial activities. The term "Banco Popular" in these consolidated financial statements refers exclusively to the parent company of the Group.

In June 2012, as described in Note 8, Banco Pastor was absorbed by Banco Popular, thereby completing the process for the integration of the Banco Pastor Group in the Banco Popular Group, which commenced in November 2011 through the submission in that month of a takeover bid, with effect for accounting purposes from February 17, 2012. This acquisition is considered to be strategic for the Group, as it positions it among the six leading entities in the Spanish financial sector. Since the type of business conducted by Banco Pastor was similar to that of the Popular Group, its integration further strengthened the Group's position in the Spanish financial system.

In 2011 Banco Popular and Allianz SE incorporated a new company to strengthen their strategic alliance and include all activities in Life, Pensions and Investment Funds in the same platform. . The new company named Allianz Popular S.L. includes Eurovida S.A. and Europensiones, EGFP, S.A.,which were already owned by Popular and Allianz, and Popular Gestión SGIIC, S.A., which was owned by Banco Popular.

At December 31, 2012 total, assets, equity and profits for the year of Banco Popular Español, S.A. account for 97%, 94% y 111%, respectively, of the same items in the Group (99%, 97% and 129%, respectively, at December 31, 2011).

a) Individual balance sheets at December 31, 2012 and 2011

(€ thousand)

ASSETS	2012	2011
Cash and balances with central banks	**1,380,609**	**329,806**
Financial assets held for trading	**1,963,249**	**1,181,934**
Due from credit institutions	-	-
Loans and advances to other debtors	-	-
Debt securities	850	13,175
Other equity instruments	156,217	18,152
Trading derivatives	1,806,182	1,150,607
Memorandum items: Loaned or pledged	-	-
Other financial assets at fair value through profit or loss	**-**	**-**
Due from credit institutions	-	-
Loans and advances to other debtors	-	-
Debt securities	-	-
Other equity instruments	-	-
Memorandum items: Loaned or pledged	-	-
Available-for -sale financial assets	**13,726,088**	**13,429,336**
Debt securities	13,580,280	13,002,259
Other equity instruments	145,808	427,077
Memorandum items: Loaned or pledged	5,179,982	2,642,100
Loans and receivables	**112,667,711**	**101,809,251**
Due from credit institutions	5,883,941	7,770,525
Loans and advances to other debtors	105,807,588	94,038,726
Debt securities	976,182	-
Memorandum items: Loaned or pledged	31,644,264	28,218,802
Held-to-maturity investment portfolio	**10,019,082**	**7,006,188**
Memorandum items: Loaned or pledged	6,213,030	2,932,355
Changes in the fair value of the hedged items in portfolio hedges	**222,111**	**18,985**
Hedging derivatives	**815,864**	**980,230**
Non-current assets held for sale	**2,178,306**	**1,503,311**
Investments	**2,347,989**	**1,889,819**
Associates	293,725	32,292
Jointly- controlled entities	138,172	133,906
Group companies	1,916,092	1,723,621
Insurance contracts linked to pensions	**58,587**	**27,910**
Tangible assets	**448,012**	**323,955**
Property , plant and equipment	414,875	316,432
For own use	414,875	316,432
Assigned under operating lease	-	-
Investment properties	33,137	7,523
Memorandum items: Acquired under a finance lease	-	-
Intangible assets	**2,122,609**	**100,962**
Goodwill	1,743,322	-
Other intangible assets	379,287	100,962
Tax assets	**3,641,649**	**882,732**
Current	119,257	74,165
Deferred	3,522,392	808,567
Other assets	**723,932**	**358,598**
Inventories	-	-
Other	723,932	358,598
TOTAL ASSETS	152,315,798	129,843,017

LIABILITIES	2012	2011
Financial liabilities held for trading	**1,501,490**	**1,111,232**
Deposits from central banks	-	-
Deposits from credit institutions	-	-
Deposits from other creditors	-	-
Debt certificates including bonds	-	-
Trading derivatives	1,497,191	1,111,232
Short positions	4,299	-
Other financial liabilities	-	-
Other financial liabilities at fair value through profit or loss	**-**	**-**
Deposits from central banks	-	-
Deposits from credit institutions	-	-
Deposits from other creditors	-	-
Debt certificates including bonds	-	-
Subordinated liabilities	-	-
Other financial liabilities	-	-
Financial liabilities at amortized cost	**138,247,057**	**118,411,057**
Deposits from central banks	18,328,241	12,873,419
Deposits from credit institutions	14,623,677	10,871,182
Deposits from other creditors	82,718,064	73,074,068
Debt certificates including bonds	19,380,349	16,825,970
Subordinated liabilities	2,275,331	4,164,355
Other financial liabilities	921,395	602,063
Changes in the fair value of the hedged items in portfolio hedges	-	**-**
Hedging derivatives	**2,006,953**	**1,260,894**
Liabilities associated with non-current assets for sale	-	**-**
Provisions	**447,417**	**199,029**
Provisions for pensions and similar obligations	227,052	74,324
Provisions for taxes and other legal contingencies	63,957	39,328
Provisions for contingent exposures and commitments	148,874	84,479
Other provisions	7,534	898
Tax liabilities	**322,404**	**112,733**
Current	17,473	18,415
Deferred	304,931	94,318
Other liabilities	**471,457**	**571,760**
Total liabilities	**142,996,778**	**121,666,705**

EQUITY	2012	2011
Own funds	**10,128,964**	**8,831,850**
Capital	840,855	140,093
Issued	840,855	140,093
Less: Uncalled	-	-
Share premium	5,648,966	1,968,111
Reserves	5,809,676	5,484,097
Other equity instruments	683,488	688,271
Compound financial instruments	-	-
Non-voting equity units and associated funds	-	-
Other equity instruments	683,488	688,271
Less: Treasury shares	134,496	1,743
Profit/(loss) for the year	(2,719,525)	623,028
Less: Dividends and remuneration	-	70,007
Valuation adjustments	**(809,944)**	**(655,538)**
Available-for-sale financial assets	(809,944)	(689,395)
Cash flow hedges	-	33,857
Hedges of net investments in foreign operations	-	-
Exchange differences	-	-
Non-current assets held for sale	-	-
Other valuation adjustments	-	-
TOTAL EQUITY	**9,319,020**	**8,176,312**
TOTAL LIABILITIES AND EQUITY	**152,315,798**	**129,843,017**
MEMORANDUM ITEMS		
Contingent exposures	**16,595,163**	**18,388,802**
Contingent commitments	**10,166,134**	**9,431,372**

b) Individual income statements for the years ended December 31, 2012 and 2011
(€ thousand)

	2012	2011
Interest and similar income	**5,289,564**	**4,467,718**
Interest expense and similar charges	**2,894,583**	**2,491,012**
NET INTEREST MARGIN	**2,394,981**	**1,976,706**
Return on equity instruments	**44,220**	**198,825**
Fees and commissions received	**878,465**	**758,742**
Fees and commissions paid	**135,692**	**109,670**
Gains /(losses) on financial assets and liabilities (net)	**292,920**	**36,602**
Held for trading	*152,171*	*18,945*
Other financial instruments at fair value through profit or loss	-	-
Financial instruments not carried at fair value through profit or loss	*147,395*	*17,915*
Other	*(6,646)*	*(258)*
Exchange differences (net)	**52,630**	**46,068**
Other operating income	**55,533**	**85,792**
Other operating expenses	**177,781**	**43,796**
GROSS INCOME	**3,405,276**	**2,949,269**
Administration expenses	**1,332,818**	**1,024,501**
Personnel expenses	*803,083*	*645,534*
Other administrative expenses	*529,735*	*378,967*
Depreciation and amortization	**133,537**	**83,977**
Provisioning expense (net)	**78,135**	**(5,061)**
Impairment losses on financial assets (net)	**5,422,183**	**1,037,825**
Loans and receivables	5,353,930	1,012,807
Other financial instruments not carried at fair value through profit or loss	68,253	25,018
PROFIT /(LOSS) FROM OPERATING ACTIVITIES	**(3,561,397)**	**808,027**
Impairment losses on other assets (net)	**253,099**	**48,601**
Gains/(losses) on disposal of assets not classified as non-current for sale	**124,553**	**215,754**
Gains / (losses) on non-current assets held for sale not classified as discontinued operations	**(216,856)**	**(207,828)**
PROFIT /(LOSS) BEFORE TAX	**(3,906,799)**	**767,352**
Corporate income tax	**(1,187,274)**	**144,324**
PROFIT /(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(2,719,525)**	**623,028**
Profit /(loss) from discontinued operations (net)	-	-
PROFIT /(LOSS) FOR THE YEAR	**(2,719,525)**	**623,028**
BASIC EARNINGS PER SHARE	**(1.185)**	**0.449**
DILUTED EARNINGS PER SHARE *	**(0.636)**	**0.400**

* Includes the diluting effect of the issue of necessarily convertible debentures

c) Individual statements of recognized income and expense for the years ended December 31, 2012 and 2011

(€ thousand)

	2012	2011
PROFIT/(LOSS) FOR THE YEAR	**(2,719,525)**	**623,028**
OTHER RECOGNIZED INCOME AND EXPENSE	**(153,877)**	**(115,440)**
Available – for-sale financial assets	**(152,440)**	**(185,538)**
Measurement gains /(losses)	(106,305)	(160,187)
Amounts transferred to the income statement	46,135	25,351
Other reclassifications	-	-
Cash flow hedges	**(37,584)**	**14,481**
Measurement gains /(losses)	(12,423)	26,857
Amounts transferred to the income statement	25,161	12,376
Amounts transferred at the initial carrying value of the hedged items	-	-
Other reclassifications	-	-
Hedges of net investments in foreign operations	**-**	**-**
Measurement gains /(losses)	-	-
Amounts transferred to the income statement	-	-
Other reclassifications	-	-
Exchange differences	**-**	**-**
Measurement gains/(losses)	-	-
Amounts transferred to the income statement	-	-
Other reclassifications	-	-
Non-current assets held for sale	**-**	**-**
Measurement gains /(losses)	-	-
Amounts transferred to the income statement	-	-
Other reclassifications	-	-
Actuarial gains/(losses) on pension plans	**756**	**22,310**
Other recognised income and expense	**-**	**-**
Corporate income tax	**35,391**	**33,307**
TOTAL RECOGNIZED INCOME AND EXPENSE	**(2,873,402)**	**507,588**

Individual statements of changes in equity for the years ended december 31, 2012 and 2011 (€ thousand)

	OWN FUNDS									
	Capital	Share premium	Reserves (accumulated losses)	Other equity instruments	Less: Treasury shares	Profit /(loss) for the year attributed to parent company	Less: dividends and remuneration	Total own funds	Valuation adjustments	Total
Opening balance at (01/01/2012)	**140,093**	**1,968,111**	**5,484,097**	**688,271**	**1,743**	**623,028**	**70,007**	**8,831,850**	**(655,538)**	**8,176,312**
Adjustments for changes in criteria	-	-	-	-	-	-	-	-	-	-
Adjustments for errors	-	-	-	-	-	-	-	-	-	-
Adjusted opening balance	**140,093**	**1,968,111**	**5,484,097**	**688,271**	**1,743**	**623,028**	**70,007**	**8,831,850**	**(655,538)**	**8,176,312**
Total recognized income and expense	**-**	**-**	**529**	**-**	**-**	**(2,719,525)**	**-**	**(2,718,996)**	**(154,406)**	**(2,873,402)**
Other changes in equity	**700,762**	**3,680,855**	**325,050**	**(4,783)**	**132,753**	**(623,028)**	**(70,007)**	**4,016,110**	**-**	**4,016,110**
Capital increases	663,342	3,084,442	-	-	-	-	-	3,747,784	-	3,747,784
Capital decreases	-	-	-	-	-	-	-	-	-	
Conversion of equity financial liabilities	37,420	672,489	-	(5,018)	-	-	-	704,891	-	704,891
Increases in other equity instruments	-	-	-	235	-	-	-	235	-	235
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	76,076	89,978	-	-	70,007	70,007	166,054	-	166,054
Transactions with own equity instruments (net)	-	-	(21,981)	-	132,753	-	-	(154,734)	-	(154,734)
Transfers between equity items	-	-	553,021	-	-	(553,021)	-	-	-	-
Increases /(decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-
Equity- settled transactions	-	-	-	-	-	-	-	-	-	-
Other increases /(decreases) in equity	-	-	(116,012)	-	-	-	-	(116,012)	-	(116,012)
Closing balance at (31/12/2012)	**840,855**	**5,648,966**	**5,809,676**	**683,488**	**134,496**	**(2,719,525)**	**-**	**10,128,964**	**(809,944)**	**9,319,020**

	OWN FUNDS									
	Capital	Share premium	Reserves (accumulated losses)	Other equity instruments	Less: Treasury shares	Profit /(loss) for the year attributed to parent company	Less: dividends and remuneration	Total own funds	Valuation adjustments	Total
Opening balance at (01/01/2011)	**137,528**	**1,962,703**	**5,172,914**	**693,758**	**2,437**	**572,145**	**168,750**	**8,367,861**	**(524,481)**	**7,843,380**
Adjustments for changes in criteria	-	-	-	-	-	-	-	-	-	-
Adjustments for errors	-	-	-	-	-	-	-	-	-	-
Adjusted opening balance	**137,528**	**1,962,703**	**5,172,914**	**693,758**	**2,437**	**572,145**	**168,750**	**8,367,861**	**(524,481)**	**7,843,380**
Total recognized income and expense	**-**	**-**	**15,617**	**-**	**-**	**623,028**	**-**	**638,645**	**(131,057)**	**507,588**
Other changes in equity	**2,565**	**5,408**	**295,566**	**(5,487)**	**(694)**	**(572,145)**	**(98,743)**	**(174,656)**	**-**	**(174,656)**
Capital increases	2,565	5,408	-	-	-	-	-	7,973	-	7,973
Capital decreases	-	-	-	-	-	-	-	-	-	-
Conversion of equity financial liabilities	-	-	-	(5,487)	-	-	-	(5,487)		(5,487)
Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-		-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	168,751	98,743	70,008	-	70,008
Transactions with own equity instruments (net)	-	-	50,049	-	(694)	-	-	50,743	-	50,743
Transactions with own equity instruments (net)	-	-	259,822	-	-	(403,394)	-	(143,572)	-	(143,572)
Increases /(decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-
Equity- settled transactions	-	-	-	-	-	-	-	-	-	-
Other increases /(decreases) in equity	-	-	(14,305)	-	-	-	-	(14,305)	-	(14,305)
Closing balance at (31/12/2011)	**140,093**	**1,968,111**	**5,484,097**	**688,271**	**1,743**	**623,028**	**70,007**	**8,831,850**	**(655,538)**	**8,176,312**

d) Individual cash flow statements for the years ended December 31, 2012 and 2011:

(€ thousand)

	2012	2011
A) CASH FLOWS FROM OPERATING ACTIVITIES	**4,773,817**	**6,113,634**
1.Consolidated profit/(loss) for the year	(2,719,525)	623,028
2. Adjustments to arrive at cash flow from operating activities	6,028,382	1,596,489
2.1 Depreciation / amortization	133,537	83,977
2.2 Other adjustments	5,894,845	1,512,512
3.Net increase /decrease in operating assets	(5,894,764)	(666,689)
3.1 Held-for-trading	608,301	(25,707)
3.2 Other financial assets at fair value through profit or loss	(197,477)	-
3.3 Available-for-sale financial assets	(2,070,014)	733,513
3.4 Loans and receivables	(4,644,263)	(1,304,606)
3.5 Other operating assets	408,689	(69,889)
4. Net increase /decrease in operating liabilities	(3,242,530)	3,083,104
4.1 Held-for-trading	265,835	(32,872)
4.2 Other financial liabilities at fair value through profit or loss	(195,744)	-
4.3 Financial liabilities at amortized cost	(2,592,118)	3,231,243
4.4 Other operating liabilities	(720,503)	(115,267)
5. Collections / payments corporate income tax	(1,187,274)	144,324
B) CASH FLOWS FROM INVESTING ACTIVITIES	**(824,275)**	**(1,430,509)**
6. Payments	1,026,653	2,141,910
6.1 Tangible assets	14,279	87,862
6.2 Intangible assets	-	65,319
6.3 Investments	614	67,316
6.4 Subsidiaries and other business units	-	-
6.5 Noncurrent assets and associated liabilities for sale	-	-
6.6 Held-to-maturity investments	1,011,760	1,921,413
6.7 Other payments related to investing activities	-	-
7. Collections	202,378	711,401
7.1 Tangible assets	117,235	331,778
7.2 Intangible assets	-	-
7.3 Investments	85,143	379,623
7.4 Subsidiaries and other business units	-	-
7.5Non-current assets and associated liabilities for sale	-	-
7.6 Held- to- maturity investments	-	-
7.7 Other collections related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(2,898,739)**	**(4,866,904)**
8. Payments	5,964,538	5,331,856
8.1 Dividends	-	138,771
8.2 Subordinated liabilities	2,843,083	-
8.3 Redemption of own equity instruments	-	-
8.4 Acquisition of own equity instruments	312,128	301
8.5 Other payments related to financing activities	2,809,327	5,192,784
9. Collections	3,065,799	464,952
9.1 Subordinated liabilities	-	457,186
9.2Issue of own equity instruments	2,888,167	6,771
9.3 Disposal of own equity instruments	177,632	995
9.4 Other collections related to financing activities	-	-
D) EFFECT OF EXCHANGE RATE FLUCTUATIONS	**-**	**-**
E) NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**1,050,803**	**(183,779)**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**329,806**	**513,585**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,380,609**	**329,806**
MEMORANDUM ITEMS		
COMPONENTS OF CASH FOR THE PERIOD		
1.1 Cash	456,629	298,571
1.2 Cash equivalent balances at central banks	923,980	31,235
1.3 Other financial assets	-	-
1.4Less: bank overdrafts repayable on demand	-	-
Total cash and cash equivalents at end of period	**1,380,609**	**329,806**

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The accompanying consolidated financial statements of Grupo Banco Popular are presented in accordance with International Reporting Standards adopted by the European Union (IFRS - EU). In order to adapt the accounting system of Spanish credit institutions to the aforementioned regulations, the Bank of Spain issued Circular 4/2004 on public and confidential financial reporting rules and financial statement formats for credit institutions, expressly stating that its purpose was to modify the accounting regime of such entities by adapting it to the accounting environment arising from the adoption by the European Union of the International Financial Reporting Standards, in order to make this Circular fully compatible with regard to the underlying conceptual basis. This Circular 4/2004 has been obligatorily applicable since January 1, 2005, to the individual financial statements of Spanish credit institutions.

International Financial Reporting Standards are a set of standards changing over time in order to adapt to the economic and financial reality.

Within this context, in 2012 standards and interpretations came into effect, issued by the International Standards Accounting Board (the IASB) which amended IFRS 7 "Disclosures – transfers of financial assets". This amendment was adopted for the European Union through European Parliament and Council (EU) Regulation 1205/2011. Its adoption has not had a significant impact on these consolidated financial statements.

Standards and interpretations issued by the IASB not effective at December 31,2012:

Application of the following standards, amendments and interpretations is not mandatory December 31, 2012. Although in some cases, the IASB permits their early application, the Banco Popular Group has assessed the impacts that would result and has decided not apply them early.

a) Standards and amendments application of which is mandatory as from 2013:

- IAS 1 (Amendment) "Presentation of financial statements". Adopted by the European Union through Regulation 475/2012.
- IAS 19 (Amendment) "Employee benefits". Adopted by the European Union through Regulation 475/2012.
- IFRS13 "Fair value measurement"". Adopted by the European Union through Regulation 1255/2012. Rather than an accounting standard, a definition is provided of fair value based on market and not a specific measurement of an entity. It should be applied when other IFRS require measurement or disclosure of the fair value of assets, liabilities or own equity instruments.

At the reporting date, the IASB and IFRS Interpretations Committee had published amendments to the following standards, effective in 2012 although the European Parliament and Council Regulation adopting them (European Parliament and Council Regulation (EU) 1255/2012) adopting them, has postponed their entry into force until the years commencing on and after January 1, 2013:

- IFRS 1 "Severe hyperinflation and removal of fixed dates for first-time adopters" and
- IAS 12 "Deferred tax: recovery of underlying assets"

b) Standards and amendments which were approved by the IASB, effective January 1, 2013 and adopted by European Parliament and Council Regulation (EU) 1254/2012, and through which adoption of which was postponed until January 1, 2014:

- IFRS 10 “Consolidated financial statements”. The definition of control is widened, requiring the analysis of the facts and specific circumstances of each possible group entity.
- IIFRS 11 “Joint arrangements”. Among the changes made, for jointly controlled entities, the choice between proportionate consolidation and the equity method of consolidation is no longer permitted, the equity method being mandatory.
- IIFRS 12 “Disclosure of interests in other entities”” This presents in a single standard all reporting requirements related to investments in subsidiaries, joint arrangements, associates and unconsolidated structured entities.
- IIAS 27 (Amendment) “Separate financial statements”. Owing to inclusion of part of this standard in new IFRS 10.
- IIAS 28 (Amendment) “Investments in associates and joint ventures”. Updated to include references to joint ventures per new IFRS 1.
- IIFRS improvements project.

c) Standards and amendments application of which is mandatory as from 2014, not yet adopted by the European Union:

- IIAS 32 (Amendment) “Offsetting financial assets and financial liabilities”.

d) Standards and amendments, application of which is mandatory as from 2015, not yet adopted by the European Union:

- IFRS 9 “Financial instruments”. This is in turn divided into three parts, some of which have already been approved.

During 2011 there were various amendments at international, European and national level. At international level, the IASB developed several standards which although not adopted by the EU, updated applicable accounting legislation. Particularly noteworthy were the following:

- IFRS 9: Financial Instruments. This is in turn divided into three parts, some of which have already been approved.
- IIFRS 10: Consolidated financial statements (effective January 1, 2013). The definition of control is widened, requiring the analysis of the facts and specific circumstances of each possible group entity.
- IIFRS 11 Joint arrangements (effective January 1, 2013). Among the changes made, for jointly controlled entities, the choice between proportionate consolidation and the equity method of consolidation is no longer permitted, the equity method being mandatory.

On a European level, the European Parliament and Council published EU Regulation 1205/2011 concerning the amendment of IFRS 7 Financial instruments: Disclosures. The amendment sets out the requirements for the transfer of financial assets written off the balance sheet or other.

Legislative amendments in 2011 did not have a significant impact on that year.

Consequently, the accompanying consolidated financial statements were prepared from the accounting records of the Group companies and in conformity with IFRS-EU and accordingly give a true and fair view of the Group’s consolidated net worth and consolidated financial position at December 31, 2012 and 2011 and the consolidated results of its operations, of total changes in its consolidated in its consolidated equity and of consolidated cash flows for the years then ended. There is no accounting principle or standard or compulsory measurement rule that has a significant effect that has not been applied when preparing these consolidated financial statements. Note 15 includes a summary of the most significant accounting principles or standards and measurement rules applied in these consolidated financial statements, which comply in full with IFRS-EU and do not present any significant departures from the requirements of Circular 4/2004 and subsequent updates.

b) Preparation and responsibility for information

The Banco Popular Group's consolidated financial statements for 2012 were prepared by the Directors of Banco Popular, S.A. during the meeting of the Board of Directors of February 27, 2013 and have yet to be approved by its General Shareholders' Meeting. They are expected to be approved without significant changes. The information contained in these consolidated financial statements is the responsibility of the Directors of Banco Popular Español, S.A. Except as otherwise mentioned, such information is presented in thousands of euro.

c) Consolidation principles

Subsidiaries

The Group was defined in accordance with IFRS -EU and Bank of Spain Circular 4/2004, which adapts that legislation to Spanish credit institutions and Spanish legislation. Investees are all the dependent, jointly-controlled companies and associates. Those investees that constitute a decision-making unit with Banco Popular, which are those over which the Bank has directly or indirectly, through another or other investees, capacity to exercise control, are subsidiaries. In general, but not exclusively, this ability to exercise control is manifested by having, either directly or indirectly through another or other investees, a holding of 50% or more of the voting rights at the investee. Control is understood as power to direct an Investee's financial and operations policies in order to obtain profits from its operations. Control may be exercised although the aforementioned ownership percentage is not held.

Specifically, control will also be deemed to exist when although holding half or less of the voting rights the parent has:

a) Power over more than half of the voting rights by virtue of an agreement with other investors,

b) Power to govern the entity's financial and operating policies, in accordance with legislative or statutory provisions or some type of agreement,

c) Power to appoint or revoke the appointment of the majority of the members of board of directors or equivalent body or

d) Power to issue the majority of the votes of the board or similar governing body.

The information on investments in subsidiaries as of December 31, 2012 and 2011, is as follows:

At December 31, 2012	Address		Activity
Deposit taking:			
Bancopopular-e, S.A.	Velázquez, 34	Madrid	Banking
Banco Popular Pastor, S.A.	Canton Pequeño, 1	La Coruña	Banking
Banco Popular Portugal, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Banking
Popular Banking Privada, S.A.	J. Ignacio Luca de Tena, 13	Madrid	Banking
TotalBank	2720 Coral Way	Miami	Banking
Financial:			
Pastor Servicios Financieros E.F.C., S.A. *	Canton Pequeño,1	La Coruña	Finance
Popular Factoring, S.A. (Portugal)	Rua Castilho, 39	Lisbon	Factoring
Popular de Factoring, S.A.	Labastida, 11	Madrid	Factoring
Holding and services companies:			
Bolshispania, S.A. S.I.C.A.V. *	Serrano, 88	Madrid	Investment
Gestora Popular, S.A.	J. Ortega y Gasset, 29	Madrid	Portfolio and holding company
Grupo La Toja Hoteles, S.A. *	Canton Pequeño, 1	La Coruña	Holding company
Inverpastor, S.A. S.I.C.A.V. *	Canton Pequeño, 1	La Coruña	Investment
Pastor Privada Eolica 2, S.L. *	J. Ortega y Gasset, 29	Madrid	Wind energy
Pastor Privada Eolica 3, S.L. *	J. Ortega y Gasset, 29	Madrid	Wind energy
Pastor Privada Investment 1, S.L. *	Canton Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 2, S.L. *	Canton Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 3, S.L. *	Canton Pequeño, 1	La Coruña	Holding company
PBP Cartera Premium S.I.C.A.V.	J. Ignacio Luca de Tena, 13	Madrid	Investment
Popular Bolsa S.V., S.A.	Labastida 9-11	Madrid	Stockbroker
Popular Gestao de Activos, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Investment fund management
Popular de Participaciones Financieras, S.A.	Labastida 9-11	Madrid	Venture capitalist
Popular Gestión Privada SGIIC, S.A.	J. Ignacio Luca de Tena, 13	Madrid	Investment fund management
Sobrinos de Jose Pastor Inversiones, S.A. *	J. Ortega y Gasset, 29	Madrid	Holding company
Special purpose companies:			
Aliseda, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
BPE Finance International, L.T.D.	Ugland House	George Town	Finance
BPE Financiaciones, S.A.	J. Ortega y Gasset, 29	Madrid	Finance
BPE Preference International, L.T.D.	Ugland House	George Town	Finance
BPE Representaçoes y Participaçoes L.T.D.A.	Al Santos, 2326	Sao Paulo	Finance
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.	J. Ortega y Gasset, 29	Madrid	Debt collection
Consulteam Consultores de Gestao, S.A.	Rua Tomás Ribeiro, 50	Lisbon	Real estate
Finespa, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Fondo Imopopular, FEIIF	Rua Ramalho Ortigao, 51	Lisbon	Real estate investment fund
Gestora Europea de Inversiones, S.A.	Labastida 9-11	Madrid	Services
Gold Leaf Tittle Company	2720 Coral Way	Miami	Finance
IM Banco Popular FTPYME 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Banco Popular FTPYME 2, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Banco Popular FTPYME 3, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Banco Popular MBS 2, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Cédulas Grupo Banco Popular 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Cédulas Grupo Banco Popular 3, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Cédulas Grupo Banco Popular 5, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular Empresas 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular Empresas 3, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular Empresas 4, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular FT PYME I, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular FT PYME II, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular Leasing 2, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund

At December 31, 2012	Address		Activity
Inmobiliaria Viagracia, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Intermediación y Servicios Tecnológicos, S.A.	J. Ignacio Luca de Tena, 13	Madrid	Services
Inversiones Inmobiliarias Alprosa, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Canvives, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Cedaceros, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Gercebio, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Jeraguilas, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Tamadaba, S.L.	Prof. Agustin Miralles Carlo, s/n	Las Palmas	Real estate development
Isla de los Buques, S.A.	J . Ortega y Gasset, 29	Madrid	Finance
Manberor, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Meglahe, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Naviera Cañada, S.L. *	J. Ortega y Gasset, 29	Madrid	Finance
Naviera Islas Cies, S.L. *	J. Ortega y Gasset, 29	Madrid	Finance
Pastor Participaciones Preferentes, S.A. *	J. Ortega y Gasset, 29	Madrid	Finance
Pastor Representaciones Argentina *	Lavalle, 643	Buenos Aires	Finance
Pastor Representaciones Brasil *	Rua da Assembleia, 10	Rio de Janeiro	Finance
Popular Arrendamento - FIIF para Arrendamento Habitacional	Rua Ramalho Ortigao, 51	Lisbon	Real estate investment fund
Popular Capital, S.A.	J. Ortega y Gasset, 29	Madrid	Finance
Popular de Mediación, S.A.	J. Ortega y Gasset, 29	Madrid	Insurance broker
Popular Español Asia Trade, L.T.D.	13/F Tim Mei Avenue	Hong Kong	Finance
Read Leaf Holding	2720 Coral Way	Miami	Real estate
Residencial Valdemar, S.L. *	J. Ortega y Gasset, 29	Madrid	Real estate development
Urbanizadora Española, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Velázquez 34, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate
Non-financial:			
Cercebelo Assets, S.L. *	J. Ortega y Gasset, 29	Madrid	Real estate
Eurovida, S.A. (Portugal)	Avenida da República, 57	Lisbon	Insurance
Fib Realty Corporation	2720 Coral Way	Miami	Dormant
Finisterre, S.A. *	Canton Pequeño, 1	La Coruña	Real estate
General de Terrenos y Edificios Servicios Integrales, S.L. *	J. Ortega y Gasset, 29	Madrid	Real estate development
General de Terrenos y Edificios, S.L. *	J. Ortega y Gasset, 29	Madrid	Real estate development
Gestora Inmobiliaria La Toja, S.A. *	Aldea Comercial, 1ª Planta - Isla de la Toja	Pontevedra	Real estate development
La Toja, S.A. *	Canton Pequeño, 1	La Coruña	Hotels
Pastor Vida, S.A. *	Paseo de Recoletos, 19	Madrid	Insurance
Popular de Renting, S.A.	Labastida 9-11	Madrid	Contract hire
Popular Seguros, S.A.	Avenida da República, 57	Lisbon	Insurance
Promoción Social de Viviendas, S.A.	J. Ortega y Gasset, 29	Madrid	Asset holding
Total Sunset Inc.	2720 Coral Way	Miami	Dormant
Vilamar Gestion, S.L. *	J. Ortega y Gasset, 29	Madrid	Real estate development

*Ex Banco Pastor

At December 31, 2012:	% of voting rights			Carrying amount	Assets	Equity	
	Direct	Indirect	Total			Total	Of which: Results
Deposit-taking:							
Bancopopular-e, S.A.	100.00	-	100.00	34,908	1,306,215	141,052	28,575
Banco Popular Pastor, S.A.	100.00	-	100.00	18,030	18,025	18,023	(1)
Banco Popular Portugal, S.A.	100.00	-	100.00	880,448	8,945,490	767,990	2,692
Popular Banking Privada, S.A.	52.50	7.50	60.00	13,785	1,153,413	59,827	988
TotalBank	100.00	-	100.00	301,085	1,716,346	202,126	41,627
Financial companies:							
Pastor Servicios Financieros E.F.C., S.A. *	100.00	-	100.00	21,847	673,918	23,843	2,265
Popular Factoring, S.A. (Portugal)	99.82	-	99.82	48,386	135,827	36,798	3,521
Popular de Factoring, S.A.	100.00	-	100.00	45,818	575,662	87,202	14,288
Holding and services companies:							
Bolshispania, S.A. S.I.C.A.V. *	86.00	-	86.00	7,414	8,731	8,687	184
Gestora Popular, S.A.	35.00	65.00	100.00	12,363	14,213	2,111	(348)
Grupo La Toja Hoteles *	90.00	-	90.00	90,901	41,696	41,692	39
Inverpastor, S.A. S.I.C.A.V. *	93.87	-	93.87	14,916	15,912	15,894	(13)
Pastor Privada Eolica 2, S.L. *	-	100.00	100.00	5	4	3	(1)
Pastor Privada Eolica 3, S.L. *	-	100.00	100.00	5	4	3	(1)
Pastor Privada Investment 1, S.L. *	-	5.00	5.00	298	5,959	5,959	-
Pastor Privada Investment 2, S.L. *	100.00	-	100.00	33	14,685	(56)	(106)
Pastor Privada Investment 3, S.L. *	-	5.00	5.00	87	1,715	1,715	-
PBP Cartera Premium S.I.C.A.V.	51.84	3.16	55.00	80,785	158,923	154,548	4,474
Popular Bolsa S.V., S.A.	100.00	-	100.00	6,100	9,041	8,091	1,005
Popular Gestao de Activos, S.A.	100.00	-	100.00	10,450	2,254	2,159	(263)
Popular de Participaciones Financieras S.A.	100.00	-	100.00	36,000	50,492	44,578	85
Popular Gestión Privada SGIIC, S.A.	-	60.00	60.00	2,404	7,844	6,947	23
Sobrinos de Jose Pastor Inversiones, S.A. *	100.00	-	100.00	22,846	78,294	4,069	(20,960)
Special purpose companies:							
Aliseda, S.A.	100.00	-	100.00	357,290	2,873,781	(1,216,439)	(975,674)
BPE Finance International, L.T.D.	100.00	-	100.00	46	35,651	46	-
BPE Financiaciones, S.A.	90.00	10.00	100.00	100	1,864,352	7,556	5
BPE Preference International, L.T.D.	100.00	-	100.00	52	8,409	52	-
BPE Representaçoes y Participaçoes L.T.D.A.	100.00	-	100.00	268	193	178	(90)
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.	100.00	-	100.00	60	59	59	-
Consulteam Consultores de Gestao, S.A.	80.45	19.55	100.00	146,735	730,025	(42,074)	(94,158)
Finespa, S.A.	4.19	95.81	100.00	8,058	12,642	12,430	2,122
Fondo Imopopular, FEIIF	90.00	10.00	100.00	28,179	27,748	25,944	(2,238)
Gestora Europea de Inversiones, S.A.	99.90	0.10	100.00	25,655	46,408	(22,250)	(22,246)
Gold Leaf Tittle Company	-	100.00	100.00	256	541	498	71
IM Banco Popular FTPYME 1, FTA	100.00	-	100.00	-	214,250	12,372	748
IM Banco Popular FTPYME 2, FTA	100.00	-	100.00	-	478,795	776	(1,183)
IM Banco Popular FTPYME 3, FTA	100.00	-	100.00	-	1,137,744	12,068	9,414
IM Banco Popular MBS 2, FTA	100.00	-	100.00	-	643,331	3,188	418
IM Cédulas Grupo Banco Popular 1, FTA	100.00	-	100.00	-	2,243,087	(111)	100
IM Cédulas Grupo Banco Popular 3, FTA	100.00	-	100.00	-	2,211,293	-	-
IM Cédulas Grupo Banco Popular 5, FTA	100.00	-	100.00	-	2,418,834	-	-
IM Grupo Banco Popular Empresas 1, FTA	100.00	-	100.00	-	372,824	6,981	751
IM Grupo Banco Popular Empresas 3, FTA	100.00	-	100.00	-	2,554,573	27,931	(1,916)
IM Grupo Banco Popular Empresas 4, FTA	100.00	-	100.00	-	1,597,802	38,858	27,804

IM Grupo Banco Popular FT PYME I, FTA	100.00	-	100.00	-	488,405	5,342	110
IM Grupo Banco Popular FT PYME II, FTA	100.00	-	100.00	-	358,066	13,329	(549)
IM Grupo Banco Popular Leasing 2, FTA	100.00	-	100.00	-	1,104,069	15,418	11,969
Inmobiliaria Viagracia, S.A.	100.00	-	100.00	23,230	194,183	103,318	(1,687)
Intermediación y Servicios Tecnológicos, S.A.	99.50	0.50	100.00	1,203	2,647	1,243	(630)
Inversiones Inmobiliarias Alprosa, S.L.	68.25	31.75	100.00	64,566	252,099	87,231	792
Inversiones Inmobiliarias Canvives, S.L.	100.00	-	100.00	2,598	1,315,362	(671,673)	(589,775)
Inversiones Inmobiliarias Cedaceros, S.L.	-	100.00	100.00	38,000	106,185	(4,184)	(13,816)
Inversiones Inmobiliarias Gercebio, S.L.	-	100.00	100.00	3	34,730	(7,682)	(2,979)
Inversiones Inmobiliarias Jeraguilas, S.L.	-	100.00	100.00	27,534	35,833	8,333	(19,195)
Inversiones Inmobiliarias Tamadaba, S.L.	100.00	-	100.00	30	27,907	(16,067)	(16,054)
Isla de los Buques, S.A.	99.98	0.02	100.00	61	309,422	1,602	(3)
Manberor, S.L.	-	100.00	100.00	3	127,570	(4)	(2)
Meglahe, S.L.	-	100.00	100.00	33	26	26	(2)
Naviera Cañada, S.L. *	100.00	-	100.00	3	1	0	(3)
Naviera Islas Cies, S.L. *	100.00	-	100.00	543	206,363	453	245
Pastor Participaciones Preferentes. S,A, *	100.00	-	100.00	217	12,753	219	32
Pastor Representaciones Argentina *	100.00	-	100.00	3	13	8	-
Pastor Representaciones Brasil *	100.00	-	100.00	-	5	(14)	4
Popular Arrendamento - FIIF para Arrendamento Habitacional	84.79	15.21	100.00	25,000	24,969	24,909	(91)
Popular Capital. S,A,	90.00	10.00	100.00	90	211,781	33,080	3,728
Popular de Mediación. S,A,	100.00	-	100.00	2,262	4,797	2,139	23
Popular Español Asia Trade. L,T,D,	100.00	-	100.00	-	7	-	-
Read Leaf Holding	100.00	-	100.00	53,513	53,403	52,221	(1,149)
Residencial Valdemar. S,L, *	-	100.00	100.00	14,955	18,990	(15,053)	(18,849)
Urbanizadora Española. S,A,	7.19	90.55	97.74	11,472	13,261	13,252	170
Velázquez 34. S,L,	97.80	2.20	100.00	3	82,070	(3,797)	(5,629)
Non-financial							
Cercebelo Assets. S,L, *	100.00	-	100.00	5	9	(41)	(46)
Eurovida. S,A, (Portugal)	84.07	15.93	100.00	134,503	748,875	60,411	9,580
Fib Realty Corporation	-	100.00	100.00	-	-	-	-
Finisterre. S,A, *	-	88.84	88.84	10,780	24,625	23,489	877
General de Terrenos y Edificios Servicios Integrales. S,L, *	-	100.00	100.00	5	6,039	1,512	1,313
General de Terrenos y Edificios. S,L, *	100.00	-	100.00	38,423	72,381	37,366	(464)
Gestora Inmobiliaria La Toja. S,A, *	89.71	10.29	100.00	894	1,628	1,494	(29)
La Toja. S,A, *	-	86.22	86.22	27,037	47,906	45,974	228
Pastor Vida. S,A, *	100.00	-	100.00	65,000	217,028	49,230	2,046
Popular de Renting. S,A,	100.00	-	100.00	3,005	91,937	11,661	2,268
Popular Seguros. S,A,	-	100.00	100.00	7,500	15,396	8,895	593
Promoción Social de Viviendas. S,A,	-	91.84	91.84	554	656	656	1
Total Sunset Inc,	-	100.00	100.00	-	-	-	-
Vilamar Gestion. S,L, *	-	100.00	100.00	78,930	207,031	18,895	(7,560)

*Ex Banco Pastor

In accordance with Royal Decree Law 2/2012), Section 1 of the sole Additional Provision of Royal Decree -Law 10/2008 is again applicable this year in relation to the calculation of losses on the impairment of real estate assets in the event of the mandatory reduction of share capital in public limited companies and the winding up of public and private limited companies.

On an individual level, the necessary write-downs have been made in relation to investments in subsidiaries which are eliminated on consolidation. The relevant participating loans have been granted, where necessary.

At December 31, 2011:	Address		Activity
Deposit taking:			
Bancopopular-e, S.A.	Velázquez, 34	Madrid	Banking
Banco Popular Portugal, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Banking
Popular Banking Privada, S.A.	J. Ignacio Luca de Tena, 13	Madrid	Banking
TotalBank	2720 Coral Way	Miami	Banking
Financial companies:			
Popular Factoring, S.A. (Portugal)	Rua Castilho, 39	Lisbon	Factoring
Popular de Factoring, S.A.	Labastida, 11	Madrid	Factoring
Holding and services companies:			
Gestora Popular, S.A.	J. Ortega y Gasset, 29	Madrid	Portfolio and holding company
PBP Cartera Premium SICAV, S.A.	J. Ignacio Luca de Tena, 13	Madrid	Investment
Popular Bolsa SV, S.A.	Labastida 9-11	Madrid	Stockbroker
Popular Gestao de Activos, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Investment fund management
Popular de Participaciones Financieras S.A.	Labastida 9-11	Madrid	Venture capitalist
Popular Gestión Privada SGIIC, S.A.	J. Ignacio Luca de Tena, 13	Madrid	Investment fund management
Special- purpose companies:			
Aliseda, S.A.	J. Ortega y Gasset, 29	Madrid	Asset holding
BPE Finance International, L.T.D.	Ugland House	George Town	Finance
BPE Financiaciones, S.A.	J. Ortega y Gasset, 29	Madrid	Finance
BPE Preference International, L.T.D.	Ugland House	George Town	Finance
Consulteam - Consultores de Gestao, S.A.	Rua Tomás Ribeiro, 50	Lisbon	Real estate
Finespa, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Fondo Imopopular, FEIIF	Rua Ramalho Ortigao, 51	Lisbon	Real estate fund
Gestora Europea de Inversiones, S.A.	Labastida 9-11	Madrid	Services
Gold Leaf Tittle Company	2720 Coral Way	Miami	Finance
IM Banco Popular FTPYME 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Banco Popular FTPYME 2, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Banco Popular FTPYME 3, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Banco Popular MBS 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Banco Popular MBS 2, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Cédulas Grupo Banco Popular 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Cédulas Grupo Banco Popular 3, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Cedula Grupo Banco Popular 5, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular Empresas 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular Empresas 3, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular Empresas 4, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular FT PYME I, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular FT PYME II, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
IM Grupo Banco Popular Leasing 2, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitization fund
Inmobiliaria Viagracia, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inmobiliaria Vivesa, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Intermediación y Servicios Tecnológicos, S.A.	J. Ignacio Luca de Tena, 13	Madrid	Services
Inversiones Inmobiliarias Alprosa, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Canvives, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Cedaceros, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Gercebio, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Jeraguilas, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Tamadaba, S.L.	Prof. Agustin Miralles Carlo, s/n	Las Palmas	Real estate development
Isla de los Buques, S.A.	J. Ortega y Gasset, 29	Madrid	Finance
Manberor, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Meglahe, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Popular Capital, S.A.	J. Ortega y Gasset, 29	Madrid	Finance
Popular de Mediación, S.A.	J. Ortega y Gasset, 29	Madrid	Related banc-assurance
Popular Español Asia Trade, L.T.D.	13/F Tim Mei Avenue	Hong Kong	Finance
Read Leaf Holding	2720 Coral Way	Miami	Real estate
Urbanizadora Española, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Velazquez 34, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate
Non-financial companies:			
Desarrollo de Aplicaciones Especiales, S.A.	Juan de Olías, 1	Madrid	IT
Eurovida, S.A. (Portugal)	Avenida da República, 57	Lisbon	Insurance
Fib Realty Corporation	2720 Coral Way	Miami	Dormant
Panorama Ibicenca, S.A.	J. Ortega y Gasset, 29	Madrid	Asset holding
Popular de Comunicaciones, S.A.	J. Ortega y Gasset, 29	Madrid	Communications
Popular de Informática, S.A.	J. Ortega y Gasset, 29	Madrid	IT services
Popular de Renting, S.A.	Labastida 9-11	Madrid	Contract hire
Popular Seguros, S.A.	Avenida da República, 57	Lisbon	Insurance
Promoción Social de Viviendas, S.A.	J. Ortega y Gasset, 29	Madrid	Asset holding
Total Sunset Inc.	2720 Coral Way	Miami	Dormant

At December 31, 2011:	% of voting rights			Carrying amount	Assets	Equity	
	Direct	Indirect	Total			Total	Of which: results.
Deposit taking:							
Bancopopular-e, S.A.	100.00	-	100.00	34,908	1,266,078	87,985	24,492
Banco Popular Portugal, S.A.	100.00	-	100.00	855,448	9,680,620	726,866	13,432
Popular Banking Privada, S.A.	52.50	7.50	60.00	13,784	1,811,730	53,117	5,722
TotalBank	100.00	-	100.00	301,085	1,643,595	157,489	5,064
Financial companies :							
Popular Factoring, S.A. (Portugal)	99.82	-	99.82	48,386	193,598	42,949	3,141
Popular de Factoring, S.A.	100.00	-	100.00	45,818	597,433	66,746	6,168
Holding and services companies:							
Gestora Popular, S.A.	35.00	65.00	100.00	12,363	24,247	8,606	(242)
PBP Cartera Premium SICAV, S.A.	45.95	2.80	48.75	80,785	170,218	164,798	5,089
Popular Bolsa SV, S.A.	100.00	-	100.00	6,100	9,108	7,079	1,020
Popular Gestao de Activos, S.A.	100.00	-	100.00	10,450	2,773	2,393	291
Popular de Participaciones Financieras S.A.	100.00	-	100.00	36,000	49,810	44,457	364
Popular Gestión Privada SGIIC, S.A.	-	60.00	60.00	2,404	7,498	6,795	129
Special purpose companies:							
Aliseda, S.A.	100.00	-	100.00	302,599	2,956,351	(30,625)	(260,506)
BPE Finance International, L.T.D.	100.00	-	100.00	46	38,082	46	-
BPE Financiaciones, S.A.	90.00	10.00	100.00	100	2,323,027	7,344	206
BPE Preference International, L.T.D.	100.00	-	100.00	52	438,770	52	-
Consulteam - Consultores de Gestao, S.A.	80.45	19.55	100.00	146,735	485,902	92,730	(40,646)
Finespa, S.A.	4.19	95.81	100.00	8,058	10,407	10,213	189
Fondo Imopopular, FEIIF	90.00	10.00	100.00	28,179	29,539	28,360	(178)
Gestora Europea de Inversiones, S.A.	99.90	0.10	100.00	25,655	174,102	13,893	(74)
Gold Leaf Tittle Company	-	100.00	100.00	256	522	351	76
IM Banco Popular FTPYME 1, FTA	100.00	-	100.00	-	272,671	10,974	650
IM Banco Popular FTPYME 2, FTA	100.00	-	100.00	-	547,551	2,924	(965)
IM Banco Popular FTPYME 3, FTA	100.00	-	100.00	-	1,481,429	-	2,654
IM Banco Popular MBS 1, FTA	100.00	-	100.00	-	-	-	-
IM Banco Popular MBS 2, FTA	100.00	-	100.00	-	671,776	1,390	1,380
IM Cédulas Grupo Banco Popular 1, FTA	100.00	-	100.00	-	2,241,132	(311)	100
IM Cédulas Grupo Banco Popular 3, FTA	100.00	-	100.00	-	2,206,737	-	-
IM Cedula Grupo Banco Popular 5, FTA	100.00	-	100.00	-	2,418,612	-	-
IM Grupo Banco Popular Empresas 1, FTA	100.00	-	100.00	-	446,783	21,710	(15,480)
IM Grupo Banco Popular Empresas 3, FTA	100.00	-	100.00	-	2,599,686	14,912	14,935
IM Grupo Banco Popular Empresas 4, FTA	100.00	-	100.00	-	2,335,533	-	11,054
IM Grupo Banco Popular FT PYME I, FTA	100.00	-	100.00	-	577,033	20,629	(15,397)
IM Grupo Banco Popular FT PYME II, FTA	100.00	-	100.00	-	452,321	13,935	(57)
IM Grupo Banco Popular Leasing 2, FTA	100.00	-	100.00	-	1,812,663	-	3,449
Inmobiliaria Viagracia, S.A.	99.99	0.01	100.00	20,635	104,072	107,374	(5,034)
Inmobiliaria Vivesa, S.A.	99.99	0.01	100.00	1,170	1,233	1,229	4
Intermediación y Servicios Tecnológicos, S.A.	99.50	0.50	100.00	1,203	2,863	1,785	88
Inversiones Inmobiliarias Alprosa, S.L.	68.25	31.75	100.00	64,566	202,154	86,764	(325)
Inversiones Inmobiliarias Canvives, S.L.	-	100.00	100.00	3	485,858	(36,342)	(48,154)
Inversiones Inmobiliarias Cedaceros, S.L.	-	100.00	100.00	38,000	124,746	32,008	(22,376)
Inversiones Inmobiliarias Gercebio, S.L.	-	100.00	100.00	3	39,709	(2,483)	(2,220)
Inversiones Inmobiliarias Jeraguilas, S.L.	-	100.00	100.00	33	27	28	(1)
Inversiones Inmobiliarias Tamadaba, S.L.	99.00	1.00	100.00	30	330	16	5
Isla de los Buques, S.A.	99.98	0.02	100.00	61	363,953	1,467	138
Manberor, S.L.	-	100.00	100.00	3	123,025	2	(4)
Meglahe, S.L.	-	100.00	100.00	34	28	29	(1)
Popular Capital, S.A.	90.00	10.00	100.00	90	3,208,901	17,377	11,917
Popular de Mediación, S.A.	80.00	15.00	95.00	88	3,167	83	287
Popular Español Asia Trade, L.T.D.	100.00	-	100.00	-	11	-	-
Read Leaf Holding	100.00	-	100.00	43,033	45,080	42,919	(29)
Urbanizadora Española, S.A.	7.19	90.55	97.74	11,473	13,096	12,918	164
Velazquez 34, S.L.	97.80	2.20	100.00	3	90,801	290	1,542
Non-financial companies							
Desarrollo de Aplicaciones Especiales, S.A.	50.67	-	50.67	47	4,745	1,172	272
Eurovida, S.A. (Portugal)	84.07	15.93	100.00	134,503	600,015	42,114	8,718
Fib Realty Corporation	-	100.00	100.00	-	-	-	-
Panorama Ibicenca, S.A.	-	100.00	100.00	357	473	474	(1)
Popular de Comunicaciones, S.A.	99.84	0.16	100.00	60	77	78	(2)
Popular de Informática, S.A.	99.84	0.16	100.00	61	58	59	(1)
Popular de Renting, S.A.	100.00	-	100.00	3,005	87,145	9,144	1,525
Popular Seguros, S.A.	-	100.00	100.00	7,500	13,984	7,936	366
Promoción Social de Viviendas, S.A.	-	91.84	91.84	553	655	653	2
Total Sunset Inc.	-	100.00	100.00	-	-	-	-

2012

In 2012, following the completion of the merger by absorption of Banco Pastor in June (see Note 8.), which entailed the addition of a considerable number of companies, the resulting corporate structure was simplified in order to optimise the Group's resources and improve its organisation and operation, through the regrouping of companies with a common mission and various extraordinary mergers or sales of companies.

Regrouping was carried out through special merger procedures as the companies involved were fully owned by Banco Popular. As a result, the acquirees, following their dissolution without liquidation, transferred their assets and liabilities en bloc to the acquiring company that acquired, under universal succession, the rights and obligations of the acquirees.

In September 2012 the ex Banco Pastor special purpose companies created to carry out tax lease transactions were restructured to form a single company, Naviera Islas Cíes, S.L., which absorbed Naviera Curtis, S.L., Naviera Cervo, S.L., Naviera Cambaral, S.L., Naviera Valdes, S.L., Naviera Zurita, S.L. and Naviera San Timoteo, S.L.

Several real estate companies were also restructured together with other different types of companies, some of which were fully or practically dormant. Inmobiliaria Viagracia, S.A. absorbed the Popular companies Inmobiliaria Vivesa, S.A., Panorama Ibicenca, S.A., Popular de Comunicaciones, S.A. and Popular de Informática, S.A. and the ex Banco Pastor companies Pastor Caldelas Gestión Global de Inmuebles, S.L., Pastor Participadas 1, S.L., Pastor International Debt, S.A., Pastor Participadas 2, S.L., Andalecia, S.L., Essential Information System, S.A. and Ruta System, S.L.

In October 2012 the insurance company Popular de Mediación, S.A. absorbed Pastor Mediación Operaciones de Banca Seguros vinc. S.L.

Subsequently, in November 2012 the companies holding foreclosed assets were regrouped through the absorption by Banco Popular companies of the ex Banco Pastor companies with a similar nature. Aliseda, S.A. absorbed the ex Banco Pastor companies Almeiras Assets, S.L., Bergantiños Gestión Global de Inmuebles, S.L., La Limia Gestión Global de Inmuebles, S.L., Moreira Gestión Global de Inmuebles, S.L., Paradanta Gestión Global de Inmuebles, S.L., Terra Cha Gestión Global de Inmuebles, S.L., Promotora Inmobiliaria Ospibel, S.L. and Sobrinos de José Pastor, S.A.. Inversiones Inmobiliarias Canvives, S.A. absorbed Tabeiros Gestión Global de Inmuebles, S.L. while Inversiones Inmobiliarias Tamadaba, S.L. absorbed Os Ancares Gestión Global de Inmuebles, S.L.

In addition to these regroupings, in 2012 the following changes were made to the Group. Banco Popular Pastor, S.A., incorporated in October 2012, with capital of € 18,030 thousand, and Centro de Análisis y Reclamación de Incumplimientos, S.A., incorporated in November 2012, with capital of € 60 thousand, both fully owned by Banco Popular, S.A. were added to the Group. In November 2012 Fundo FIIAH, incorporated with capital of € 25,000 thousand and 85% owned by Banco Popular, S.A. and 15% owned by Banco Popular Portugal, S.A., was also added.

Owing to the formal requirements under applicable local legislation, the representation office BPE Representaçoes y Participaçoes was turned into a company. In addition, the representation offices Pastor Representaciones Brazil and Pastor Representaciones Argentina were formed.

With respect to the disposal of companies that formed part of the Group, in September 2012 the following companies were sold; Desarrollo de Aplicaciones Especiales, S.A., at a profit of € 4,844 thousand, and Universal, Support, S,A., ex Banco Pastor, at a profit of € 103 thousand. The ex Banco Pastor O Novo Aquilón, which was in liquidation, was also derecognized.

2011

Within the strategic relationship between Banco Popular and Allianz and in order to strengthen their alliance in Spain in relation to insurance, pensions and asset management, in 2011 Banco Popular sold and Allianz acquired 9%, 11% and 60% of the voting rights of Eurovida, Europensiones and Popular Gestión, respectively, Popular retaining 40% of the companies and voting rights and Allianz owning 60%. These ownership interests were included by both companies in the new company Allianz Popular, S.L. that for consolidation purposes was considered to be an associate of Group Popular and carried under the equity method.

In addition to the changes in the consolidation scope resulting from this operation, in 2011 the following companies and securitization funds were included: Platja Amplaries, S.L., IM Grupo Banco Popular Empresas 4, FTA, PBP Cartera Premium SICAV, IM Cédulas Grupo Banco Popular 5, FTA, IM GBP Leasing 2 and Fernando Oliveira Corticas, LDA

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Apart from Europensiones and Popular Gestión, that as a result of their inclusion in Allianz Popular, S.L. are consolidated using the equity method, the following securitization funds and companies were de-recognized: IM Grupo Banco Popular Empresas 2, FTA, IM Cédulas Grupo Banco Popular 2, FTA, IM Grupo Banco Popular Leasing 1, FTA, IM Grupo Banco Popular Financiaciones 1, FTA, IM Banco Popular MBS 1, FTA, Redsys (Redes y procesos), Mundo Envíos, S.A. and Mundocredit, S.A, absorbed by Banco Popular and Populargest Gestao de Inmoveis, S.L., absorbed by Banco Popular Portugal.

The accounting statements of the companies added to the Group's consolidation were in all cases dawn up as of December 31, 2012 and 2011.

Subsidiaries were fully consolidated. Consequently all material balances and transactions between these companies and the other companies in the Group have been eliminated in consolidation. Similarly, third- party holdings in the Group's equity are presented under Minority Interests on the consolidated balance sheet and the part of results for the year attributable to them is presented under Results attributed to minority interests in the consolidated income statement. The results of the entities acquired by the Group during the year are consolidated taking into account only those results for the period between the date of acquisition and year end. Similarly, the results generated by the entities sold by the Group in the year are consolidated taking into account only those results for the period running from the beginning of the year to the date of sale.

Jointly-controlled companies

Jointly-controlled companies are investees that, although not classified as subsidiaries, are controlled jointly by the Group and another or other companies not related to the Group. Joint ventures are contractual agreements under which two or more entities (members) carry out transactions or hold assets such that any strategic, financial or operational decision that affects them requires the unanimous consent of all members. Such transactions or assets are not included in different financial structures from those of the members.
Jointly-controlled companies were therefore consolidated by the proportionate consolidation method. Consequently, all balances and transactions and the eliminations that they entail are made in proportion to the Group's ownership interest.

Jointly-controlled companies at the 2012 year end are as follows:

At December 31, 2012:	Address		Activity
Jointly-controlled companies:			
Targobank, S.A.	Claudio Coello, 123	Madrid	Banking
GAT FTGENCAT 2005, FTA	Fontanella, 5-7	Barcelona	Asset securitization fund
Inverlur Aguilas I, S.L.	Av. Libertad, 3	San Sebastian	Real estate development
Inverlur Aguilas II, S.L.	Av. Libertad, 3	San Sebastian	Real estate development
Platja Amplaries, S.L.	L'Antina, s/n. Oropesa del Mar	Castellón	Real estate development
Saite, S.A. *	Cantón Pequeño, 1	A Coruña	Concession operator
Saite-Cobal, S.A. *	Plaza de Angel Carbajo, 6	Madrid	Real estate development
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	J. Ortega y Gasset, 22	Madrid	Payment means
Targoinmuebles, S.A.	Claudio Coello, 123	Madrid	Real estate promotion

* Ex Banco Pastor

At December 31, 2012:	% voting rights			Carrying amount	Assets	Equity	
	Direct	Indirect	Total			Total	Of which: results
Jointly-controlled companies:							
Targobank, S.A.	50.00	-	50.00	129,016	1,174,202	142,412	242
GAT FTGENCAT 2005, FTA	28.57	-	28.57	-	23,643	1,105	(8)
Inverlur Aguilas I, S.L.	-	50.00	50.00	13,431	249	238	(6,499)
Inverlur Aguilas II, S.L.	-	50.00	50.00	41,569	763	742	(20,087)
Platja Amplaries, S.L.	-	25.00	25.00	50	65,154	(4,475)	(2,634)
Saite, S.A. *	50.00	-	50.00	4,266	12,782	4,627	420
Saite-Cobal, S.A. *	-	50.00	50.00	3,000	9,907	-	(942)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	42.50	-	42.50	4,890	17,204	9,704	303
Targoinmuebles, S.A.	-	50.00	50.00	225	225	225	-

* Ex Banco Pastor

The table below sets out information concerning jointly- controlled entities for 2011:

At December 31, 2011	Address		Activity
Jointly-controlled companies:			
Targobank, S.A.	J. Ortega y Gasset, 29	Madrid	Banking
Cédulas TDA 19, FTA	Orense, 69	Madrid	Asset securitization fund
GAT FTGENCAT 2005, FTA	Fontanella, 5-7	Barcelona	Asset securitization fund
Platja Amplaries, S.L.	L'Antina, s/n. Oropesa del Mar	Castellón	Real estate development
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	J. Ortega y Gasset, 22	Madrid	Payment means

At December 31, 2011:	% voting rights			Carrying amount	Assets	Equity	
	Direct	Indirect	Total			Total	Of which: results
Jointly-controlled companies:							
Targobank, S.A.	50.00	-	50.00	129,016	2,102,258	263,856	19,434
Cédulas TDA 19, FTA	17.14	-	17.14	-	1,844,907	-	-
GAT FTGENCAT 2005, FTA	28.57	-	28.57	-	102,860	4,274	(319)
Platja Amplaries, S.L.	-	25.00	25.00	50	299,256	132	(7,500)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	42.50	-	42.50	4,890	36,336	21,120	1,000

In 2012 the following newly formed companies were added to the consolidation as jointly-controlled entities: Inverlur Aguilas I, S.L. and Inverlur Aguilas II, S.L., 50% owned by Inversiones Inmobiliaras Jeraguilas, S.L., which is in turn wholly owned by Banco Popular, through Gestora Popular, S.A. and Aliseda, S.A. The also newly formed Targoinmuebles, S.A.,wholly owned by Targobank, S.A. which is in turn 50% owned by Banco Popular, and the corporate objects of which consist of the management of foreclosed properties, was similarly added to the consolidation.

The asset securitization fund Cédulas TDA 19, F.T.A., in which Banco Popular held a 17.14% interest, was cancelled early in March 2012.

During 2011 Platja Amplaries, S.L. was set up in which Popular had a 25% interest through its wholly owned subsidiary Aliseda while Eurovida, S.A.that was first an associate following the decrease in the interest held and subsequently included in the new associate Allianz Popular, S.L., was derecognized.

The accounting information of these companies used for consolidation referred in all cases to December 31, 2012 and 2011, respectively.

The figures in the table showing assets and equity refer to the total for the company, regardless of the percentage included in the consolidation process.

Associates

Associates are investees in which the Group exercises significant influence. This significant influence generally, although not exclusively, takes the form of a shareholding, held directly or indirectly through another or other Investees, of 20% or more of the investee's voting rights.

Associates were consolidated under the equity method. Therefore shareholdings in associates were valued at the fraction represented by the Group's holding in their capital net of dividends received from them and other balance sheet eliminations. The results on transactions with an associate are eliminated in the proportion to the Group's holding therein. If losses cause an associate to have negative equity for accounting purposes, in the Group's consolidated balance sheet, it is presented with a zero value unless the Group has the obligation to support it financially.

In June 2012, effective January 1, 2012, Metrovacesa, S.A. was recognized as an associate following the verification that the Group's 11,97% interest resulted in significant influence following the corporate and restructuring operations carried out between that company and its shareholders.

As part of the regrouping related to the addition and exclusion of subsidiaries from the consolidation, the subsidiary Aliseda, S.A. absorbed the ex Banco Pastor; Cía. Inmobiliaria de Desarrollo Urbanístico y Promoción Arvum, S.L. and Proinalaga,S.L. In addition, O Novo Aquilón, S.L., also ex Banco Pastor, was wound up.

In 2011, besides the addition of Allianz Popular SL as an associate as discussed above and described in more detail in Note 8, Fernando Oliveira Cortiças LDA in which Popular had a 27,59% interest through its investees Banco Popular Portugal, S.A. and Consulteam Consultores de Gestao, S.A. was also included. Redsys (Redes y procesos) was de-consolidated following a corporate transaction to reduce the interest held.

Relevant information on associates as of December 31, 2012 is as follows:

At December 31, 2012:	**Address**		**Activity**
Associates:			
Allianz Popular, S.L.	Pº Castellana, 39	Madrid	Insurance
Amarres Deportivos, S.L. *	Av. Jaume III, 11	Palma de Mallorca	Operation of sports marinas
Aviación Intercontinental, A.I.E.	Av. Cantabria s/n. B. del Monte	Madrid	Finance
Fotovoltaica Monteflecha, S.L. *	Curtidores, 2	Palencia	Photovoltaic energy
Inversiones Area Sur, S.L.	Acera del Darro, 30	Granada	Real estate
Inversiones en Resorts Mediterraneos S.L.	Av. Teniente Montesinos, 10	Murcia	Real estate
Mercavalor S.V., S.A. *	Velazquez, 64-66	Madrid	Securities company
Metrovacesa, S.A.	Quintanavides, 13	Madrid	Real estate development
Nuevo Agora Centro de Estudios, S.L. *	Foronda 6 , Planta Baja	Madrid	Teaching
Perez Torres Hadling, S.A. *	LG. PAB. Servicios Explotación, Muelle San Diego	La Coruña	Services
Puertos Futuros, S.L. *	Cantón Pequeño, 1	A Coruña	Operation of sports marinas
Ronautica Marinas Internacional, S.A. *	Garcia Olloqui, 6	Vigo	Services
Sistema 4B, S.A.	Francisco Sancha, 12	Madrid	Payment means
Trindade Fundo de Investimento Imobiliario Fechado	Av. da Republica, 35	Lisbon	Real estate development

* Ex Banco Pastor

At December 31, 2012:	% of voting rights			Carrying amount
	Direct	Indirect	Total	
Associates:				
Allianz Popular, S.L.	40.00	-	40.00	11,063
Amarres Deportivos, S.L. *	-	40.90	40.90	5
Aviación Intercontinental, A.I.E.	35.00	-	35.00	19,210
Fotovoltaica Monteflecha, S.L. *	-	4.05	4.05	384
Inversiones Area Sur, S.L.	-	50.00	50.00	11,650
Inversiones en Resorts Mediterraneos S.L.	-	20.98	20.98	2,098
Mercavalor S.V., S.A. *	25.01	-	25.01	2,208
Metrovacesa, S.A.	11.97	-	11.97	299,230
Nuevo Agora Centro de Estudios, S.L. *	-	30.86	30.86	25,738
Perez Torres Hadling, S.A. *	35.02	-	35.02	400
Puertos Futuros, S.L. *	-	49.00	49.00	78
Ronautica Marinas Internacional, S.A. *	-	22.10	22.10	4,813
Sistema 4B, S.A.	26.76	-	26.76	2,434
Trindade Fundo de Investimento Imobiliario Fechado	-	50.00	50.00	27,000

* Ex Banco Pastor

The table below sets out information on associates for 2011:

At December 31, 2011:	Address		Activity
Associates:			
Allianz Popular, S.L.	Pº Castellana, 39	Madrid	Insurance
Aviación Intercontinental A.I.E.	Av. Cantabria s/n. B. del Monte	Madrid	Finance
Fernando Oliveira Cortiças, LDA	Rua Nossa Senhora de Fátima	Sta. Mª da Feira	Cork
Inversiones Área Sur, S.L.	Acera del Darro, 30	Granada	Real estate development
Inversiones en Resorts Mediterráneos S.L.	Av. Teniente Montesinos, 10	Murcia	Real estate development
Sistema 4B, S.A.	Francisco Sancha, 12	Madrid	Payment means
Trindade Fundo de Investimento Imobiliario Fechado	Av. da Republica, 35	Lisbon	Real estate development

At December 31, 2011:	% of voting rights			Carrying amount
	Direct	Indirect	Total	
Associates:				
Allianz Popular, S.L.	40.00	-	40.00	11,062
Aviación Intercontinental A.I.E.	35.00	-	35.00	19,210
Fernando Oliveira Cortiças, LDA	-	27.59	27.59	6,236
Inversiones Área Sur, S.L.	-	50.00	50.00	11,650
Inversiones en Resorts Mediterráneos S.L.	-	20.98	20.98	2,098
Sistema 4B, S.A.	23.47	-	23.47	2,020
Trindade Fundo de Investimento Imobiliario Fechado	-	50.00	50.00	27,000

Inversiones Área Sur, S.L in which the Group has a 50% interest is managed and controlled by the other shareholder and has therefore been classified as an associate in both years. The accounting statements used in the preparation of these consolidated financial statements with respect to associates are at November 30 each year, without this time difference having any significant effect on consolidated earnings and equity. Nonetheless, in 2012 the statements used of Allianz Popular, SL, Amarrres Deportivos SL, Aviación Intercontinental A.I.E, Fotovoltaica Monteflecha, SL, Metrovacesa SA, Perez Handling, S.A. and Puertos Futuros, S.L. are at December 31,2012.

Note 8 discloses the most significant acquisitions and disposals during the year of the Group's holdings in subsidiaries, jointly-controlled companies and associates. Since the accounting principles and standards and measurement criteria applied in preparing the Group's consolidated financial statements for 2012 and 2011 may differ from those used by some of the subsidiaries and jointly-controlled companies and associates included in the Group, the necessary significant adjustments and reclassifications have been made on consolidation in order to ensure consistency with respect to accounting principles and measurement standards.

d) Comparability

The legislative amendments introduced in 2012 had no effect on the comparability of the Group's financial information and therefore there has been no need to adapt or reclassify the quantitative information for 2011 which was published in the previous year's consolidated financial statements.

Banco Popular took control of the Banco Pastor Group (Note 8), with effect for accounting purposes as from February 17. As a result of the addition of that Group to the consolidation, the figures in the consolidated balance sheet and consolidated income statement are not comparable with those of the previous year.

3. Treatment of changes and errors in accounting criteria and estimates

The information contained in the accompanying consolidated financial statements is the responsibility of the Directors of Banco Popular.

Estimates have been used, where appropriate, in these consolidated financial statements, in the measurement of certain assets, liabilities, revenues, expenses and commitments. These estimates have been made by the Senior Management of the Bank and Investees and ratified by the Directors. These estimates relate to:

- Impairment losses on certain assets (Note 15h)
- The actuarial assumptions used in calculating the liabilities and commitments for post-employment compensation (Note 15.p).
- The useful life adopted for items of tangible assets and intangible assets and the measurement of goodwill on consolidation (Notes 15.r and s).
- The fair value of certain unlisted assets (Note 46).
- The reversal period of temporary differences for the purposes of their valuation (Note 33).

These estimates were made in accordance with the best information available at December 31, 2011 about the items concerned and it is therefore possible that future events may make it necessary to modify them in some way in coming years. Any such modification will, in any event, be made prospectively, giving recognition to the effects of the change in estimate in the relevant consolidated statement of income.

When applying the entity's accounting policies, management has made several judgments, other than those relating to estimates, which may have a significant impact on the amounts recognized in the financial statements. Specifically, management has made professional judgments to determine:

- if certain financial assets are held-to-maturity investments;
- when substantially all the significant risks and rewards of ownership of financial assets and leased assets have been transferred to other entities;
- if, owing to their economic substance, certain asset sales are financing arrangements and therefore do not generate revenue; and
- if the economic substance of the relationship between the entity and a special purpose entity indicates that the latter is controlled by the former.

a) Changes in accounting principles

During 2012 and 2011 there were no major changes in the Group's accounting principles.

b) Errors and changes in accounting estimates

The Group did not correct any errors in the accompanying financial statements.

In 2012, as a result of the adverse macroeconomic environment in Spain and Europe, estimates related to impairment losses on loans and receivables were reviewed together with the estimates related to the calculation of the fair value of real estate assets, specifically affected by the decline in the value of such assets (as a result, among other things, of the discounts applied on the transfer by other companies of real estate assets to SAREB in December 2012) and the high level of unemployment in Spain, which grew from one quarter to the next.

When making estimates sensitivity analyses are preformed and where the estimation of the impairment loss results in a range of possible values, the Group recognizes an impairment loss equal to the best estimate within the interval, taking into account all the information available, prior to the issue of the financial statements, concerning conditions at the end of the reporting period.

The Group values real estate assets at the lower of carrying amount and fair value, which has been determined through the valuation of foreclosed assets, prepared on the basis of the latest valuations available in the databases, updated to market, assuming current macro-economic assumptions remain unchanged, and depending on the economic and real estate characteristics of the province and the type of asset concerned. Additionally, the resulting value is adjusted for a series of financial, maintenance and marketing costs associated with the asset.

Updated valuation values at December 31, 2012, according to price series, did not reflect market values, as a result of the additional decrease in both house and land prices, necessary to kick start the real estate market in view of current macro-economic conditions.

The values resulting from the restatement at the 2012 year end were therefore adjusted for further price falls in order to reflect current market values.

In 2011, as part of the on-going improvement process and as a result of accumulated experience, a review was conducted of the measurement of certain widowhood and orphanhood commitments, additional to the retirement complement commitments with certain groups, under the retirement plan with retirees. In this respect, the methods for estimating these commitments have been changed in order to present a fairer view based on experience.

4. Distribution of results for the year

The proposed distribution of results for 2012 which the Board of Directors of Banco Popular Español, S.A.will submit for approval by the General Shareholders' Meeting and the distribution for 2011 approved on June 11, 2011, are as follows, in euro:

In euro	2012	2011
Statutory reserves	-	1,282,252.25
Voluntary reserves and other	(2,719,524,692.03)	551,738,386.11
Interim dividends	-	70,007,358.30
Interim dividends paid	-	70,007,358.30
Dividends pending payment	-	-
Results distributed	(2,719,524,692.03)	623,027,996.66
Results for the year	(2,719,524,692.03)	623,027,996.66

No dividends were distributed on account of 2012 results.

The distribution reflected in the table for 2011 includes the first dividend on account of profits for that year, which was paid in October 2011. The second dividend on account for 2011 and the complementary dividend, paid in March and June 2012, were adjusted to the new flexible remuneration system named "Banco Popular Dividend: a dividend made to measure", that enables shareholders to choose between receiving all or part of the dividend in cash or new bonus shares in the Bank.

The results of the Group's subsidiaries and jointly-controlled companies and associates included in the consolidation will be distributed as approved by their respective General Shareholders' Meetings

The provisional accounting statements prepared in accordance with Spanish mercantile and accounting legal requirements, approved by Banco Popular Español, S.A. in 2011 , reveal the existence of sufficient liquidity and profits to pay an interim dividend in that years. The principal figures in these statements were as follows:

€ thousand	2011	
	September	December
Accumulated net profit	555,230	623,028
Dividends:		
Interim dividends paid	-	70,007
Interim dividends declared	70,007	-
Sum of dividends paid and declared	70,007	70,007
Dividends not yet declared	-	-
Total dividends for the year	-	70,007
Primary liquidity*	10,738,796	7,835,088

* Primary liquidity is made up of the following headings under assets on the balance sheet: Cash and balances with central banks and deposits with credit institutions

5. Earnings per share

Basic earnings per share are calculated by dividing the net results attributed to the Group for the year by the weighted average number of shares in that year, excluding, where appropriate, the treasury shares held by the Group during that year.

	2012	2011
Net profit/(loss) for the year (€ thousand))	(2,461,023)	479,653
Weighted average number of ordinary shares (thousand)	2,228,760	1,361,268
Basic earnings per share (euro)	(1.104)	0.352

Diluted earnings per share are calculated in a manner similar to basic earnings per share but the weighted d average number of shares is adjusted to take into account the potential dilution effect of stock options, warrants and convertible debt in effect at the year end.

At December 31, 2012 the only instruments with a potential dilution effect are necessarily convertible bonds and subordinated debentures, four issues of which relate to2012 and another to 2009. A 2010 issue was converted. (See Note 35 Subordinated liabilities and Note 41 Other equity instruments).

At December 31, 2011 there were two issues of necessarily convertible bonds and subordinated debentures, one relating to 2009 and another issued in 2010 (see Note 35 Subordinated liabilities and Note 41 Other equity instruments).

	2012	2011
Net profit/(loss) for the year (€ thousand)	(2,461,023)	479,653
Financial cost of necessarily convertible issues	62,296	27,928
Adjusted profit/(loss)	(2,398,727)	507,581
Weighted average number of shares less treasury shares (thousand)	2,228,760	1,361,268
Average number of shares owing to bond conversion	1,756,379	238,473
Adjusted total average number of shares to calculate diluted earnings (units)	3,985,139	1,599,741
Diluted earnings per share (euro)	(0.602)	0.317

6. Minimum capital requirement

After the two Community Directives were written into Spanish legislation in 2011, in 2012 the pertinent regulatory amendment was included in domestic regulations through Law 9/2012 which entailed a change in the level of core tier 1 capital from 8% to 9% as from January 1, 2013. It also established its definition in order to bring it into line with that used by the European Banking Authority in its recent recapitalisation of the Spanish financial system regarding both computation and applicable deductions in accordance with Recommendation EBA/REC/2011/1.

In accordance with the powers conferred by that Law, the Bank of Spain published Circular 7/ 2012 concerning minimum core capital requirements in order to develop the necessary legal provisions for its appropriate implementation.

In 2011, as mentioned above. the two Community solvency directives: Directive 2009/111/EC , known in financial jargon as CRD2, and Directive 2010/76/EU, known as CRD3, were finally written into Spanish legislation. Both directives amended the previous Directives 2006/48/EC and 2006/49/EC

The Directives were first written into Spanish legislation through Law 2/2011 on the Sustainable Economy and mainly, Law 6/2011, which amended Law 13/1985. Royal Decree 771/2011, amending Royal Decree 216/2008, developed those legal regulations, and furthered the transposition process.

Nonetheless, basically taking into account the complexity of the aspects involved, both the Laws and Royal Decree authorised the Bank of Spain to transpose many of the technical aspects of those directives. The Bank of Spain therefore issued Circular 4/2011, amending Circular 3/2008 on the determination and control of minimum capital requirements.

Bank of Spain Circular 4/2011 aimed to bring prudent Spanish legislation further into line with the new guidelines established by the Basel Committee on Banking Supervision (Basel III)with respect to the mandatory financial characteristics of equity instruments making up minimum capital in order to strengthen the bank's loss absorbing capacity in stress situations and its stability. The Circular also fulfilled the recommendations that the Basel Committee had published on transparency of the pay policies applied to managers and employees whose decisions affect the risk profile.

In addition, this Circular lays down as rules the guidance on liquidity risk management that was contained in Circular 9/2010, the aim being to ensure a more rigorous assessment of the liquidity risk to which entities are exposed.

Following completion of the transposition of current Community regulations into Spanish legislation, we can summarise that the current approach to measuring the solvency of entities, known as Basel II, is based on three pillars and aims, among other things, to ensure that own funds are far more sensitive to the business risks that are actually borne by.

Pillar I: calculation of minimum capital requirements. It lays down the legal requirement to maintain a minimum level of capital in relation to the entity's risk exposure (credit, market and operational) although it retains the traditional 8% of risk weighted assets. It nonetheless accepts:

– the possibility of using internal classifications and internal models to calculate weighted risk exposures. This alternative is subject to the express authorization of the Bank of Spain and a highly detailed set of prudent technical requirements mainly related to risk management and the robustness of internal controls in credit institutions.
– for entities that do not use these models and that therefore follow the standard model, the Circular determines applicable weightings while it establishes the requirements that must be met by the external rating agencies often used to determine such weightings. These criteria are mainly based on objectivity, independence, transparency, reputation and the on-going update of the methodology applied to measure the risk ratings.

Similarly, the rules govern risk reduction and mitigation techniques, based on the application of guarantees, and new requirements for risks on certain types of assets: securitization and re-securitization and held for trading investments, toughening prudential requirements with respect to both capital requirements and the framework of the duty of diligence to investors and issuers.

Pillar II is based on two principles:

a) Credit institutions should have a process to assess the sufficiency of capital based on their risk profile and a strategy designed to maintain capital levels. This process should be monitored by Senior management through internal controls and integrated in a general management process.

b) Supervisory review by the Bank of Spain of strategies and internal assessments of capital sufficiency to ensure compliance with regulatory capital coefficients.

With respect to Pillar III, devoted to normalizing and favouring reporting to the market of relevant information for it to enforce discipline, the minimum content of the information to be published is established in the document "Information with prudential significance" to ensure comparability between entities.

The Group has designed and developed the risk management and control systems that are considered appropriate to the Group's risk profile. In this respect, Senior Management has been actively involved in designing the control policies and their regular follow-up.

The Group's capital objective is established on the basis of the capital levels laid down by the European and Spanish regulators to which it is subject. The Banco Popular Group therefore sets that objective with a view to operating comfortably with respect to the 8% Core Tier 1 threshold until December 31, 2012 and thereafter with respect to the 9% Core Tier 1 defined by the EBA until the adoption of the Basel III regulatory framework.

Make-up of computable capital:

a) Tier one capital:
- Paid-up capital.
- Share premium
- Reserves
- Minority interests
- Audited results for the year.
- Preferred shares and shareholdings,
- Necessarily convertible debentures
- (less) treasury shares and intangible assets.

b) Tier two capital:
- Computable subordinated financing.
- General coverage.
-Revaluation reserves

c) Deduction of tier I and tier II capital:
- Investments non-consolidable financial institutions of more than 10%.
- Investments in insurance companies of more than 20%.–
- Negative amounts resulting from the comparison between value adjustments for asset impairment and provisions for forecast losses.

Tier I and Tier II levels relate the necessary capital requirements with respect to the different types of risk to tier I and II capital as defined above. The main risks for which there are capital requirements are as follows:

- Credit, counterparty, dilution and delivery risk.
- Settlement risk.
- Price and exchange rate risk.
- Operational risk

Lastly, the Group has carried out capital planning, including the dividend policy for the period 2012 to 2014. In this respect, the Group has taken into account both the strategic business plans established and delinquency rates, both of which result from the macroeconomic environment for the period considered.

At December 31, 2012 and 2011, the Group's computable capital was as follows:

€ thousand	**2012**	**2011**
Tier I capital	9,187,547	9,769,236
Tier II capital	776,635	1,043,962
Other items and deductions	176,066	1,833,114
Total computable capital	9,788,115	8,980,084
Total minimum capital requirement	7,100,865	7,054,498

7. Segment reporting

Segment reporting is the basis of the analysis and monitoring of the Banco Popular Group's activities. In 2012 business segments were redefined and regrouped into the four business areas described below:

- Commercial Banking: this includes the activities conducted by the network of bank branches offices for typical lending transactions, fund-raising, acceptance of off-balance sheet risks and the supply of financial services of all kinds, including factoring and renting. In addition, it has been assigned the goodwill associated with commercial banking.

- Asset and Insurance Management: this comprises asset management activities and the administration of collective investment institutions (management of investment funds , portfolios and pension funds) and the activities conducted in life and general insurance by the Portuguese entities Popular de Seguros, S.A. and Eurovida, S.A, as well as the insurance operations carried out in Spain through Allianz Popular, S.L. in which the Group has a 40% interest.

- Real estate: this comprises the activities of the Group's real estate companies and the real estate activities of the Group's banks, which are managed on an integrated basis to allow for the orderly disposal of real estate assets.

- Institutional and Market: the institutional and market area reflects the other activities performed, including most notably asset and liability transactions with credit institutions, the trading portfolios of the banking entities, available-for-sale financial assets, asset and liability hedging derivatives, held-to-maturity investment portfolio and investments, asset and liability balances arising from pensions, raising of funds in wholesale markets by issues of Euronotes, subordinated debt and capital having the nature of a financial liability and convertible instruments.

The necessary information is not available to restate segment information for 2011 taking the new segmentation into account since the cost of obtaining that information is significant. Therefore, segment reporting for 2012 takes into account this year's and last year's segmentation. The main changes included in the 2012 segmentation are: the creation of the Real Estate area as a separate business area which in 2011 was mainly included in the Institutional and Markets area, the combination in a single segment, Asset and Insurance Management, of the areas, Asset Management and Insurance, which in 2011 were managed as independent businesses, and the transfer of the goodwill related to banking activities to Commercial Banking which was previously included in Institutional and Markets.

In 2011 segment reporting was carried out by grouping activities into the four areas described below:

- Commercial banking: this included the activities conducted by the network of bank branches offices for typical lending transactions, fund-raising, acceptance of off-balance sheet risks and the supply of financial services of all kinds, including factoring and renting

- Asset management: this comprised the specific and direct activity of managing assets and the administration of collective investment institutions: management of mutual funds, portfolios and pension funds. As indicated in notes 2c) and 8, the activities conducted by Europensiones, S.A. Allianz Popular Asset Management S.A.U. (formerly Popular Gestión SGIIC, S.A.., which were included in this segment, were transferred to the new company Allianz Popular SL in which the Group has a 40% interest.

- Insurance operations: this included life and non-life insurance activities carried out by the Portuguese companies Popular Seguros, S.A. and Allianz Popular Vida S.A.U. (formerly Eurovida, S.A.). The insurance operations in Spain carried out by the company, included in this segment, were also transferred to the new company Allianz Popular, S.L.

- Institutional and Markets:The institutional and market area reflected the activities not classified in the foregoing activities, including most notably asset and liability transactions with credit institutions, the trading portfolios of the banking entities, available-for-sale financial assets, asset and liability hedging derivatives, held-to-maturity investment portfolio and investments, non-current assets for sale, goodwill, asset and liability balances arising from pensions, raising of funds in wholesale markets by issues of Euronotes, subordinated debt and capital having the nature of a financial liability and convertible instruments

Since what is involved is transversal information that in most cases is drawn from one or several of the Group entities in the corresponding segment, the aggregation of all them leads to the consolidated financial statements. For greater clarity, the liability side of the balance sheet includes a separate caption called "Net intra-segment financing" obviously with a zero balance, although some segments present a contra natura sign in order to place all of them at the same level and maintain the total figure in the consolidated balance sheet.

In order to determine results for each business segment in 2012 and 2011, the following criteria were used:

- Internal transfer prices: The 3-month Euribor is applied as the interest cost or yield rate, as appropriate, to the average balances of the intra-segment positions since this is the commonest reference rate in most of the transactions. As from 2011 a premium was added to this rate with respect to its annual average value owing to the exceptional market situation.

- Operating expenses: direct and indirect expenses are allocated to each segment based on the related activity assigned

- Own funds: These are assigned to each segment on the basis of the risks incurred, calculating the requirements arising from its activity per the supervisory body for each business (Bank of Spain for commercial banking, Spanish Securities and Exchange Commission (CNMV) for the asset management business and the Directorate General for Insurance for the Insurance business, all for the business activities in Spain) and that of their equivalent supervisory bodies in the Portuguese market. Having established the appropriate requirements, these are allocated in proportion to the Group's structure i.e. according to capital, reserves, subordinated debt financing and issues of capital having the nature of a financial liability together with the pertinent associated costs. The excess of capital over the minimum levels required is allocated, as any that cannot be included in other segments, to institutional activities.

Results in 2012 by business area, taking into account the new segment reporting structure, with the inclusion of the "Real Estate" segment and the inclusion of the previous segments "Asset Management " and "Insurance Activity" in a single segment, are as follows:

€ thousand	**2012**				
	Commercial Banking	**Asset Management and Insurance**	**Real Estate**	**Institutional and Market**	**Consolidated**
Net interest margin	2,164,486	26,643	(126,347)	653,974	2,718,756
Net fees and commissions	771,030	19,936	2,704	-	793,670
´± Other financial transactions	55,312	31,442	6	300,401	387,161
´± Other operating income/(expense)	(126,908)	572	11,837	(7,272)	(121,771)
Gross margin	2,863,920	78,593	(111,800)	947,103	3,777,816
Operating costs	1,549,493	25,208	47,728	139,013	1,761,442
Operating margin before provisions	1,314,427	53,385	(159,528)	808,090	2,016,374
Impairment losses and other provisions (net)	4,216,504	5,928	3,524	121,764	4,347,720
Profit/(loss) on operating activities	(2,902,077)	47,457	(163,052)	686,326	(2,331,346)
± Other income /(expenses) net	(57,434)	-	(1,091,231)	(11,708)	(1,160,373)
Profit/(loss) before tax	(2,959,511)	47,457	(1,254,283)	674,618	(3,491,719)

The by -segment detail of consolidated revenues for the Group's new segment reporting structure at December 31, 2012 is as follows:

€ thousand	**Revenues from external customers**	**Intra-segment revenues**	**Total revenues**
	31/12/12	31/12/12	31/12/12
Commercial banking	4,945,052	-	4,945,052
Asset management and insurance	76,114	34,055	110,169
Real estate	34,439	14,860	49,299
Institutional and markets	1,850,093	761,061	2,611,154
(-) Adjustments and elimination of revenues between segments	-	(809,976)	(809,976)
TOTAL	6,905,698	-	6,905,698

The balance sheet, in accordance with the new business segment structure at December 31, 2012, is as follows:

€ thousand	2012				
	Commercial Banking	Asset Management and Insurance	Real Estate	Institutional and Market	Consolidated
Assets					
Cash and balances with central banks	520,067	3,094	29	1,593,992	2,117,182
Financial assets held for trading	-	8,694	1,307	2,086,850	2,096,851
Other financial assets at fair value through profit or loss	-	481,296	-	12,327	493,623
Available-for-sale financial assets	-	267,071	112,089	10,463,840	10,843,000
Loans and receivables	101,939,756	168,654	1,770	12,333,953	114,444,133
Held-to-maturity investments	-	148,656	-	10,865,816	11,014,472
Changes in the fair value of the hedged items	-	-	-	222,647	222,647
Hedging derivatives	-	92,112	-	586,245	678,357
Non-current assets held for sale	-	-	4,896,644	-	4,896,644
Investments	-	-	-	811,356	811,356
Insurance contracts linked to pensions	-	1,971	-	142,559	144,530
Reinsurance assets	1,971	2,907	-	-	4,878
Tangible assets	858,354	1,439	1,051,140	(18,208)	1,892,725
Intangible assets	2,459,568	22,641	541	172,334	2,655,084
Tax assets	-	8,494	606,642	3,088,623	3,703,759
Accruals	-	7,614	1,709	279,597	288,920
Other assets	-	8,599	862,813	438,545	1,309,957
Total assets	105,779,716	1,223,242	7,534,684	43,080,476	157,618,118
Liabilities					
Financial liabilities held for trading	-	-	1,491,141	-	1,491,141
Other financial liabilities at fair value through profit or loss	3,296	89,764	-	-	93,060
Financial liabilities at amortized cost	82,454,079	995,631	195,790	58,080,666	141,726,166
Hedging derivatives	-	79,642	-	1,969,222	2,048,864
Insurance contract liabilities	225,585	589,014	-	-	814,599
Provisions for exposures	85,336	3,980	4,499	414,232	508,047
Tax liabilities	-	14,067	23,579	423,584	461,230
Accruals	-	3,120	3,271	183,155	189,546
Other liabilities	-	121,283	509	208,252	330,044
Net intra-segment financing	14,936,416	(771,118)	6,704,261	(20,869,559)	-
Equity	8,075,004	97,859	602,775	1,179,783	9,955,421
Total equity and liabilities	**105,779,716**	**1,223,242**	**7,534,684**	**43,080,476**	**157,618,118**

Results in 2012, by business area, in accordance with the segment reporting structure at December 31, 2011, are as follows:

€ thousand	2012				
	Asset Management	Insurance	Commercial Banking	Institutional and Market	Consolidated
Net interest margin	2,032	24,611	2,164,486	527,627	2,718,756
Net fees and commissions	13,207	6,729	773,734	-	793,670
'± Other financial transactions	28,971	2,471	55,312	300,407	387,161
'± Other operating income /(expense)	(8,188)	8,760	(129,903)	7,560	(121,771)
Gross margin	36,022	42,571	2,863,629	835,594	3,777,816
Operating costs	17,573	7,635	1,597,221	139,013	1,761,442
Operating margin before provisions	18,449	34,936	1,266,408	696,581	2,016,374
Impairment losses and other provisions (net)	5,656	272	4,216,504	125,288	4,347,720
Profit /(loss) on operating activities	12,793	34,664	(2,950,096)	571,293	(2,331,346)
± Other profit /(loss) (net)	-	-	-	(1,160,373)	(1,160,373)
Profit /(loss) before tax	12,793	34,664	(2,950,096)	(589,080)	(3,491,719)

The balance sheet by business segment at December 31, 2012, in accordance with the segment reporting structure at December 31, 2011, is as follows:

€ thousand	2012				
	Asset Management	Insurance	Commercial Banking	Institutional and Markets	Consolidated
Assets					
Cash and balances with central banks	3,072	22	520,096	1,593,992	2,117,182
Financial assets held for trading	1,099	7,595	-	2,088,157	2,096,851
Other financial assets at fair value through profit or loss	5,142	476,154	-	12,327	493,623
Available-for-sale financial assets	120,681	146,390	-	10,575,929	10,843,000
Loans and receivables	159,215	9,439	101,939,756	12,335,723	114,444,133
Held-to-maturity investments	-	148,656	-	10,865,816	11,014,472
Changes in the fair value of the hedged items	-	-	-	222,647	222,647
Hedging derivatives	92,112	-	-	586,245	678,357
Non-current assets held for sale	-	-	-	4,896,644	4,896,644
Investments	-	-	-	811,356	811,356
Insurance contracts linked to pensions	-	1,971	-	142,559	144,530
Reinsurance assets	-	2,907	1,971	-	4,878
Tangible assets	1,352	87	858,354	1,032,932	1,892,725
Intangible assets	65	22,576	383,896	2,248,547	2,655,084
Tax assets	4,265	4,229	-	3,695,265	3,703,759
Accruals	6,477	1,137	-	281,306	288,920
Other assets	1,943	6,656	-	1,301,358	1,309,957
Total assets	**395,423**	**827,819**	**103,704,073**	**52,690,803**	**157,618,118**
Liabilities					
Financial liabilities held for trading	-	-	-	1,491,141	1,491,141
Other financial liabilities at fair value through profit or loss	-	89,764	3,296	-	93,060
Financial liabilities at amortized cost	981,703	13,928	82,645,345	58,085,190	141,726,166
Hedging derivatives	79,642	-	-	1,969,222	2,048,864
Insurance contract liabilities	94	588,920	225,585	-	814,599
Provisions for exposures	3,980	-	85,336	418,731	508,047
Tax liabilities	3,961	10,106	-	447,163	461,230
Accruals	1,967	1,153	-	186,426	189,546
Other liabilities	2,734	118,549	-	208,761	330,044
Net intra-segment financing	(710,291)	(60,827)	12,488,174	(11,717,056)	-
Equity	31,633	66,226	8,256,337	1,601,225	9,955,421
Total equity and liabilities	**395,423**	**827,819**	**103,704,073**	**52,690,803**	**157,618,118**

Results for 2011, in accordance with the segment reporting structure at December 31, 2011, are as follows:

€ thousand	2011				
	Asset management	Insurance	Commercial Banking	Institutional and Markets	Consolidated
Net interest margin	(5,489)	21,007	1,721,518	349,875	2,086,911
Net fees and commissions	15,298	6,112	664,122	-	685,532
± Other financial transactions	25,183	2,897	46,510	109,197	183,787
± Other operating income /(expense)	(758)	7,255	29,247	4,660	40,404
Gross margin	34,234	37,271	2,461,397	463,732	2,996,634
Operating costs	16,536	6,798	1,237,315	108,507	1,369,156
Operating margin before provisions	17,698	30,473	1,224,082	355,225	1,627,478
Impairment losses and other provisions (net)	2,112	152	932,243	17,831	952,338
Profit/(loss) on operating activities	15,586	30,321	291,839	337,394	675,140
± Other profit/(loss) (net)	1	-	-	(231,000)	(230,999)
Profit /(loss) before tax	15,587	30,321	291,839	106,394	444,141

The balance sheet at December 31, 2011, by business segment, in accordance with the segment reporting structure at December 31, 2011, is as follows:

€ thousand	2011				
	Asset Management	Insurance	Commercial Banking	Institutional and Markets	Consolidated
Assets					
Cash and balances with central banks	11,268	1	353,221	157,715	522,205
Financial assets held for trading	2,562	70	-	1,313,932	1,316,564
Other financial assets at fair value through profit or loss	4,930	366,584	-	5,990	377,504
Available-for-sale financial assets	133,826	138,426	-	10,133,494	10,405,746
Loans and receivables	249,409	2,387	90,426,424	10,063,700	100,741,920
Held-to-maturity investments	-	-	-	7,568,415	7,568,415
Changes in fair value of the hedged items	-	-	-	19,546	19,546
Hedging derivatives	248,555	-	-	843,485	1,092,040
Non-current assets held for sale	-	-	-	3,601,723	3,601,723
Investments	-	-	-	595,184	595,184
Insurance contracts linked to pensions	-	-	-	141,809	141,809
Reinsurance assets	-	3,033	-	-	3,033
Tangible assets	1,508	67	688,160	1,044,496	1,734,231
Intangible assets	90	2,677	108,867	537,497	649,131
Tax assets	5,094	1,287	-	1,206,229	1,212,610
Accruals	3,533	60	-	130,843	134,436
Other assets	2,483	3,715	-	803,408	809,606
Total assets	**663,258**	**518,307**	**91,576,672**	**38,167,466**	**130,925,703**
Liabilities					
Financial liabilities held for trading	114	-	-	1,104,209	1,104,323
Other financial liabilities at fair value through profit or loss	-	93,761	-	-	93,761
Financial liabilities at amortized cost	1,403,052	245	61,361,339	55,515,195	118,279,831
Hedging derivatives	247,311	-	-	1,166,745	1,414,056
Insurance contract liabilities	116	461,470	109,523	-	571,109
Provisions for exposures	2,570	-	66,954	212,028	281,552
Tax liabilities	3,151	330	-	276,149	279,630
Accruals	1,756	724	-	150,363	152,843
Other liabilities	2,451	2,327	-	355,596	360,374
Net intra-segment financing	(1,039,589)	(74,570)	22,792,969	(21,678,810)	-
Equity	42,326	34,020	7,245,887	1,065,991	8,388,224
Total equity and liabilities	**663,258**	**518,307**	**91,576,672**	**38,167,466**	**130,925,703**

The breakdown of consolidated revenues for each of the Group's business segments for the years ended December 31, 2012 and December 31, 2011 is set out below, in accordance with the segment reporting structure at December 31, 2011:

€ thousand	Revenues from external customers		Intra-segment revenues		Total revenues	
SEGMENTS	31/12/12	31/12/11	31/12/12	31/12/11	31/12/12	31/12/11
Asset management	36,228	30,718	29,086	33,658	65,314	64,376
Insurance	39,886	32,423	4,969	1,823	44,855	34,246
Commercial management	4,948,251	3,991,440	-	-	4,948,251	3,991,440
Institutional and markets	1,881,333	1,582,295	761,061	733,281	2,642,394	2,315,576
(-) Adjustments and elimination of revenues between segments	-	-	(795,116)	(768,762)	(795,116)	(768,762)
TOTAL	6,905,698	5,636,876	-	-	6,905,698	5,636,876

Set out below is the distribution of interest and similar income for the consolidated Group by geographical area at December 31, 2012 and 2011.

€ thousand	Consolidated group		
	31/12/12	31/12/11	Var %
Domestic market	5,034,525	4,172,294	20.7
Exports:			
a) European Union	393,889	346,694	13.6
b) OECD countries	67,995	61,530	10.5
c) Other	4	3	33.3
TOTAL	5,496,413	4,580,521	20.0

8. Business combinations and other corporate transactions with dependent and jointly-controlled companies and associates

A business combination is an event involving the acquisition of the assets and the assuming of the liabilities that make up a business over which control is acquired and which is administered and managed in order to obtain a return.

Of the corporate transactions performed in 2012, particularly noteworthy, for its significance, was the acquisition of control of Banco Pastor, S.A. by Banco Popular Español, S.A., effective for accounting purposes as from February 17, 2012. The acquisition was completed upon acceptance, by more than 90% during the voluntary period, of the takeover bid submitted by Banco Popular Español over 100% of the shares and necessarily convertible dentures issued by Banco Pastor. As was reported in the significant events report of February 15,2012, holders of 96.44% of shares and 99.04% of necessarily convertible debentures accepted the takeover bid. Banco Popular exercised its forced purchase right, envisaged in Article 60.4 of the Securities Market Law, over the remaining 3.56% and 0.96%.

The conditions laid down in the offer envisaged, by way of consideration, the delivery of newly issued shares of Banco Popular with a par value of €0.10 in the proportion of 1.115 shares of Banco Popular for each share of Banco Pastor, with a par value of €0.33, and 30.9 shares of Banco Popular for each necessarily convertible debenture of Banco Pastor. These same conditions were applied to the payment of the subsequent purchase of the remaining shares and debentures, in order to reach 100% of the capital of Banco Pastor.

As a result of the transactions described above, Banco Popular recorded two capital increases for an overall amount of € 38,200 thousand, with a total share premium of €1,207,883 thousand.

The aforementioned process through which Banco Popular Español, S.A. acquired control of Banco Pastor, S.A., triggered the recognition of the pertinent business combination between both entities. Banco Pastor's acquisition is strategically significant for Banco Popular, as it positions the Group as one of the six largest banks in the Spanish financial sector through the integration of a markedly similar bank in terms of the type of business conducted and entailing a very limited integration risk. The transaction strengthens the Banco Popular's strategy, based on a business model focused on SMEs and the main geographical markets and is, moreover, essential to the Banco Popular's importance in Galicia. In addition, Banco Pastor clearly fits in with the Group from a cultural perspective. The integration has also helped the Group to increase its level of cover of problematic assets, while maintaining high levels of capital. The transaction similarly resulted in the inclusion of major new shareholders in Banco Popular.

The merger by absorption of Banco Pastor by Banco Popular was completed on June 28, 2012 and the latter acquired en bloc all the assets and liabilities and was subrogated to all the rights and obligations of the acquiree. As from February 17, 2012 the transactions of Banco Pastor are understood to have been performed for accounting purposes by the acquiring company.

Until the date on which control was acquired, Banco Popular held no interest in the capital of Banco Pastor and therefore the business combination is not considered to have been achieved in stages. Similarly, on the basis of the analysis of pre-existing relationships, there is no need to recognise separate transactions involving the acquisition of assets and assuming of liabilities on the business combination.

The non-controlling interest in the Banco Pastor Group, recognized at the acquisition date, amounted to € 16,829 thousand.

The acquisition of Banco Pastor generated goodwill of €1,743,322 thousand following adjustments for the measurement of the assets and liabilities acquired against the equity of Banco Pastor amounting to €3,343,556 thousand, gross of tax. Similarly, intangible assets were recognized amounting to €243,578 thousand that were not recognized in the acquiree's balance sheet. The carrying amount of the assets and liabilities of Banco Pastor at the acquisition date is included as Exhibit II. The aforementioned goodwill recognized takes into account, among other factors, future results, expected synergies of the combined operations of the acquiree and acquirer, the value of which in terms of present net value is significant, and other intangible assets which do not fulfil the conditions for separate recognition, among other factors.

Current accounting legislation establishes a one year period during which the measurement of the assets and liabilities acquired is not considered to be definitive as the acquirer needs one year to obtain the necessary information to measure them correctly. Within this context, at the date of the accompanying financial statements, provisional adjustments have been recognized, using the best estimate at the acquisition date, of the contractual cash flows which are not expected to be collected. In this respect, the Group has carried out valuation adjustments mainly to the following items:

- Loans and receivable. The valuation of doubtful assets was completed, together with the analysis of the normal and substandard risk at the acquisition date. In this respect, on the basis of the information available as of the date of these financial statements, the gross fair value measurement adjustment for loans and receivables amounts to €2,682,576 thousand.

- Real estate assets. The measurement of properties for rent was completed and progress was made on the valuation of real estate assets classified as non-current for sale or as inventories. On the basis of the information available as of the date of these financial statements, the gross fair value measurement adjustment for real estate assets amounts to € 853,600 thousand.

- Positive adjustments owing to the recognition of embedded derivatives. The measurement was completed and resulted in a gross positive adjustment of €301,936 thousand.

- Debt securities. The valuation of own issues carried out by the acquiree was completed and resulted in a gross positive adjustment owing to fair value measurement amounting to €155,932 thousand.

- Other items such as pension commitments and other contingencies are similarly valued on a provisional basis.The valuation of intangible assets relating to computer applications was completed.

When recognizing the business combination, agreements for contingent consideration and assets for indemnities are either non-existent or irrelevant. Contingent liabilities have been recognized, provisionally estimated at €202,161 thousand, including the costs associated with the termination of contracts and other previous agreements in Banco Pastor amounting to € 124,053 thousand at December 31, 2012.

As a result of these adjustments, deferred tax assets have been recognized amounting to € 1,148,631 thousand and deferred tax liabilities amounting to €137,361 thousand.

Similarly, given the non-definitive nature of the estimates made, the total amount of the goodwill which is expected to be tax deductible has not been determined.

As the necessary information is completed, the Group will, if appropriate, make the pertinent adjustments to the value of the assets and liabilities acquired, with respect to the amounts recognized at December 31, 2012.

Part of the price paid and therefore the present goodwill has been assigned to other intangible assets, carried on the balance sheet at €243,578 thousand.

At the date of the present consolidated financial information and in accordance with the best information available, no impairment of goodwill has been recognized as a result of the business combination described.

Additionally, revenues, understood as the gross margin, of the acquiree from the acquisition date, included in the consolidated income statement, to the date of the aforementioned merger by absorption (June 28, 2012), amounted to €247,785 thousand. Moreover, the combined entity's revenues for the current period reported, as if the business combination acquisition date were the start of 2012, amount to €3,339,052 thousand (€61,236 thousand in addition to the €3,277,816 thousand recognized).

The list of companies included in the consolidation at December 31, contributed by Banco Pastor, and the details of those companies that following their initial addition, were deconsolidated in the second half of the year owing to the resulting organisation restructuring, figure in Note 2.

In addition to the corporate transactions related to the acquisition of Banco Pastor and the companies added and eliminated from the Group's consolidation mentioned in Note 2, in October 2012 the acquisition of 50% of Pastor Vida, S.A. took place upon the exercise of the sales option to which the holder of this interest was entitled under a previous agreement with Banco Pastor. As a result, the Group controls 100% of Pastor Vida, S.A. This acquisition generated goodwill amounting to € 20,850 thousand. Exhibit II sets out the balance sheet of Pastor Vida, S.A. at the acquisition date.

Of the corporate transactions carried out in 2011, noteworthy for its significance was that carried out to integrate all the Group's Life, Pensions and Investment Fund activities in a single platform , through the incorporation with its shareholder Allianz SE of a new company named Allianz Popular SL., intensifying their strategic alliance.

The agreement aims to strengthen the Group's position in the insurance and asset management sectors in Spain through the new company and includes an exclusive agreement for the distribution of its products among the Bank's customers which will extend for an initial 15 year period and will provide the new company with access to more than 6.3 million customers. As a result of this agreement, in 2011 Banco Popular, S.A. received €40,000 as consideration for know- how, which was recognized as income from other items in the income statement of Banco Popular Español, S.A.

The new company Allianz Popular, S.L grouped together the investments which Banco Popular Español, S.A. and Allianz had in Eurovida, S.A. (currently Allianz Popular Vida), Europensiones, EGFP, S.A. (currently Allianz Popular Pensiones) and Popular Gestión SGIIC, S.A. (currently Allianz Popular Asset Management) following the sale by Banco Popular Español, S.A. to Allianz of the excess over the 40% held, enabling Allianz SE to recognize the remaining 60%. Both companies participate in that proportion in the new company which for consolidation purposes is considered to be an associate of Banco Popular and is carried under the equity method.

Prior to the sale to Allianz SE of the 60% interest in Popular Gestión, it was agreed to distribute, through dividends, consolidated reserves accumulated to date, which amounted to €184,633 thousand, of which €152,395 thousand was distributed and recognized in the individual results of Popular as a return on equity instruments. This had no effect on the consolidation as the amount involved is restated under reserves in consolidated companies.

The sale of 9% in Eurovida, 11% in Europensiones and 60% in Popular Gestión generated a gain of €140,665 thousand, of which €27,807 was restated in the consolidated financial statements as reserves in consolidated companies, €112,858 thousand remaining in consolidated profits for 2011.

As a result of the measurement at fair value of the 40% interest retained in Eurovida, Europensiones and Popular Gestión, following the sale of the excess over 40% to Allianz SE and prior to the incorporation of Allianz Popular S.L. and the integration of those investments, a capital gain was generated on restatement of €346,823 thousand, reflected in the consolidated income statement for 2011. The overall capital gain arising on the above items exceeded €490 million.

This operation (the activities of which generate less than 10% of the Group's revenues) enabled the Popular Group to strengthen and promote this business through the knowledge contributed by the Allianz Group. Within this context, the operation did not entail for the purposes of the Popular Group, the discontinuance or interruption of operations or a change in the risk management of the activity or the measurement of its profitability, given that the products offered are complementary to the Group's banking products so as to offer an integrated service to the Group's customers. These products continue to be offered through the Group's branch office network as in the past. Additionally, the Group continues to receive revenues from its activities through the consolidation of the results reflected in the financial statements of these companies in the Group under the equity method and on the basis of the fees and commissions received from the commercial activities performed and the results, as described in the agreements between Allianz and the Banco Popular Group, of the transactions performed.

The Group carried out other corporate transactions in 2011 through the merger, split, incorporation or winding up of Group entities. The main transactions, in addition to those already mentioned are as follows:

The following entities were formed: IM Grupo Banco Popular Empresas 4, FTA, IM Grupo Banco Popular Leasing 2, FTA, IM Banco Popular FTPME 3 FTA, Cédulas Banco Popular 5, all of which are special purpose entities, wholly-owned by the Group and set up to securitize credit rights. Note 69 offers additional information on the Group's securitization operations. Also, in 2011 the 50% owned jointly-controlled company Platja Amplaries, S.A. and the 27.59% owned associate Fernando Oliveria Cortiças LDA were added to the Group's consolidation

With respect to the entities de-recognized, the bonds of Cédula Grupo Banco Popular 2, FTA were redeemed in April 2011 upon maturity and the entity was wound up. The following securitization funds were wound up as a result of the early redemption of the mortgage bonds issued by them: IM Grupo Banco Popular Empresas 2, F.T.A., IM Grupo Banco Popular Leasing 1, F.T.A., IM Grupo Banco Popular Financiaciones 1 F.T.A., IM Banco Popular MBS 1, F.T.A. In addition, Mundocredit, S.A. and Mundoenvíos, S.A. were de-recognized on their absorption by Banco Popular Español, S.A

9. Discontinued operations

During 2012 and 2011 the Group recorded no transactions of this kind.

10. Remuneration of the directors and senior management of Banco Popular Español, S.A.

The names of the Board Members at December 31, 2012, together with additional information about them, are shown below.

The amounts in the table below relate to Banco Popular Español, S.A. and some of the consolidated subsidiaries.

€ thousand			Remuneration							
Direct exposure	2012	Directors' emolu-ments	Fixed remuneration		Variable remuneration					Total
			Fixed	Individual performance complement	Immediate		Deferred			
					In cash	In shares	In cash	In shares		
2	Francisco Aparicio	-	470	115	-	-	-	-		585
-	Asoc. Directivos BPE	-	-	-	-	-	-	-		-
-	Américo Ferreira de Amorim	-	-	-	-	-	-	-		-
1	Eric Gancedo	-	-	-	-	-	-	-		-
-	Luis Herrando	-	-	-	-	-	-	-		-
-	Roberto Higuera	-	-	-	-	-	-	-		-
-	Alain Fradin	-	-	-	-	-	-	-		-
-	Ana María Molins	-	-	-	-	-	-	-		-
20	Miguel Nigorra	-	-	-	-	-	-	-		-
5	José María Arias	-	-	-	-	-	-	-		-
4,055	Fund. Barrié de la Maza	-	-	-	-	-	-	-		-
-	Maianca Inversión, S.L.	-	-	-	-	-	-	-		-
1	Helena Revoredo	-	-	-	-	-	-	-		-
-	José Ramón Rodriguez	-	-	-	-	-	-	-		-
1,000	Angel Ron	-	1,000	234	-	-	-	-		1,234
-	Sindicatura de Accionistas	-	-	-	-	-	-	-		-
1	Miguel Angel de Solís	-	-	-	-	-	-	-		-
27	Vicente Tardío	-	-	-	-	-	-	-		-
47,151	Unión Europea de Inversiones, SA	-	-	-	-	-	-	-		-
-	Allianz SE	-	-	-	-	-	-	-		-
52,263	**TOTAL**	**-**	**1,470**	**349**	**-**	**-**	**-**	**-**		**1,819**

€ thousand			Remuneration							
Direct exposure	2011	Directors' emolu-ments	Fixed remuneration		Variable remuneration					Total
			Fixed	Individual performance complement	Immediate		Deferred			
					In cash	In shares	In cash	In shares		
-	Francisco Aparicio	-	470	115	18.3	18.3	18.3	18.3		658
-	Asociación de Directivos BPE	-	-	-	-	-	-	-		-
-	Américo Ferreira de Amorim	-	-	-	-	-	-	-		-
1	Eric Gancedo	-	-	-	-	-	-	-		-
-	Luis Herrando	-	-	-	-	-	-	-		-
-	Roberto Higuera	-	-	-	-	-	-	-		-
-	Alain Fradin	-	-	-	-	-	-	-		-
-	Ana María Molins	-	-	-	-	-	-	-		-
20	Miguel Nigorra	-	-	-	-	-	-	-		-
-	Nicolas Osuna	-	-	-	-	-	-	-		-
-	Helena Revoredo	-	-	-	-	-	-	-		-
-	José Ramón Rodriguez	-	-	-	-	-	-	-		-
1,059	Angel Ron	-	1,000	234	38.5	38.5	38.5	38.5		1,388
-	Sindicatura de Accionistas	-	-	-	-	-	-	-		-
-	Miguel Angel de Solís	-	-	-	-	-	-	-		-
36	Vicente Tardío	-	-	-	-	-	-	-		-
24,439	Unión Europea de Inversiones, S.A.	-	-	-	-	-	-	-		-
	Allianz SE	-	-	-	-	-	-	-		-
25,555	**TOTAL**	**-**	**1,470**	**349**	**56.8**	**56.8**	**56.8**	**56.8**		**2,046**

The Directors Messrs Ron and Aparicio received no amounts whatsoever under the Variable Remuneration Plan, deferred and contingent, approved during the General Shareholders' Meeting of June 11, 2012, since the conditions for collection were not met at the 2012 year end.

The Nominee Director and Deputy Chairman of the Board Mr José María Arias Mosquera received no remuneration for the performance of his functions since Board positions are not remunerated. However, in accordance with the agreements adopted in the past by Banco Pastor and in effect prior to its integration in Banco Popular, he received €939 thousand for his pre-retirement as Executive Chairman of Banco Pastor and resignation from its Board, which was paid by charge to allowances established by Banco Pastor prior to its integration in Banco Popular.

The cost incurred to cover pension commitments with Mr Arias were also borne and provided for by Banco Pastor prior to its integration in Banco Popular in an amount of €3,509 thousand and his vested rights and the mathematical reserves related to his pensionable rights amounted to €13,883 thousand.

The cost by charge to the Bank in the present year for the coverage of the pension commitments of the directors who are beneficiaries, Mr Ron and Mr Aparicio, amounts to € 266 thousand and €410 thousand, respectively, giving a total of € 676 thousand (€251 thousand in 2011). In addition, they are beneficiaries of life and medical insurance premiums amounting to €11 thousand.

The vested rights and mathematical reserves linked to the pensionable rights of the current directors Messrs Ron, Aparicio and Higuera, amount to €6,070 thousand, €2,408 thousand and €9,941 thousand, respectively, giving a total of €18,419 thousand which together with the €36,625 thousand of other previous directors, give a total of €55,044 thousand at December 31, 2012. At December 31, 2011 the figure was € 55,636.

The gross remuneration of the eight members of Senior Management at December 31, 2012, excluding the directors, amounts to an aggregate of €3,733 thousand in 2012. This amount includes €3,686 thousand in fixed remuneration and €47 thousand in kind (mainly life and medical insurance premiums and tax allocation of advances and company stores). In 2011 the aggregate remuneration of this group amounted to € 3,964 thousand.

Senior management members received no remuneration under the Variable Remuneration Plan, deferred and contingent, approved during the General Shareholders' Meeting of June 11, 2012, as the conditions for collection were not met at the 2012 year end.

The cost borne by the Group in 2012 to cover pension commitments through pension plans and complementary insurance contracts in their favour amounts to €2,764 thousand. In 2011 the cost amounted to €979 thousand.

The vested rights and mathematical reserves linked to the pensionable rights of this group amount to € 15,009 thousand at December 31, 2012. (€11,996 thousand at December 31, 2011).

The credits and loans from the Entity to this group of individuals amount to €3,235 thousand and those granted to parties related to them to € 969 thousand. The demand and time deposits amount to €2,597 thousand and those of their related parties to €1,449 thousand.

11. Agency contracts

The list of agents of the Group at December 31, 2012 as required for reporting purposes by Royal Decree 1245/1995, is contained in Exhibit II hereto.

In 2011 the agency contract that Banco Popular Español, S.A. had had with its subsidiary MUNDOCREDIT, S.A. since May 10, 2006 was terminated as that company was wound up and absorbed by Popular Español, S.A.

12. Environmental impact

The overall operations of the Group comply with environmental protection legislation. The Group considers that it has adopted appropriate measures with respect to environmental protection and enhancement and to the minimization, where appropriate, of the environmental impact, in compliance with the relevant current regulations and maintaining procedures designed to guarantee and promote the matters regulated in those specific legal provisions. In 2012 and 2011 the Group carried out the necessary environmental investments and it was not deemed necessary to record any provisions for environmental risks and liabilities. Lastly, Management considers that there are no significant contingencies related to environmental protection and improvement.

13. Guarantee Funds

The contributions to the Deposit Guarantee Fund (Spain, Portugal and USA), in the case of credit institutions, and to the Investment Guarantee Fund, for securities companies and agencies, are recognized in Other operating expenses (Note 57) in the consolidated income statement. The Investment Guarantee Fund was introduced in 2001 by Royal Decree 948/2001, regulating investor indemnity systems.

With respect to the regulatory rules affecting this item in 2012, noteworthy was the publication of Royal Decree Law 24/2012, which amended Sections 2 bis and 2ter of Article 3 of Royal Decree 2606/1996, on deposit guarantee funds for credit institutions, which were introduced by Royal Decree 771/2011, as discussed subsequently in relation to legislative amendments in 2011.

This amendment affects, from a conceptual viewpoint, the additional quarterly contributions which member entities are required to make for the deposits arranged or current accounts settled with returns that exceeded certain reference interest rates published by the Bank of Spain. The last date for the calculation of the additional contribution to the deposit guarantee fund was August 30, 2012.

A number of legislative amendments were introduced in 2011 to the Deposit Guarantee Fund. Prior to these amendments, the contribution to the Fund was made up of an annual payment calculated as 0.06 % of the calculation base.

In 2011 Royal Decree Law 19/2011 which amended the previous Royal Decree, repealed the Ministerial Orders that reduced the contribution rates (for banks to 0.06%), and set them at 0.20% applicable as from December 2, according to Royal Decree 2606/1996, with a maximum contribution of 0,30% of the deposits covered by such guarantee.

In addition, Royal Decree 771/2011 (which amended Royal Decree 2602/1996 on Deposit Guarantee Funds) and Bank of Spain Circular 3/2011 added a new obligation for credit institutions which came into effect on July 4, 2011. (This obligation was subsequently repealed by Royal Decree Law 24/2012, as mentioned previously in relation to the novelties for that year). Thereafter, a surcharge was introduced consisting of a weighting of 400%, and a quarterly payment to the Guarantee Deposit Fund for those cases where certain remuneration limits, pre-set regularly by the Bank of Spain, are exceeded on term and demand deposits. It was therefore necessary to pay on a quarterly basis, in the period July 4 to December 2, 0.06% by four, for the deposits weighted to this effect owing to time and in the period December 3 to 31, 0,20% by four.

The expense relating to additional annual contributions to the Deposit Guarantee Fund by the consolidated banks operating in Spain, Portugal and USA and consolidated companies subject to the Investment Guarantee Fund totalled an overall amount of €165,576 thousand and €37,488 thousand in 2012 and 2011, respectively.

The contribution to the Investment Guarantee Fund by the consolidated companies to which that legislation is applicable amounted to €34 thousand and €49 thousand in 2012 and 2011, respectively.

Banco Popular Portugal made annual and extraordinary contributions to the Deposit Guarantee Fund in Portugal and Investor Indemnity System. Additionally, in accordance with Portuguese legislation, other contingent commitments continue to be recorded in suspense accounts amounting to €5,114 thousand in 2012 and €9,244 thousand in 2011 for possible future risks which the Fund may be required to cover.

14.Audit fees

The fees accrued by PricewaterhouseCoopers Auditores, S.L. for the audit of the consolidated and individual financial statements for 2012 of the controlling company and dependent companies amounted to €1,830 thousand while the fees accrued for other services (including regulatory and legislative related services) amounted to €1,493 thousand. The amounts recorded for these items in 2011 totalled €1,373 thousand and €1,714 thousand, respectively. The fees for tax advisory services in 2012 amounted to €86 thousand while the fees for other services amounted to €1,248 thousand. The fees for tax advisory services in 2011 amounted to €50 thousand while the fees for other services amounted to €1,104 thousand. The amounts for 2011 did not include the fees accrued for the audit or other services provided to the Banco Pastor Group.

15. Accounting principles and valuation methods

The significant accounting principles and standards and valuation methods applied in preparing the accompanying consolidated financial statements in addition to those disclosed in Note 2 "Basis of Presentation" to the consolidated financial statements, are described below:

a) Going-concern principle

In preparing the consolidated financial statements, it was considered that the companies included in the Group will continue to operate for the foreseeable future. Accordingly, the application of accounting standards is not intended to determine the value of consolidated equity for the purposes of their total or partial sale, nor the amount resulting in the event of their liquidation.

b) Accrual basis of accounting

Except in connection, where appropriate, with the consolidated cash flow statements, the accompanying consolidated financial statements were prepared on the basis of the actual flows of goods and services, regardless of their payment or collection dates.

c) Other general principles

The consolidated financial statements have been prepared based on the fair value approach, except for historical cost or amortized cost when applicable (land and buildings or financial assets and liabilities). The preparation of the consolidated financial statements required the use of certain accounting estimates and required Management to exercise judgment in applying the Group's accounting policies. Such estimates may affect the amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amount of revenues and expenses in the consolidated financial statements. Although the estimates were based on management's best knowledge of current and foreseeable circumstances, the final results might differ from these estimates.

d) Financial Derivatives

Financial derivatives are instruments whose value changes in response to changes in an observable market variable, sometimes called the "underlying", such as an interest rate, foreign exchange rate, financial instrument price or market index, including credit ratings; they do not require any initial investment or one that is much smaller than would be required for other similar financial instruments, and are generally settled at a future date.

Financial derivatives are instruments which may have a high gearing and give rise to a loss or a gain following a minimum investment or which may under certain conditions offset all or part of the credit and/or market risks associated with balances and transactions, using as underlying elements interest rates, certain indexes, the prices of certain securities, currency exchange rates or other similar references. The Group uses financial derivatives traded in organized markets or traded bilaterally with counterparties outside organized markets (OTC).

Financial derivatives are used to trade with customers requesting them, to manage the risks of the Group's own positions (hedging derivatives), or to benefit from changes in their prices. Financial derivatives that have not been designated as accounting hedges are considered to be trading derivatives. The conditions for a financial derivative to be deemed to be a hedging instrument are as follows:

i) The financial derivative should cover the risk of changes in the value of assets and liabilities hedged due to fluctuations in the interest rate and / or exchange rate (fair value hedges), the risk of changes in estimated cash flows resulting from financial assets and liabilities, highly probable foreseeable commitments and transactions (cash flow hedges) or the risk of the net investment in a foreign operation (hedges of net investments in foreign operations)

ii) The financial derivative must effectively eliminate any risk inherent to the element or position hedged throughout the foreseen hedging period. It must therefore be prospectively effective, be effective at the time of arrangement of the hedge in normal conditions and be effective retrospectively, with sufficient evidence that the effectiveness of the hedge will be maintained throughout the life of the element or position hedged.

iii) Fulfilment of the requirements for accounting treatment of the hedge is evidenced by the performance of tests to make it possible to consider the hedge as highly effective at inception, through prospective tests, and throughout the life of the transaction by means of retrospective tests to confirm the effectiveness of the hedge made, by observing that the results arising from variations in the value of the hedging derivative have fluctuated within a variation range from 80% to 125% with respect to the variation in value of the item hedged; this tolerance interval is that admitted by accounting standards

Adequate documentary evidence must be provided that the arrangement of the contract for the financial derivative took place specifically in order to hedge certain risks or transactions and the way in which it was intended to achieve and measure that effective hedge, provided that this way is coherent with how the Group manages its own.

Hedges may be applied to individual elements or balances (micro hedges) or to portfolios of financial assets and liabilities (macro hedges). In the latter case, the set of financial assets or liabilities to be hedged must share a common type of risk, this requirement being understood to be fulfilled when the sensitivity of the individual elements hedged to interest rate changes is similar. Financial derivatives aim to hedge, when interest rate expectations so advise, the risk existing for gaps in the re-pricing of balance sheet assets and liabilities, by using instruments making it possible to compare the dates of rate revisions on both sides of the balance sheet or to convert fixed rate elements to variable rate elements or vice versa, in such a way that interest rate variations affect the asset and liability items equally.

The Group has arranged derivatives to hedge a portfolio of fixed rate loans and cover the intrinsic value of the options purchased which are embedded in a set of loans granted to clients (“floors”).

The financial derivatives embedded in other financial instruments or other principal contracts are carried separately as derivatives when their risks and characteristics are not closely related to the principal contracts and provided that such principal contracts are not classified as Held for trading or Other financial assets or liabilities at fair value through profit or loss.

Finally, hybrid financial instruments, although separable for accounting purposes, are not individually transferable.

e) Financial assets

Financial assets are classified in the consolidated balance sheet as follows:

i) Cash and balances with central banks, relating to the cash balances and debtor balances held at Bank of Spain and other central banks.

ii) Financial assets held for trading, including the financial assets which have been acquired for realization at short term, form part of a portfolio of financial instruments identified and managed jointly for which recent actions have been performed in order to obtain short-term gains, or are derivatives which do not meet the definition of financial guarantee contract and which have not been designated as accounting hedge instruments. This item also includes derivatives that are used as economic hedges of other derivatives.

iii) Other financial assets at fair value through profit or loss: this includes financial assets which, not forming part of the financial assets held for trading, are classified as hybrid financial assets and are valued in full at fair value, and those managed jointly with insurance contract liabilities valued at fair value or with financial derivatives whose purpose and effect are to materially reduce their exposure to variations in fair value, or are managed jointly with financial liabilities and derivatives in order to materially reduce the overall exposure to interest rate risk

iv) Available-for-sale financial assets, which are debt securities not classified as held-to-maturity investments, such as other financial assets at fair value through profit or loss, loans and receivables, financial assets held for trading and equity instruments of companies that are not dependent or jointly-controlled companies or associates and have not been included in the categories of financial assets held for trading, non-current assets held for sale and other assets at fair value through profit and loss.

v) Loans and receivables, which includes financial assets that are not traded in an active market and are not required to be valued at fair value, whose cash flows are of a determined or determinable amount, and in which all the disbursement made by the Group will be recovered, excluding reasons attributable to the debtor's solvency.

vi) This category includes both the lending arising from the typical credit activity and the amounts of cash drawn and pending repayment by the customers as loans or the deposits placed with other companies, however legally instrumented, financial guarantees, unlisted debt securities, and the debts of purchasers of goods or users of services that form part of the Group's business.

vii) Adjustments to financial assets for macro-hedging, corresponding to the contra-item for amounts credited to the consolidated income statement arising in the valuation of the portfolios of financial instruments of which the interest rate risk is effectively hedged by fair value hedging derivatives.

viii) Hedging derivatives that include the positive fair value of the financial derivatives acquired or issued by the Group that have been designated as accounting hedges.

ix) Non-current assets held for sale that relate to the value of individual assets, irrespective of their nature, whose sale is highly probable, given the current conditions of these assets, within one year from the date on which they are included in this category. Therefore, the recovery of the book value of these items, which may be of a financial or non-financial nature, will presumably occur through the price obtained on their disposal. Also included are property, equity instruments or other non-current assets foreclosed by the Group in full or partial fulfilment of the payment obligations of its debtors.

x) Investments, which includes the equity instruments of associates, since jointly-controlled companies are consolidated by the proportionate consolidation method.

xi) Pension-linked insurance contracts that correspond to the rights to be reimbursed by insurance companies of part or all of the disbursement required to settle a defined-benefit obligation when the insurance policies fail to meet the conditions to qualify as a Plan asset.

xii) Reinsurance assets, which include the amounts that the Group is entitled to receive arising from its reinsurance contracts with third parties and, specifically, the participation of reinsurance in the mathematical reserves set up by the insurance companies included in the Group as dependent companies.

Generally financial assets are initially carried at fair value, which, unless otherwise evidenced, will be the transaction price. Subsequent measurements at each accounting close are made as follows:

i) Financial assets are measured at fair value except for credits, loans and discounts, the held-to-maturity portfolio, equity instruments whose fair value may not be determined in a sufficiently objective manner and financial derivatives for which the underlying assets are equity instruments and which are settled through the delivery of the same.

ii) The fair value of a financial asset on a given date is deemed to be the amount at which it could be traded between two duly informed interested parties in a transaction performed on an arm's length basis. The best evidence of fair value is the quoted price in an active, organized, transparent and deep market. Where there is no market price for a particular financial asset, its fair value is estimated based on that established in recent transactions involving similar instruments and, failing that, on sufficiently tested valuation models such as discounting of flows, multiples etc.

Regard must also be had to the specific peculiarities of the assets to be value and particularly to the different types of risk associated with the financial asset.

iii) The fair value of financial derivatives with quoted prices in an active market that are included in the financial assets held for trading is the daily quoted price; if for exceptional reasons, the quoted price on a given date cannot be established, they must be valued, as must be OTC financial derivatives, by sufficiently tested methods such as the Black-Scholes or Montecarlo methods.

The basic assumptions employed in the measurement of financial derivatives are based on the risk-neutral principle, ensuring that the differential equations to be resolved are expressed maintaining the price of the risk factor as the probability theory with the choice of appropriate measure or cash (listed price of underlying, interest rate forwards, FX forwards etc).

iv) Loans and receivables and the held-to-maturity investment portfolio are valued at their amortized cost, using for determining this cost the effective interest rate method. Amortized cost is the cost of acquisition of a financial asset adjusted by the repayments of principal and the portion allocated to the income statement, using the effective interest rate method, of the difference between the initial cost and the related repayment value at maturity, minus any reduction of value for impairment directly recognized as a decrease in the amount of the asset or through a value adjustment account. In the event that they are hedged through fair value hedges, those variations in fair value related to the risk or risks hedged through such hedging transactions are recorded. The effective interest rate is the discount rate which makes the value of a financial instrument exactly equal to the estimated cash flows over the expected life of the instrument, based on the contractual conditions, such as early repayment options, but disregarding future credit risk losses. For fixed interest financial instruments, the effective interest rate is the contractual interest rate at the time of purchase plus, if appropriate, the fees which may, by nature, be similar to an interest rate. In the case of floating interest rate financial instruments, the effective interest rate is the current rate of return under all headings until the first revision of the reference interest rate takes place.

v) Investments in the capital of other companies whose fair value cannot be determined with sufficient objectivity and the financial derivatives whose underlying asset is such instruments and which are settled by delivery thereof, are carried at their cost, adjusted, if appropriate, by the losses for impairment which may have occurred.

The variations in the carrying value of financial assets are generally recorded with a contra-item in the consolidated statement of income, separating those arising from the accrual of interest and similar items which are recorded under the interest and similar income caption, from those arising for other causes, which are recorded at the net amount in the Gains or losses on financial assets and liabilities (net) caption in the consolidated statement of income or in the Impairment losses on financial assets (net) caption, if this were the reason for the variation in value..

Nonetheless, changes in the carrying value of the instruments included in Available-for-sale financial assets are reflected transitionally in. Valuation adjustments to consolidated equity, net of the tax effect, unless they derive from exchange differences. The amounts included under the valuation adjustments caption continue to form part of consolidated equity until the asset giving rise to them is removed from the consolidated balance sheet or in the case of negative adjustments, when impairment is considered irreversible at which time they are charged to the consolidated income statement.

Similarly, the variations in the carrying value of the items included under the non-current assets for sale caption that meet certain conditions are recorded with a contra-item under the consolidated equity valuation adjustments caption.

The valuation differences in financial assets designated as hedged items and accounting hedging items are recorded having regard to the following criteria:

i) In fair value hedges the differences arising both in the hedging elements and in the hedged elements, as regards the type of risk hedged, are recognized directly in the consolidated income statement under the Gains or losses on financial assets and liabilities (net) caption.

ii) The valuation differences relating to the ineffective portion of cash flow hedges and hedges of a net investment in a foreign operation are taken directly to the consolidated income statement under the Gains or losses on financial assets and liabilities (net) caption.

iii) In cash flow hedges, the valuation differences arising in the effective hedge portion of the hedge elements are recorded temporarily in the consolidated equity valuation adjustments caption, net of the tax effect.

iv) In hedges of a net investment in a foreign operation, the valuation differences arising in the effective portion of the hedge elements are recorded temporarily in the consolidated equity valuation adjustments caption, net of the tax effect.

In these two latter cases, the valuation differences are not recognized in income until the gains or losses on the hedged element are recorded in the consolidated statement of income or until the maturity of the element hedged. With regard to the hedges applied, those campaigns to obtain deposits with identical characteristics of start, term and remuneration offered to each depositor were considered to be micro-hedging transactions with individual treatment. In order to justify the accounting treatment, the derivative was arranged for the total of the specific campaign to be hedged, with flows receivable, by the financial derivative, similar to those payable to all the depositors, with distribution thereof in proportion to their balances.

Macro-hedging transactions were also arranged through either the sale of options to cover the embedded value of options purchased implicit in a set of mortgage loans granted to our customers (floors) or to cover a fixed interest loan portfolio. The assets hedged (mortgages together with floors and the fixed interest rate loan portfolio) meet the requirements to be designated hedged items. Changes in the fair value of the risks hedged have been credited to profit and loss with a balancing entry in Changes in the fair value of the hedged items in portfolio hedges of interest rate risk

In cash flow interest rate risk hedges in a portfolio of financial instruments, the effective portion of the variation in the value of the hedging instrument is recorded temporarily in the consolidated equity valuation adjustments caption, net of the tax effect, until the transactions envisaged take place, and then are recorded in the consolidated statement of income. The variation in the value of the hedging derivatives for the ineffective portion of the hedge is recorded directly in the consolidated income statement.

f) Financial liabilities

Financial liabilities are classified in the consolidated balance sheet as follows:

i) Financial liabilities held for trading, including the financial liabilities acquired for realization at short term, form part of a portfolio of financial instruments that are identified and managed jointly for which recent actions have been performed in order to obtain short-term gains or are derivatives not designated as accounting hedge instruments, or arise from outright sales of financial assets acquired temporarily or received on loan.

ii) Other financial liabilities at fair value through profit or loss, corresponding to those which, not forming part of the financial liabilities held for trading, are by nature hybrid financial instruments and it is decided to include in this category, irrespective of whether or not the embedded derivative is separated, or those which are managed jointly with financial assets at fair value through profit or loss.

iii) Financial liabilities at amortized cost that relate to financial liabilities that cannot be included in other captions of the consolidated balance sheet and which relate to the Group's typical fund-raising activities, regardless of how they are arranged and their maturity.

iv) Adjustments to financial liabilities due to macro-hedging relating to the balancing entry of the amounts credited to the consolidated income statement resulting from the measurement of the financial instrument portfolios which are efficiently hedged against the interest rate risk through fair value hedging derivatives.

v) Hedging derivatives that include the negative valuations of financial derivatives acquired or issued by the Group that have been designated as accounting hedges.

vi) Liabilities associated with non-current assets for sale, corresponding to the credit balances on non-current assets for sale.

vii) Liabilities related to insurance contracts refer to the technical reserves recorded by the Group to cover claims associated with insurance contracts which are in effect at the year end and the fair value of the amounts pending receipt from technical guarantees.

Financial liabilities are recorded at amortized cost, as defined for financial assets in Note 15.e), except in the following cases:

i) The financial liabilities included in Held for Trading, Other financial liabilities at fair value through profit or loss, as defined in Note 1 5.e. The financial liabilities hedged by fair value hedges are adjusted, and the variations in their fair value with respect to the risk hedged in the hedging transaction are recorded in Gains/ losses on financial assets and liabilities in the income statement.

ii) Financial derivatives whose underlying element is equity instruments the fair value of which cannot be determined with sufficient objectivity and are settled by delivery thereof are valued at cost.

Variations in the carrying value of financial liabilities are generally recorded with the balancing entry in the consolidated income statement, differentiating between those arising on the accrual of interest and similar charges, which are recorded under Interest and similar charges, and those which relate to other causes, which are carried at net value under Gains/ losses on financial assets and liabilities in the consolidated income statement. In the case of financial liabilities designated as hedged items and accounting hedging items, the valuation differences are recorded having regard to the criteria indicated for financial assets in Note 15.e

g) Transfers and removals from the consolidated balance sheet of financial instruments

Transfers of financial instruments are recorded having regard to whether or not the risks and benefits associated with the financial instruments transferred are retained, on the basis of the following criteria:

i) If the risks and benefits are substantially transferred to third parties, as in unconditional sales, sales with agreement for repurchase at fair value at the repurchase date, sales of financial assets with a purchase option acquired or sale option issued deeply out of the money, securitizations of assets in which the assignor does not retain subordinated financing and does not grant any kind of credit improvement to the new owners, etc., the financial instrument transferred is removed from the consolidated balance sheet with simultaneous recognition of any right or obligation retained or created as a result of the transfer.

ii) If all the risks and benefits associated with the financial instrument transferred are retained, as in sales of financial assets under repos for a fixed price or the selling price plus interest, security loan contracts in which the borrower is required to return the same or similar assets etc, the financial instrument transferred is not written off the consolidated balance sheet and continues to be measured using the criteria used prior the transfer. Nonetheless, the associated financial liability is recognized for accounting purposes in an amount equal to the price received, which is subsequently measured at amortized cost. In order to reflect the net financing received under liabilities, entities should present financial instruments (securitization bonds) acquired from the entity to which the financial assets have been transferred by deducting the associated financial liability.

Also, the Group includes in its scope of consolidation, by the full or proportionate consolidation method, as appropriate, the special purpose securitization vehicle companies to which the assets were transferred. In consolidation the related eliminations were therefore made between the associated financial liability by the companies which individually recognized the transfer and the financial assets recorded for accounting purposes by the special purpose company. Also eliminated was the interest income and interest expense arising from the aforementioned assets and liabilities eliminated in consolidation. Consequently, the consolidated balance sheet reflects the original assets not derecognized and recognition is given to the liabilities issued by the securitization vehicle which are held by third parties outside the Group.

Notes 35 and 69 to these Financial Statements offer more information on the Group's securitizations.

iii) If the risks and benefits associated with the financial instrument transferred are not substantially transferred or retained, as in sales of financial assets with an option to purchase acquired or an option to sell issued which are not deeply in or out of the money, the securitizations in which the transferor assumes subordinated financing or another kind of credit improvement for a portion of the asset transferred, a distinction is made between the following cases:

- If the Group does not retain control of the financial instrument transferred, it is removed from the consolidated balance sheet and recognition is given to any right retained or obligation created as a result of the transfer

- If the Group does retain control of the financial instrument transferred, it continues to recognize it in the consolidated balance sheet at an amount equal to its exposure to changes of value that it may experience and recognizes a financial liability associated with the financial asset transferred. The net amount of the asset transferred and of the associated liability will be the amortized cost of the rights and obligations retained if the asset transferred is measured by its amortized cost, or the fair value of the rights and obligations retained if the asset transferred is measured at its fair value

Therefore, financial assets are only removed from the consolidated balance sheet when the cash flows they generate are extinguished or when the implicit risks and benefits have been substantially transferred to third parties. Similarly, financial liabilities are only removed from the consolidated balance sheet when the obligations arising have been extinguished or when they are acquired with the intention of cancelling them or re-placing them again.

h) Impairment of financial assets

The carrying value of financial assets is generally adjusted with a charge to the consolidated income statement when there is objective evidence that an impairment loss has arisen, which occurs:

i) In the case of debt instruments, i.e. credits and securities representing debt, if after their initial recognition an event occurs or the combined effect arises of several events with a negative impact on their future cash flows. Possible events suggesting objective evidence of impairment include:

a) When the obligor of the payment has entered into or may enter into bankruptcy proceedings or has significant financial difficulties.
b) When the contract conditions have been breached, for example by non-payment of principal or interest on the pacted date.
c) When the obligor of the payment has been granted financing or the debt has been restructured on account of financial difficulties.
d) When there are data evidencing a quantifiable diminution in the future cash flows from a group of debt instruments.

ii) In the case of equity instruments, if after their initial recognition an event occurs or the combined effect arises of several events signifying that it will not be possible to recover their carrying value. Evidence of impairment exists when any of the following cases arises

a) The issuer has entered, or is likely to enter into an agreement with creditors or has significant financial difficulties.
b) There have been significant changes in the issuer's economic environment which may have adverse effects on recovery of the investment.
c) The fair value of the instrument suffers a significant or prolonged decrease below the carrying value

As a general rule, the carrying value of financial instruments is adjusted for impairment against the consolidated income statement for the period in which such impairment arises and the recovery of previously recorded impairment losses, if any, is recognized in the consolidated income statement for the period in which such impairment is eliminated or reduced. If the recovery of any recorded amount for impairment is considered remote, it is eliminated from the consolidated balance sheet, although the Group may take the necessary action to attempt to achieve collection until the statute of limitations of its rights has definitively expired, they are forgiven or for other reasons.

In the case of debt instruments valued at amortized cost, the amount of the losses incurred for impairment is equal to the negative difference between their carrying value and the present value of their estimated future cash flows. In the case of listed debt instruments, market value is used provided that this is sufficiently reliable to be considered representative of the value that may be recovered by the Group.

The estimated future cash flows of a debt instrument are all the amounts of principal and interest which the Group estimates it will obtain during the life of the instrument. Consideration is given in this estimate to all relevant information available at the date of preparation of the consolidated financial statements which provides data about the possibility of future collection of the contractual cash flows. Also, in estimating the future cash flows of secured instruments, regard is had to the flows which would be obtained from realization thereof, less the amount of the costs necessary to obtain and subsequently sell them, regardless of the probability of execution of the guarantee.

In calculating the present value of the estimated future cash flows, the discount rate used is the original effective interest rate of the instrument, if the contractual rate is fixed; if the contractual rate is floating, the discount rate used is the effective interest rate at the date of the consolidated financial statements determined in accordance with the contract conditions.

The portfolios of debt instruments, contingent exposures and contingent commitments, regardless of by whom owned, of how instrumented or how guaranteed, are analyzed to determine the Group's credit risk exposure and to estimate the coverage requirement for impairment of value. For preparation of the consolidated financial statements, the Group classifies its operations based on its credit risk, analyzing separately the risk of insolvency attributable to the customer and the country risk, if any, to which the operations are exposed.

Objective evidence of impairment is individually determined for all significant debt instruments and individually or collectively for groups of debt instruments which are not individually significant. If a specific instrument cannot be included in any group of assets with similar risk characteristics, it is analyzed exclusively on an individual basis in order to determine whether it is impaired and, if appropriate, to estimate the loss for impairment.

Debt instruments not measured at fair value through profit or loss are classified on the basis of the insolvency risk attributable to the customer or transaction in the following categories: standard risk, subprime risk, doubtful risk due to customer arrears, doubtful risk for reasons other than customer arrears and write-off risk. For debt instruments not classified as normal risk, the necessary coverage for impairment is estimated based on the Group's and sector's experience, specific impairment coverage needs, taking into account the age of the amounts not paid, the guarantees provided and the financial position of the customer and, where appropriate, the guarantor. This estimate is generally based on arrears schedules based, in turn, on the experience of the Group and the information it has of the sector and, in particular for balances doubtful for reasons other than arrears, on case-by-case analysis.

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The collective evaluation of a group of financial assets to estimate their losses for impairment is performed in order to identify possible losses that have not yet been identified but which the Group knows, on the basis of historical experience and other specific information, have arisen at the year end date although they could arise subsequently.

These provisions for credit risk are calculated taking estimated losses incurred as a reference and using the methodology developed by the Group which takes the following aspects into account:

- In order to carry out a collective assessment of impairment, financial assets are grouped together on the basis of salaries in credit risk characteristics, indicating the debtor's capacity to pay all amounts, in accordance with the terms of the contract. The characteristics chosen are those relevant in estimating future cash flows by groups of assets and are indicative of debtors' capacity to pay all amounts due, under the terms of the contract being assessed. The Group uses classification models with explanatory variables of debtors' payment capacity based on historical experience.

- In order to assess impairment of a group of financial assets collectively, flows are estimated based on experience of historical losses for assets which have similar risk characteristics as those of the Group. The experience of historical losses is adjusted based on observable data, in order to reflect the current conditions which did not affect the period from which the historical experience was drawn and eliminate the effects of the conditions of the historical period which do not currently exist. The Group uses a methodology which estimates impairment losses through the relationship between the Group's historical default and loss given default (severity) data with other observable data such as macro-economic variables, only reflecting the current situation.

- When historical loss rates are used to estimate future cash flows, the information on such rates is applied to the groups that have been defined in a consistent manner with the groups for which the historical rates have been observed. Therefore the method enables each group to relate to the information on past loss experience in groups of assets with similar credit risk characteristics and significant observable data reflecting current conditions. In this respect, the Group's methodology estimates certain parameters of the loss incurred with respect to historical internal data, segmenting the loan portfolio on the basis of the characteristics of the assets that comprise it.

In this respect, using the information provided by its internal models to calculate regulatory capital under Basel II as a basis, the Group has built a methodology to calculate the loss incurred, using the risk parameters PD (probability of default), LGD (loss given default - severity) and EAD (exposure at default).

In order to observe the guidance on estimating impairment losses contained in IAS 39, the Group has estimated the risk parameters of the model with the following specifications:

Probability of default (PD): When determining the loss incurred, the Group estimates a probability of default based on internal historical data to strictly reflect the current situation (loss incurred) with respect to both the status of payments by borrowers included in the group and the local or national economic conditions where there is a correlation with default on the group's assets. The Group estimates PD "point in time" at December 31, 2012, projecting the historical probabilities of default observed through lineal regressions with the relevant explanatory macro-economic variables.

That estimate of the probability of default is similar to that defined under Basel (capital framework agreement) as "PD point in time", agreeing with the present time in the economic cycle since it uses the default frequencies observed in the most recent periods.

Conversely, the parameter used to estimate regulatory capital requirements owing to low credit risk IRB, the PD Through-the-Cycle (PD TTC), is an average estimate. As it is estimated in an economic cycle context and envisages both the historical and future effects of macro-economic variables and their link to default in each portfolio.

Loss given default (Severity): For the purposes of estimating impairment losses, loss given default is also estimated to strictly reflect the current situation (loss incurred) of capacity to recover future flows from assets.

In this respect, estimated LGD, based on historical experience (as established by point GA89 of IAS 39), makes it difficult to determine the effective loss percentage in cycles which have not yet closed. This circumstance is aggravated in the current scenario and recent rise observed in default.

Additionally, the current situation makes it difficult to determine the loss rate on recent default observed given the difficulty of measuring collateral assets associated with the default transaction.

Therefore, in order to estimate LGD adjusted to the definition of loss incurred and which reflects the current situation, the Group has basically established the following methodology:

1. Assets which do not belong to the development segment with a mortgage guarantee: For such assets, the historical LGDs observed are projected through lineal regressions with the relevant macro-economic variables.

2. Development segment assets secured by real asset collateral: LGD on such assets is highly contingent on the value of the associated collateral warranty. In order to include the specific characteristics of the valuation of such collateral –valuations differentiated on the basis of geographical area, asset functionality and year of last valuation– specific LGD is estimated, including a specific individual analysis of such collateral.

The methodology developed by the Group to arrive at the cost incurred involves the following stages, in sequential order: application scoping; segmentation; exposure reconciliation; estimation of parameters of loss incurred; calculation of the loss incurred.

In any event, the estimation of impairment losses on loans and receivables conforms in turn to Bank of Spain Circular 4/2004 and IFRS.

Similarly, debt instruments not carried at fair value through profit or loss and contingent exposures, irrespective of the customer, are analysed to determine the credit risk owing to the country-risk. Country risk is understood to relate to the risk affecting customers resident in a specific country due to circumstances other than usual business exposure.

The amount of impairment losses incurred on debt securities and equity instruments included in Available-for-sale assets is equal to the positive difference between acquisition cost, net of any amortisation of the principal, and fair value less any impairment loss previously recognized in the consolidated income statement.

When there is objective evidence that the fall in fair value is due to impairment, the latent capital losses recognized directly in Valuation Adjustments in consolidated equity are immediately recognized in the consolidated income statement. If all or part of the impairment losses are subsequently recovered, the amount is recognized, for debt securities, in the consolidated income statement for the recovery period, and for equity instruments, in Valuation Adjustments in consolidated equity.

In the case of debt and equity instruments classified under Non-current assets held for sale, the losses previously recognized in consolidated equity are considered to be realised and are recognized in the consolidated income statement at their classification date.

Impairment losses on equity instruments carried at acquisition cost relate to the differences between carrying value and the present value of future expected cash flows, discounted at the market rate of return for other similar securities. Such impairment losses are recognized in the consolidated income statement for the period in which they arise and directly reduce the cost of the financial asset. The amount involved may not be recovered except in the event of their sale.

For investments in associates, the Group estimates impairment losses by comparing their recoverable amount with their carrying amount. Such impairment losses are recognized in the consolidated income statement for the period in which they raise and subsequent recoveries are recognized in the consolidated income statement for the recovery period.

i) Measurement of accounts in foreign currency

The presentation currency of the consolidated financial statements is the euro which is also the functional currency of Banco Popular Español, S.A. Therefore all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

The equivalent value in euro of assets, liabilities and contingent exposures denominated in foreign currency, classified by nature, recorded by the Group at December 31, 2012 and 2011 is as follows:

€ thousand	2012	2011
ASSETS		
Cash and balances with central banks	112,195	22,152
Financial assets held for trading	-	-
Available-for-sale financial assets	442,428	457,020
Loans and receivables	3,859,787	4,062,941
Held-to-maturity	82,376	87,146
Hedging derivatives	-	-
Non-current assets held for sale	38,694	37,768
Tangible assets	19,367	20,364
Intangible assets	13,221	16,319
Other assets	37,885	47,114
Total assets	4,605,953	4,750,824
LIABILITIES		
Financial liabilities at amortized cost	5,089,843	4,147,924
Other liabilities	8,642	5,125
Total liabilities	5,098,485	4,153,049
Contingent exposures	779,961	717,402

The notes concerning the most significant captions of the consolidated balance sheet set out detailed information on the basis of the principal currencies in which foreign currency balances are denominated. These notes are 22, 23 and 35, which relate to Available-for-sale financial assets, Loans and receivables and Financial liabilities at amortized cost, respectively. A summary of the currencies other than the euro in which the Group carries out most of its transactions is as follows:

€ thousand	Assets		Liabilities	
Currencies	2012	2011	2012	2011
USD	2,538,900	2,243,216	3,171,870	2,361,594
GBP	151,100	144,934	111,300	110,807
CHF	311,768	392,384	35,892	22,366
JPY	1,093,434	1,715,630	33,153	43,845

According to this information, the USD and the JPY are the principal currencies other than the euro in which the Group operates and account for 84.43% of assets and 91.36% of liabilities, in foreign currency at December 31, 2012 (96.07%% and 91.87% , respectively, at the 2011 year end).

On initial recognition, the balances receivable and payable denominated in foreign currency are translated to euro at the spot exchange rate on the date of recognition, i.e. the exchange rate for immediate delivery. Subsequent to initial recognition, the following rules are applied for translation of balances denominated in foreign currency to euro:

i) Monetary assets and liabilities are translated at the year-end exchange rate, i.e. the average spot exchange rate on the date of the financial statements, as published by the European Central Bank.

ii) Non-monetary items valued at historical cost are translated at the exchange rate prevailing on the date of acquisition.

iii) Non-monetary items valued at fair value are translated at the exchange rate prevailing on the date on which the fair value is determined.

iv) Revenues and expenses are translated at the exchange rate on the transaction date. However, an average exchange rate for the period may be used for all transactions during the period, unless there have been significant variations. Amortization/depreciation is translated at the exchange rate applied to the related asset.

Exchange differences arising in the translation of balances receivable and payable denominated in foreign currency are generally recorded in the consolidated statement of income. However, in the case of exchange differences arising on non-monetary items valued at fair value whose adjustment to fair value is allocated to the consolidated equity valuation adjustments caption, the exchange rate component of the revaluation of the non-monetary item is disclosed.

At the investees whose functional currency is other than the euro, the balances in their financial statements are translated to euro as follows:

i) Assets and liabilities are translated at the year-end exchange rate.

ii) Revenues and expenses and cash flows are translated at the average exchange rates during the year.

iii) Equity is translated at historical exchange rates.

The exchange differences arising in the translation of the financial statements of investees whose functional currency is other than the euro are recognized under the consolidated equity valuation adjustments caption.

None of the functional currencies of the investees relate to economies classified as highly inflationary by currently established criteria. Consequently, at the accounting close of 2012 and 2011, it was not necessary to adjust the financial statements of any investee to correct them for the effects of inflation.

j) Offset of balances

Debtor and creditor balances arising on transactions which under contract or legislation, provide for possible offset and the intention is to liquidate them at their net amount or realize the asset and pay the liability simultaneously, are presented on the consolidated balance sheet at the net amount. Balance offsetting focuses basically on reciprocal accounts with credit institutions.

The following table shows the starting total amount for the Group's credit institutions and the offsets of balances of €4,822 thousand in 2012 and €14,591 thousand in 2011. The intragroup eliminations leading to the balances in the consolidated balance sheet are made from the total net balances at individual level of the companies.

€ thousand	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Book balances	89,646	39,567	64,862	26,657
Offsets	(4,822)	(4,822)	(14,591)	(14,591)
Net balances	84,824	34,745	50,271	12,066
Eliminations	(25,668)	(25,657)	(12,064)	(12,066)
Consolidated	59,156	9,088	38,207	-

k) Recognition of revenues and expenses

Interest and similar income and interest and similar charges are generally recognized for accounting purposes on the basis of their accrual period and by applying the effective interest rate method. Dividends received from other companies are recognized as revenues when the right to receive them arises

Financial service fee and commission expense or income, however contractually denominated, are classified in the following categories, which determine their allocation to the statement of income:

i) Financial fees and commissions are those which are an integral part of the effective cost or yield of a financial transaction and are allocated to the consolidated income statement in two stages: first, recognition is given in the consolidated income statement to the portion of the fee or commission compensating direct costs, and second, the remainder is accrued over the expected term of the transaction as an adjustment to the effective cost or yield thereof. The amount of these fees is disclosed in Notes 49 and 50.

ii) Non-financial fees or commissions are those arising from the rendering of services and can be of two kinds:

-Those arising from the provision of a service over a period of time, which are recognized in the consolidated income statement over the period of the service.

-Those arising from the provision of a service in a single act, which are accrued and recorded in the consolidated statement of income when the single act is carried out.

Fee and commission income and expense and similar items are generally recognized in the consolidated income statement as follows:

i) Those related to financial assets and liabilities carried at fair value through profit or loss are recognized at the time of collection.

ii) Those relating to transactions or services taking place over a period of time are recognized during the period of such transactions or services.

iii) Those relating to a transaction or service performed in a single act are recognized when such act takes place.

Non-financial fee and commission income and expense are recorded on an accruals basis. The collections and payments deferred over time are recognized in the accounts at the amount resulting from financially discounting the projected cash flows at market rates.

l) Asset Exchanges

Exchanges of tangible and intangible assets are acquisitions of such assets in exchange for the delivery of other non-monetary assets or a combination of monetary and non-monetary assets, except for foreclosed assets which are treated in accordance with the rules for non-current assets for sale.

The asset received in an exchange of assets is recognized at the fair value of the asset delivered plus, if appropriate, any monetary consideration given up in exchange, unless there is clearer evidence of the fair value of the asset received.

m) Securities lending agreements

Securities lendings are transactions in which the borrower receives full ownership of securities merely by paying certain fees, with the commitment to return to the lender securities of the same class as those received upon maturity of the contract.

Securities lending agreements in which the borrower is obliged to return the same assets or substantially identical assets or other similar assets with an identical fair value are considered as transactions in which the risks and benefits connected with ownership of the asset are substantially retained by the lender. The lender entity maintains them in portfolio, because they do not meet the conditions for removal from the balance sheet, and the borrower entity does not reflect them in its balance sheets.

n) Financial guarantees

Contracts under which the Group is required to pay specific amounts to reimburse the creditor for the loss incurred when a specific debt fails to comply with payment obligation under the contract terms are considered financial guarantees irrespective of their legal form which may be a guarantee, a financial guarantee, an insurance contract or a credit derivative.

Financial guarantees are carried at fair value, which will be the premium received plus the present value of the cash flows to be received over the term of the contract.

The classification of a financial guarantee contract as doubtful entails its reclassification to Provisions for contingent exposures and commitments.

For calculation of loss for impairment, financial guarantees are classified on the basis of the risk of insolvency attributable to the customer or to the transaction and, if appropriate, the need is estimated for recording provisions for them using criteria similar to those indicated in Note 15.h. for debt instruments valued at amortized cost, based on estimates of the amounts considered to be non-recoverable.

ñ) Leases

Lease contracts are presented on the basis of the economic substance of the transaction, irrespective of its legal form, and are classified from inception as finance or operating leases.

i) A lease is deemed to be a finance lease when there is a transfer of substantially all the risks and rewards inherent to ownership of the asset addressed in the contract.

Whenever the Group acts as a lessor of an asset, the sum of the present values of the amount that will be received from the lessee plus the guaranteed residual value, usually the purchase option price when the lease terminates, are recorded as financing provided to third parties. It is therefore included in the heading Loans and receivables in the consolidated balance sheet, in accordance with the nature of the lessee.

That amount, the gross investment in the lease, is the sum of: the minimum payments to be received for the finance lease plus any unguaranteed residual value that pertains to the debtor.

The detail of the reconciliation of these items is as follows:

€ thousand	2012	2011
Present value of the minimum payments to be received	2,469,487	2,587,374
Residual values not guaranteed	199,384	162,561
Gross investment in finance lease	2,668,871	2,749,935

The distribution by period of the gross investment and present value of the minimum payments to be received is as follows:

€ thousand	Gross investment		Present value of minimum payment to be received	
	2012	2011	2012	2011
Up to 1 year	588,314	666,267	564,332	673,251
1 to 5 years	1,346,004	1,457,010	1,242,776	1,366,416
More than 5 years	734,553	626,658	634,575	547,707
Total	2,668,871	2,749,935	2,469,487	2,587,374

The value adjustments covering bad debts relating to the minimum payments under leases pending collection amounted to €61,696 thousand and €33,253 thousand at the end of these two years.

When the Group acts as lessee, the cost of the assets leased is recognized in the consolidated balance sheet, depending on the nature of the asset addressed in the contract and simultaneously a liability is recognized for the same amount, which will be the lower of the fair value of the asset leased or the sum of the present values of the amounts payable to the lessor plus, if appropriate, the purchase option exercise price. These assets are depreciated by methods similar to those used for all the tangible assets for own use. The Group has not entered into finance leases as the lessee with third parties in 2012 or 2011.

The financial revenues and expenses arising from these contracts are credited and charged, respectively, to the consolidated income statement so that the return remains constant over the term of the contracts

ii) Lease contracts not considered to be finance leases are classified as operating leases.

When the Group acts as lessor of an asset, the acquisition cost of the leased assets is reflected in Tangible assets. These assets are depreciated in accordance with the policies applied for similar tangible assets, based on their estimated useful life, and the initial direct revenues and costs allocable to the lease contracts are recognized on a straight- line basis in the consolidated income statement.

In 2012, as a result of the acquisition and subsequent absorption of Banco Pastor, the Group figures as the lessor under an operating lease due to the addition of Grupo La Toja Hoteles, S.L. which has contracts of this kind in effect.

When the Group is the lessee, the lease expenses, including incentives, if any, granted by the lessor, are recorded on a straight line basis in the consolidated income statement.

As a result of the property divestment process which was started in 2008, Banco Popular leases several properties under Sale & Lease-Back arrangements, described in more detail in Note 31.

o) Assets managed

Assets managed by the Group which are owned by third parties are not included on the consolidated balance sheet. Fees generated by this activity are recorded under Fees received in the consolidated income statement. The detail by nature of these assets managed by the Group is as follows:

€ thousand	2012	2011
Investment funds	7,271,865	6,138,586
Asset management	720,438	771,063
Pension plans	4,914,876	4,098,518
Insurance premiums	1,733,741	1,454,938
Total	14,640,920	12,463,105

p) Personnel expenses – post-employment remuneration

Post-employment remuneration is defined as remuneration paid to employees after the end of their period of employment. Post-employment remuneration, including that covered by internal allowances or external pension plans is classified as defined contribution plans or defined benefit plans, based on the conditions of these obligations, taking into account all the commitments undertaken within and outside the terms formally pacted with the employees.

Banks in Spain

At December 31, 2012 and 2011, the Group banks operating in Spain had externalized virtually the full amount of the pension commitments to their serving and retired employees and these employees' beneficiary right holders under the current collective bargaining agreement, or similar regulation, by means of defined-contribution and defined-benefit pension plans and insurance contracts, pursuant to the terms of Royal Decree 1588/1999. As a result of these transactions, the banks have transferred to the insurance company, either directly or through the pension plans promoted by them, all their pension commitments and have ceased to have any actuarial, financial or other insurable risk in relation to the commitments assumed. The Group's consolidated balance sheet, through the investment portfolio of Pastor Vida, S.A. de seguros y reaseguros, includes € 36,057 thousand in respect of certain post-employment commitments and pensions insured with this company which at December 31, 2012 is fully owned by Banco Popular Español.

Serving employees

On November 8, 2001 Banco Popular Español, S.A externalised its defined benefit pension commitments with its serving employees by contributing the recorded internal allowances to the respective defined-benefit pension plans that had been set up- which simultaneously entered into insurance contracts to cover said commitments , or to insurance contracts covering the financial limit overrun. The insurance company is Allianz, Compañía de Seguros y Reaseguros, S.A. with an irrevocable joint and several guarantee from this company's parent company Allianz Aktiengesellschaft. Contributions were fully paid in at December 31, 2001 to cover past service costs at that date. This represented the completion of the externalization agreements signed in 2000 and 2001 by the Banks and employee representatives.

In August 2002 Banco Pastor externalised its commitments with BBVASEGUROS, S.A. de seguros y reaseguros. Contributions were completed on August 29, 2002.

Pension plans cover defined benefit commitments for disability and death and retirement for the group of qualifying employees (those hired prior to March 8, 1980) and defined contribution commitments for the retirement of other employees (those hired after March 8, 1980):

For the contingencies generated by defined benefit commitments, the cost recognized in personnel expenses amounted to €14,695 thousand (of which €634 thousand relates to Banco Pastor) and €19,668 thousand in 2012 and 2011, respectively. Net appropriations to provisions amounted to € 5,625 thousand and €(181) thousand. Net actuarial gains and losses recognized against reserves amounted to €(3,760) thousand and €(19.911) thousand in 2012 and 2011, respectively.

Contributions by banks promoting pension plans under defined contribution arrangements, included in personnel expenses, amounted to €6.663 thousand (of which €2,116 thousand relates to Banco Pastor) and €4,185 thousand in 2012 and 2011, respectively.

At December 31, 2012 and 2011, the mathematical reserves for the insurance contracts covering defined-benefit commitments at retirement of serving employees amounted to €467,899 thousand (€63,728 relating to Banco Pastor) and €421,373 thousand, respectively, for the pension plan insurance contracts and to €39,838 thousand (€10,291 thousand relating to Banco Pastor, of which €1,176 thousand is recognized on the balance sheet) and €20,327 thousand, respectively, for those relating to financial limit overruns. Members of the pension plans include both serving employees and employees in a situation of pre-retirement, who will become plan beneficiaries on reaching the definitive retirement age.

The main actuarial and financial assumptions used in the actuarial studies conducted at the end of 2012 and 2011 were as follows:

Mortality tables: PERM/F 2000-P
Permanent disability tables: Ministerial Order of January 1977, adjusted to 85%.
Technical interest rate *:
Years 1 to 40: Tied to the Euribor IRS per the insurance contract for Banco Popular and rates per contracts for ex Banco Pastor commitments.

Subsequent period:
Maximum rate permitted by the Directorate General for Insurance and Pension Funds for transactions not included in the situation of matched policies, per Ministerial Order of December 23, 1998, as implemented by Article 33.2 of the Private Insurance Ordering and Supervision Regulations, with a 95% profit-sharing clause.

Growth rate of salaries:
- In 2012, 0% and in the next two years, 1.25% and 1.50%, as recorded in the current Collective Agreement.
- In 2011, for the first two years, 1% which was the rate of increase envisaged when, as in the case at hand, there was no collective agreement in effect since its renewal was being negotiated.
- In both 2012 and 2011 for other years, 2% plus shifts for length of service and coverage in both cases.

Ex Banco Pastor commitments envisage a single growth assumption of 2.5%.
Growth rate of social security pensions: 1% per annum in both years. In Banco Pastor, 1.5%

Actuarial valuation method: Projected credit unit, with the number of years in the group of employees at initial retirement age per the collective bargaining agreement as a reference. The interest rates used in the contribution with respect to the annual accrual are as follows:

- In years 1 to 40, 2.00% and 3.56% in 2012 and 2011, respectively.
- For other years, the rate is 3,37% in 2012 and 2.89% in 2011.

*If a high credit quality corporate bond rate had been used (AA Rating), the impact on the Group's equity would not be significant.

The actuarial gains and losses originate in the differences between prior actuarial and financial assumptions and actual fact and in differences resulting from changes in the actuarial assumptions used..

For defined benefit, immediate recognition of the obligations accrued is generally required, except for serving employees in the case of past service costs that will be allocated on a straight-line basis in the period to the vesting of the right to receive it. Nonetheless, in view of the characteristics of the acquisition of employee rights under post-employment plans in Spain, past service costs are recognized immediately in the income statement. Actuarial gains and losses are also recognized at the time they arise against reserves.

Post-employment remuneration payments are recognized in the income statement or reserves as follows:

i) The service cost of the current period corresponding to the increase in the present value of the obligations as a result of the services provided by the employees during the year is recognized as personnel expenses.

ii) The interest cost of the increase in the year in the present value of the obligations as a result of the passage of time is recognized as interest and similar charges. If the obligations are presented net of the plan assets on the liability side of the balance sheet, the cost of the liabilities recorded in the statement of income relates exclusively to the obligations recorded on the liability side.

iii) The return expected from the assets assigned to cover the commitments minus any cost arising from their administration and any applicable taxes, is recorded as interest and similar income.

The method elected by the Banco Popular Group to instrument the post-employment commitments of the Group banks in Spain to their serving and retired personnel makes it possible to present the obligations net of the assets assigned thereto which, since they are of the same amount, does not involve recognition of interest expenses and charges or of interest and other income.

iv) The amortization of actuarial gains and losses is reflected in reserves while unrecognized past service costs are reflected in Provisioning expense (net).

Retired employees

Pension commitments with retired employees prior to November 8, 2001 of Banco Popular Español, S.A. were externalised in October 1995 through insurance arranged by the banks with Allianz Compañía de Seguros y Reaseguros, S.A., with the irrevocable joint and several guarantee of the parent Allianz Aktiengesellschaft. At December 31, 2012 the mathematical reserves for this insurance amounts to €353,034 thousand (of which €15,649 thousand is recorded off balance sheet) (€375,068 at December 31, 2011).

In the case of Banco Pastor, commitments prior to August 2002 were externalised in November 1999 through insurance policies with BBVASEGUROS, S.A. de seguros y reaseguros. At December 31, 2012 the mathematical reserves for these insurance policies amounted to €115,661 thousand.

The pension commitments to employees retired on and after November 8, 2001, at all the Group banks operating in Spain are covered by the policies taken out directly by the banks or by the pension plans described earlier. In 2012, the mathematical reserves relating to the economic rights of retired employees under these contracts amounted to €347,899 thousand for the pension plan policies and €30,276 thousand for those relating to financial limit overruns. The amounts at the end of 2011 were €319,190 and €30,444 thousand, respectively.

The pension commitments to Banco Pastor employees retired after August 2002 are covered by the Pension Plan policies for which the mathematical reserves at December 31, 2012 amount to € 31,931 thousand.

For actuarial gains and losses, an amount of €2,719 thousand (-€29 thousand for Banco Pastor) and €(1,760) thousand was recognized against reserves in 2012 and 2011, respectively. For the provisioning expense, €(1,136) thousand (€+403 thousand of Banco Pastor) and €(19,308) thousand was recognized in 2012 and 2011.

Under the aforementioned insurance contracts, the banks transferred to the insurance company all their pension commitments to their retired employees and ceased to have any actuarial, financial or other insurable risk in this connection.

Early retirees

The Group has commitments to certain of its employees of the banks in Spain under early retirement agreements. For those commitments arranged until December 2004, a temporary annuity insurance contract was entered into with the insurance company Allianz, S.A. which bears all the actuarial and investment risk in relation to the commitments assumed.

This insurance was designed so that the benefits periodically received from the insurance company match, in term and amount, the Group's obligations to its early retirees. These obligations consist of both income paid monthly to pre-retirees and the amounts equivalent to the special agreement that each pre-retiree has arranged with the Social Security and the amounts needed to cover benefits for non-serving employees: pension and loss of spouse and loss of parent payments and the premiums necessary to maintain adequate coverage of occupational risks until the agreed retirement age is reached.

The remainder relates to the extraordinary pre-retirement plans implemented after 2004, recorded in an internal fund. Accordingly, the Entity has recorded, under the risk allowances caption, an allowance to cover the commitments to early retirees, for both salaries and other employee welfare charges, from the date of their early retirement until that of their effective retirement, and for the total amount of the necessary supplementary contributions to the pension plan until effective retirement or for risks of death of spouse and death of parent if these events were to occur previously. The amount recognized under liabilities in this connection totals €163,151 thousand in 2012 and €43,612 thousand in 2011.

In 2012 the Group carried out an extraordinary early retirement as a result of the integration of Banco Popular which affected 810 employees (348 of Banco Pastor), which entailed a charge to the income statement under provisioning expense amounting to € 46,518 thousand. No early retirement plant was implemented in 2011.

The interest expense and similar charges recognized in the income statement, with a contra-item in pension provision, amounted to €4,461 thousand and €2,485 thousand in 2012 and 2011, respectively. At the same time, for the portion covered by the Allianz, S.A. insurance company, the Group has recognized insurance contract assets for the same amount as that of the liability for externalized commitments. As of December 31, 2012 and 2011, the asset recognized amounts to €16,820 thousand and €27,910 thousand, respectively. Additionally, for the portion deriving from the policies arranged by Banco Popular, an amount of €13,381 thousand has been recognized in the balance sheet.

The interest relating to pension-linked insurance amounted to €851 thousand in 2012 and €894 thousand in 2011.

The detail of the allowances recorded by the Group as a result of early retirements, including those arising in Banco Pastor, is as follows:

€ thousand	**2012**	**2011**
Commitments externalised	22,530	27,910
Early retirement plan 2001	122	304
Early retirement plan 2002	1,205	2,952
Early retirement plan 2003	15,493	24,607
Ex Banco Pastor plans	5,710	47
Internal early retirement fund	170,822	43,612
Early retirement prior to 2004	4,216	-
Early retirement plan 2004	14,906	17,655
Early retirement 2006	1,599	214
Early retirement 2007	2,643	1,207
Early retirement 2008	6,117	8,630
Early retirement 2009	10,286	15,402
Early retirement 2010	271	305
Early retirement 2011	158	199
Early retirement 2012	122,955	-
Early retirement Banco Pastor prior to 2012	7,671	-
Total	193,352	71,522

Banco Popular Portugal, S.A.

Retirement pensions

The Banco Popular Portugal Pension Plan is a defined benefit plan that provides for the benefits laid down by the Employment Condition Authorities (ACT) governing banking activities in Portugal.

Following the publication of Decree Law 1-A/2011, workers covered by the ACT who at January 4, 2011 were of working age, were transferred to the General Social Security Regime, with respect to retirement benefits. From that date, the defined benefit plan for persons included in the ACT is financed through the Pension Fund and Social Security, with respect to retirement coverage. However, coverage of responsibility for death, disability and widowhood benefits, together with the age complement, remains with the Pension Fund after January 4, 2011, in order to bring member retirement under the Pension Fund into line with the values of the current pension plan.

In accordance with Decree Law 127/2011, Banco Popular Portugal transferred pension liabilities payable at December 31,2011 for Social Security.

The liabilities transferred amounted to €6,3 million, 55% of which was paid in 2011 while the remaining 45% was paid in 2012, after an independent entity certified the value of the liabilities transferred.

The pension provision of Banco Popular Portugal, S.A. amounts to €108,961 thousand at the 2012 year end (€94,709 thousand at December 31, 2011).Net actuarial gains and losses in reserves amount to €24,271 thousand and €26,467 thousand in 2012 and 2011, respectively.

In 2012 €2,040 thousand was recognized against personnel expenses in respect of the contribution to the pension provision (€6,154 thousand in 2011). In 2012 an amount of €4,549 thousand was recognized in respect of interest and similar charges (€5,108 thousand in 2011) and in €5,452 thousand in respect of interest and similar income (€5,844 thousand in 2011). For net actuarial gains and losses, €2,196 thousand was recognized against reserves in 2012 (€(5,207) thousand in 2011)

The main actuarial and financial assumptions used in the actuarial studies conducted at the end of 2012 and 2011 were as follows:

	2012	2011
Technical interest rate (*)	4.50%	4.75%
Mortality tables	TV 88/90	TV 88/90
General annual pension review rate	1.00%	1.00%
Annual growth rate of salaries (**)	2.00%	2.00%

(*) The discount rate is that on high credit quality corporate debt with duration similar to the flows that it aims to cover.
(**) The shifts for five-year service periods and obligatory promotions for seniority are taken into account in addition to these percentages

Retirement awards and other commitments

Under the collective bargaining agreements applicable to them, certain Group companies are obliged to pay an amount to employees at retirement age, basically depending on two variables: the years of service of the employee at retirement age and the employee's monthly salary. This commitment is also known as a retirement bonus. Additionally, the Group has assumed other pension commitments for different items and companies such as company stores, pre-retirement of non-banking employees etc. There are therefore funds under assets on the balance sheet amounting to €11,561 thousand (ex Banco Pastor and insured with Pastor Vida) and €196 thousand at the 2012 and 2011 year end, respectively. The pension provision for those items amounts to € 22,204 thousand (€11,561 thousand Banco Pastor) and €3,036 thousand in 2012 and 2011, respectively.

Under current regulations, the Entity is required to make indemnity payments to employees terminated without just cause. There is no labour force reduction plan making it necessary to record an allowance in this connection.

Contributions, funds and provisions

The table below sets out for each commitment the amount apportioned or recognized in the income statement or reserves and the fund or provision established. The accumulated amount of reserves deriving from actuarial gains and losses totalled €24,974 thousand and €24,069 thousand in 2012 and 2011, respectively.

€ thousand	INCOME STATEMENT AND RESERVES					BALANCE SHEET		MATHEMATICAL RESERVES	
31/12/2012	Personnel expenses	Net provisioning expense	Inter. & charges	Inter. & income	Reserves	Assets	Liabilities	Pension plans	Insurance
BANKS IN SPAIN									
Assets	21,358	5,625	-	-	(3,760)	-	1,176	467,899	38,662
Defined benefits	14,695	5,625	-	-	(3,760)	-	1,176	-	-
Defined contributions	6,663	-	-	-	-	-	-	-	-
Liabilities	-	(1,136)	-	-	2,719	-	15,649	379,830	483,322
Early retirees	-	46,518	4,461	851	-	22,530	193,352		
BANCO POPULAR PORTUGAL	2,040	-	4,549	5,452	2,196	121,796	108,961	-	-
RETIREMENT AWARDS AND OTHER	2,164	-	109	-	-	204	17,124	-	5,087
TOTAL	25,562	51,007	9,119	6,303	1,154	144,530	336,263	847,729	527,071
Notes Financial Statements	Notes 38 & 58	Notes 38 & 61	Notes 38 & 50	Note 49		Note 29	Note 38		

€ thousand	INCOME STATEMENT AND RESERVES					BALANCE SHEET		MATHEMATICAL RESERVES	
31/12/2011	Personnel expenses	Net provisioning expense	Inter. & charges	Inter. & income	Reserves	Assets	Liabilities	Pension plans	Insurance
BANKS IN SPAIN									
Assets	23,853	(181)	-	-	(19,911)	-	-	421,373	20,327
Defined benefit	19,668	(181)	-	-	(19,911)	-	-	-	-
Defined contribution	4,185	-	-	-	-	-	-	-	-
Liabilities	-	(19,308)	-	-	(1,760)	-	-	319,190	405,513
Early retirees	-	(302)	2,485	894	-	27,910	71,523		
BANCO POPULAR PORTUGAL	6,154	-	5,108	5,844	(5,207)	113,703	94,709	-	-
RETIREMENT AWARDS AND OTHER	1,564	-	73	-	-	196	3,036	-	3,538
TOTAL	31,571	(19,791)	7,666	6,738	(26,878)	141,809	169,268	740,564	429,378
Notes to financial statements	Notes 38 and 58	Notes 38 and 61	Notes 38 and 50	Note 49		Note 29	Note 38		

q) Corporate income tax

Spanish corporate income tax and the taxes of a similar nature applicable to investees abroad are treated as an expense and recorded under the income tax caption in the consolidated income statement except when they arise as a consequence of a transaction recognized directly in consolidated equity or of a business combination, in which the deferred tax is recorded as an additional equity component thereof.

The corporate income tax expense is determined by tax payable calculated with respect to the tax base for the year, taking into account the variations during that year deriving from permanent differences, deductions and credits and tax losses. The taxable base for the year may differ from the consolidated net income for the year per the consolidated income statement since it excludes the items of revenues or expenses that are taxable or deductible in other years and the items that are never taxable or deductible.

Deferred tax assets and liabilities relate to the differences between the carrying amounts of the assets and liabilities in the financial statements and the related taxable bases, and are quantified by applying to the relevant timing difference or credit the tax rate at which it is expected to be recovered or settled.

A deferred tax asset, such as prepaid tax, tax credits for deductions and allowances and a tax credit for tax losses, is recognized provided that the Group is likely to obtain sufficient taxable income in the future against which to realize it. It is considered probable that the Group will obtain in the future sufficient taxable income when, among other cases:

i) There are deferred tax liabilities cancellable in the same year as that of the realization of the deferred tax asset or in another subsequent year in which the existing tax loss or that caused by the amount prepaid can be offset.
ii) The tax losses have arisen for identified reasons which are unlikely to recur.

Nonetheless, the deferred tax asset resulting from the recording of investments in subsidiaries, jointly-controlled companies or associates is only recognized when its future realization is probable and sufficient tax income is expected to be obtained in the future against which to apply it. Nor is it recognized when an equity item which is not a business combination and that at the time of recognition did not affect the accounting or tax result is initially recognized.

Deferred tax liabilities are always recorded except when goodwill is recognized or when they arise in the recording of investments in subsidiaries and jointly-controlled companies or associates, if the Group is capable of controlling the date of reversal of the timing difference and, also, it is probable that this difference will not reverse in the foreseeable future. A deferred tax liability is not recognized either when an equity item which is not a business combination that at the time of recognition did not affect the accounting or tax result is initially recognized.

At each accounting close the recorded deferred tax assets and liabilities are reviewed in order to check that they are still current, and the appropriate corrections are made to them

In 2012, as a result of the merger by absorption of Banco Pastor, ex Banco Pastor deferred tax assets and liabilities were added to the balance as detailed below:

€ thousand	**Deferred tax**	
	Assets	**Liabilities**
Banco Pastor	278,683	14,936

r) Tangible assets

The tangible assets for own use are the property items of which the Group considers it will make ongoing use, and the property items acquired under finance lease. They are measured at acquisition cost less the relevant accumulated depreciation and, if appropriate, any impairment loss resulting from comparing the net value of each asset and the relevant recoverable amount.

The exception to the application of the foregoing method in the Group occurs exclusively at Banco Popular Portugal, SA where use was made of the standard of initial introduction of IFRS-EU under which it made a net revaluation of €3,197 thousand, by recording two properties at fair value based on appraisals by independent experts.

Depreciation is calculated systematically by the straight line method, applying the years of estimated useful life of the items to the acquisition cost of the assets minus their residual value. In the case of the land on which the buildings and other structures are located, this land is deemed to have an indefinite life and therefore is not depreciated. The annual provisions for depreciation of tangible assets are charged to the consolidated income statement and are calculated on the basis of the following average years of estimated useful life of the various groups of items:

	Years of estimated useful life
Buildings	25-75
Furnishings	4-8
Installations	4-16

At each accounting close, the Group checks for internal and external indications that the carrying value of tangible assets exceeds the recoverable amount, understood as the higher of fair value less cost of sales and value in use. In this case, the Group reduces the carrying value of the relevant asset to its recoverable amount and adjusts future depreciation charges in proportion to the adjusted carrying value and new remaining useful life if it is necessary to re-estimate it. Moreover, when there is an indication that the value of an asset has been recovered, the Group records the reversal of the impairment loss recorded in prior periods and adjusts future depreciation charges accordingly. The reversal of the impairment loss of an asset in no event may entail an increase in its carrying value in excess of that which would be obtained if such prior year impairment losses had not been recognized.

At least at the end of each year the Group reviews the estimated useful lives of its tangible assets for own use in order to detect significant changes therein which, if they occur, are adjusted by correction of the charge for depreciation in the consolidated income statement for that year and the following years based on the new estimated useful life.

The expenses of upkeep and maintenance of the tangible assets for own use are expensed currently.

The investment properties included in tangible assets relate to the net values of the land, buildings and other structures which the Group holds for rental or for obtaining a gain on their sale and are not expected to be realized in the ordinary course of business and they are not devoted to own use.

The criteria applied by the Group to recognize the acquisition cost of the assets assigned under operating lease with respect to depreciation and the estimation of their respective useful lives and the recording of impairment losses, agree with those described for tangible assets for own use.

s) Intangible assets

Intangible assets are non-monetary assets that are identifiable but with no physical appearance. Intangible assets are deemed to be identifiable when they are separable from other assets because they can be individually sold, leased or used or arise as a result of a contract or other kind of legal business. An intangible asset is recognized when, in addition to meeting the foregoing definition, the Group estimates that economic benefits are likely to be received from the item and its cost can be reliably estimated.

Intangible assets are initially recognized at acquisition or production cost, and are subsequently valued at cost less, where appropriate, accumulated amortization and any loss for impairment.

Goodwill

Goodwill represents the advance payment made by the Group for future financial benefits deriving from the net assets of a company that has been acquired, which cannot be individually and separately identified and recognized.

It is initially measured as the algebraic sum of the consideration transferred (assets transferred less liabilities assumed) on the acquisition plus the amount of any non-controlling interest in the acquiree (minority interests) plus the fair value at the acquisition date of the interest in the acquiree's equity held by the acquirer before obtaining control over the entity involved in the combination less the fair value at the acquisition date of the acquiree's identifiable net assets.

Positive differences between the cost of business combinations in dependent and jointly-controlled companies and associates and their underlying carrying values, adjusted at the date of initial consolidation, are allocated as follows:

i) If they are allocable to assets and liabilities in the acquirees, they are reflected as an increase or decrease in the value of assets or liabilities whose fair values are higher or lower, respectively to the carrying values at which they were recognized in their balance sheets and the accounting treatment of which is similar to that of the same assets or liabilities, respectively, of the Group.

ii) If they are assignable to specific intangible assets, they are allocated by explicit recognition in the consolidated balance sheet, provided that their fair value at the acquisition date can be reliably determined, irrespective of whether they are not previously recognized in the acquiree.

iii)The remaining non-allocable differences are recorded as goodwill, which is assigned to one or more specific cash-generating units which are expected to benefit from the synergies deriving from the business combination.

Goodwill acquired since January 1, 2004, remains valued at its acquisition cost and goodwill acquired prior to that date continues to be booked at its recorded net value at December 31, 2003. At each accounting close the Group estimates whether there has been any impairment in the goodwill which reduces its recoverable value to below its recorded net cost and, if appropriate, records the necessary write-down with a contra-item in the consolidated income statement. Losses for impairment of goodwill cannot subsequently be reversed.

Impairment testing of goodwill

There is impairment when the carrying value of the Cash Generating Unit (CGU) to which goodwill is assigned exceeds its recoverable amount. That value is generally calculated using the discounted cash flow method. According to this method, the value of a banking business is the present value of potential distributable dividends and depends on a series of basic variables:

- Business variables: growth of assets and liabilities, margins, impairment losses etc. These variables are estimated from a prudent perspective, on the basis of the type of business, foreseeable macro-economic performance, etc, at all times ensuring the consistency of the assumptions with the Group's strategy in general and for each business in particular. Broadly speaking, the assumptions used envisage weak business growth in the short term and an even higher default cost. For the middle years, moderate growth is projected which levels off at the end of the projected period.

- Projection period: the projection period covers the period strictly necessary for the entity to be in a position in which it can calculate a complete stable and normalised year to take as a reference to perpetuity, on a going-concern basis. This situation is characterised by fixed growth and consistent and sustainable asset performance.

- Discount rate: in order to determine the discount rate, the Capital Assets Pricing Model is used, under which the cost of capital is estimated on the basis of the risk free rate in the relevant currency, market premium and a coefficient (beta) which links the performance of the specific asset to that of the market in general.

- Growth rate to perpetuity (g): this rate is applied to the business's terminal value and is estimated taking into account nominal GDP growth and long-term inflation. (g) may vary depending on the country.

Other intangible assets

The remaining intangible assets may have either an indefinite useful life when, based on analyses of all the relevant factors, it is concluded that there is no foreseeable limit to the period during which net cash flows may be expected to be generated for the Group, or a finite useful life in other cases. Intangible assets with an indefinite useful life are not amortized although at each accounting close the Group reviews the remaining useful lives in order to ensure that they are still indefinite or, alternatively, take the relevant action. Intangible assets with a finite useful life are amortized on the basis thereof, applying methods similar to those for tangible assets. However, at the end of 2012 and 2011, the Group did not have any intangible assets of indefinite useful life.

In any event, the Group records for accounting purposes any loss that may have arisen in the recorded value of these assets arising from impairment with a contra-item in the consolidated income statement. The methods for recognition of losses for impairment of these assets and, if appropriate, of recoveries of losses for impairment recorded in prior years are similar to those applied for tangible assets.

t) Inventories

Inventories are non-financial assets that are held for sale in the ordinary course of business and that are under production, construction or development for such purpose. This heading also includes land and other properties that are held for sale in the performance of property development activities. Inventories are at all times carried at the lower of cost and net realizable value, calculated by deducting all damages and impairment, reductions in the sales price and taking into account obsolescence and other losses.

u) Insurance operations

The subsidiaries that are insurance companies credit the consolidated income statement for the premiums that they write and charge to the consolidated income statement the cost of the claims that they must meet when final settlement thereof is reached. Also, accruals are recorded at the end of each year both for the amounts credited to the consolidated income statement but unearned at the year end, and for the costs incurred but not charged to the consolidated income statement.

The principal technical reserves relating to the direct insurance activity are as follows:

i) Technical reserve for unearned premiums, relating to the rate premium collected in one year allocable to future years net of the loading for contingencies.

ii) Technical reserve for outstanding risks which supplements the mathematical reserve for unearned premiums by the amount by which the latter is insufficient to reflect the valuation of the risks and expenses to be covered relating to the unelapsed coverage period at the year end.

iii) Mathematical reserve for benefits, which relates to the estimated valuations of the outstanding obligations arising from claims occurred before year end. This mathematical reserve includes the unsettled or unpaid claims and the undeclared claims. The outstanding obligations are calculated by deducting the payments made on account and taking into consideration the internal and external expenses of settlement of the claims and, if appropriate, the additional reserves which may be necessary to cover variances in the valuations of claims requiring lengthy.

iv) Technical reserve for life insurance:

- For life insurance with a coverage period of one year or less, the technical reserve for unearned premiums relates to the rate premium collected in the year allocable to future years. If this technical reserve is insufficient, a technical reserve for outstanding risks is calculated to supplement and cover the valuation of the risks and expenses foreseen in the unelapsed period at the year end.

- For life insurance for which the coverage period is more than one year, the technical reserve is calculated as the difference between the present actuarial value of future obligations and those of the policyholder or insured, taking as a basis for the calculation of the office premium accrued in the year which comprises the risk premium plus the administration expense loading according to the technical bases.

- In life insurance policies in which the investment risk is borne by the policyholders, the technical reserve is determined on the basis of the assets specifically assigned to determine the value of the rights.

v) Technical reserve for profit-sharing and refunds, which relates to the profit accruing to the policyholders, insured or beneficiaries of the insurance and that of premiums that must be refunded to the policyholders or insured, because of the conduct of the risk insured unless they have been individually assigned to each of the former.

The technical reserves for accepted reinsurance are calculated by methods similar to those used for direct insurance, and generally on the basis of the information provided by the ceding companies.

The technical reserves of direct insurance and of accepted reinsurance are included under the insurance contract liabilities caption in the consolidated balance sheet.

The amounts which the Group is entitled to receive for reinsurance contracts are recorded under the reinsurance assets caption in the consolidated balance sheet. The Group checks whether these assets are impaired and if so recognizes the related loss in the consolidated income statement with a direct charge to that caption.

v) Provisions

The Group's present obligations resulting from past events are considered provisions when their nature is clearly defined at the date of the financial statements but the amount or time of settlement are not defined, and upon the maturity of which and in order to settle them the Group expects an outflow of resources which embody economic benefits. These obligations may arise as follows:

i) A legal or contractual requirement.

ii) An implicit or tacit obligation, arising from a valid expectation created by the Group for third parties for the assumption of certain kinds of responsibilities. These expectations arise when the Group publicly accepts responsibilities, and derive from past performances or business policies in the public domain.

iii) The virtually certain evolution of the regulations on certain aspects, in particular, draft legislation which the Group cannot disregard

Provisions are booked on the basis of the probability of an event occurring. Events are classified as probable when they are more likely to occur than not; as possible, when they are less likely to occur than not; and remote, when their occurrence is extremely rare.

The Group includes in its consolidated financial statements all the material provisions with regard to which it is considered that the likelihood of having to meet the obligation is greater than not.

Provisions are quantified based on the best information available about the consequences of the event giving rise to them and are estimated at each accounting close. They are used to meet the specific obligations for which they were recognized, and are fully or partly released when these obligations cease to exist or decrease.

At December 31, 2011 and 2012 different legal proceedings and claims instigated against the Group resulting from its ordinary business activities were on going. The Group's legal advisors and the Banco Popular's directors understand that the finalization of these proceedings and claims will not have a significant effect other than that provided for, if appropriate, in the consolidated financial statements for the years in which they finalize..

This balance sheet heading reflects provisions for pensions, taxes and legal contingencies, contingent risks and commitments and other provisions.

w) Contingent assets and liabilities

Contingent assets are possible assets arising as a result of past events whose existence is conditional and must be confirmed when events outside the control of the Group occur or do not occur.

Contingent assets are not recognized in the consolidated balance sheet or in the consolidated income statement.

The Group discloses their existence if the increase in funds including economic benefits for this reason is probable.

Contingent liabilities are the possible obligations of the Group arising as a result of past events whose existence is conditional on the occurrence or not of one or more future events which are independent of the Group's decision. Contingent exposures include the Group's present obligations the settlement of which is unlikely to give rise to a decrease in resources that embody economic benefits or the amount of which, in extremely rare cases, cannot be sufficiently reliably quantified.

x) Employee equity- settled remuneration

In order to bring the Banco Popular's remuneration system into line with the requirements of Directive 2010/76/EU as regards supervision of remuneration policies and the principles of the CEBS,the General Shareholders' Meetings of April 8,2011 and June 11, 2012 approved Variable Remuneration Plans, deferred and contingent, in relation to the variable remuneration for 2011 and 2012, applicable to the executive directors, senior management and those employees who assume risks or exercise control functions. Such Plans laid down specific conditions for the receipt of variable remuneration.

Concerning the Variable Remuneration Plan, deferred and contingent, approved by the General Shareholders' Meeting of June 11,2012, the Directors and members of senior management received no remuneration because the conditions for collection had not been met at the 2012 year end.

y) Non-current assets for sale and liabilities associated with non-current assets for sale

Non-current assets for sale on the consolidated balance sheet include assets, irrespective of their nature, which, not forming part of operating activities, include amounts whose initial realization or recovery period exceeds one year, but which the Group intends to dispose of within no more than one year of the date to which the financial statements refer. The carrying value of foreclosed assets the sale of which is highly probably in the assets' current condition is reflected, among other things.

In the performance of its operations, the Group has obtained assets through either the enforcement of the guarantees taken to ensure collection or dation in payment of debts. Note 27 sets out information on the amounts and coverage arranged for the impairment of this kind of assets.

For foreclosed assets classified as non-current assets held for sale, the acquisition cost relates to the net amount of the financial assets delivered in exchange for foreclosure, taking into account the value adjustments linked to such financial assets. Consequently, the recovery of the carrying value of these items, which may be of either a financial or non-financial nature, will presumably be obtained through the price at which they are disposed of rather than through continuing use.

Therefore, the real estate and other non-current assets received by the Group for total or partial settlement of payment obligations to it of its debtors are classified as non-current assets for sale, unless the Group has decided to make continuing use of them, in which case they are classified as assets for own use or investment properties.

The Liabilities associated with non-current assets for sale caption includes the credit balances connected with disposal groups or discontinued operations of the Group, if any; at the end of 2012 and 2011, the Group did not have any balance of this nature.

The assets classified as non-current assets for sale are generally measured at the lower of the carrying value at the time they are considered such and fair value net of their estimated selling costs. While they continue to be classified as non-current assets for sale, depreciable tangible assets and amortizable intangible assets are not depreciated or amortized. In the event that the carrying amount exceeds the fair value of the assets, net of cost of sales, the Group adjusts the carrying amount of the assets by the amount of the excess and makes a balancing entry in the caption Gains/losses on non-current assets held for sale not classified as discontinued operations in the consolidated income statement. In the event of any subsequent increases in the fair value of the assets, the Group reverses the losses previously recorded and increases the carrying value of the assets up to the limit of the amount prior to their possible impairment.

Nonetheless, financial assets, deferred tax assets and insurance contracts which form part of a disposal group or discontinued operation are not valued as described. Instead, they are valued in accordance with the principles and standards applicable to these items, as explained earlier in this Note.

The results in the year of disposal groups classified as discontinued operations are recorded under the result of discontinued operations (net) caption in the consolidated income statement both if the disposal group has been eliminated from assets and if it is still included in assets at the year end. Note 9 sets out further information on discontinued operations.

z) Consolidated cash flow statement

The following are used in the consolidated cash flow statement:

i) Cash flows that are inflows and outflows of cash and cash equivalents, the latter being defined as high liquidity short-term investments with low risk of alteration in value, irrespective of the portfolio in which they are classified.

ii) Operating activities that are typical Group activities and other activities that cannot be classified as lending or funding and the interest paid on any funding received.

iii) Investing activities relating to the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents. The main lending or funding transactions that have not entailed the use of cash or equivalents relate to the purchase, dation or foreclosure of assets to cancel loans in the broadest sense.

iv) Funding activities are the activities that give rise to changes in the size and composition of consolidated equity and the liabilities that do not form part of operating activities.

16. Duty of loyalty of the Directors

As required by Article 229.4 of the Spanish Companies Act 2010, the following table details the companies engaging in business activity identical, analogous or complementary to that constituting the objects of Banco Popular Español, S.A., in which the members of the Board of Directors have ownership interests and the offices and functions they hold in these companies:

2012			
Director	**Company**	**% Interest**	**Office or function**
Asociación de Dir. BPE	-	-	-
Aparicio, Francisco	Targobank	-	Director
	Banco Popular Pastor	-	Director
Arias, José Maria	Banco Popular Pastor	2.31	Chairman
	B. Santander	0	-
	BBVA	0	-
F. de Amorim, Américo	Millenium bcp	0	-
	Banco BIC (Angola)	25.00	Director
	Banco BIC Portugués	25.00	Director
	Banco LJ Carregosa	7.94	Director
	Banco Único (Mozambique)	72.89	-
	Banco Luso Brasileiro	33.33	Chairman
Fradin, Alain	CrédIt Mutuel-CIC Bail	-	Chairman General Manager
	Targobank	-	Chairman
Fundación Barrié de la Maza	B.Santander	0	-
Gancedo, Eric	Popular Banca Privada	-	Director
	Targobank	-	Deputy chairman
	Banco Popular Pastor	-	Director
Higuera, Roberto	-	-	-
Herrando, Luis	Popular Banca Privada	-	Chairman
Maianca Inversión, S.L.	-	-	-
Molins, Ana María	-	-	-
Nigorra, Miguel	-	-	-
Revoredo, Helena	Banco Santander	0	-
Rodríguez, José Ramón	Banco Popular Pastor	0	Deputy chairman
Ron, Ángel	-	-	-
Sindicatura de Accs. BPE	-	-	-
Solís, Miguel Ángel de	-	-	-
Tardío, Vicente	BBVA	0.00	-
	Unicrédito Italiano	0.00	-
	B.Santander	0.00	-
Allianz, SE	Bulbank AD	2.91	-
	Zagrebacka banka d.d.	11.72	-
	Oldenburgische Landesbank AG	90.19	-
	Gruppo Banca Leonardo S.p.A.	2.91	-
	Unicredit Spa (Italy)	2.04	-
	Allianz Bank Bulgaria ISC (Bulgaria)	99,9	-
	Allianz Banque SA (France)	100	-
	Allianz Bank Financial Advisors S.p.A. (Italy)	100	-
	Banco BPI, SA (Portugal)	8.83	-
	FHB Mortgage Bank plc (Hungary)	10.57	-
Unión Europea de Inversiones, S.A.	-	-	-

2011			
Director	Company	% Interest	Office or function
Asociación de Dir. BPE	-	-	-
Aparicio, Francisco	Targobank	-	Director
F. de Amorim, Américo	Millenium bcp	0.00	-
	Banco BIC (Angola)	25.00	Director
	Banco BIC Portugués	25.00	Director
	Banco LJ Carregosa	7.94	Director
	Banco Único (Mozambique)	62.00	-
Fradin, Alain	CrédIt Mutuel-CIC Bail	-	Chairman- General Manager
	Targobank	-	Chairman
Gancedo, Eric	Bancopopular-e	-	Non-executive chairman
	Popular Banca Privada	-	Director
	Targobank	-	Deputy chairman
Higuera, Roberto	-	-	-
Herrando, Luis	Popular Banca Privada	-	Chairman
Molins, Ana María	-	-	-
Nigorra, Miguel	-	-	-
Osuna, Nicolás	Banco Sabadell	0.126	-
	Bankinter	0.005	-
	Banesto	0.002	-
	BBVA	0.001	-
	Bankia	0.019	-
Revoredo, Helena	Banco Santander	0.000	-
Rodríguez, José Ramón	Banco Caminos	0	-
Ron, Ángel	-	-	-
Sindicatura de Accs. BPE	-	-	-
Solís, Miguel Ángel de	-	-	-
Tardío, Vicente	BBVA	0.00	-
	Unicrédito Italiano	0.00	-
	B.Santander	0.00	-
Allianz, SE	Bulbank AD	3.15	-
	Zagrebacka banka d.d.	11.72	-
	Oldenburgische Landesbank AG	64.30	-
	Gruppo Banca Leonardo S.p.A.	2.91	-
	Commerzbank AG	<5	-
Unión Europea de Inversiones, S.A.	-	-	-

It is also reported that at December 31, 2012 the persons related to the members of the Board of Directors were holders of 12,822 shares in Banco Santander, 500 Banco Español de Crédito, 104,869 shares in BBVA, 1,789 shares in Bankinter, 1,810,884 shares in Banco BIC (Angola) , 18,750,00 shares in Banco Bic Portugués, 47,642,229 shares in Banco LJ Carregosa , 636,276 shares in Banco Luso Basileiro and 3,805,020 shares in Banco Unico Mozambique.

17. Customer care service

Ministry of Economy Order 734/2004 stipulated, among other matters, the obligation for the customer care departments and services of financial institutions to prepare a report explaining the performance of their functions during the preceding year. The Order also required a summary of this report to be included in the notes to the institution's financial statements.

In accordance with this legal requirement, the Banco Popular Group's Customer Care Office prepared the 2012 Activities Report, which was submitted to the Board of Directors of Banco Popular in its meeting on January 30, 2013. This report states that a total of 9,824 complaints, claims and enquiries were made to the Group in 2012, 17.6% up on the previous year. The number of matters settled in 2012 totalled 8,827, of which 854 related to the previous year. At the year end, 1,851 cases had not yet been settled. The 8,827 cases settled in 2012 represented an increase of 1.5% on 2011.

The figures for 2011 pertaining to the Customer Care Office of Banco Pastor were included in the notes to its financial statements for 2011 (1,619 cases submitted and 1,578 settled).

In 2012, the Banco Popular Group's Customer Care Office issued a total of 8,040 findings, which are set out below together with comparative data for the previous year.,

Findings	2012	2011*
In favour of the complainant	2,859	2,423
If favour of the BPE Group	4,833	3,518
In favour of both parties	80	54
No findings issued	268	355
Total	8,040	6,350

* Not including information from Banco Pastor Customer Care.

Of the above matters, 500 were handled through the Financial Services Customer Ombudsman Offices, which issued 451 findings, as follows:

	Bank of Spain		National Securities Market Commission		Directorate General for Insurance		Total	
Findings	2012	2011*	2012	2011*	2012	2011*	2012	2011*
In favour of the complainant	136	157	89	58	1	6	226	221
In favour of the BPE Group	147	192	30	28	15	19	192	239
No findings issued	25	47	7	6	1	2	33	55
Total	308	396	126	92	17	27	451	515

* Not including information from Banco Pastor Customer Care Pastor.

18. Risk management

There are different types of risks implicit in the banking business. Effective risk management is a critical aspect of the business. The prudence principle must therefore take precedence, reflected in adequate risk diversification as a core aspect of banking activities, without losing sight of profitability, solvency, efficiency, optimal asset health and adequate liquidity, which are the permanent objectives of Group management.

The Group has developed risk control and management systems that incorporate formal procedures separating functions and responsibilities for analysis, authorisation, follow-up and control, supervised by the Risk Committee, General Management and the Assets and Liabilities Committee, which define the mechanisms for the delegation of functions and establishment of limits for day-to-day risk management purposes. The Directors' Report contains further analysis and comments.

Market risk

This is the risk that future cash flows or the fair value of a financial asset or liability might fluctuate due to changing market prices.

The fair value measurement of financial instruments has been performed by observing variables obtained from active markets and the market prices of certain instruments, using generally accepted procedures, or internal models in the absence of observable market variables or because a market becomes illiquid.

Set out below is information on the balance sheet items carried at fair value, showing the measurement method used.

€ thousand	Fair value of financial instruments		Financial instruments listed in active markets		Financial instruments, fair value based on market observations		Financial instruments, fair value calculated using internal models	
	2012	2011	2012	2011	2012	2011	2012	2011
Assets								
Trading portfolio	2,096,851	1,316,564	295,504	166,185	1,801,347	1,089,519	-	60,860
Debt securities	126,436	140,417	126,436	140,417	-	-	-	-
Equity instruments	169,068	25,768	169,068	25,768	-	-	-	-
Trading derivatives	1,801,347	1,150,379	-	-	1,801,347	1,089,519	-	60,860
Other financial assets at fair value through profit or loss	493,623	377,504	493,623	377,504	-	-	-	-
Debt securities	383,241	265,475	383,241	265,475	-	-	-	-
Equity instruments	110,382	112,029	110,382	112,029	-	-	-	-
Available-for-sale financial assets	10,843,000	10,405,746	10,406,298	9,555,810	165,422	292,238	271,280	557,698
Debt securities	10,501,094	9,860,805	10,315,735	9,512,935	165,359	292,170	20,000	55,700
Equity instruments at fair value	341,906	544,941	90,563	42,875	63	68	251,280	501,998
Hedging derivatives	678,357	1,092,040	-	-	678,357	642,899	-	449,141
Liabilities								
Trading portfolio	1,491,141	1,104,323	4,299	-	1,486,842	968,920	-	135,403
Trading derivatives	1,486,842	1,104,323	-	-	1,486,842	968,920	-	135,403
Short positions in securities	4,299	-	4,299	-		-		-
Other financial liabilities at fair value through profit or loss	93,060	93,761	93,060	93,761	-	-	-	-
Hedging derivatives	2,048,864	1,414,056	-	-	2,048,864	1,394,062	-	19,994

The following table shows the evolution of the values of each category of financial assets and liabilities measured at fair value, calculated using variables that may not be observed in the market or internal models.

€ thousand	ASSETS			LIABILITIES	
	Trading portfolio	Available-for-sale assets	Hedging derivatives	Trading portfolio	Derivados de cobertura
Opening balance	60,860	557,698	449,141	135,403	19,994
Movements:					
in profit or loss	-	-	-	-	-
in equity	-	(44,547)	-	-	-
Purchases/issues	-	-	-	-	-
Sales/settlements	-	-	-	-	-
Transfers, levels 1 and 2	-	(262,433)	-	-	-
Closing balance	(60,860)	20,562	(449,141)	(135,403)	(19,994)
Opening balance	-	271,280	-	-	-

Market risk may be divided into the following types of risk:

a) Foreign exchange risk

Foreign exchange risk arises from fluctuations in the exchange rates of different currencies. In view of the Group's business, foreign exchange risk is immaterial because surplus cash positions in currencies other than the euro are placed in the market in the same currencies and for similar periods such that positions are usually matched. Moreover, the activities of Group entities whose functional currencies are not the euro, relating basically to TotalBank, generate consolidated exchange differences for the Group as a result of the different measurement methods applied to items on the entity's balance sheet. Balancing items are recognized for these exchange differences in the Group's equity (see Note 15.i.).

b) Interest rate risk

Interest rate risk is the consequence of fluctuations in market interest rates affecting financial assets and liabilities in the Group's consolidated balance sheet.

The Group has tools to control and analyze interest rate risk by assessing the sensitivity of the balance sheet to changes in the interest rate curve and establishing short- and medium-term policies to manage prices, terms and volumes of funds in different scenarios. The variables used in the models to measure the sensitivity of the interest margin are basically movements in assets and liabilities and fluctuations in interest rate curves. The Assets and Liabilities Committee evaluates scenarios to control and manage this type of risk.

At the year end, the effect of a 200 base point increase in the euro interest rates, with respect to the current implicit rates, has a negative impact of 1.36% on the economic value, equivalent to 2.20% of computable net equity. Conversely, a fall in interest rates favours the economic value. The impact of rate shifts on currencies other than the euro is considered to be immaterial owing to the Group's scarce position at the year end.

The gap between maturities and the appreciation of items in the consolidated balance sheet is also assessed based on nature and sensitivity or lack of sensitivity to interest rate fluctuations, as may be observed in the following table for 2012 and 2011:

€ thousand									
2012	**Total**	**Not sensitive**	**Sensitive**	**Up to 1 month**	**From 1 to 2 months**	**From 2 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 12 months**
Loans and receivables	114,444	7,099	107,345	23,344	11,665	13,916	19,579	29,940	8,901
Loans and advances to credit institutions	4,659	-	4,659	4,473	101	36	18	1	30
Loans and advances to other debtors	108,809	6,123	102,686	18,871	11,564	13,880	19,561	29,939	8,871
Other assets and valuation adjustments	976	976	-	-	-	-	-	-	-
Securities market	24,671	1,598	23,073	989	1,038	171	2,203	2,869	15,803
Other assets	18,503	17,447	1,056	48	47	7	100	131	723
Total assets	**157,618**	**26,144**	**131,474**	**24,381**	**12,750**	**14,094**	**21,882**	**32,940**	**25,427**
Financial liabilities at amortized cost	141,726	18,510	123,216	45,972	6,420	10,749	15,317	23,761	20,997
Deposits from credit institutions	20,564	-	20,564	20,564	-	-	-	-	-
Deposits from other creditors	14,402	1,051	13,351	7,104	253	420	722	407	4,445
Debt certificates including bonds	79,830	15,531	64,299	15,880	4,466	8,349	13,126	19,477	3,001
Subordinated and preference liabilities	23,443	618	22,825	1,467	1,701	1,514	1,469	3,826	12,848
Valuation adjustment (±)	2,170	-	2,170	957	-	466	-	51	696
(liability instruments)	1,317	1,310	7	-	-	-	-	-	7
Other liabilities	5,937	3,084	2,853	2,744	34	-	75	-	-
Equity	9,955	9,955							
Total liabilities	**157,618**	**31,549**	**126,069**	**48,716**	**6,454**	**10,749**	**15,392**	**23,761**	**20,997**
Off-balance sheet transactions				**5,017**	**94**	**(976)**	**2,141**	**(478)**	**(5,798)**
Gap		**(5,405)**	**5,405**	**(19,318)**	**6,390**	**2,369**	**8,631**	**8,701**	**(1,368)**
Accumulated gap				**(19,318)**	**(12,928)**	**(10,559)**	**(1,928)**	**6,773**	**5,405**

€ thousand									
2011	**Total**	**Not sensitive**	**Sensitive**	**Up to 1 month**	**From 1 to 2 months**	**From 2 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 12 months**
Loans and receivables	100,742	10,250	90,492	17,982	8,736	11,950	17,969	26,952	6,903
Loans and advances to credit institutions	3,971	1,155	2,816	2,701	53	32	5	19	6
Loans and advances to other debtors	96,771	9,095	87,676	15,281	8,683	11,918	17,964	26,933	6,897
Other assets and valuation adjustments	-	-	-	-	-	-	-	-	-
Securities market	19,688	1,341	18,347	1,211	957	514	1,623	1,608	12,434
Other assets	10,496	10,496	-	-	-	-	-	-	-
Total assets	**130,926**	**22,087**	**108,839**	**19,193**	**9,693**	**12,464**	**19,592**	**28,560**	**19,337**
Financial liabilities at amortized cost	118,280	17,488	100,792	27,270	7,951	13,694	13,621	18,483	19,773
Deposits from credit institutions	13,994	-	13,994	8,518	310	5,166	-	-	-
Deposits from other creditors	11,337	561	10,776	6,027	101	220	543	286	3,599
Debt certificates including bonds	68,742	15,492	53,250	11,225	4,523	6,710	11,514	16,739	2,539
Subordinated and preference liabilities	20,449	512	19,937	1,500	3,017	1,195	1,564	1,458	11,203
Valuation adjustment (±)	2,835	-	2,835	-	-	403	-	-	2,432
(liability instruments)	923	923	-	-	-	-	-	-	-
Other liabilities	4,258	1,290	2,968	1,880	298	91	295	404	-
Equity	8,388	8,388							
Total liabilities	**130,926**	**27,166**	**103,760**	**29,150**	**8,249**	**13,785**	**13,916**	**18,887**	**19,773**
Off-balance sheet transactions				**309**	**(230)**	**(2,776)**	**(1,479)**	**(403)**	**4,604**
Gap		**(5,079)**	**5,079**	**(9,648)**	**1,214**	**(4,097)**	**4,197**	**9,270**	**4,168**
Accumulated gap				**(9,648)**	**(8,434)**	**(12,531)**	**(8,334)**	**936**	**5,104**

Interest rate risk is generally managed using derivative financial instruments as accounting or economic hedges that are as perfect as possible in order to be really effective.

c) Other price risks

This risk category arises from changes in market prices, other than the two previous categories, due to factors specific to the instrument itself or to factors that affect all similar instruments traded in the market.

Market risk is measured in terms of value at risk (VaR), which may be defined as the limit of potential losses for a specified time period (such as one day) and a 99% confidence level, resulting from a percentage change in prices. In addition to calculating VaR, additional stress testing is performed to measure VaR sensitivity in changing scenarios.

€ thousand	**Money and capital markets**	**Equity instruments**	**Structured derivatives**	**Financial assets**	**Aggregate VaR**
Average VaR 2012	81	32	15	161	203
Average VaR 2011	98	37	20	158	177

The Directors' Report included in this document provides further information on this matter, in the chapter on Risk Management.

Credit risk

Credit risk is the risk that one of the parties to a contract for a financial instrument fails to fulfil its obligations, causing financial harm to the other party.

The Group's exposure to credit risk derives basically from its main business area, commercial banking (loans and advances to other debtors and off-balance sheet risks such as contingent liabilities and available credit lines, mainly).

The credit quality of the risks assumed is analyzed in the following table, which shows internal ratings for credit risk exposure, including credit institutions, companies and institutions, 1.86% of which have an A or higher rating.

Rating	2012	2011
AAA	-	-
AA	-	-
A	1.86	4.10
BBB	17.80	15.07
BB	24.29	18.92
B	27.75	38.44
Other	28.30	23.47
Total	100.00	100.00

The Group has implemented methodological procedures, approved at the highest level, to ensure adequate credit risk management, based on:

- Initial analysis of the risk authorization powers held by each hierarchical level in the organization.
- Internal validation using internal risk measurement models, which are in line with the minimum capital requirements of the Basel II Accord.
- Permanent monitoring and control of credit risk, including individual risks and analyses of business sectors and areas, which often allows difficulties to be anticipated and measures to be designed to prevent or mitigate risks over time.
- Management of bad debts by analyzing and claiming past due receivables. This analysis is performed individually and the most effective claim and recovery strategy is designed, taking into account the specific circumstances of each customer and transaction.

At organizational level, the Group takes commercial banking decisions based on a decision pyramid that virtually encompasses the Group's entire business. Branches are on the first level for risk decision-taking purposes. Immediately above branches are the Business Managers (Regional or Territorial Managers at Banco Popular, applying the same approach in which the commercial network focuses on the retail business, basically with SMEs, self-employed persons, stores and individuals) and General Managers at subsidiary banks and companies. The third step is occupied by the Group's General Risk Manager and the top step pertains to the Risk Committee.

Set out below is an analysis of the Group's maximum exposure to credit risk in 2012 and 2011.

€ thousand	2012	2011	Variation In %
Banking activity:			
Loans and advances to other debtors	117,298,902	98,872,768	18.6
Contingent exposures	15,199,483	13,978,129	8.7
Total	132,498,385	112,850,897	17.4
Market activity (counterparty risk)	30,166,972	25,750,676	17.1
Total exposure	162,665,357	138,601,573	17.3
Drawable by third parties	8,866,047	9,482,110	(6.8)
Maximum credit risk exposure	171,531,404	148,083,683	15.8

The table below sets out the risk concentration by activity and geographical area, by subject:

€ thousand	TOTAL*	Spain	Rest of European Union	America	Rest of the world
1 Credit institutions	12,229,409	6,533,191	3,948,968	793,046	954,204
2 Public administrations	21,523,634	20,403,994	758,406	361,234	-
2.1 Central government	16,780,893	15,661,253	758,406	361,234	-
2.2 Other	4,742,741	4,742,741	-	-	-
3 Other financial institutions	9,269,013	9,269,010	-	-	3
4 Non-financial companies and individual entrepreneurs	82,123,944	74,676,043	5,741,822	1,539,689	166,390
4.1 Construction and real estate development	20,695,460	19,068,214	1,026,735	577,976	22,535
4.2 Civil engineering work	3,826,040	3,310,201	259,983	232,278	23,579
4.3 Other purposes	57,602,443	52,297,628	4,455,104	729,435	120,276
4.3.1 Large companies	26,253,350	24,186,741	1,583,456	465,444	17,709
4.3.2 SMEs and individual entrepreneurs	31,349,093	28,110,887	2,871,648	263,991	102,567
5 Other household and non-profit	34,114,489	30,977,644	2,628,788	328,753	179,304
5.1 Housing	24,931,458	22,262,804	2,269,861	232,137	166,656
5.2 Consumption	2,367,964	2,184,667	171,153	5,528	6,616
5.3 Other	6,815,066	6,530,173	187,774	91,088	6,032
SUBTOTAL	159,260,489	141,859,883	13,077,985	3,022,722	1,299,899
6 Less: Valuation adjustments for asset impairment not allocated to specific transactions	3,679,214				
7 TOTAL	155,581,275				

* Includes the balance of Credit Institutions, Loans and advances to other debtors, Debt securities, Equity instruments, Held-to-maturity, Trading derivatives, Shareholdings and Contingent exposures in the consolidated financial statements.

This same breakdown by Autonomous Region is as follows:

€ thousand	TOTAL*	Andalucía	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria
1 Credit institutions	6,533,191	373	-	216	-	21	572,208
2 Public administrations	20,403,994	271,570	45,083	52,039	59,826	34,365	66,580
2.1 Central government	15,661,253	-	-	-	-	-	-
2.2 Other	4,742,741	271,570	45,083	52,039	59,826	34,365	66,580
3 Other financial institutions	9,269,010	31,691	25	13	-	96	14,045
4 Non-financial companies and individual entrepreneurs	74,676,043	10,207,211	1,479,383	1,183,093	1,176,133	1,573,245	259,127
4.1 Construction and real estate development	19,068,214	4,063,177	485,296	308,707	160,312	363,680	52,025
4.2 Construction of civil engineering work	3,310,202	404,977	41,741	31,732	22,865	38,637	10,978
4.3 Other purposes	52,297,628	5,739,057	952,346	842,654	992,956	1,170,928	196,124
4.3.1 Large companies	24,186,741	1,085,489	395,681	425,414	256,644	293,901	78,268
4.3.2 SMEs and individual entrepreneurs	28,110,887	4,653,568	556,665	417,240	736,312	877,027	117,856
5 Other household and non-profit	30,977,644	6,861,038	325,298	657,794	943,211	947,461	196,053
5.1 Housing	22,262,804	4,973,036	242,326	520,045	695,348	686,276	149,830
5.2 Consumption	2,184,667	404,227	18,596	35,059	62,405	53,816	9,189
5.3 Other purposes	6,530,173	1,483,775	64,376	102,690	185,458	207,369	37,034
SUBTOTAL	141,859,883	17,371,882	1,849,788	1,893,155	2,179,170	2,555,189	1,108,014
6 Less: Valuation adjustments for asset impairment not allocated to specific transactions	3,679,214						
7 TOTAL	138,180,669						

€ thousand	Castilla - La Mancha	Castilla y León	Cataluña	Extrema-dura	Galicia	Madrid	Murcia
1 Credit institutions	-	-	192,133	-	600,381	4,143,987	-
2 Public administrations	28,344	244,530	312,767	44,988	249,768	3,078,642	33,446
2.1 Central government	-	-	-	-	-	-	-
2.2 Other	28,344	244,530	312,767	44,988	249,768	3,078,642	33,446
3 Other financial institutions	139,402	2,387	62,219	-	9,118	9,008,007	88
4 Non-financial companies and individual entrepreneurs	1,523,173	3,112,272	9,197,528	606,434	5,844,631	26,701,098	2,179,951
4.1 Construction and real estate development	449,316	809,117	1,611,077	79,989	1,481,882	5,500,586	963,866
4.2 Construction of civil engineering work	35,363	101,161	256,159	20,598	268,664	1,754,575	88,171
4.3 Other purposes	1,038,494	2,201,994	7,330,292	505,847	4,094,085	19,445,937	1,127,914
4.3.1 Large companies	207,650	457,627	2,942,921	194,076	1,661,072	13,234,531	385,867
4.3.2 SMEs and individual entrepreneurs	830,844	1,744,367	4,387,371	311,771	2,433,013	6,211,406	742,047
5 Other household and non-profit	910,940	1,985,354	4,495,680	424,820	2,933,613	6,091,341	675,971
5.1 Housing	638,635	1,307,080	3,485,289	293,055	2,159,901	4,083,784	495,888
5.2 Consumption	50,415	121,535	221,043	23,073	232,672	704,450	32,292
5.3 Other purposes	221,890	556,739	789,348	108,692	541,040	1,303,107	147,791
SUBTOTAL	2,601,859	5,344,544	14,260,328	1,076,241	9,637,511	49,023,076	2,889,455
6 Less: Valuation adjustments for asset impairment not allocated to specific transactions							
7 TOTAL							

€ thousand	Navarra	Comunidad Valenciana	País Vasco	La Rioja	Ceuta & Melilla
1 Credit institutions	-	401,275	622,597	-	-
2 Public administrations	35,839	110,804	41,717	32,433	-
2.1 Central government	-	-	-	-	-
2.2 Other	35,839	110,804	41,717	32,433	-
3 Other financial institutions	-	1,917	2	-	-
4 Non-financial companies and individual entrepreneurs	1,199,153	4,295,776	3,461,552	636,205	40,078
4.1 Construction and real estate development	248,948	1,460,923	629,544	397,742	2,027
4.2 Construction of civil engineering work	37,251	99,570	94,105	3,198	456
4.3 Other purposes	912,954	2,735,283	2,737,903	235,265	37,595
4.3.1 Large companies	336,599	686,611	1,502,190	26,571	15,629
4.3.2 SMEs and individual entrepreneurs	576,355	2,048,672	1,235,713	208,694	21,966
5 Other household and non-profit	338,343	2,168,582	848,395	120,711	53,039
5.1 Housing	209,672	1,610,361	603,775	75,045	33,458
5.2 Consumption	30,058	129,894	42,932	8,789	4,222
5.3 Other purposes	98,613	428,327	201,688	36,877	15,359
SUBTOTAL	1,573,336	6,978,354	4,974,264	789,348	93,117
6 Less: Valuation adjustments for asset impairment not allocated to specific transactions					
7 TOTAL					

Notes 23, 47 and 48 contain detailed information on this type of risk, including guarantees. In addition, the risk management section of the Directors' Report provides further comments and quantitative information, analyzing credit risk, related monitoring and control, bad debt management, total exposure to credit risk, risk concentration and country risk, including information by geographical segment, counterparty and unused credit facility.

Additionally, with respect to the concentration risk by counterparty, the maximum concentration in the Banco Popular Group does not exceed 0.71% of loans and receivables in 2012 and did not exceed 0.65% in 2011.

Credit risk includes an additional category named country risk, which may be defined as the risk arising from customers resident in a specific country due to circumstances other than ordinary commercial risks. Country risk also includes sovereign risk, transfer risk and other risks arising from international financial activities:

a) Sovereign risk arises when legal actions against a borrower or guarantor may be ineffective by reason of sovereignty.
b) Transfer risk arises when a country undergoes a generalized incapacity to pay its debts or lacks the currencies in which the debts are denominated.
c) Other risks derive from serious economic or political events such as wars, revolutions, nationalizations, etc. resulting in contractual default.

Set out below is a breakdown of the balance sheet captions affected by country risk and the related hedges contracted by the Group at December 31, 2012 and 2011.

€ thousand	Credit institutions		Loans and advances to other debtors		Contingent liabilities		Total	
2012	**Balances**	**Hedges**	**Balances**	**Hedges**	**Balances**	**Hedges**	**Balances**	**Hedges**
No significant risk	9,015	-	13,101	-	16,627	-	38,743	-
Sub-standard risk	3,259	313	951	103	5,827	721	10,037	1,137
Doubtful risk	-	-	948	666	307	169	1,255	835
Total	12,274	313	15,000	769	22,761	890	50,035	1,972
2011								
No significant risk	12,170	-	5,292	-	21,432	-	38,894	-
Sub-standard risk	3,677	137	696	72	7,534	843	11,907	1,052
Doubtful risk	-	136	978	686	120	98	1,098	920
Total	15,847	273	6,966	758	29,086	941	51,899	1,972

Liquidity risk

Liquidity risk is the risk that the entity will have difficulties fulfilling the obligations arising from its financial liabilities. These difficulties may take two forms:

a) Difficulty in liquidating balance sheet assets in order to make payments.
b) Difficulty in obtaining the necessary financing at a reasonable cost.

The Assets and Liabilities Committee (ALCO) supervises liquidity risk by means of formal procedures for the analysis and monitoring of the Group's liquidity, including contingency plans for possible departures caused by internal factors or market movements. Liquidity sensitivity is analysed periodically in different asset and liability cancellation scenarios, using time intervals from one day to one year, in the short term, from one to five years, in the medium and long term, and more than five years in the very long term. Liquidity risk is analysed using a consolidated balance sheet disaggregated based on the residual maturities of assets and liabilities. These maturities are compared to arrive at the positive or negative liquidity gap in each time interval. This balance sheet is employed to simulate situations in different liquidity scenarios. Simulations take into account two risks: systemic risk, which would affect the entire financial system and specific risk, affecting only Banco Popular. Different hypotheses are therefore used and the consequences for the balance sheet and the Bank's liquidity situation also differ. The measures to be taken, defined in the contingency plan, reflect the differences between each type of crisis. These simulations allow the quantification of a minimum amount of available assets as a second liquidity line, so as to comfortably overcome the envisaged situations.

As regards financing strategy, the Group's approach to liquidity management is highly prudent, seeking not only to minimise the cost of financing but also to avoid concentrations in terms or markets. The Group has a broad variety of sources of retail and wholesale financing, selected for each term based on cost, stability, speed of access and nature. The Group's priority financing strategy has been to attract retail liabilities through products that meet customers' needs and also bring stability to Banco Popular's balance sheet. This strategy is based on the capacity to access private individual and company customers through the Group's broad commercial network. Additionally, the Group has other sources of institutional financing as alternatives to the catalogue of financing products, so as to fulfil its objective of diversifying sources and maturities.

At December 31, 2012, assets with fixed maturities amount to €131,544 million, as compared with €118,407 million in liabilities having the same nature, representing a positive gap of €13,137 million. However, in the first 12 months, the liabilities mature more quickly than the assets, generating a negative gap that reaches €33,200 million in December 2013. This is explained basically by the maturities of assets sold under short-term repos to financial institutions, which finance a part of the assets held for trading that mature after one year. Bearing in mind the high credit quality of the assets sold under repos, mostly government securities, the repos are highly likely to be renewed at maturity.

Set out below is information on the liquidity gap for 2012 and 2011.

€ million									
2012	**To March-13**	**To June-13**	**To Sept.-13**	**To Dec-13**	**Between 2 and 5 years**	**More than 5 years**	**Total maturities**	**No maturity**	**Total**
Money market	1,436	-	-	-	-	-	1,436	681	2,117
Loans and receivables	19,620	5,853	4,932	4,826	27,220	45,040	107,491	6,953	114,444
Securities market	2,058	2,352	1,040	1,814	7,822	7,531	22,617	30	22,647
Other assets	-	-	-	-	-	-	-	18,410	18,410
Total assets	**23,114**	**8,205**	**5,972**	**6,640**	**35,042**	**52,571**	**131,544**	**26,074**	**157,618**
Retail liabilities	19,512	11,317	9,344	8,928	4,612	1,101	54,814	23,137	77,951
Wholesale liabilities	15,878	1,136	2,804	246	10,560	2,560	33,184	-	33,184
Liabilities, official bodies	7,717	111	68	70	19,496	2,947	30,409	-	30,409
Other liabilities	-	-	-	-	-	-	-	6,799	6,799
Equity*	-	-	-	-	-	-	-	9,275	9,275
Total liabilities	**43,107**	**12,564**	**12,216**	**9,244**	**34,668**	**6,608**	**118,407**	**39,211**	**157,618**
GAP	**(19,993)**	**(4,359)**	**(6,244)**	**(2,604)**	**374**	**45,963**	**13,137**	**(13,137)**	
Accumulated GAP	**(19,993)**	**(24,352)**	**(30,596)**	**(33,200)**	**(32,826)**	**13,137**		**-**	
Drawable liquid assets	**30,401**	**30,751**	**34,570**	**34,596**	**41,346**	**42,855**			
Adjusted accumulated GAP	**10,408**	**6,399**	**3,974**	**1,396**	**8,520**	**55,992**			

€ million									
2011	**To March-13**	**To June-13**	**To Sept.-13**	**To Dec-13**	**Between 2 and 5 years**	**More than 5 years**	**Total maturities**	**No maturity**	**Total**
Money market	147	-	-	-	-	-	147	375	522
Loans and receivables	16,733	6,651	4,452	4,219	26,364	34,892	93,311	7,431	100,742
Securities market	2,733	1,411	713	981	6,356	6,323	18,517	-	18,517
Other assets	-	-	-	-	-	-	-	11,145	11,145
Total assets	**19,613**	**8,062**	**5,165**	**5,200**	**32,720**	**41,215**	**111,975**	**18,951**	**130,926**
Retail liabilities	13,621	6,495	8,444	7,330	5,294	1,512	42,696	20,444	63,140
Wholesale liabilities	18,792	1,940	339	1,511	10,451	4,339	37,372	-	37,372
Liabilities, official bodies	5,561	195	77	74	10,772	1,253	17,932	-	17,932
Other liabilities	-	-	-	-	-	-	-	4,780	4,780
Equity*	-	-	-	-	-	-	-	7,702	7,702
Total liabilities	**37,974**	**8,630**	**8,860**	**8,915**	**26,517**	**7,104**	**98,000**	**32,926**	**130,926**
GAP	**(18,361)**	**(568)**	**(3,695)**	**(3,715)**	**6,203**	**34,111**		**(13,975)**	
Accumulated GAP	**(18,361)**	**(18,929)**	**(22,624)**	**(26,339)**	**(20,136)**	**13,975**		**-**	
Drawable liquid assets	**20,547**	**23,428**	**24,665**	**26,537**	**26,537**	**26,537**			
Adjusted accumulated GAP	**2,186**	**4,499**	**2,041**	**198**	**6,401**	**40,512**			

* For the purposes of these tables, necessarily convertible debentures marketed through the branch office network are recognized in Retail liabilities.

The Group has drawable liquid assets at December 31, 2012 with which it could obtain cash financing of €18,553 million. The table shows that the Group has sufficient liquid assets at all times to cover the negative gap.

The following table shows the distribution of drawable liquid assets by product at December 31, 2012 and 2011. Assets recognized off the balance sheet derive from own issues retained, asset securitisations and mortgage bonds, where knowledge of underlying risks is perfect. Virtually all liquid assets have the highest possible credit rating, making them eligible for both European Central Bank discounting operations and as collateral in operations with financial institutions and customers.

	2012		**2011**	
€ million	**Balance sheet**	**Off-balance sheet**	**Balance sheet**	**Off-balance sheet**
Central banks	1,592	-	158	-
Loans	-	-	304	-
Government debt securities	3,362	-	5,664	-
Private fixed income	9,598	4,001	1,337	3,581
Total	14,552	4,001	7,463	3,581

The Risk Management section of the Directors' Report, in this same document, provides detailed information on this matter.

19. Cash and balances with central banks

These captions in the consolidated balance sheets reflect the cash balances of the Group companies, basically the banks. The balances at the Bank of Spain relate to deposits by the Group's Spanish banks. These deposits are obligatory, in part, in order to maintain minimum reserves in each central bank, based on the credit institution's computable liabilities. Interest is paid on the balances by the central banks. Note 49 provides details of the interest received.

€ thousand	2012	2011
Cash	523,190	364,490
Central banks:		
Bank of Spain	1,380,168	64,124
Other central banks	213,449	93,013
Valuation adjustments	375	578
Total	2,117,182	522,205

Set out below is a breakdown of deposits at "Other central banks", relating to the positions held by Banco Popular Portugal, S.A. and TotalBank:

€ thousand	2012	2011
Bank of Portugal	123,060	86,709
US Federal Reserve	90,389	6,304
Total	213,449	93,013

20. Financial assets and liabilities held for trading

This reflects the amounts of asset and liability items originally defined by the Group as realizable in the short term or corresponding to the measurement of derivatives not designated as accounting hedge instruments.

Set out below is a breakdown of these captions in the consolidated balance sheets at December 31, 2012 and 2011:

€ thousand	Assets		Liabilities	
	2012	2011	2012	2011
Loans and advances to / deposits from credit institutions	-	-	-	-
Loans and advances to / deposits from other debtors / other creditors	-	-	-	-
Debt securities	126,436	140,417	-	-
Marketable debt securities	-	-	-	-
Other equity instruments	169,068	25,768	-	-
Trading derivatives	1,801,347	1,150,379	1,486,842	1,104,323
Short positions in securities	-	-	4,299	-
Other financial liabilities	-	-	-	-
Total	2,096,851	1,316,564	1,491,141	1,104,323

The fair value of the items included in Financial assets and liabilities held for trading was calculated as follows:

The fair value of all the assets and liabilities was calculated based on market quotations, prices and interest rate curves, as applicable. Most debt securities and marketable debt securities in this portfolio are traded in organized markets, as are many of the derivatives. In all cases, their quotations and prices are exactly the same as their market values. Quoted financial assets deemed to be illiquid are measured using observable market variables or internal models.

For derivatives traded bilaterally with an individual counterparty (OTC), fair value is determined by reference to derivative contracts in the organized market. Where there is no applicable reference value in an organized market, due to the nature of the derivative contract, the value is obtained using techniques that include a realistic estimate of the instrument's price, in accordance with habitual market practice, based on factors such as the time value of money, credit risk, foreign exchange rates, prices of equity instruments, volatility, liquidity, early repayment risk and administrative overheads.

The Group has not availed itself of the option provided by regulations to reclassify non-derivative financial assets outside the trading portfolio in exceptional circumstances and no reclassification has therefore been made to other portfolios.

The year-end balances of financial assets and liabilities held for trading are expressed in euro, except for the currency purchase and sale values, which are reflected in the item Trading derivatives. Note 45 contains a breakdown by maturity of this caption.

The effect of this consolidated balance sheet caption on the consolidated income statements, reflected in the item Gains or losses on financial assets and liabilities (Note 54), for the financial years ended December 31, 2012 and 2011, is set out below:

€ thousand	**Net amount**	
	2012	**2011**
On debt securities	8,339	(30,285)
On equity instruments	2,785	(27,538)
On derivatives*	142,338	64,277
On other assets	(5)	-
Total	153,457	6,454

* Includes the restatement of embedded derivatives amounting to € 79,992 th9ousand in 2012.

a) Debt securities

A breakdown of the balances of debt securities included in financial assets held for trading in the consolidated balance sheets at December 31, 2012 and 2011 is as follows:

€ thousand	**Net amount**	
	2012	**2011**
Spanish government debt securities	29,083	33,925
Treasury bills	2,855	-
Government debentures and bonds	26,228	33,925
Other book-entry debt securities	-	-
Other Spanish government debt securities	244	-
Foreign government debt securities	-	-
Issued by credit institutions	89,446	98,844
Resident	89,446	98,841
Non-resident	-	3
Other debt securities	7,663	7,648
Issued by public sector	-	-
Issued by other resident	7,663	7,648
Issued by other non-resident	-	-
Doubtful assets	-	-
Total	126,436	140,417

b) Equity instruments

Set out below is a breakdown of equity instruments included in financial assets held for trading in the consolidated balance sheets at December 31, 2012 and 2011:

€ thousand	2012	2011
Investments in Spanish companies	155,851	18,152
Credit institutions	149,987	13,882
Other resident	5,864	4,270
Investments in foreign companies	13,217	7,616
Total	169,068	25,768

c) Trading derivatives

Set out below is a breakdown of trading derivatives included in financial assets and liabilities held for trading in the consolidated balance sheets at December 31, 2012 and 2011:

€ thousand	2012			2011		
	Notional amount	Valuation		Notional amount	Valuation	
Type of risk and instrument		Positive	Negative		Positive	Negative
Foreign exchange risk	4,867,785	28,632	13,196	4,722,419	42,058	33,952
Forward transactions	4,761,938	27,718	12,040	4,513,599	38,336	30,158
Unmatured currency purchases / sales	1,575,975	4,019	84	227,437	425	440
Purchases	2,225,330	23,699	-	1,849,491	37,911	-
Sales	960,633	-	11,956	2,436,671	-	29,718
Financial swaps in different currencies	12,657	83	49	20,831	2,229	2,229
Foreign currency options	93,190	831	1,107	187,989	1,493	1,565
Bought	46,595	831	-	93,241	1,493	-
Sold	46,595	-	1,107	94,748	-	1,565
Interest rate risk	34,067,802	1,367,763	1,283,704	18,652,605	497,891	567,183
Financial futures (organized markets)	183,414	-	-	898,388	-	-
Forward interest rate agreements (FRA)	-	-	-	-	-	-
Financial swaps (IRS, CMS, etc.)	18,926,967	775,700	847,506	14,963,690	490,116	563,807
Interest rate options	14,957,421	592,063	436,198	2,790,527	7,775	3,376
Bought	8,090,769	592,063	-	596,244	1,816	1,681
Sold	6,866,652	-	436,198	2,194,283	5,959	1,695
Risk arising from shares	791,609	403,848	188,838	1,785,120	609,537	502,295
Financial futures (organized markets)	23,167	-	-	6,115	-	-
Options (organized markets)	5	-	-	-	-	-
Share options	442,062	190,663	188,838	1,756,010	609,537	494,853
Bought	232,113	190,663	-	868,906	609,537	
Sold	209,949	-	188,838	887,104	-	494,853
Other products	326,375	213,185	-	22,995	-	7,442
Risk arising from commodities	6,108	1,104	1,104	6,031	893	893
Total	39,733,304	1,801,347	1,486,842	25,166,175	1,150,379	1,104,323

The Group contracts derivatives to hedge customer interest rate risk through the branch office network, in the form of financial swaps and options. The Group in turn contracts those derivatives with other credit institutions or in organized futures and options markets. A breakdown of this type of operations with customers through the branch office network for the past two years is as follows:

€ thousand	2012			2011		
	Notional amount	Market value		Notional amount	Market value	
		Positive	Negative		Positive	Negative
Customers:						
Financial swaps	380,056	18,333	-	1,394,944	57,063	-
Options	86,099	136	14	130,789	244	141
Total network customers	466,155	18,469	14	1,525,733	57,307	141
Entities:						
Financial swaps	738,169	1,724	24,863	2,093,498	1,488	66,722
Options	209,690	8	76	160,533	90	111
Total entities	947,859	1,732	24,939	2,254,031	1,578	66,833
Total activities	1,414,014	20,201	24,953	3,779,764	58,885	66,974

The notional amount of trading derivative contracts does not reflect the risk assumed by the Group. This may be inferred from the difference between the fair values of the instruments recognized in assets and liabilities to which a risk and results measurement, management and control system is permanently applied, allowing the monitoring of all the assets included and the verification that the risk is effectively and significantly mitigated.

21. Other financial assets and liabilities at fair value through profit or loss

Assets include hybrid financial assets that are not included in financial assets held for trading and are entirely carried at fair value, and assets managed together with "other liabilities at fair value through profit or loss", or with derivative financial instruments contracted to significantly reduce their exposure to fair value changes, or with financial liabilities and derivatives in order to materially reduce overall exposure to interest rate risk. Financial assets may only be included in this category at the date of origination or acquisition and must be permanently measured, managed and controlled to identify risks, gains and losses so as to monitor all the financial assets and verify that risk is effectively and significantly reduced.

Financial liabilities at fair value through profit or loss include all hybrid financial liabilities not included in the trading portfolio that are entirely carried at fair value because the embedded derivative cannot be separated and measured. They also include the deposit component of life insurance policies linked to investment funds, which are in turn carried at fair value through profit or loss. The balances in these items relate entirely to the Group's insurance companies. Set out below is a breakdown of these items in the consolidated balance sheets for 2012 and 2011:

€ thousand	Assets		Liabilities	
	2012	2011	2012	2011
Loans and advances to / deposits from credit institutions	-	-	-	-
Loans and advances to / deposits from other debtors / other creditors	-	-	-	-
Debt securities	383,241	265,475	-	-
Marketable debt securities	-	-	-	-
Equity instruments	110,382	112,029	-	-
Subordinated liabilities	-	-	-	-
Other financial liabilities	-	-	93,060	93,761
Total	493,623	377,504	93,060	93,761

These balances relate in full to transactions denominated in euro. Note 45 contains a breakdown by maturity

The effect of these consolidated balance sheet items on the consolidated income statements, reflected in the item Gains/(losses) on financial transactions (net) (see Note 54) for the financial years ended December 31, 2012 and 2011 is set out below:

€ thousand	Net	
	2012	2011
On debt securities	678	125
On equity instruments	2,011	(2,009)
On derivatives	-	-
On other assets*	(22,292)	-
Total	(19,603)	(1,884)

* Most of the balance relates to the portfolio of Eurovida, S.A. (Portugal).

a) Debt securities

A breakdown of debt securities is as follows:

€ thousand	2012	2011
Spanish government debt securities	-	-
Treasury bills	-	-
Government debentures and bonds	-	-
Other book-entry debts	-	-
Other Spanish government debt securities	-	-
Foreign government debt securities	162,006	78,452
Issued by credit institutions	29,357	-
Resident	29,357	-
Non-resident	-	-
Other fixed-income securities	191,878	187,023
Issued by public bodies	-	-
Issued by other resident	8,274	-
Issued by other non-resident	183,604	187,023
Doubtful assets	-	-
Total	383,241	265,475

b) Equity instruments

Set out below is a breakdown of equity instruments:

€ thousand	2012	2011
Investments in Spanish companies	8,438	4,930
Credit institutions	-	-
Other resident	8,438	4,930
Investment in foreign entities	101,944	107,099
Total	110,382	112,029

22. Available-for-sale financial assets

This caption includes debt securities and equity instruments not classified in other categories. These debt securities are debentures and other securities that recognize a debt for the issuer, may or may not be marketable and accrue remuneration consisting of implicit or explicit interest. The interest rate may be fixed or linked to other rates and is stipulated contractually, and the securities may take the form of certificates or book entries.

The equity instruments item includes equity instruments not included in the financial assets held for trading caption and not relating to jointly-controlled entities or associates. They are presented in the consolidated balance sheet at fair value and value differences, net of the tax effect, are adjusted through equity.

a) Balance sheet

Set out below is a breakdown of this item in the consolidated balance sheets at December 31, 2012 and 2011:

€ thousand	2012	2011
Debt securities	10,501,094	9,860,805
Spanish government debt securities	5,993,624	5,459,293
Treasury bills	1,211,696	1,451,026
Government debentures and bonds	4,748,441	3,976,064
Other book-entry debt securities	33,487	32,203
Other Spanish government debt securities	241,865	297,610
Foreign government debt securities	780,721	601,325
Issued by credit institutions	2,773,265	2,602,990
Resident	2,262,491	2,071,652
Non-resident	510,774	531,338
Other debt securities	684,328	902,698
Issued by public bodies	-	-
Issued by other resident	546,013	753,753
Issued by other non-resident	138,315	148,945
Doubtful assets	-	-
Valuation adjustments (+/-)	27,291	(3,111)
Micro-hedge adjustments	27,293	558
Value allowances	-	(3,667)
Other	(2)	(2)
Equity instruments	341,906	544,941
Investments in Spanish companies	195,015	503,199
Credit institutions	1,785	41,046
Resident sector	193,230	462,153
Investments in foreign entities	146,891	41,742
Total	10,843,000	10,405,746

The average interest rate on debt securities available for sale, not taking into account fair value hedges, amounts to 4.05% in 2012 and 4.07% in 2011.

During 2012, assets were transferred from the available-for-sale portfolio to the held-to-maturity portfolio in the amount of €404,389 thousand. In 2011, assets totalling €69,489 thousand were transferred between these portfolios.

b) Gains/(losses) on financial transactions

The effect of this item on the consolidated income statements is reflected in the item Gains/(losses) on financial operations (net) (see Note 54). Note 45 provides a breakdown by maturity.

€ thousand	2012	2011
On debt securities	6,687	49,712
Equity instruments	4,427	3,059
Total	11,114	52,771

c) Valuation adjustments

The balance under Valuation adjustments to equity at December 31, 2012 and 2011 resulting from changes in the fair value of the assets included in Available-for-sale financial assets (Note 42), net of the tax effect, is as follows:

€ thousand	2012	2011
Debt securities	(909,770)	(893,084)
Equity instruments	(7,964)	(19,307)
Total	(917,734)	(912,391)

d)) Breakdown by currency

A breakdown by currency, other than the euro, of Available-for-sale financial assets in the consolidated balance sheets at December 31, 2012 and 2011 is as follows:

	Debt securities		Other equity instruments	
€ thousand	2012	2011	2012	2011
USD	428,486	442,991	12,981	13,341
CHF	-	-	961	688
Total	428,486	442,991	13,942	14,029

e) Impairment losses

A breakdown of the item Impairment losses on financial assets (net) - Available-for-sale financial assets (Note 62) in the consolidated income statements for the years ended December 31, 2012 and 2011 is set out below.

€ thousand	2012	2011
Debt securities	(714)	(76)
Equity instruments	100,011	30,288
Total	99,297	30,212

Impairment losses are reflected in the income statements as follows:

€ thousand	2012	2011
Provisions charged to income	101,871	37,519
Individually determined	101,871	37,470
Collectively determined	-	49
Recoveries	2,574	7,307
Total	99,297	30,212

Movements during 2012 and 2011 in Impairment allowances for debt securities have been calculated collectively.

€ thousand	Specific allowance	General allowance	Total
Opening balance 2011	3,321	802	4,123
Affecting results:			
Period provision	-	49	49
Available for the period	-	-	-
Recoveries from prior years	-	(505)	(505)
Allowances used	-	-	-
Other transfers	-	-	-
Closing balance 2011	3,321	346	3,667
Affecting results:			
Period provision	-	72	72
Available for the period	-	72	72
Recoveries from prior years	-	714	714
Allowances used	-	-	-
Other variations and transfers	(3,321)	368	(2,953)
Closing balance 2012	-	-	-

23. Loans and receivables

This consolidated balance sheet caption includes financial assets carried at amortized cost using the effective interest method. The first table shows the data for typical lending activities, loans and advances made to other institutions and other debts of users of financial services.

€ thousand	2012	2011
Loans and advances to credit institutions	4,658,658	3,970,821
Loans and advances to other debtors	108,809,293	96,771,099
Debt securities	976,182	-
Total	114,444,133	100,741,920

The following table expands the above information, showing gross lending and valuation adjustments, together with certain additional details:

€ thousand	2012	2011
Loans and advances to credit institutions	4,664,037	3,972,265
Loans and advances to other debtors	117,298,902	98,872,768
Lending to general government	3,839,449	1,211,994
Other private sectors	113,459,453	97,660,774
Residents	103,258,187	86,853,477
Non-residents	10,201,266	10,807,297
Debt securities	976,182	-
Subtotal	122,939,121	102,845,033
Valuation adjustments (±):	(8,494,988)	(2,103,113)
Asset impairment adjustments	(9,060,916)	(2,459,323)
Loans and advances to credit institutions	(5,257)	(5,305)
Loans and advances to other debtors	(9,055,659)	(2,454,018)
Debt securities	-	-
Other valuation adjustments	565,928	356,210
Loans and advances to credit institutions	(122)	3,861
Loans and advances to other debtors	566,050	352,349
Debt securities	-	-
Total	114,444,133	100,741,920

Set out below is a breakdown of loans and receivables in the consolidated balance sheets at December 31, 2012 and 2011 showing euro and foreign currency balances:

€ thousand	2012		2011	
	Euro	Foreign currency	Euro	Foreign currency
Loans and advances to credit institutions	4,477,290	186,747	3,829,990	142,275
Loans and advances to other debtors	113,565,687	3,733,215	94,880,598	3,992,170
Debt securities	976,182	-	-	-
Subtotal	119,019,159	3,919,962	98,710,588	4,134,445
Valuation adjustments:				
Loans and advances to credit institutions	(525)	(4,854)	3,375	(4,819)
Loans and advances to other debtors	(8,434,288)	(55,321)	(2,034,984)	(66,685)
Debt securities	-	-	-	-
Subtotal	(8,434,813)	(60,175)	(2,031,609)	(71,504)
Total	110,584,346	3,859,787	96,678,979	4,062,941

Set out below is a breakdown of the gross amounts of loans and advances to credit institutions by instrument:

€ thousand	2012	2011
Reciprocal accounts	59,156	38,207
Term accounts	430,048	590,536
Asset repos	170,938	530,375
Other accounts	3,831,854	2,492,469
Cheques	171,989	201,599
Clearing house	-	119,079
Doubtful assets	52	-
Total	4,664,037	3,972,265

Note 45 provides details of the residual terms of these consolidated balance sheet items. A breakdown of the gross amounts of Loans and advances to credit institutions in the Loans and receivables caption at December 31, 2012 and 2011, excluding valuation adjustments, is set out below:

€ thousand	**2012**	**2011**
By nature		
Banks operating in Spain	1,984,804	846,832
Savings banks	2,160	2,480
Credit cooperatives	6	6
Resident credit establishments	82,982	48,741
Non-resident credit establishments	2,251,106	2,223,153
Asset repos	170,938	530,375
Banks operating in Spain	30,435	529,904
Savings banks	-	471
Credit cooperatives	139,402	-
Non-resident credit establishments	1,101	-
Cheques	171,989	201,599
Clearing house	-	119,079
Doubtful assets	52	-
Other	-	-
Total	4,664,037	3,972,265
By currency		
In euros	4,482,144	3,829,990
In foreign currencies	181,893	142,275
Total	4,664,037	3,972,265
Non-performing loans and related allowances		
Doubtful assets	52	-
Asset impairment adjustments	(5,257)	(5,305)
Of which country risk:	(185)	(134)

The average interest rate was 0.79% and 1.23% in 2012 and 2011, respectively, as explained in the yields and costs section of the accompanying Directors' Report. Set out below is a breakdown of gross lending in the main foreign currencies:

€ thousand	**2012**	**2011**
USD	118,827	61,148
GBP	15,729	8,757
CHF	8,162	7,661
JPY	27,964	45,749
Other	11,211	18,960
Total	181,893	142,275

The balances of Loans and advances to other debtors in the Loans and receivables caption at December 31, 2012 and 2011, excluding valuation adjustments by type, are analyzed below:

€ thousand	2012	2011
Bill discounting	3,740,553	4,304,512
Mortgage loans	52,299,261	47,222,458
Other secured loans	1,723,742	1,853,918
Asset repos	6,792,524	6,210,245
Other term loans	32,561,569	25,662,638
Finance leases	2,732,177	2,749,935
Demand and sundry balances	3,507,002	3,204,560
Other loans	232,652	597,669
Doubtful assets	13,709,422	7,066,833
Total loans and advances to other debtors	117,298,902	98,872,768
Valuation adjustments (±)	(8,489,609)	(2,101,669)
Of which asset impairment adjustments	(9,055,659)	(2,454,018)
Total	108,809,293	96,771,099

The amounts recognized in the items “Mortgage loans” and “Other secured loans” relate to loans formally secured by mortgages, security pledges, cash deposits or other collateral that in themselves guarantee the full repayment of the loan. Loans that are partially secured are recognized in the item “Other term loans”.

In the case of doubtful assets, the extension or re-arrangement of the loans does not affect their doubtful status unless there is reasonable assurance that the customer will make payment as scheduled or new effective guarantees are furnished and, in both cases, ordinary outstanding interest is collected.

The Group has a number of guarantees for each type of risk which partially or fully mitigate the risks to which commercial activities are exposed and may be called in should the principal debtor default. The Group prudently manages its guarantee policy to minimize the risks to which its lending activity is exposed. The following table contains an analysis of the guarantees, which are ordered in terms of liquidity and assurance of repayment. Surplus guarantees for over-guaranteed loans were eliminated when the table was prepared. The efforts made by the Group in the past year to strengthen collateral for its lending activities may be observed in the table.

€ thousand	2012	2011
Loans and advances to other debtors	117,298,902	98,872,768
Related collateral		
Cash	9,473,268	7,009,803
Public sector and credit institutions	9,921,048	7,756,835
Mortgages	66,337,706	60,546,631
Securities	449,348	4,955,669
Bank guarantees and other	2,918,749	5,880,697
Total collateral	89,100,119	86,149,635
Coverage %		
Cash	8.08	7.09
Public sector and credit institutions	8.46	7.85
Mortgages	56.55	61.24
Securities	0.38	5.01
Bank guarantees and other	2.49	5.94
Total collateral	75.96	87.13
Impairment adjustment	9,055,659	2,454,018
Coverage %	7.72	2.48

Set out below is an analysis of Loans and advances to other debtors by borrower sector. Note 45 indicates the residual terms of these balances.

€ thousand	2012	2011
Lending to general government:	3,839,449	1,211,994
Central government	2,183,442	150
Other term loans	2,183,442	150
Asset repos	-	-
Regional government	1,415,981	1,124,133
Other term loans	1,415,981	1,124,133
Asset repos	-	-
Local public authorities	234,644	86,567
Other term loans	234,644	86,567
Asset repos	-	-
Social Security	1,164	1,059
Other term loans	1,164	1,059
Asset repos	-	-
Doubtful assets	4,218	85
Private sectors:	113,459,453	97,660,774
Residents:	103,258,187	86,853,477
Bill discounting	3,354,068	3,921,701
Secured loans	50,107,260	45,176,440
Mortgage	48,589,038	43,359,229
Other	1,518,222	1,817,211
Asset repos	6,792,524	6,210,245
Other term loans	24,051,050	19,413,760
Finance leases	2,399,760	2,395,940
Demand and sundry balances	3,027,958	2,481,397
Other loans	232,412	590,188
Doubtful assets	13,293,155	6,663,806
Non-residents:	10,201,266	10,807,297
Bill discounting	330,401	382,811
Secured loans	3,915,743	3,899,936
Mortgage	3,710,223	3,863,229
Other	205,520	36,707
Asset repos	-	-
Other term loans	4,731,507	5,036,969
Finance leases	332,417	353,995
Demand and sundry balances	478,909	723,163
Other loans	240	7,481
Doubtful assets	412,049	402,942
Total loans and advances to other debtors	117,298,902	98,872,768
Valuation adjustments (±)	(8,489,609)	(2,101,669)
Of which asset impairment adjustments	(9,055,659)	(2,454,018)
Total	108,809,293	96,771,099

Set out below is a breakdown of loans and advances to other debtors net of value adjustments by activity, also showing the value of collateral and the carrying amount of the loans as a percentage of the collateral::

				Secured loan, Loan to value				
	Total	Of which: Secured by real estate	Of which: Secured by other assets	40% or less	Over 40% to 60%	Over 60% to 80%	Over 80% to 100%	Over 100%
1 General government	3,910,023	45,681	1,052	5,374	16,217	15,136	7,282	2,724
2 Other financial institutions	7,039,204	51,130	6,795,909	14,703	28,053	-	6,804,283	-
3 Non-financial corporations and individual entrepreneurs	67,470,178	37,410,971	1,888,272	11,422,388	8,799,024	7,520,723	6,202,367	5,354,741
3.1 Construction and property development (b)	19,539,854	17,120,443	145,485	4,531,509	3,625,933	4,113,005	2,696,487	2,298,994
3.2 Civil engineering	2,172,178	590,255	57,370	142,286	27,752	16,003	209,054	252,530
3.3 Other purposes	45,758,146	19,700,273	1,685,417	6,748,593	5,145,339	3,391,715	3,296,826	2,803,217
3.3.1 Large companies (c)	15,620,108	3,469,537	807,684	967,165	873,442	645,633	991,324	799,657
3.3.2 SMEs and individual entrepreneurs (c)	30,138,038	16,230,736	877,733	5,781,428	4,271,897	2,746,082	2,305,502	2,003,560
4 Other households and non-profit institutions serving households (ISFLSH)	34,069,102	30,217,132	247,442	7,013,263	8,629,927	10,892,244	3,105,265	823,875
4.1 Housing (d)	24,928,964	24,769,430	19,336	4,863,339	6,965,545	9,773,016	2,684,525	502,341
4.2 Consumption (d)	2,344,772	823,819	54,541	358,533	222,202	191,737	66,469	39,419
4.3 Other purposes (d)	6,795,366	4,623,883	173,565	1,791,391	1,442,180	927,491	354,271	282,115
SUBTOTAL	112,488,507	67,724,914	8,932,675	18,455,728	17,473,221	18,428,103	16,119,197	6,181,340
5 Less: Asset impairment adjustments not allocated to specific loans	3,679,214							
6 TOTAL	108,809,293	67,724,914	8,932,675	18,455,728	17,473,221	18,428,103	16,119,197	6,181,340
MEMORANDUM ITEM								
Refinancing operations refinanced and restructured	12,208,381	10,214,580	542,700	3,558,963	2,101,418	2,008,259	1,318,895	1,769,745

Loans and advances to other debtors include refinanced or restructured loans. The balances of these loans are analyzed below:

PERFORMING LOANS						
	Fully secured by real estate		40% secured or less		Unsecured	
	No. of loans	Gross amount	No. of loans	Gross amount	No. of loans	Gross amount
1. General government	-	-	-	-	-	-
2. Other loans, legal entities & individual entrepreneurs	12,959	5,026,506	894	721,905	8,907	956,996
Financing for construction/property development	3,182	2,662,173	159	299,993	530	221,905
3. Other individuals	10,797	760,887	481	77,288	8,181	118,607
TOTAL	23,756	5,787,393	1,375	799,192	17,088	1,075,603

SUBSTANDARD LOANS	Fully secured by real estate		40% secured or less		Unsecured	
	No. of loans	Gross amount	No. of loans	Gross amount	No. of loans	Gross amount
1. General government	-	-	-	-	-	-
2. Other loans, legal entities & individual entrepreneurs	168	807,943	31	438,628	20	105,500
Financing for construction/property development	140	705,394	26	425,133	16	49,963
3. Other individuals	1	1,912	-	-	2	490
TOTAL	169	809,855	31	438,628	22	105,989

DOUBTFUL LOANS	Fully secured by real estate		40% secured or less		Unsecured	
	No. of loans	Gross amount	No. of loans	Gross amount	No. of loans	Gross amount
1. General government	-	-	-	-	-	-
2. Other loans, legal entities & individual entrepreneurs	7,015	2,840,449	837	1,203,042	4,755	612,206
Financing for construction/property development	2,196	1,817,130	204	707,936	226	126,182
3. Other individuals	4,579	323,091	183	22,500	1,579	24,806
TOTAL	11,594	3,163,540	1,020	1,225,542	6,334	637,012

TOTAL	No. of loans	Gross amount	Specific allowance
1. General government	-	-	-
2. Other loans, legal entities & individual entrepreneurs	35,586	12,713,175	1,798,734
Financing for construction/property development	6,679	7,015,811	1,233,113
3. Other individuals	25,803	1,329,581	35,601
TOTAL	61,389	14,042,756	1,834,335

The average probability of default (PD) of refinanced/restructured loans in a performing situation is as follows:

	Average PD
1. General government	-
2. Other loans, legal entities & individual entrepreneurs	17.2%
Financing for construction/property development	19.2%
3. Other individuals	12.4%

Refinancing/restructuring policy:

Refinancing/restructuring operations form part of the Group's ongoing loan portfolio management and are the result of continuous monitoring to anticipate portfolio destabilization or debt collection difficulties and prepare solutions in advance.

These operations become substantially more relevant in unfavourable macroeconomic environments, since they are caused by a customer's incapacity to meet the obligations acquired with the Bank. The Group then detects the alert signals and assesses the possibility of adapting the terms of the obligations to the customer's new payment capacity and/or of improving collateral obtained for the original operation.

The Group's use of refinancing/restructuring operations requires basic common practices that allow effective monitoring and control over the risks inherent in the operations, as well as a flexible approach to solutions tailored to each customer's circumstances.

The Banco Popular Group employs refinancing/restructuring operations in the following circumstances:

* The customer has the capacity and the intention to make payments.
* The refinancing/restructuring operation will improve the Bank's position in terms of expected loss.
* The new terms will not encourage the customer to delay or suspend the fulfilment of payment obligations.

The Group's arrangement of refinancing/restructuring operations is governed by the following general principles:

* Refinancing/restructuring operations are only applicable to loans granted into by the Banco Popular Group. Refinancing/restructuring operations for loans granted by third parties will not be considered in any circumstances.
* The proposed refinancing/restructuring will not increase the expected loss on the original loan. Refinancings that are detrimental to collateral will not be considered in any circumstances.
* In general, mortgage loans may not be novated into personal loans, unless the mortgages are insufficient at the novation date and the new personal guarantee furnished provides additional surety.
* In order to access refinancing/restructuring, certain conditions must be fulfilled; in particular, the Group must have a minimum experience of 24 months with the borrower and payments must have been made in due time and form for at least 12 months.

The following principles are rigorously applied during the suitability analysis of a refinancing/restructuring operation and the definition of the specific terms, while also taking into account exceptional circumstances:

* Customer risk is considered as a whole and not only the risk of the original loan.
* Before approving a debt restructuring, all alternatives and possible impacts must be evaluated to ensure effectiveness and restrict excessive use of restructurings.
* Collateral, consolidation of collateral and expected evolution of collateral values are analysed in detail.
* The Bank's Legal Services must be involved until the operation is completed, taking care to correctly formalise new guarantees and avoid any detrimental impact on existing collateral.
* The proposal/design or decision process will involve the Bank's risk and debt restructuring areas at the relevant functional levels.
* Once the operation is approved, it will be specifically monitored until the obligations are extinguished. To this end, the most representative operations will be subject to special monitoring and may even be individually assigned to Group managers.

The Banco Popular Group has defined different treatment for refinancing/restructuring operations based on risk type:

* Non-property exposure to legal entities: to authorise any refinancing/restructuring operation, the Group must demonstrate the borrower's capacity to fulfil the obligations deriving from the proposed loan novation. If the overall restructuring of the borrower's debt is deemed necessary, it must be studied and negotiated with the financial institutions to which the borrower is contractually bound. Refinancing/restructuring operations for borrowers without a suitable obligation fulfilment record will not be contemplated. Efforts will be made to improve collateral, provided this does not result in a loss for the Bank.

* Non-property exposure to natural persons: to authorise any refinancing/restructuring operation, the Group must demonstrate the customer's capacity to fulfil the obligations deriving from the proposed loan novation. This must include all the borrower's loans under personal guarantee that show signs of impairment, particularly overdrafts and credit card balances, in view of the greater risk associated with these products. Refinancing/restructuring operations for borrowers without a suitable obligation fulfilment record will not be contemplated. The coverage level (collateral level) of the operations must be improved so as to avoid a loss for the Group.

* Property exposure to legal entities: to authorise any refinancing/restructuring operation, the Group will seek to facilitate fulfilment of the borrower's obligations by bringing payment periods into line with the customer's fund generation dates. The Group will also seek new property or personal guarantees and suitable management of the mortgaged assets by the borrower in order to preserve their value. In land refinancings, grace periods for principal and interest will not be admissible, as a general rule. A grace period for principal may be established by adapting the period to the borrower's circumstances and the market situation. The ultimate purpose of refinancings of property developments in progress will be to facilitate completion of the development until the first occupancy licence is obtained. In completed property developments, the Group will analyse the possibility of providing facilities while the finished product is marketed.

The Group specifically monitors refinancing/restructuring operations to the extinction of the obligation, analyzing in detail the evolution of the operations and fulfilment of agreed terms. This special monitoring procedure will only be discontinued if the conclusion is drawn, following a comprehensive review of the borrower's assets and finances, that the borrower is unlikely to have financial difficulties and will therefore be in a position to make payments of principal and interest on all loans from the Bank, in due time and form. Principal and interest payments must have been made, at least two years must have elapsed since the operation and the loan principal must have decreased by at least 20%. Such situations will also be specifically addressed by the Group's internal auditors.

From an accounting viewpoint, the refinancing/restructuring of loans that are not up to date with payments does not affect non-performing loan status or cause them to be reclassified to a prior category, unless there is reasonable assurance that the customer will make payments on a timely basis or new effective collateral is furnished; in both cases, ordinary outstanding interest must at least be collected.

The balances of the securitisation operations carried out by the Group in 2012 and 2011 that were not derecognized from assets because the risks and rewards of the operations were not substantially transferred are recognized at amortized cost based on the instrument securitized.

Note 69 provides information and comments on the securitisation operations completed. The amounts recognized in the items "Public sector" and "Private sector, Residents" include € 6,129,119 thousand and € 7,761,801 thousand at year-end 2012 and 2011, respectively, in respect of receivables that have been securitized but remain on the balance sheet since the legal requirements to derecognize them are not fulfilled, due mainly to the Group's acquisition of bond series having a lower credit rating, which reflect the expected loss on the loan portfolio assigned.

Note 8 to these consolidated financial statements describes the characteristics of the special purpose entities set up as asset securitization vehicles in the past two years. Pursuant to disclosure requirements, set out below is a breakdown of the securitized receivables, including the initial amounts and balances outstanding at each year end, and the date of the operations, for each securitisation fund:

€ thousand			Balance at 31 December	
	Date of operation	Initial amount	2012	2011
IM Banco Popular FTPYME1, FTA	dic-04	2,000,000	187,244	241,357
GAT FTGENCAT 2005, FTA	dic-05	200,100	19,303	25,572
IM Grupo Banco Popular Empresas 1, FTA	sep-06	1,832,400	312,289	374,114
IM Grupo Banco Popular FTPYME I, FTA	dic-06	2,030,000	431,093	514,687
IM Grupo Banco Popular FTPYME II, FTA	jul-07	2,039,000	300,295	381,071
IM Banco Popular FTPYME 2, FTA	sep-08	1,000,000	389,413	456,506
IM Grupo Banco Popular Empresas 3, FTA	jul-09	2,250,000	739,937	914,770
IM Banco Popular MBS 2, FTA	mar-10	685,000	582,032	610,811
IM Grupo Banco Popular Empresas 4, FTA	abr-11	2,500,000	1,103,564	1,815,723
IM Grupo Banco Popular Leasing 2, FTA	jun-11	1,500,000	763,480	1,202,160
IM Banco Popular FTPYME 3, FTA	nov-11	1,300,000	906,633	1,225,030
EDT FTPYME Pastor 3, FTA	dic-05	520,000	41,793	-
GC FTPYME Pastor 4, FTA	nov-06	630,000	97,199	-
TDA FTPYME Pastor 9, FTA	dic-10	440,000	254,844	-
Total		18,926,500	6,129,119	7,761,801

Note 69 “Securitization” provides all the relevant information on these operations, together with Note 35 “Financial liabilities at amortized cost”, in the section “Debt securities”.

A breakdown by nature of these securitized lending operations is as follows:

€ thousand	2012	2011
General government	1,406	2,179
Personal	2,169,985	3,227,372
Leases	773,472	1,202,160
Mortgage loans	3,169,697	3,330,091
Other collateral	14,558	-
Total	6,129,119	7,761,801

Set out below is a breakdown by Autonomous Region of Spain, based on the location of the branches through which the gross lending transactions with public and private sector resident borrowers were arranged, and transactions generated in the Portuguese branch network with Spanish residents, irrespective of the utilization of the funds:

€ thousand	**2012**	**2011**
Branches in Spain	106,959,342	87,944,302
Andalusia	17,677,728	16,165,090
Aragón	1,557,074	1,158,325
Asturias	1,855,351	1,301,871
Balearic Islands	1,953,241	1,949,743
Canary Islands	2,265,336	1,863,431
Cantabria	370,656	298,153
Castilla-La Mancha	2,380,893	2,121,794
Castilla y León	5,712,156	5,166,041
Catalonia	12,110,035	10,150,548
Extremadura	920,579	864,017
Galicia	11,764,924	4,917,216
Madrid	33,075,052	29,099,649
Murcia	3,253,595	2,507,343
Navarre	1,210,135	1,167,088
Basque Country	3,271,137	2,877,424
La Rioja	625,112	517,393
Valencia	6,898,332	5,758,003
Ceuta	27,300	29,670
Melilla	30,706	31,503
Branches in Portugal	138,294	121,169
Total	107,097,636	88,065,471

Set out below is a breakdown by country of the branches in which the credit transactions with non-residents were arranged:

€ thousand	**2012**	**2011**
Spain	3,112,120	3,135,779
Portugal	6,023,229	6,664,738
USA	1,065,917	1,006,780
Total	10,201,266	10,807,297

The average interest rate on loans and advances to other debtors was 4.49% in 2012 and 4.25% in 2011.

Set out below is a breakdown of loans and advances to other debtors into euros and foreign currencies, based on the currency in which the loan will be repaid, irrespective of the currency in which it was arranged:

€ thousand	**2012**		**2011**	
	Euro	**Foreign currency**	**Euro**	**Foreign currency**
Lending to general government:	3,839,449	-	1,211,994	-
Central government	2,183,442	-	150	-
Regional government	1,415,981	-	1,124,133	-
Local public authorities	234,644	-	86,567	-
Social Security	1,164	-	1,059	-
Doubtful assets	4,218	-	85	-
Private sectors:	109,726,238	3,733,215	93,668,604	3,992,170
Residents:				
Bill discounting	3,354,068	-	3,921,701	-
Secured loans	48,692,594	1,414,666	43,804,563	1,371,877
Mortgage	47,220,110	1,368,928	42,097,330	1,261,899
Other	1,472,484	45,738	1,707,233	109,978
Asset repos	6,792,524	-	6,210,245	-
Other term loans	23,559,632	491,418	18,623,776	789,984
Finance leases	2,399,760	-	2,395,940	-
Demand and sundry balances	3,011,551	16,407	2,470,969	10,428
Other loans	231,838	574	590,188	-
Doubtful assets	13,248,053	45,102	6,642,421	21,385
Non-residents:				
Bill discounting	330,401	-	382,811	-
Secured loans	3,046,689	869,054	3,071,142	828,794
Mortgage	2,865,523	844,700	3,046,826	816,403
Other	181,166	24,354	24,316	12,391
Asset repos	-	-	-	-
Other term loans	3,917,520	813,987	4,153,123	883,846
Finance leases	332,417	-	353,995	-
Demand and sundry balances	436,620	42,289	712,149	11,014
Other loans	-	240	-	7,481
Doubtful assets	372,571	39,478	335,581	67,361
Total loans and advances to other debtors	113,565,687	3,733,215	94,880,598	3,992,170
Valuation adjustments (±)	(8,434,288)	(55,321)	(2,034,984)	(66,685)
Total	105,131,399	3,677,894	92,845,614	3,925,485

A breakdown of gross loans and receivables denominated in foreign currencies by the currency in which the transactions were arranged is as follows:

€ thousand	**2012**	**2011**
USD	1,978,606	1,738,788
GBP	135,371	133,902
CHF	302,645	377,595
JPY	1,065,470	1,641,987
Other	195,802	33,213
Total	3,677,894	3,925,485

The item "Other loans" in loans and advances to other debtors is analyzed below:

€ thousand	2012	2011
Financial transactions pending settlement	21,015	13,016
Cash guarantees provided	64,694	454,258
Fees for financial guarantees	23,047	20,434
Other	123,896	109,961
Total	232,652	597,669

The balance in "Cash guarantees provided" includes cash with European clearing houses securing repos of the Entity's own securities.

Fees for financial guarantees reflect the present value of future cash flows pending collection, with a balancing entry in "Other financial liabilities", from where the relevant amount is taken to the income statement, on a straight-line basis, as fee and commission income.

Movements in 2012 and 2011 in the impairment of loans and receivables, through the income statement (Note 62) are as follows:

€ thousand	2012	2011
Loans:		
Provisions	7,214,077	2,399,601
Current year releases	(1,521,170)	(552,808)
Recoveries from prior years	(1,201,276)	(782,665)
Write-offs	687	24,284
Recoveries of bad debts	(281,542)	(148,254)
Total	4,210,776	940,158

Set out below is a breakdown at December 31, 2012 and 2011 of asset impairment adjustments in the caption Loans and receivables:

€ thousand	2012	2011
By type of coverage:		
Specific allowance	9,059,616	2,360,921
Credit institutions	5,072	5,172
Residents	8,654,188	2,033,025
Non-residents	400,356	322,724
General allowance	-	97,282
Residents	-	75,552
Non-residents	-	21,731
Country-risk allowance	1,300	1,120
Credit institutions	185	133
Non-residents	1,115	987
Total	9,060,916	2,459,323

Movements during 2012 and 2011 in asset impairment adjustments in the caption Loans and receivables are as follows:

€ thousand	Specific allowance	General allowance	Country-risk allowance	Total
Opening balance 2011	2,057,006	303,337	1,183	2,361,526
Affecting results:				
Provisions and releases	1,839,252	7,541	-	1,846,793
Recoveries	(571,890)	(210,715)	(60)	(782,665)
Provisions applied	(869,331)	-	-	(869,331)
Other movements and transfers	(94,116)	(2,881)	(3)	(97,000)
Closing balance 2011	2,360,921	97,282	1,120	2,459,323
Affecting results:				
Provisions and releases	5,690,922	1,913	72	5,692,907
Recoveries	(1,048,601)	(152,565)	(110)	(1,201,276)
Provisions applied	(1,209,581)	-	-	(1,209,581)
Other movements and transfers*	3,265,955	53,370	218	3,319,543
Closing balance 2012	9,059,616	-	1,300	9,060,916

* Includes consolidation scope changes due to the inclusion of the Banco Pastor Group.

Set out below is a breakdown showing individual and collective provisions:

€ thousand	2012	2011
Determined individually	5,381,702	794,597
Determined collectively	3,679,214	1,664,726
Total	9,060,916	2,459,323

Set out below is a breakdown of the carrying amounts of Loans and advances to other debtors matured and not impaired, by debtor residence and period since default:

€ thousand	2012			2011		
	Residents	Non-residents	Total	Residents	Non-residents	Total
To 1 month	98,197	50,891	149,088	755,087	42,093	797,180
From 1 to 2 months	574,805	1,213	576,018	120,921	-	120,921
From 2 to 3 months	584,880	7,109	591,989	90,598	5,717	96,315
Total	1,257,881	59,213	1,317,094	966,605	47,810	1,014,415

Accumulated interest accrued but not collected on impaired financial assets to the interruption of interest accrual due to their classification as doubtful assets amounted to € 919,347 thousand in 2012 and € 219,581 thousand in 2011.

Set out below is a breakdown of non-performing loans, defined as the principal of impaired financial assets plus related interest due and not collected that have been derecognized because recovery is deemed to be remote.

Derecognition does not preclude the instigation by the Group of legal actions to recover the receivables.

The definitive derecognition of these accounts occurs when the amounts due are recovered, the debt is forgiven, the statue-of-limitation period expires or for other reasons.

€ thousand	2012	2011
Balance at 31 December of previous period	3,508,119	2,771,455
Recognition: Charged to asset impairment adjustments	1,019,965	702,489
Charged directly to income statement*	138,495	191,860
Interest due but not collected	346,623	67,323
Other	36,458	3,843
Change in consolidation scope	1,357,397	-
Total recognition	2,898,938	965,515
Derecognition: Recovery in cash of principal	152,342	120,152
Recovery in cash of interest due but not collected	12,681	12,778
Forgiven	197,625	91,693
Statute barred	-	-
Foreclosure of tangible assets	9,298	3,398
Foreclosure of other assets	-	-
Debt restructuring	1	238
Other items	1,679,254	592
Total derecognition	2,051,201	228,851
Net change due to exchange differences	142	-
Balance at 31 December of current period	4,355,998	3,508,119

*Includes losses caused by agreements to cancel receivables from customers in addition to write-offs.

Property market

Pursuant to the Popular Group's transparency policy, which is its calling card, there follows information on the Group's exposure to the property market in Spain.

Construction and property development

The Group's exposure to these market sectors in Spain is analysed in the following tables:

Financing for construction and property development and related allowances.

€ million	Gross amount	Surplus over value of collateral	Specific allowance
Financing for construction and property development (business in Spain)	21,160	6,423	6,747
- Of which: Doubtful	6,778	2,286	2,392
- Of which: Substandard	2,352	845	676
- Of which: General allowances			3,679
Memorandum item:			
- Write-offs	1,156		
Memorandum item:	**Carrying amount**		
Total loans and advances to other debtors, excluding general government (business in Spain)	97,844		
Total assets (total businesses)	157,618		
Value adjustments and credit risk allowances. Total general allowance (total businesses)	-		

Set out below is a breakdown of this financing by type of collateral and purpose of the transaction:

Breakdown of financing for construction and property development

€ million	
	Gross amount
Without mortgage guarantee	2,798
With mortgage guarantee	18,362
1 Completed buildings	9,002
1.1 Housing	4,786
1.2 Other	4,216
2. Buildings under construction	1,479
2.1 Housing	1,291
2.2 Other	188
3 Land	3,524
3.1 Developed land	3,153
3.2 Other land	371
4 Other collateral	4,357
TOTAL	21,160

As regards exposure to the retail mortgage market, the following table contains details of home loans granted in Spain:

€ million		
	Gross amount	**Of which: doubtful**
Home loans	19,983	867
- Without mortgage guarantee	112	2
- With mortgage guarantee	19,871	865

The following table shows exposure as a percentage of the appraised value of buildings, for the home loans with mortgage guarantees reflected in the previous table:

Breakdown of secured home loans by total risk as a percentage of the latest available appraised value (Loan-to-Value).

€ million						
	RISK AS % OF LATEST AVAILABLE APPRAISED VALUE (loan to value)					
	40% or less	Over 40% to 60%	Over 60% to 80%	Over 80% to 100%	Over 100%	TOTAL
Gross amount	3,593	5,561	7,971	2,226	520	19,871
Of which: doubtful	107	130	376	142	110	865

Finally, set out below is information on the assets awarded in Spain to Group entities (non-current assets held for sale, inventories and investment property):

€ million		
	Carrying amount	Of which: Asset impairment adjustments
Assets from financing for construction and property development companies	3,772	3,613
1 Completed buildings	1,791	898
1.1 Housing	1,418	685
1.2 Other	373	213
2 Buildings under construction	391	440
2.1 Housing	353	403
2.2 Other	38	37
3 Land	1,590	2,275
3.1 Developed land	790	1,179
3.2 Other land	800	1,096
Assets from home loan mortgages	665	351
Other assets awarded	688	386
Equity instruments, shareholdings and financing granted to non-consolidated companies holding such assets	277	841

Set out below are the figures for 2011:

€ million			
	Gross amount	Surplus over	Specific allowance
Financing for construction and property development (business in Spain)	16,481	4,894	990
- Of which: Doubtful	3,469	1,104	699
- Of which: Substandard	2,243	992	291
Memorandum item:			
- Write-offs	728		
Memorandum item:	**Carrying amount**		
Total loans and advances to other debtors, excluding general government (business in Spain)	87,392		
Total assets (total businesses)	130,926		
Value adjustments and credit risk allowances. Total general allowance (total businesses)	114		

€ million	
	Gross amount
Without mortgage guarantee	2,304
With mortgage guarantee	14,177
1 Completed buildings	7,115
1.1 Housing	3,733
1.2 Other	3,382
2. Buildings under construction	1,548
2.1 Housing	922
2.2 Other	626
3 Land	2,788
3.1 Developed land	2,292
3.2 Other land	496
4 Other collateral	2,726
TOTAL	16,481

€ million	Gross amount	Of which: doubtful
Home loans	15,120	458
- Without mortgage guarantee	55	-
- With mortgage guarantee	15,065	458

€ million	RISK AS % OF LATEST AVAILABLE APPRAISED VALUE (loan to value)					
	40% or less	Over 40% to 60%	Over 60% to 80%	Over 80% to 100%	Over 100%	TOTAL
Gross amount	2,639	3,829	5,749	2,183	666	15,065
Of which: doubtful	82	88	188	89	10	458

€ million	Carrying amount	Of which: Asset impairment adjustments
Assets from financing for construction and property development companies	3,105	1,234
1 Completed buildings	1,142	380
1.1 Housing	908	292
1.2 Other	234	88
2 Buildings under construction	459	184
2.1 Housing	449	180
2.2 Other	10	4
3 Land	1,503	670
3.1 Developed land	656	288
3.2 Other land	847	382
Assets from home loan mortgages	442	193
Other assets awarded	481	213
Equity instruments, shareholdings and financing granted to non-consolidated companies holding such assets	416	625

Property risk management:

Control over outstanding exposure is a relevant part of optimal credit risk management. The Group has established a system of continuous credit risk monitoring, the primary objective being to anticipate portfolio impairment; the areas involved in risk management implement actions to prevent delinquency through the continuous monitoring of loans.

The Banco Popular Español Group has developed control, follow-up and monitoring instruments and mechanisms specific to property risks; the Commercial Network and specialised Departments execute a variety of measures to stabilise risks in the planning and development phase, or in the collection and recovery phase once the ordinary channels have been exhausted.

In general terms, considerable analysis and reporting tasks are performed by the Risk, Risk Monitoring and Global Risk Management Departments, and by Delinquency General Management, through their Restructuring, Recoveries and CARI units. A risk management control document is prepared, containing detailed information for senior management on the distribution and evolution of the mortgage portfolio: by year arranged, segment, geographic location, stress rate, LTV, project's percentage of completion, etc. Comprehensive reports are issued periodically on financing granted to developers, containing itemised information on the status and prospects of companies and their projects; these reports are used to support management decisions and review and follow-up on relationship policies.

Property business case files, in different phases, are managed by teams specialised in Recoveries (CARI), Debt restructuring (teams in Branches, Regional offices, Territorial offices and the Central office) and the Recoveries and Collections Office (teams in Territorial offices and the Central office). These teams use specific software tools to manage and prioritise actions; they are engaged exclusively in managing case files showing signs of destabilisation or past due and non-performing loans (Recoveries and Collections), and are appraised based on the results of their work in terms of the number of case files managed, risk and capital consumption.

A campaign has been designed as an additional measure to support risk diversification and exit from developer financing operations, through subrogation to buyers, including technical support and based in Aliseda's website, and the Territorial offices have an employee assigned to business with developers, who negotiates with and includes companies in the campaign; sales and subrogations are also promoted through the Commercial Network and Aliseda.

The Banco Popular Group manages all property assets acquired through its company Aliseda, the ultimate objectives being to generate or maintain value by selling assets that are sellable and managing others that are currently more difficult to sell so as to make the best possible sale.

The Policies and Strategies followed are based on the type of property asset, distinguishing between Finished products, Work in progress, Assets under lease and Land.

Finished products

The aim is to sell them. Banco Popular has designed two specific measures:

An external network of commercial collaborators has been created, controlled by Aliseda, to serve their own contacts and contacts generated by the network, throughout Spain, with people interested in new or second-hand products. This network has a pyramid structure comprising principal sales representatives assigned to geographic zones who control commercial agents closer to the product's location, so as to facilitate sales.

The Banco Popular Group's employee network plays a highly significant role in contacting people who might be interested in buying this type of assets; the Bank remunerates employees who make contacts that lead to sales, this being a commercial channel with huge potential.

Work in progress:

For land acquired by the Banco Popular Group on which there is some kind of construction, the physical and administrative status of the construction site is analysed and reports are issued; Aliseda takes all steps necessary to complete the construction work and sell the finished products through the above-mentioned channels.

Assets under lease:

Assets acquired by or awarded to the Banco Popular Group that are under lease are managed by Aliseda in order to maintain occupancy and ensure returns. The purpose is to achieve occupancy and generate rent so as to create an appealing product that may be sold to institutional and/or private investors, this being the ultimate aim.

Land:

Banco Popular distinguishes between three main types of land asset: pre-development land, zoned land and pre-zoning land.

a) Pre-development land: sites that only require an Execution project and the obtainment of a building permit in order to be developed.

The market closest to the site location is studied and all necessary development costs to transform the land into a finished product comprising houses, business premises, industrial buildings, offices, etc. are analyzed. The objective is to sell the asset to developers.

b) Zoned land: sites that are fully classified in a General Zoning Plan or secondary regulation but that are pending a planning or management formality.

Our aim is to complete the necessary development planning and formalities to turn this land into Pre-development land. The achievement of these objectives will facilitate sales, which is the purpose of all the actions described above.

c) Pre-zoning land: very few sites and virtually incidental in nature; the aim in such cases is to ensure that the sites are included in the relevant municipal zoning plan so as to then take the steps indicated in letters b) Zoned land; and a) Pre-development land.

24. Held-to-maturity investment portfolio

At December 31, 2012 and 2011, the balance in the held-to-maturity investment portfolio amounted to € 11,014,472 thousand and € 7,568,415 thousand, respectively. The securities classified in this portfolio meet the applicable requirements as regards an active market, fixed maturity date and determined or determinable cash flows, and the Group has the firm intention and financial capacity to retain them to maturity. During 2012, assets totalling € 404,389 thousand were transferred to this portfolio from the available-for-sale portfolio. In 2011, such transfers totalled € 69,489 thousand.

The average interest rate on the held-to-maturity investment portfolio, excluding fair value hedges, was 4.09% in 2012 and 3.63% in 2011.

25. Changes in the fair value of the hedged items in portfolio hedges of interest rate risk

During 2012 the Banco Popular Group contracted portfolio hedges. The balance this item in the current year amounts to € 222,647 thousand, as compared with € 19,546 thousand at year-end 2011.

The increase this year is explained by the growth in options sold to hedge the embedded value of the purchased options embedded in a portfolio of mortgage loans granted to customers (“floors”). The hedged assets (mortgage loans with floors) qualify for hedge accounting.

Changes in the fair value of the hedged items were credited to the income statement, with a balancing entry in “Changes in the fair value of the hedged items in portfolio hedges of interest rate risk”. No portfolio hedges were arranged for financial liabilities.

26. Asset and liability hedging derivatives

These balance sheet captions reflect the fair values for (Assets) or against (Liabilities) of the entities in respect of derivatives designated as hedging instruments in accounting hedges.

The criteria for determining the conditions and recognition of hedges are explained in Note 15.d). The net gain/(loss) on hedging derivatives is reflected on the line "Other" in the table in Note 54, as analysed below:

€ thousand	2012			2011		
	Profit	Loss	Net	Profit	Loss	Net
Hedging instruments	1,914,860	2,518,487	(603,627)	5,785,120	6,240,137	(455,017)
Hedged items	2,639,504	2,042,613	596,891	6,034,046	5,555,430	478,616
Total	4,554,364	4,561,100	(6,736)	11,819,166	11,795,567	23,599

a) Fair value hedging

The following table shows the type of risks hedged, the instruments used for fair value hedges and the notional and carrying amounts of the hedges:

€ thousand	2012			2011		
		Value			Value	
Risk hedged and instrument used	Notional amount	Positive	Negative	Notional amount	Positive	Negative
Foreign exchange risk	13,003	-	46	33,872	129	137
Forward transactions	4,201	-	34	23,992	-	-
Currency purchase/sale	-	-	-	-	-	-
Purchases	4,201	-	34	23,992	-	-
Sales	-	-	-	-	-	-
Financial swaps (CCS)	8,802	-	12	9,880	129	137
Currency options	-	-	-	-	-	-
Bought	-	-	-	-	-	-
Sold	-	-	-	-	-	-
Interest rate risk	32,091,834	677,506	1,928,228	31,473,632	820,792	1,131,877
Financial futures (organized markets)	498,510	-	-	490,184	-	-
Financial swaps (IRS, CMS, etc.)	25,184,324	677,506	1,466,575	30,983,448	820,792	1,131,877
Interest rate options	6,409,000	-	461,653	-	-	-
Bought	-	-	-	-	-	-
Sold	6,409,000	-	461,653	-	-	-
Risks arising from shares	265,478	851	120,590	610,848	199,792	282,042
Options on securities	62,073	352	-	51,109	192	4,841
Bought	45,573	352	-	-	-	-
Sold	16,500	-	-	51,109	192	4,841
Financial swaps (CDS)	203,405	499	120,590	559,739	199,600	277,201
Total	32,370,315	678,357	2,048,864	32,118,352	1,020,713	1,414,056

The notional amounts of fair value hedging instruments reflected in the above table relate to the following hedged balance sheet items.

€ thousand	2012	2011
Asset hedges	14,448,223	8,373,008
Loans and advances to credit institutions	-	-
Loans and advances to other debtors	7,193,912	2,167,871
Available-for-sale assets	7,254,311	6,205,137
Liability hedges	17,922,092	23,745,344
Deposits from credit institutions	4,201	23,991
Deposits from other creditors	498,534	1,012,236
Debt certificates including bonds	17,419,357	22,709,117
Total	32,370,315	32,118,352

b) Cash flow hedging

The following table shows the notional and carrying amounts at year-end 2012 and 2011 of cash flows that were all hedging debt certificates including bonds at those dates. As explained in Note 42, in Valuation adjustments in equity, the amount recognized in this item is the value of the effective portion of 2011 cash flow hedges, which matured during 2012.

€ thousand	2012			2011		
		Value			Value	
Risk hedged and instrument used	Notional amount	Positive	Negative	Notional amount	Positive	Negative
Interest rate risk						
Financial swaps (IRS, CMS, etc.)	-	-	-	1,155,000	71,327	-
Total	-	-	-	1,155,000	71,327	-

At December 31, 2012 there are no valuation adjustments in equity due to the measurement of cash flow hedging derivatives. Losses totalling € 48,367 thousand were taken to the income statement (Note 42). In 2011, the amount recognized in Valuation adjustments in equity, arising from the measurement of the cash flow hedging derivatives, was € 48,367 thousand, of which profits totalling € 9,177 thousand were transferred to the income statement (Note 42).

c) Hedges of net investments in foreign operations

In 2012 and 2011 the Group did not effect transactions of this kind for significant amounts.

27. Non-current assets for sale

This caption in the Banco Popular Group's consolidated balance sheet relates basically to purchased or foreclosed assets received by the Group from its borrowers or other debtors for total or partial settlement of financial assets representing debt claims against the borrowers or debtors. Additionally, the Group has obtained buildings by means of purchase or the dation in payment of debt claims so as to avoid, in many cases, difficulties that could be encountered by debtors when repaying their debts. These assets are initially recognised at the net amount of the financial assets paid, taking into account value adjustments to the assets. The amounts for both periods are analyzed below:

€ thousand	2012	2011
Non-current assets for sale	4,896,644	3,601,723
Debt securities	-	-
Equity instruments	-	-
Tangible assets	4,896,644	3,601,723

The Group recognized a net profit of € 44,620 thousand (profit of € 95,562 thousand and loss of € 50,942 thousand) in 2012 and a net loss of € 7,252 thousand (profit of € 3,542 thousand and loss of € 10,794 thousand) in 2011.

Additions to this caption relate basically to foreclosed assets, dations in payment of debt claims and purchases of assets securing loans that were not repaid as scheduled. Disposals arise in all cases from the sale or transfer of the assets to tangible fixed assets for own use, investment property or inventories.

Movements in 2012 and 2011 in Non-current assets for sale are as follows:

€ thousand	
Opening balance 2011	3,100,790
Additions	1,905,442
Disposals	1,099,734
Change in value adjustment	304,775
Closing balance 2011	3,601,723
Additions	3,421,843
Disposals	327,522
Change in value adjustment*	1,787,438
Closing balance 2012	4,896,644

* Includes consolidation scope changes, € 943,805 thousand of which relate to the business combination with the Banco Pastor Group.

The impairment of foreclosed property is calculated by comparing the property's fair value less costs to sell with its carrying amount. If the value of the property is higher, impairment is recognized in the amount of the difference. The appraisal value at foreclosure is determined for the Group's Spanish entities by valuation companies registered with the Bank of Spain.

Movements recognised in the consolidated income statements in 2012 and 2011 in Profits/losses on non-current assets for sale are as follows:

€ thousand	2012	2011
With balancing item in profit and loss (Note 66)		
Gains on sale	95,562	3,542
Losses on sale	50,942	10,794
Impairment losses	843,633	331,859
Period provisions	855,594	376,460
Period releases	(1,424)	(22,546)
Recoveries from prior years	(10,537)	(22,055)
Total	(799,013)	(339,111)

28. Investments

This caption in the Banco Popular Group's consolidated balance sheets relates solely to equity-consolidated associates.

The carrying amount includes the balances of the subordinated loans granted by the Group, if applicable. Movements during 2012 and 2011 in the caption Investments are set out below:

€ thousand	2012	2011
Jointly-controlled entities	-	-
Associates	464,533	248,361
Insurance companies	95,443	91,431
Other associates	369,090	156,930
Total	464,533	248,361
Asset impairment adjustments	-	-
Other valuation adjustments	346,823	346,823
Total	811,356	595,184

All the Group's jointly-controlled entities are proportionately consolidated and these companies therefore show no balances in the caption Investments.

In 2012 and 2011, the item "Other valuation adjustments" includes the restatement arising from the creation of the new company Allianz Popular, S.L. in 2011 (see Notes 2c) and 8). The securities of these associates are not listed on organized markets.

In 2012, due to the acquisition of the Banco Pastor Group, the Group recognised the following new associates: Puertos Futuros, S.L. (49% interest), Nuevo Agora Centro de Estudios, S.L. (30.86%), Perez Torres Handling, S.A. (35.02%), Amarres Deportivos, S.L. (40.90%), Ronáutica Marinas Internacional, S.A. (22.10%), Mercavalor, S.V., S.A. (25.01%) and Fotovoltaica Monteflecha, S.L. (4.05%). Additionally, with effect as from 1 January 2012, Metrovacesa, S.A. (11.97%) was recognised as an associate (see Note 2.c). The shareholding in Fernando Oliveira Cortiças, LDA was derecognised as an associate. These movements are addressed in Note 2.

During 2011 the Group acquired a 40% interest in the company Allianz Popular, S.L. and a 27.59% stake in the company Fernando Oliveira Cortiças, LDA. The company Redes y Procesos, S.A. was deconsolidated because it merged with a different entity and ceased to be an associate. Participating loans were granted to the company Inversiones en Resorts Mediterráneos, S.L. to finance its activities, as reflected in the following tables:

€ thousand	Total	Insurance companies	Other entities
Opening balance 2011	168,752	-	168,752
Additions	17,298	11,062	6,236
Disposals	1,191	-	1,191
Value changes	410,325	427,192	(16,867)
Due to period results	47,593	45,812	1,781
Due to impairment	(10,760)	-	(10,760)
Due to adjustments	373,492	381,380	(7,888)
Closing balance 2011	595,184	438,254	156,930
Additions*	340,140	-	340,140
Disposals	6,236	-	6,236
Value changes	(117,732)	4,012	(121,744)
Due to period results	(26,032)	1,817	(27,849)
Due to impairment	(11,524)	-	(11,524)
Due to adjustments	(80,176)	2,195	(82,371)
Closing balance 2012	811,356	442,266	369,090

* Includes consolidation scope changes due to the inclusion of the Banco Pastor Group.

Set out below is a breakdown of the carrying amounts of the companies included in this caption in 2012 and 2011:

€ thousand	2012	2011
Jointly-controlled entities	-	-
Associates:	811,356	595,184
Sistema 4B, S.A.	5,611	3,938
Inversiones Area Sur, S.L.	15,220	16,093
Inversiones en Resort Mediterráneos, S.L.	-	84,948
Trindade Fundo Investimento Inmobiliario Fechado	23,796	24,234
Fernando Oliveira Cortiças, LDA	-	6,236
Aviación Intercontinental, A.I.E.	23,471	21,481
Allianz Popular, S.L.	442,266	438,254
Metrovacesa, S.A.	258,410	-
Puertos Futuros, S.L.	75	-
Nuevo Agora Centro de Estudios, S.L.	26,901	-
Perez Torres Hadling, S.A.	491	-
Amarres Deportivos, S.L.	278	-
Ronautica Marinas Internacional, S.A.	4,280	-
Mercavalor, S.V., S.A.	2,193	-
Fotovoltaica Monteflecha, S.L.	8,364	-

29. Insurance contracts linked to pensions

This caption includes the mathematical reserves for post-employment commitments externalized to the insurance company Allianz S.A. and mathematical reserves or fair values of pension and similar commitments insured by Group companies.

The first item recognizes retirement bonuses arranged under insurance contracts with Allianz Popular Seguros S.A. and the fair value of the fund administered for the commitments of Banco Popular Portugal, S.A. The item "Other entities" relates to mathematical reserves for the early retirement policy contracted with the insurance company Allianz, S.A. de Seguros y Reaseguros.

€ thousand	2012	2011
Group entities (dependent and related)	122,000	113,961
Other entities	22,530	27,910
Total	144,530	141,809

30. Reinsurance assets

Set out below is a breakdown by company of this consolidated balance sheet caption at December 31, 2012 and 2011:

€ thousand	2012	2011
Eurovida (Portugal)	995	1,079
Popular Seguros	1,912	1,954
Pastor Vida, S.A.	1,971	-
Total	4,878	3,033

31. Tangible assets

There follows a breakdown of the reported investment in tangible assets, net of depreciation and impairment adjustments. Tangible assets for the Group's own use include, if applicable, assets leased to consolidated companies by Group entities engaged in leasing operations.

Property leased between Group companies has also been classified as for own use.

€ thousand	2012	2011
For own use:	859,793	689,735
IT equipment and installations	69,257	45,830
Furniture, vehicles and other installations	194,973	177,623
Buildings for own use	372,427	288,580
Work in progress	178,541	133,690
Other	59,310	58,727
Asset impairment adjustments (-)	(14,715)	(14,715)
Assets assigned under operating leases	26,738	-
Tangible assets at amortized cost	26,762	-
Asset impairment adjustments (-)	(24)	-
Investment property	1,006,194	1,044,496
Buildings and other structures	1,633,947	1,377,694
Asset impairment adjustments (-)	(627,753)	(333,198)
Total	1,892,725	1,734,231

The Investment property activity relates, in a small portion, to activities undertaken by the majority of the Group's banks and, additionally, to the Group's real estate subsidiaries that hold these investments to obtain income or gains and are not expected to sell them in the ordinary course of business.

Movements in this consolidated balance sheet caption showing gross amounts, accumulated depreciation, value adjustments and net amounts at December 2012 and 2011, are set out below:

€ thousand	For own use	Investment property	Assets assigned under operating leases	Total
Gross				
Balance at 1/01/11	1,458,159	1,482,362	-	2,940,521
Additions	277,242	113,042	-	390,284
Disposals	116,834	219,791	-	336,625
Balance at 31/12/11	1,618,567	1,375,613	-	2,994,180
Additions*	274,251	173,354	26,738	474,343
Disposals	97,428	2,597	-	100,025
Balance at 31/12/12	1,795,390	1,546,370	26,738	3,368,498
Accumulated depreciation				
Balance at 1/01/11	874,094	25,348	-	899,442
Additions against results	62,061	5,816	-	67,877
Disposals	22,038	842	-	22,880
Balance at 31/12/11	914,117	30,322	-	944,439
Additions against results	79,272	7,259	-	86,531
Disposals	72,507	7,537	-	80,044
Balance at 31/12/12	920,882	30,044	-	950,926
Asset impairment adjustments				
Balance at 1/01/11	14,715	135,890	-	150,605
Additions	-	185,159	-	185,159
Disposals	-	20,254	-	20,254
Balance at 31/12/11	14,715	300,795	-	315,510
Additions	-	269,365	-	269,365
Disposals	-	60,028	-	60,028
Balance at 31/12/12	14,715	510,132	-	524,847
Net				
Balance at 1/01/11	569,350	1,321,124	-	1,890,474
Additions	215,181	(77,933)	-	137,248
Disposals	94,796	198,695	-	293,491
Balance at 31/12/11	689,735	1,044,496	-	1,734,231
Additions	194,979	(103,270)	26,738	118,447
Disposals	24,921	(64,968)	-	(40,047)
Balance at 31/12/12	859,793	1,006,194	26,738	1,892,725

* Includes consolidation scope changes, € 117,776 thousand of which relate to fixed assets for own use, € 27,800 thousand to Investment property and € 19,374 thousand to Other assets assigned under operating leases, as a result of the business combination with the Banco Pastor Group.

Impairment losses are recognized in the consolidated income statements (see Note 63).

Set out below is an analysis of tangible assets for own use in the consolidated balance sheets for each period:

€ thousand	Gross	Accumulated depreciation	Impairment adjustments	Net
At December 31, 2012:				
Furniture, IT equipment & installations	1,106,657	842,427	-	264,230
Buildings for own use	450,081	77,655	14,715	357,711
Other tangible assets for own use	238,652	800	-	237,852
Total	1,795,390	920,882	14,715	859,793
At December 31, 2011:				
Furniture, IT equipment & installations	1,072,273	848,820	-	223,453
Buildings for own use	353,819	65,239	14,715	273,865
Other tangible assets for own use	192,475	58	-	192,417
Total	1,618,567	914,117	14,715	689,735

During 2012 the Group continued the own-use building divestment process that commenced in 2008, although the volume decreased with respect to previous years. As a result, a number of buildings (branches and other premises) were sold, mostly under sale and lease-back arrangements. The Banco Popular Group has recognized the results of these transactions in the income statement because they were completed at fair value and all the lease-back operations fulfil the requirements to be treated as operating leases. The basic conditions that must be fulfilled to treat a lease as an operating lease are as follows:

- There must be no purchase option at the end of the lease period, or any such option must allow the lessee to purchase the asset at its fair value.
- At lease inception, the present value of the future lease payments must be considerably lower than the leased asset's fair value.
- The lease period must not encompass virtually all the useful life of the leased assets.

The agreed terms, which are common practice in the operating lease market, include the provision that the Group's lessees have the right not to extend the lease for a longer period than initially stipulated, although the majority of leases include options for the Group to extend the lease for equal periods subject to the update or revision of rent. The Group bears related operating, conservation and tax costs, as the lessee. Finally, as regards the leases that contain a purchase option, the option exercise price is the market value of the buildings on the lease expiration dates. That price will be determined in all cases by independent experts. The Group has not provided the buyers with any additional guarantees to reduce possible losses arising from early termination of the leases or changes in the residual values of the leased buildings.

Operating lease instalments expensed in 2012 totalled € 68.8 million, including the amount paid by Banco Pastor branches (€ 8.5 million, relating to payments as from July (inclusive)). In 2011 the amount of € 58 was expensed.

Instalments payable in 2013 (based on current rent data) are estimated at € 79.5 million, of which € 17 million relates to operating leases of the extinguished Banco Pastor, and instalments for the following four years (2013 to 2017) are estimated at € 310 million. Operating lease instalments payable after more than five years, from 2018 to lease expiration, amount to € 475.6 million.

Additionally, following the absorption of Banco Pastor, during the network adaptation process certain premises that were under operating leases have been vacated and leased to third parties. In 2010 rent received for these premises totalled € 89 thousand; € 149 thousand is expected to be collected in the next three years (2013 to 2016) and € 106 thousand in 2017.

During 2012 10 branches were sold for € 3.5 million, generating a reported gain of € 2.6 million, and a further 16 premises were sold for € 54 million and a gain of € 48.5 million. Sales of other tangible assets generated gains amounting to € 26.3 million.

Own-use building sales completed during 2011 are described below for each quarter:

During the first quarter of 2011, five branches were sold for € 4 million, generating a reported gain of € 3.5 million. In the second quarter, 29 branches were sold for a cash sum of € 18 million and a gain of € 14 million. In the third quarter, eight branches were sold for a price of € 7 million, generating a gain of € 6 million. In the final quarter, three branches were sold for a price of € 2 million, generating a gain of € 1.5 million.

In addition to the above-mentioned branch office sales, the Group completed other property sales in 2011 generating a gain of € 59 million.

The general terms of the lease agreements linked to virtually all these sales are usually the same in all the leases concluded, including minimum periods during which the Bank must lease the premises of between 10 and 15 years, rent reviews in line with the consumer price index and payment obligations relating to taxes, insurance and other costs payable by the Bank as the lessee.

32. Intangible assets

Intangible assets recognized by the consolidated companies, using the methods described in Note 15.s., together with sundry significant details, are shown below.

All the intangible assets, other than goodwill, have a finite useful life. The useful life of Other intangible assets is generally four years, except for assets deriving from the acquisition of the Portuguese insurance company Eurovida, which have useful lives of nine years. Two strategic projects in progress in the accounting and customer information areas have a 10-year estimated useful life.

Intangible assets relating to company acquisitions arose basically from the measurement of the customer portfolio, deposits, rents, trademarks and loans, net of amortization charges.

€ thousand	2012	2011
Goodwill		
On consolidation:	516,186	527,413
In dependent entities	343,311	354,538
In jointly-controlled entities	172,875	172,875
In associates	-	-
In company balance sheets:	1,753,211	10,084
Of dependent companies (*)	1,753,211	10,084
Total goodwill	2,269,397	537,497
Other intangible assets		
Amortized cost	385,930	111,634
Of company acquisitions:	225,152	2,483
Of software	160,778	109,151
Asset impairment adjustments (-)	(243)	-
Total other intangible assets	385,687	111,634
Total intangible assets	2,655,084	649,131

(*) Includes € 1,743,322 thousand of the goodwill provisionally recognised by Banco Popular Español on the acquisition of the Banco Pastor Group (see Note 8).

Goodwill on consolidation arises as the difference between (i) the sum of the payment made, the amount of the shares not controlled in the target company and, in acquisitions completed in phases, the fair value of the interest in the target's equity held previously by the acquiring party, and (ii) the net amount of the identifiable assets acquired and liabilities assumed at the acquisition date.

Goodwill recognized in the dependent entities' balance sheets relates to the items already recorded by the subsidiaries when they joined the Group as a result of transactions completed previously.

Set out below is a breakdown of goodwill on consolidation by consolidated company:

€ thousand	2012			2011		
Companies	Gross	Impairment adjustments	Net	Gross	Impairment adjustments	Net
Targo Bank, S.A.	172,875	-	172,875	172,875	-	172,875
Popular Factoring (Portugal), S.A.	2,615	-	2,615	2,615	-	2,615
Banco Popular Portugal, S.A.	244,447	30,000	214,447	274,447	30,000	244,447
TotalBank	105,399	-	105,399	107,476	-	107,476
Inverlur Aguilas I	6,694	6,694	-	-	-	-
Inverlur Aguilas II	20,740	20,740	-	-	-	-
Pastor Vida, S.A.	20,850	-	20,850	-	-	-
Total	573,620	57,434	516,186	557,413	30,000	527,413

The Group has performed the necessary impairment tests on the goodwill, using the method described in Note 15.s), with the following results:

Goodwill from the acquisition of Banco Pastor

In 2012, Banco Popular took over Banco Pastor, which was subsequently absorbed by the parent entity. This acquisition generated provisional goodwill of € 1,743,322 thousand, after recognising intangible assets totalling € 243,578 thousand. The allocation of the acquisition price has been reviewed by an independent expert.

Set out below is a breakdown of the assets and liabilities included in the Group that show changes between the carrying amount prior to the acquisition and the fair value, gross of tax, as estimated in order to calculate goodwill:

€ thousand	Carrying amount		
Companies	Opening balance	Fair value	Adjustment
Loans and advances to other debtors	20,475,394	17,792,818	(2,682,576)
Real estate assets	2,049,689	1,196,089	(853,600)
Financial assets	5,620,534	5,559,158	(61,376)
Embedded derivatives	-	301,936	301,936
Intangible assets prior to acquisition	29,066	-	(29,066)
Intangible assets recognised in acquisition	-	243,578	243,578
Tangible assets	137,150	164,495	27,345
Contingent liabilities and other commitments	(156,504)	(358,665)	(202,161)
Liabilities at amortized cost	(27,682,701)	(27,526,769)	155,932
Deferred taxes	275,488	1,213,688	938,200
Negative consolidation difference			418,466
Goodwill			(1,743,322)

The goodwill has been allocated to the CGU of Banca Comercial España, which groups together the Spanish retail banking business. Goodwill impairment has been tested by comparing the CGU's recoverable value with its carrying amount. The valuation was performed as described above, using the following basic variables:

- Discount rate: 11.2%
- Perpetual growth (g): 2.7%
- Business growth: between 2% and 5% for the period projected.

Projections span a 10-year period. This is in line with common practice in company valuation exercises, whereby the valuation period should be sufficiently long for the company to achieve stability so as to calculate a full, stable and normalized year for perpetual growth estimation purposes, on a going concern basis. We consider that this situation is characterized by permanent growth and steady, sustainable asset yields.

A sensitivity analysis was performed on the financial variables, assuming changes in the discount rate and the g variable of 100 basis points in both directions; no signs of impairment were detected.

The valuation of the CGU has been reviewed by an independent expert.

Other goodwill

When measuring the Group's other goodwill, the model's financial variables differ based on the geographic scope or the features of the CGU valued:

- The discount rate fluctuates between 9.53% and 11.50% based on the business, country and currency.
- The perpetual growth rate (g) varies between 2.4% and 4%.

Projections span a 10-year period. This is in line with common practice in company valuation exercises, whereby the valuation period should be sufficiently long for the company to achieve stability so as to calculate a full, stable and normalized year for perpetual growth estimation purposes, on a going concern basis. We consider that this situation is characterized by permanent growth and steady, sustainable asset yields.

A sensitivity analysis was performed on both variables, no signs of impairment having been identified in addition to the ones recognised.

In 2012, goodwill impairment adjustments were recognised in respect of the goodwill in BAPOP (€ 30,000 thousand), Inverlur Aguilas I (€ 6,694 thousand) and Inverlur Aguilas II (€ 20,740 thousand).

Other intangible assets

Set out below is a breakdown of the gross amount, related accumulated amortization and net balance of Other intangible assets:

€ thousand	2012	2011
Intangible assets (gross)	644,336	290,771
Accumulated amortization	(258,649)	(179,137)
Intangible assets (net)	385,687	111,634

There follows a breakdown of additions to Other intangible assets recognised during the year:

€ thousand	2012	2011
Intangible assets derived from capitalization of internal costs	4,373	3,018
Intangible assets derived from external costs borne	105,614	62,888
Intangible assets arising from business combinations	243,578	--
	353,565	65,906

The following table shows movements in the past two years in goodwill and other intangible assets: The exchange differences "on consolidation" derive from the translation to euros of the goodwill (denominated in US dollars) attributable to TotalBank.

	Goodwill		
€ thousand	On consolidation	In dependent companies	Other intangible assets
Balance at 1 January 2011	564,635	9,765	82,679
Change in consolidation scope	-	-	-
Exchange differences and other movements (net)	(7,222)	319	67,269
Amortization / Impairment	30,000	-	38,314
Closing balance 2011	527,413	10,084	111,634
Change in consolidation scope (*)	48,284	1,743,322	225,152
Exchange differences and other movements (net)	(2,077)	(195)	119,332
Amortization / Impairment	57,434	-	70,431
Closing balance 2012	516,186	1,753,211	385,687

(*) see Notes 2d, 8 and 67

The movement in exchange differences "in dependent companies" relates to the translation to the Group's functional currency of TotalBank's intangible assets, applying the year-end exchange rate.

33. Tax assets and liabilities

Set out below is a breakdown of these items in the consolidated balance sheets at December 31, 2012 and 2011:

€ thousand	Assets		Liabilities	
	2012	2011	2012	2011
Current taxes	176,561	171,097	89,303	73,736
Corporate income tax	150,754	130,852	63,343	51,392
Value added tax and other taxes	25,807	40,245	25,960	22,344
Deferred taxes	3,527,198	1,041,513	371,927	205,894
1. Deferred taxes taken to equity	414,440	393,056	29,047	25,808
2. Adjustments for temporary differences*	3,112,758	648,457	342,880	180,086
Accounting amortization	19,729	12,673	115,384	48,759
Goodwill	3,563	3,949	22,794	30,732
Fees and financial expense	5,661	4,417	-	-
Credit loss provision	1,717,610	447,886	2,203	5,024
Pension funds and similar obligations	75,370	32,680	-	-
Tax losses	1,163,199	24,001	-	-
Art.12.3 LIS. Tax adjustment for impairment and other provisions	62,995	58,275	2,969	34,146
Accounting consolidation adjustments	29,222	46,087	48,684	53,675
Deduction for reinvestment pending application	18,154	17,979	-	-
Revaluation of investment property (IFRS)	-	-	8,422	-
Tax regime for mergers	14,093	-	130,630	-
Tax bases recognised	-	-	11,460	7,552
Other deferred taxes	3,162	510	334	198

* Also include deferred items from Banco Pastor and from the fair value adjustment relating to the business combination explained below.

In accordance with prevailing corporate income tax applicable to Banco Popular and its investees in 2012 and 2011, certain differences between accounting and tax criteria gave rise to the recognition of deferred tax assets and liabilities for corporate income tax purposes. Movements in deferred tax assets and liabilities during 2012 and 2011 are set out below:

€ thousand	Assets		Liabilities	
	2012	2011	2012	2011
Opening balance	1,041,513	940,947	205,894	359,281
Valuation adjustments in equity	21,384	108,137	3,239	(118)
Valuation adjustments in profit or loss	2,464,301	(7,571)	162,794	(153,269)
Accounting amortization	7,056	910	66,625	12,607
Goodwill	(386)	(11,257)	(7,938)	(55,336)
Fees and financial expense	1,244	(1,118)	-	-
Credit loss provision	1,269,724	47,636	(2,821)	(106,524)
Pension funds and similar obligations	42,690	(12,917)	-	-
Tax losses	1,139,198	2,855	-	-
Art.12.3 LIS, impairment and other provisions	4,720	(40,401)	(31,177)	21,360
Consolidation and property revaluation adjustments	(16,865)	608	3,431	(33,034)
Deduction for reinvestment pending application	175	7,354	-	-
Tax bases recognised	-	-	3,908	7,552
Tax regime for mergers	14,093	-	130,630	-
Other deferred taxes	2,652	(1,241)	136	106
Closing balance	3,527,198	1,041,513	371,927	205,894

In 2012 the tax consolidated Group companies generated tax losses of € 3,414 million and tax credits (not applied) in the amount of € 10 million that have been recognised in "Deferred tax assets".

As a result of the merger by absorption of Banco Pastor, the target entity's deferred tax assets and liabilities included in the Group's balance sheet in 2012 are analyzed below:

€ thousand	Banco Pastor	
	Assets	Liabilities
Accounting amortization	330	9,919
Art. 12.3 LIS - tax impairment adjustment	-	1,630
Fees and commissions	447	-
Credit loss provision	104,794	-
Pension funds and similar obligations	38,338	2,838
Other provisions	3,414	-
Impairment of securities	25,266	-
Tax losses	76,179	-
Tax credits not applied	28,994	-
Other deferred tax assets / liabilities	921	549
TOTALS	278,683	14,936

Moreover, as a result of the fair value adjustments made to account for the business combination with the Banco Pastor Group (Note 8), deferred tax assets and liabilities totalling € 1,056 million and € 208 million, respectively were included in the balance sheet. € 967 million of the € 1,056 million relates to credit loss provisions.

The following table shows the foreseeable reversal periods for deferred taxes, including amounts arising from valuation adjustments:

€ thousand	Assets		Liabilities	
Reversal period	2012	2011	2012	2011
From 0 to 5 years	1,948,044	754,731	169,416	79,041
From 5 to 10 years	1,458,261	219,567	80,293	40,211
More than 10 years	120,893	67,215	122,218	86,642
Total	3,527,198	1,041,513	371,927	205,894

Set out below is a breakdown of the main Group entities that have generated current and deferred taxes:

€ thousand		Assets		Liabilities	
Company	Type of tax	2012	2011	2012	2011
Banco Popular Español S.A.	Current	119,109	74,165	28,398	18,415
	Deferred	2,785,430	808,567	229,016	94,318
Banco Popular Portugal	Current	18,435	23,135	4,869	4,444
	Deferred	146,789	121,839	1,784	12,125
Other Group entities	Current	39,017	73,797	56,036	50,877
	Deferred	594,979	111,107	141,127	99,451
Consolidated Group total	Current	176,561	171,097	89,303	73,736
	Deferred	3,527,198	1,041,513	371,927	205,894

Note 44 provides details of the Group's tax situation.

34. Other assets

This caption includes inventories and other assets not recognised in other balance sheet captions.

	Assets	
€ thousand	**2012**	**2011**
Inventories	741,680	450,106
Carrying amount	1,398,730	616,054
Impairment adjustments	(657,050)	(165,948)
Other assets	857,197	493,936
Accrual accounts	288,920	134,436
Transactions in transit	226,438	109,327
Other	341,839	250,173
Total	1,598,877	944,042

Set out below are movements in impairment adjustments:

€ thousand	**2012**
Opening balance 2011	23,799
Additions	196,708
Disposals	54,559
Closing balance 2011	165,948
Additions*	514,918
Disposals	23,816
Closing balance 2012	657,050

* Includes consolidation scope changes, € 341,990 thousand of which relate to the business combination with the Banco Pastor Group.

At December 31, 2012 and 2011, the net charge to the income statement totalled € 172,928 thousand and € 172,822 thousand, respectively.

35. Financial liabilities at amortized cost

This consolidated balance sheet caption includes repayable amounts received in cash, arranged as deposits, debt certificates including bonds or subordinated liabilities. It also includes guarantee deposits and consignments received in cash by the Group. These liabilities are valued at amortized cost using the effective interest method.

A breakdown by residual term of the items in this caption is presented in Note 45.

Set out below is a breakdown of this caption in the consolidated balance sheets at December 31, 2012 and 2011:

€ thousand	**2012**	**2011**
Deposits from central banks	20,564,157	13,993,728
Deposits from credit institutions	14,402,480	11,336,547
Deposits from other creditors	79,830,212	68,742,520
Debt certificates including bonds	23,442,605	20,448,938
Subordinated liabilities	2,170,454	2,834,927
Other financial liabilities	1,316,258	923,171
Total	141,726,166	118,279,831
Of which:		
euros	136,636,323	114,131,907
foreign currency	5,089,843	4,147,924

Deposits

Set out below is a breakdown of deposits from credit institutions by type of financial instrument used:

€ thousand	2012	2011
Reciprocal accounts	9,088	-
Term accounts	7,974,438	9,517,623
Asset repos	5,422,277	1,018,008
Other accounts	956,288	775,384
Clearing house	1,153	238
Valuation adjustments	39,236	25,294
Total	14,402,480	11,336,547

A breakdown by counterparty and by currency (euros or foreign currency) is as follows:

€ thousand	2012		2011	
	Euro	Foreign currency	Euro	Foreign currency
Banks operating in Spain	2,693,704	7,875	2,102,700	58,084
Savings banks	2,864,218	-	1,022,669	10,404
Credit cooperatives	716,721	-	580,512	-
Official Credit Institute	5,544,934	-	4,080,752	-
Non-resident credit establishments	1,475,691	651,913	2,872,108	440,066
Specialised credit institutions and other	407,035	-	143,720	-
Clearing house	909	244	238	-
Valuation adjustments	38,686	550	24,873	421
Total	13,741,898	660,582	10,827,572	508,975

Set out below is a breakdown of foreign currency balances showing the currencies in which the balances are repayable:

€ thousand	2012	2011
USD	547,644	412,412
GBP	14,381	36,121
CHF	10,538	5,604
JPY	20,797	30,736
Other	67,222	24,102
Total	660,582	508,975

The average annual interest rate in 2012 and 2011 on deposits from credit institutions was 1.57% and 1.94%, respectively.

Set out below is a breakdown by sector of “Deposits from other creditors” in the consolidated balance sheets at December 31, 2012 and 2011:

€ thousand	2012	2011
General government	7,410,601	1,265,191
Residents	7,351,603	1,125,996
Non-residents	58,998	139,195
Private sector	72,185,208	67,106,906
Residents	63,738,588	59,689,128
Non-residents	8,446,620	7,417,778
Total deposits from other creditors	79,595,809	68,372,097
Valuation adjustments	234,403	370,423
Total	79,830,212	68,742,520

Set out below is a breakdown of "Valuation adjustments" by sector:

€ thousand	2012	2011
General government	3,711	2,312
Private sector - residents	188,014	303,228
Private sector - non-residents	42,678	64,883
Total	234,403	370,423

Set out below is a breakdown of "Deposits from other creditors" by type of instrument:

€ thousand	2012	2011
Current accounts	14,673,488	13,457,432
Savings accounts	7,212,742	5,829,746
Time deposits	45,804,485	38,648,677
Asset repos	11,341,312	9,991,888
Other accounts	563,782	444,354
Valuation adjustments	234,403	370,423
Total	79,830,212	68,742,520

The following table contains an itemized breakdown of Valuation adjustments:

€ thousand	2012	2011
Accrued interest	334,938	359,212
Micro-hedging transactions (±)	(53,818)	10,858
Premiums and discounts (±)	(46,717)	353
Other	-	-
Total	234,403	370,423

Deposits from customers resident in Spain, including general government and private sector customers, by Autonomous Region, and operations generated in the Portuguese branch network with Spanish residents, are analyzed below at December 31, 2012 and 2011:

€ thousand	2012	2011
Branches in Spain		
Andalusia	6,383,459	6,251,045
Aragón	806,115	724,213
Asturias	1,169,883	944,407
Balearic Islands	907,462	898,994
Canary Islands	954,855	798,578
Cantabria	401,567	353,859
Castilla-La Mancha	1,408,452	1,374,950
Castilla y León	5,311,590	4,948,490
Catalonia	6,422,205	6,447,870
Extremadura	582,658	552,291
Galicia	9,135,600	3,197,309
Madrid	29,115,511	26,003,325
Murcia	1,030,794	1,007,918
Navarre	1,007,018	1,163,623
Basque Country	2,261,484	2,226,415
La Rioja	377,411	336,713
Valencia	3,655,441	3,440,731
Ceuta	44,626	49,212
Melilla	51,050	64,495
Branches in Portugal	63,010	30,686
Total	71,090,191	60,815,124

As regards geographic zone, set out below is a breakdown by country of the foreign branches and entities that obtained non-resident deposits:

€ thousand	2012	2011
Spain	3,662,879	2,404,040
Portugal	3,739,507	4,073,404
USA	1,103,232	1,079,529
Total	8,505,618	7,556,973

A breakdown of "Deposits from other creditors" by sector, instrument and currency (euro and foreign currency) is as follows:

€ thousand	2012		2011	
	Euro	Foreign currency	Euro	Foreign currency
General government	7,406,243	4,358	1,259,931	5,260
Current accounts	851,067	607	650,303	1,069
Savings accounts	6,267	-	5,318	-
Time deposits	586,186	3,751	412,293	4,191
Asset repos	5,962,723	-	192,017	-
Private sector	69,351,608	2,833,600	65,007,695	2,099,211
Residents	63,142,192	596,396	59,168,162	520,966
Current accounts	12,167,795	196,041	11,169,103	200,984
Savings accounts	6,674,964	19,342	5,318,441	21,929
Time deposits	38,424,214	360,674	32,468,047	282,152
Asset repos	5,378,537	-	9,799,438	-
Other accounts	496,682	20,339	413,133	15,901
Non-residents	6,209,416	2,237,204	5,839,533	1,578,245
Current accounts	916,098	541,880	1,018,551	417,422
Savings accounts	415,308	96,861	367,724	116,334
Time deposits	4,845,660	1,584,000	4,438,946	1,043,044
Asset repos	52	-	433	-
Other accounts	32,298	14,463	13,879	1,445
Valuation adjustments (±)	224,732	9,671	365,719	4,704
Total	76,982,583	2,847,629	66,633,345	2,109,175

The average annual interest rate on deposits from other creditors was 2.01% in 2012 and 2.02% in 2011. Set out below is a breakdown of foreign currency balances by currency:

€ thousand	2012	2011
USD	2,624,227	1,949,182
GBP	96,919	74,686
CHF	25,354	16,762
JPY	12,356	13,109
Other	88,773	55,436
Total	2,847,629	2,109,175

Debt certificates including bonds

Debt certificates including bonds comprise bearer or demand debt securities such as cash or treasury bonds, covered bonds, mortgage securities, debentures, commercial paper, certificates of deposit and similar instruments.

Set out below is a breakdown by instrument of the marketable securities issued by Group companies and held by third parties outside the Group, which are carried at amortized cost:

€ thousand	2012	2011
Commercial paper and bills	7,106,806	2,433,918
Mortgage securities	11,126,177	9,671,641
Debentures and bonds	4,613,897	7,646,524
Valuation adjustments	595,725	696,855
Total	23,442,605	20,448,938

Commercial paper and bills

Banco Popular has a corporate promissory note issuance programme, the prospectus for which is registered with the Spanish National Securities Market Commission (CNMV). The features of this issuance programme are as follows:

The nominal outstanding balance has a maximum limit of € 10.5 billion. The nominal value of each note is € 1,000. The notes are represented by book entries and mature at between three days and 25 months as from the date of issuance. They are issued at a discount and their effective value is determined at the issuance date on the basis of the agreed interest rate. The programme is rated as highly liquid and is listed on the AIAF organized secondary market.

Banco Popular also sells commercial paper in international markets through a Euro Commercial Paper (ECP) programme registered in Ireland.

This programme allows the issuance of commercial paper in any currency (including the euro), up to a maximum limit of € 5 billion to November 21, 2013. The current programme also provides for the issuance of certificates of deposit at a discount, subject to the same limit.

A breakdown by instrument of the balance of this issuance programme is as follows:

€ thousand	2012		2011	
	Euro	Foreign currency	Euro	Foreign currency
Treasury notes	7,082,691	-	2,433,146	-
Certificates of deposit	24,115	-	773	-
Total	7,106,806	-	2,433,918	-

Mortgage securities

The item Mortgage securities reflects the outstanding balance held by third parties of successive Covered bonds issues under the Fixed Income and Structured Securities Issuance Programme, the prospectus for which is registered with the Spanish National Securities Market Commission (CNMV).

The current programme allows the issuance of different types of securities up to a maximum nominal limit of € 12 billion.

The outstanding balance held by third parties of Covered bonds issued under the current programme and under previous programmes is set out below

€ thousand	2012	2011
Covered bonds	11,126,177	9,671,641

Debentures and bonds

The amount recognized in "Debentures and bonds" mainly comprises Euronotes issued by the Group and bonds issued by the securitization vehicles, after eliminating intragroup balances and other bonds issued basically by Banco Popular Español, S.A.

€ thousand	2012	2011
Bonds issued by securitization vehicles	2,657,900	3,290,648
Euronotes	1,346,503	1,349,697
Other	609,494	3,006,179
Total	4,613,897	7,646,524

The outstanding balance of bonds issued by securitization vehicles and held by non-Group parties is as follows:

€ thousand	2012	2011
Cédulas TDA 19, FTA	-	-
IM Cédulas 1 Grupo Banco Popular, FTA	1,040,600	1,247,700
IM Cédulas Grupo Banco Popular 3, FTA	916,200	1,176,200
IM Cédulas Grupo Banco Popular 5, FTA	-	-
Total bond securitizations	1,956,800	2,423,900
IM Banco Popular FTPYME 1, FTA	77,590	154,548
IM Banco Popular FTPYME 2, FTA	-	-
IM Banco Popular FTPYME 3, FTA	-	-
IM Banco Popular MBS 2, FTA	-	-
IM Grupo Banco Popular Empresas 1, FTA	113,768	161,951
IM Grupo Banco Popular Empresas 3, FTA	-	-
IM Grupo Banco Popular Empresas 4, FTA	-	-
IM Grupo Banco Popular FTPYME I, FTA	214,189	275,614
IM Grupo Banco Popular FTPYME II, FTA	169,940	274,635
IM Grupo Banco Popular Leasing 2, FTA	-	-
Securitizations from Banco Pastor (1)	125,613	
Total loan securitizations	701,100	866,748
Total	2,657,900	3,290,648

As regards the securitization vehicles for which no balance is reflected, the Group has acquired all the bonds outstanding, which have therefore been eliminated from the consolidated balance sheet.

(1) EDT FTPYME Pastor 3, GC FTPYME Pastor 4 and TDA Pastor 9.

The securitizations recognised in 2012 derive from the integration with Banco Pastor; the Group completed no other securitizations during the year.

In 2012 and 2011 the Group's banks recorded in their balance sheets the amounts of € 6,977,600 and € 8,595,691 thousand, respectively, of the bonds issued by loan securitization vehicles (Note 69), which were eliminated on consolidation.

The following table contains a breakdown of Euronote issues by different Group entities, recognized in the item "Debentures and bonds":

€ thousand	2012	2011
BPE Finance International, L.T.D.	25,706	26,973
BPE Financiaciones, S.A.	1,320,797	1,322,724
Total	1,346,503	1,349,697

In order to diversify medium- and long-term financing sources, Banco Popular sells euro and foreign currency bonds under a Euronote issuance programme registered in Ireland: Euro Medium Term Note Programme.

This programme allows the issuance of notes in any currency (including the euro), up to a maximum limit of € 5 billion in 2013.

All issues in currencies other than the euro are hedged by swaps against euros and are referenced to the Euribor, meaning that the actual cost of the issues for the Group is in euros.

The following table shows the residual maturities of the Euronotes in 2012 and 2011. In the case of issues with early redemption options, the earliest option exercise date has been applied.

€ thousand	2012	2011
To 1 year	1,205,797	707,244
From 1 to 2 years	-	503,938
From 2 to 5 years	30,000	1,666
More than 5 years	110,706	136,849
Total	1,346,503	1,349,697

Movements in the item "Euronotes" in 2012 and 2011 are set out below:

€ thousand	2012	2011
Opening balance	1,349,697	1,920,782
Issues	750,000	500,000
Redemptions	1,101,267	1,000,000
Other movements	348,073	(71,085)
Closing balance	1,346,503	1,349,697

The following table contains a breakdown of issues by Group entities of "Other debentures and bonds" held by third parties:

€ thousand	2012	2011
Banco Popular Español, S.A.	200,000	2,970,648
Banco Popular Portugal	409,494	35,531
Total	609,494	3,006,179

In 2012, two Banco Popular bond issues of € 1.5 billion each matured. Banco Popular Portugal completed issues totalling € 493,907 thousand in 2012.

The following table provides a breakdown of outstanding issues for 2012 and 2011:

€ thousand	Amount		Issue	Maturity	Cost rate
	2012	2011			
Banco Popular Español, S.A					
	-	1,500,000	23-02-09	23-02-12	3.42%
	-	1,500,000	24-04-09	24-04-12	3.50%
Territorial bonds	200,000	-	25-05-12	25-05-20	Euribor 6m+0.895%
Senior debt	500,000	-	16-12-11	16-12-16	7.25%
Senior debt	500,000	-	20-03-12	20-03-17	5.24%
Senior debt	240,000	-	15-06-12	15-06-15	Euribor 6m+2.25%
Senior debt	460,000	-	15-06-12	15-06-17	Euribor 6m+3.00%
	1,900,000	3,000,000			
Banco Popular Portugal					
Senior debt	-	21,058	03-03-09	05-03-12	Euribor 6m+0.50%
Senior debt	-	18,797	03-07-09	05-07-12	Euribor 6m+0.50%
Senior debt	10,000	-	24-04-12	24-04-15	6.50%
Senior debt	50,000	50,000	29-12-11	29-12-14	6.50%
Senior debt	91,980	-	17-09-12	17-09-15	5.00%
Senior debt	4,148	-	17-09-12	17-09-14	4.25%
Senior debt	73,248	-	15-10-12	15-10-15	5.00%
Senior debt	27,630	-	02-10-12	02-01-14	5.75%
Senior debt	20,000	-	02-10-12	02-10-15	4.50%
Senior debt	80,000	-	25-10-12	25-10-15	4.50%
Senior debt	20,000	-	26-10-12	26-10-16	6.50%
Senior debt	38,033	-	13-11-12	13-05-14	4.00%
Senior debt	9,319	-	26-11-12	26-02-14	5.00%
Senior debt	30,583	-	11-12-12	11-06-14	4.00%
Senior debt	11,715	-	21-12-12	21-03-14	5.00%
Senior debt	11,037	-	21-12-12	21-06-14	4.00%
Senior debt	15,000	-	20-12-12	20-01-14	4.50%
Senior debt	1,214	-	21-12-12	21-01-14	4.50%
	493,907	89,855			
	2,393,907	3,089,855			

The interest on debt certificates including bonds recognized in the income statement totalled € 670,578 thousand in 2012 and € 506,636 in 2011.

Subordinated liabilities

For credit seniority purposes, issues classed as subordinated debt are after all common creditors and are jointly and severally, and irrevocably, guaranteed by Banco Popular Español, S.A., including the principal and interest of the issues of BPE Financiaciones, S.A, Popular Capital, S.A., BPE Preference International, LTD and Pastor Participaciones Preferentes, S.A.U.

They may all be redeemed as from the start of year six at the issuer's discretion, subject to authorization by the Bank of Spain, or the Bank of Portugal in the case of issues by Banco Popular Portugal, S.A., except for the issue of Banco Pastor and the first issue of Pastor Participaciones Preferentes, which may be redeemed as from the start of year eleven.

Set out below is a breakdown of this balance sheet item:

€ thousand	2012	2011
Subordinated debt securities including bonds	2,140,489	1,603,731
Convertible subordinated marketable securities	1,119,124	500,000
Non-convertible subordinated marketable securities	1,021,365	1,103,731
Subordinated deposits	-	-
Preferred shares and participating interests	-	1,133,000
Total subordinated liabilities issued	2,140,489	2,736,731
Valuation adjustments	29,965	98,196
Total	2,170,454	2,834,927

Set out below is a breakdown of outstanding balances by issuer, including Popular Capital, S.A., the issuer of preferred participating interests in Spain:

€ thousand	2012	2011
Banco Popular Español, S.A	1,729,054	768,389
BPE Financiaciones, S.A.	276,394	335,342
BPE Preference International, LTD	8,308	408,323
Popular Capital, S.A.	114,432	1,224,677
Pastor Participaciones Preferentes, S.A.	12,301	-
Total	2,140,489	2,736,731

EIn 2012, the Group completed three issues of Subordinated Bonds Necessarily Convertible (SBNC) into new ordinary shares in Banco Popular, as described below:

- Subordinated Bonds Necessarily Convertible I/2012: Banco Popular Español, S.A. repurchased 98.33% of the Series A, B and C preferred participating interests issued by BPE Preference Internacional Limited, Series D issued by Popular Capital, S.A. and Series 1-2009 issued by Pastor Participaciones Preferentes, S.A.U. for a total amount of € 1,109,376 thousand. The Subordinated Bonds Necessarily Convertible I/2012 issue therefore amounted to € 1,109,376 thousand.

- Subordinated Bonds Necessarily Convertible III/2012: Banco Popular Español, S.A. repurchased 36.65% of Series A, 71.81% of Series B and 77.04% of Series C of the preferred participating interests of Popular Capital, S.A.; 85.00% of the preferred participating interests of Pastor Participaciones S.A.U. and 72.98% of the special subordinated debt of Banco Pastor, S.A., entailing a total of € 256,900 thousand; the Subordinated Bonds Necessarily Convertible III/2012 issue therefore totalled € 256,900 thousand.

- Subordinated Bonds Necessarily Convertible IV/2012: Banco Popular Español completed a private issue of Subordinated Bonds Necessarily Convertible into new ordinary shares of Banco Popular totalling € 50,000 thousand.

The bond issues comply with Recommendation EBA/REC/2011/1, "EBA recommendation on the creation and supervisory oversight of temporary capital buffers to restore market confidence" dated December 8, 2011. In this regard, the convertible bonds may be immediately treated as core capital for the purposes of the EBA ratio required for June 2012.

The following table provides details of the outstanding issues of Subordinated Bonds Necessarily Convertible at December 31, 2012:

€ thousand	Currency	Issue date	Issue amount	Amount outstanding at 31.12.12	Cost rate
Banco Popular Español, S.A					
BSOC I 2012	EUR	04-04-12	1,109,376	904,462	6.75%
BSOC III 2012	EUR	29-06-12	256,900	256,900	4.00%
BSOC IV 2012	EUR	28-06-12	50,000	50,000	9.50%
			1,416,276	1,211,362	
Popular Capital					
Convertible bonds	EUR	23-10-09	700,000	31,125	Euribor 3m+4.00%
TOTAL (*)				1,242,487	

(*) Excluding own securities

€ 1,119,124 thousand of the outstanding balance of these convertible subordinated issues is held by third parties and € 123,363 thousand by the Group.

In October 2012, 2,049,130 convertible bonds from the BSOC I 2012 issue were converted into 126,035,134 new shares and the outstanding balance of the issue at December 31, 2012 is therefore € 904,462 thousand.

In 2011, the Group completed two issues of Subordinated debentures in the amount of € 200,000 thousand million and € 250,000 thousand through Banco Popular Español, S.A. These two issues count as tier-2 capital for solvency purposes.

Set out below are details of outstanding issues of non-convertible subordinated bonds by issuer at December 31, 2012 and 2011:

			Amount		Maturity	Cost rate (*)
			2012	2011		
Banco Popular Español, S.A						
	USD	26-07-04	12,000	12,000	17-09-34	Libor 3m+2.62%
	USD	28-07-05	12,000	12,000	15-09-35	Libor 3m+1.55%
	USD	29-03-06	12,000	12,000	15-06-36	Libor 3m+1.45%
	USD	24-08-06	12,000	12,000	15-09-36	Libor 3m+1.65%
	EUR	22-12-09	113,950	336,150	22-12-19	MID-SWAP 5yr+3.10%
	EUR	29-07-11	200,000	200,000	29-07-21	8.00%
	EUR	19-10-11	250,000	250,000	19-10-21	8.25%
	EUR (from Banco Pastor)	11-06-04	12,400	-	Undetermined	Euribor 3m+0.90%
BPE Financiaciones, S.A. (**)						
	EUR	30-06-04	78,843	86,953	30-06-14	Euribor 3m+0.25%
	EUR	23-12-05	81,400	118,700	23-12-15	Euribor 3m+0.15%
	EUR	22-10-10	131,900	200,000	22-10-20	6.873%
BPE Preference International, LTD						
	EUR	16-11-00	3,654	180,000	Undetermined	3m+2.561%
	EUR	21-12-01	2,487	120,000	Undetermined	3m+2.535%
	EUR	27-12-02	2,197	138,000	Undetermined	3m+2.560%
Popular Capital, S.A.						
	EUR	20-10-03	64,847	147,684	Undetermined	Euribor 3m+0.095%
	EUR	30-06-04	26,680	119,129	Undetermined	Euribor 3m+0.093%
	EUR	06-03-07	17,550	73,500	Undetermined	Euribor 12m+0.7025%
	EUR	30-03-09	5,641	440,228	Undetermined	Euribor 3m+2.585%
	EUR	17-12-10	-	454,692	15-12-13	8.00%
Pastor Participaciones Preferentes, S.A.U:						
	EUR	27-07-05	7,483	-	Undetermined	4.56%
	EUR	02-04-09	4,818	-	Undetermined	Euribor 3m+4.60% min 6.80%

(*) Including hedge

(**) The spread on issues of BPE Financiaciones will increase by 50 bp as from year six.

The outstanding balance of these non-convertible subordinated issues, including the USD 48,000 thousand, valued at the year-end exchange rate, totals € 1,040,230 thousand, of which € 1,021,365 thousand is held by third parties and € 18,865 thousand by the Group.

During 2012, Banco Popular repurchased bonds issued in the amount of € 1,648,747 thousand, generating a gain of € 76,126 thousand at December, 31 2012 (Note 54).

The interest recognized in the income statement in respect of subordinated financing totalled € 61,115 thousand in 2012 and € 113,968 thousand in 2011 due to the combined impact of the IRS hedges.

Other financial liabilities

This caption relates to payables not included in other items:

€ thousand	2012	2011
Payables	371,674	293,126
Dividends payable	274	7,347
Trade payables	306,099	238,955
Factoring payables	39,307	39,678
Other	25,994	7,146
Guarantee deposits received	33,109	30,093
Tax collection accounts	453,449	402,478
Special accounts	395,451	161,249
Financial guarantees	26,924	22,947
Other	35,651	13,278
Total	1,316,258	923,171

36. Mortgage securities issued under Law 2/1981 on the Mortgage Market

In accordance with Bank of Spain Circular 5/2011 (30 November), the information previously furnished under Circular 7/2010 (developing certain aspects of the mortgage market, resulting from the approval of Law 41/2009 (7 December), which broadly modified Law 2/1981 (25 March) on the mortgage market and Royal Decree 716/2009 (24 April), developing the latter law) is included in the notes to the individual accounts of Banco Popular Español, S.A, the Group's parent entity.

37. Insurance contract liabilities

This caption includes the mathematical reserves of the insurance companies included in the consolidation scope, which in 2011 were the life insurance company Eurovida, S.A. (Portugal) and the non-life company Popular Seguros, S.A.

In 2012 the life insurance company Pastor Vida, S.A. joined the Group following the acquisition of the Pastor Group.

€ thousand	**Total**		**Life**		**Non-life**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Underwriting reserves for unearned premiums and unexpired risks	10,048	3,093	6,987	-	3,061	3,093
Mathematical reserves	202,604	111,635	202,604	111,635	-	-
Underwriting reserves for life insurance with investment risk borne by policyholders	471,930	334,880	471,930	334,880	-	-
Underwriting reserves for claims	10,793	6,403	8,856	5,161	1,937	1,242
Underwriting reserves for profit-sharing and returns	8,299	4,277	8,299	4,277	-	-
Subtotal insurance companies	703,674	460,288	698,676	455,953	4,998	4,335
Fees pending accrual on technical guarantees	110,925	110,821				
Total	814,599	571,109				

The companies Eurovida, S.A. (Portugal), Popular Seguros, S.A. and Pastor Vida, S.A. are wholly owned by the Group.

Also included are fees pending accrual in respect of bank guarantees and non-financial guarantees.

38. Provisions

Provisions are present obligations arising from past events for which, at the balance sheet date, it is more likely than not that the obligation will have to be settled.

Set out below is a breakdown of this heading in the consolidated balance sheets at December 31, 2012 and 2011:

€ thousand	**2012**	**2011**
Provisions for pensions and similar obligations	336,263	169,268
Provisions for taxes and other legal contingencies	70,854	41,508
Provisions for contingent exposures and commitments	85,336	67,086
Provisions for contingent exposures	85,336	67,086
Provisions for contingent commitments	-	-
Other provisions	15,594	3,690
Total	508,047	281,552

Provisions for pensions and similar obligations recognized in the consolidated balance sheet at year-end 2012 and 2011, in the amounts of € 336,263 thousand and € 169,268 thousand, respectively, relate basically to the successive early retirement plans approved by the Group's banks in Spain, referred to elsewhere in these consolidated annual accounts, and to the pension commitments of Banco Popular Portugal, S.A., amounting to € 108,961 thousand and € 94,709 thousand in 2012 and 2011, respectively. As the bank retains the risk arising from these commitments, they must be included in this balance sheet item.

Movements in the main provisions during 2012 and 2011 are set out below:

€ thousand	Provision for pensions & similar obligations	Provision for taxes & other legal contingencies	Provisions for contingent exposures & commitments	Other provisions	Total provisions
Opening balance 2011	207,307	46,377	82,515	5,875	342,074
Change in consolidation scope	-	-	-	-	-
Net provisions charged to income:					
Gross provisions	1,142	10,286	31,977	2,058	45,463
Provisions released	(20,933)	(2,645)	(38,838)	(1,661)	(64,077)
Provisions applied	(16,774)	(6,948)	-	-	(23,722)
Transfers and other movements	(1,474)	(5,562)	(8,568)	(2,582)	(18,186)
Closing balance 2011	169,268	41,508	67,086	3,690	281,552
Change in consolidation scope	151,615	13,385	59,246	134,419	358,665
Net provisions charged to income:					
Gross provisions	52,631	8,063	48,012	(4,585)	104,121
Provisions released	(1,623)	(24,749)	(38,189)	(2,339)	(66,900)
Provisions applied	(66,781)	(689)	(51,000)	(124,053)	(242,523)
Transfers and other movements	31,153	33,336	181	8,462	73,132
Closing balance 2012	336,263	70,854	85,336	15,594	508,047

For clarity, in view of the special characteristics of pension funds and similar obligations, movements are provided below:

€ thousand	2012	2011
Opening balance	169,268	207,307
Provisions charged to income:	85,689	19,446
Personnel expenses	25,562	31,571
Period provisions (net)	51,008	(19,791)
Interest and similar charges	9,119	7,666
Transfer to reserves	1,154	-
Payments to pensioners and early retirees	(39,673)	(32,434)
Change in consolidation scope	151,615	
Provisions applied and other movements	(31,790)	(25,051)
Closing balance	336,263	169,268

Set out below is a breakdown of provisions for pensions and similar obligations in the consolidated balance sheets at December 31, 2012 and 2011:

€ thousand	2012	2011
Post-employment remuneration commitments	336,263	169,268
Vested	46,061	18,860
Early retirees	196,132	71,523
Serving employees	94,070	78,885

Set out below are movements in Provisions for contingent exposures by type of provision:

€ thousand	Provision			
	Specific	General	Country risk	Total
Opening balance 2011	57,467	24,835	213	82,515
Provisions	30,785	1,921	747	33,453
Recoveries	27,386	11,451	1	38,838
Other movements and transfers	(10,648)	604	-	(10,044)
Closing balance 2011	50,218	15,909	959	67,086
Change in consolidation scope*	7,055	1,191	-	8,246
Provisions	46,461	1,451	100	48,012
Recoveries	24,652	13,367	170	38,189
Other movements and transfers	127	55	(1)	181
Closing balance 2012	79,209	5,239	888	85,336

*Net of applications.

39. Other liabilities

This caption includes liabilities not recognized in other balance sheet items.

€ thousand	2012	2011
Accruals	189,546	152,843
Transactions in transit	35,364	41,310
Other	294,680	319,064
Total	519,590	513,217

40. Equity

The Banco Popular Group's consolidated equity comprises Own funds, Valuation adjustments and Minority interest, which are analyzed separately in Notes 41, 42 and 43, respectively.

The following table contains an analysis showing movements in equity during the last two years:

€ thousand	Capital	Reserves & share premium	Profit/ (loss) for the year	Treasury shares	Other equity instruments	Valuation adjustments	Equity attrib to BPE Group	Minority interest	Equity
Balance at 1 January 2011	137,528	7,641,251	422,888	(117,337)	691,302	(572,365)	8,203,267	49,052	8,252,319
Capital increase	2,565	2,921	-	-	-	-	5,486	-	5,486
Valuation adjustments	-	-	-	-	-	(269,558)	(269,558)	(2,549)	(272,107)
Application of prior-year results	-	422,888	(422,888)	-	-	-	-	-	-
Dividends	-	(36,961)	-	-	-	-	(36,961)	-	(36,961)
Profit/(loss) on transactions with treasury shares and other	-	(5,723)	-	-	-	-	(5,723)	-	(5,723)
Actuarial differences	-	18,996	-	-	-	-	18,996	-	18,996
Equity instruments	-	-	-	(35,458)	-	-	(35,458)	-	(35,458)
Profit/loss for the year	-	-	479,653	-	-	-	479,653	4,323	483,976
Interim dividends	-	-	(68,419)	-	-		(68,419)	(11,761)	(80,180)
Change in Group's composition and other movements (net)	-	(3,570)	-	-	(5,488)	-	(9,058)	66,934	57,876
Balance at December 31, 2011	140,093	8,039,802	411,234	(152,795)	685,814	(841,923)	8,282,225	105,999	8,388,224
Capital increase	663,342	3,084,442	-	-	-	-	3,747,784	-	3,747,784
Conversion of financial liabilities into capital	37,420	672,489	-	-	(5,018)	-	704,891	-	704,891
Valuation adjustments	-	-	-	-	-	(44,691)	(44,691)	1,545	(43,146)
Application of prior-year results	-	411,234	(411,234)	-	-	-	-	-	-
Dividends	-	(166,054)	-	-	-	-	(166,054)	-	(166,054)
Profit/(loss) on transactions with treasury shares and other	-	(72,637)	-	-	-	-	(72,637)	-	(72,637)
Actuarial differences	-	(885)	-	-	-	-	(885)	-	(885)
Equity instruments	-	-	-	18,172	-	-	18,172	-	18,172
Profit/loss for the year	-	-	(2,461,023)	-	-	-	(2,461,023)	80	(2,460,943)
Interim dividends	-	-	-	-	-	-	-	(137)	(137)
Change in Group's composition and other movements (net)	-	(96,616)	-	-	98	-	(96,518)	(63,330)	(159,848)
Balance at December 31, 2012	840,855	11,871,775	(2,461,023)	(134,623)	680,894	(886,614)	9,911,264	44,157	9,955,421

41. Own funds

The Own funds caption includes shareholders' contributions, cumulative results recognized through profit or loss, permanent adjustments against equity due to restatements arising in business combinations, treasury share issue or redemption costs, and actuarial gains or losses attributed to the parent entity. Set out below is a breakdown of this heading in the consolidated balance sheets at December 31, 2012 and 2011:

€ thousand	**2012**	**2011**
Share capital	840,855	140,093
Share premium	5,648,966	1,968,111
Reserves	6,222,809	6,071,691
Other equity instruments	680,894	685,814
Less: Treasury shares	134,623	152,795
Profit for the year attributed to the parent entity	(2,461,023)	479,653
Less: dividends and remuneration	-	68,419
Total	10,797,878	9,124,148

Capital

Capital includes all the capital stock subscribed and paid in by the shareholders of Banco Popular Español, S.A.

At December 31, 2012 and 2011, capital stock consisted of 8,408,550 and 1,400,930 fully-subscribed and paid-up ordinary shares, respectively, with a par value of 10 euro cents each.

During 2012, Banco Popular Español, S.A. increased capital several times as a result of the acquisition and absorption of the Banco Pastor Group, exchange of necessarily convertible debentures, shareholder remuneration through the "Banco Popular Dividend: a dividend made to measure" formula, and a capital increase of € 2,500 million completed in the final quarter of 2012.

A breakdown is provided below:

€ thousand	
Acquisition of Banco Pastor, S.A.	38,200
Exchange of necessarily convertible debentures and necessarily convertible subordinated bonds	37,420
Shareholder remuneration	1,701
Capital increase € 2,500 million	623,441
Total	700,762

During 2011, Banco Popular Español, S.A. increased share capital on three occasions. The first two increases were the result of the payment of the third interim dividend of € 1,202 thousand and the fourth supplementary dividend of € 1,285 thousand, both out of 2010 profits, and the third increase of € 78 thousand was the consequence of the voluntary conversion of 5,487 necessarily convertible debentures.

The Annual General Meeting of April 8, 2011 approved the new flexible shareholder remuneration system named "Banco Popular Dividend". Through this system, Banco Popular aims to allow its shareholders to decide whether they prefer to receive all or part of their remuneration in cash or in new fully-paid shares; to allow shareholders that wish to do so to receive favourable tax treatment; and to improve the shareholder remuneration policy in line with the recent operations completed by other domestic and international companies.

On payment of the third interim dividend out of 2010 profits, which generally takes place in April of the following year, and the fourth supplementary dividend, which is settled in September, the new remuneration system was offered to shareholders, Banco Popular acquiring, on both occasions, a irrevocable commitment to purchase the free rights allocated at a fixed price of € 0.05 per right.

In the first case, on payment of the third interim dividend, shareholders owning 25.75% of the free allocation rights accepted the irrevocable commitment, while 74.25% opted to receive new shares, the Bank having issued 12,013,739 fully-paid shares with a par value of €0.10 each, representing a capital increase of € 1,201,379.90.

On the following occasion, on payment of the fourth supplementary dividend, 27.76% accepted the irrevocable commitment and 72.24% chose to receive new shares. The Bank issued 12,848,781 new ordinary shares at the same par value, increasing capital by € 1,284,878.10.

Movements in capital during 2012 and 2011 are set out below:

€ thousand	2012	2011
Opening balance	140,093	137,528
Issues	700,762	2,565
Redemptions	-	-
Closing balance	840,855	140,093

Exhibit IV contains details of the resolutions adopted by the Extraordinary General Shareholders' Meeting on December 20, 2011 relating to the capital increases.

All the shares of Banco Popular Español, S.A. are officially listed in the Spanish stock exchanges and are traded on the continuous market. The shares are also listed in the Lisbon Stock Exchange.

At December 31, 2012 and 2011, no shareholder of Banco Popular owned a direct or indirect shareholding of 10% or more. The Directors' Report that forms part of this document provides all the information required by Article 116.bis of Stock Market Law 24/1988 (28 July).

At December 31, 2012 and 2011, shareholdings of 10% or more in consolidated companies held by other non-Group entities, directly or through their dependent entities, are as follows:

		% shareholding	
Dependent entities	Non-Group person or entity	2012	2011
Desarrollo Aplicaciones Especiales, S.A.	Atos	-	39.33
	Jose Mª Martín Berrueco	-	10.00
Popular Banca Privada, S.A.	Dexia	40.00	40.00
Popular Gestión Privada SGIIC, S.A	Dexia	40.00	40.00
Grupo La Toja Hoteles	Marlolan S.L.	10.00	-
Pastor Privada Investment 1 (*)	Omura Servigroup, S.L.	15.00	-
	5% shareholdings	80.00	-
Pastor Privada Investment 3 (*)	Girbal, S.L.	30.00	-
	5% shareholdings	65.00	-

(*) The Bank has appointed the majority of the members of these companies' administrative bodies under shareholder agreements.

Share premium

The share premium arises from capital increases and is calculated by multiplying the number of shares issued in the capital increase by the difference between the issue price and the par value per share. Under Spanish corporate law, the share premium may be used to increase capital, there being no restriction on its use. Movements in the share premium balance during 2012 and 2011 are set out below:

€ thousand	2012	2011
Opening balance	1,968,111	1,962,703
Issues	3,756,931	5,408
Redemptions	76,076	-
Closing balance	5,648,966	1,968,111

In 2012 there were a number of additions due to the capital increases and exchange of necessarily convertible debentures, and one outflow as a result of the scrip dividend in June 2012.

During 2011 there was an addition of € 5,408 thousand in this item due to the voluntary exchange of necessarily convertible debentures.

Set out below are movements during 2012:

€ thousand	
Acquisition of Banco Pastor, S.A.	1,207,883
Exchange of necessarily convertible debentures and necessarily convertible subordinated bonds	672,489
Shareholder remuneration	(76,076)
Capital increase € 2,500 million	1,876,559
Total	3,680,855

Reserves

This item includes the net amount of retained earnings transferred to consolidated equity when the profits are distributed, as well as permanent adjustments, equity instrument issue costs and actuarial gains or losses on pension plans.

Spanish corporate law stipulates that 10% of the profit for the year must be taken to the legal reserve until the balance in the reserve is equal to 20% of capital stock. The portion of the legal reserve that exceeds 10% of capital stock may be used to increase capital. Otherwise, until the legal reserve exceeds 20% of capital stock, it may only be used to offset losses, provided sufficient other reserves are not available for this purpose.

Spanish corporate law also requires companies to set up restricted reserves for transactions involving treasury shares or the shares of their parent company, in amounts equal to the relevant carrying amounts of treasury shares or assets (credits for acquisition or secured by the shares). These reserves are restricted until the circumstances giving rise to their recognition cease to exist.

Set out below is a breakdown of this heading at December 31, 2012 and 2011:

€ thousand	2012	2011
Reserves of Banco Popular		
Restricted reserves		
Legal reserve	35,696	35,696
Reserves for own equity instruments:		
For transactions with own securities	-	-
For guarantees	95,096	127,133
For acquisition credits	2,056	155,747
Other restricted reserves	5,000	10,600
Unrestricted reserves		
By-law reserve	70,046	68,764
Voluntary reserve and other	6,839,068	6,093,807
Total	7,046,962	6,491,747
Consolidation reserves	(831,031)	(448,650)
Equity method reserve	6,878	28,594
Total	6,222,809	6,071,691

In 2012, the prior-year profit of € 553,020 thousand was transferred entirely to reserves. Reserves decreased by € 21,179 thousand as a result of the payment of shareholder remuneration under the formula "Banco Popular Dividend: a dividend made to measure" in March and by € 68,799 thousand due to the scrip dividend payment in June. As a consequence, the net increase in reserves was € 463,042 thousand.

In 2011, reserves increased as a result of the resolution adopted by the Annual General Meeting on 8 April 2011 relating to the new flexible shareholder remuneration system named "Banco Popular Dividend". As a consequence, the net increase in reserves was € 463,042 thousand.

Movements in this caption are set out below:

€ thousand		Movements in 2011			Movimientos en 2012		
	2010	Increases	Decreases	2011	Increases	Decreases	2012
Reserves of Banco Popular Español							
Restricted reserves:							
Legal reserve	35,696	-	-	35,696	-	-	35,696
Reserves for own equity instruments							
For transactions with own securities	-	-	-	-	-	-	-
For guarantees	143,339	44,868	61,074	127,133	132,418	164,455	95,096
For acquisition credits	105,490	192,866	142,609	155,747	128,825	282,516	2,056
Other restricted reserves	10,600	-	-	10,600	-	5,600	5,000
Voluntary reserves:							
By-law reserve	66,658	2,106	-	68,764	1,282	-	70,046
Voluntary reserve and other	5,168,864	1,263,854	338,911	6,093,807	1,276,312	531,051	6,839,068
Total	5,530,647	1,503,694	542,594	6,491,747	1,538,837	983,622	7,046,962
Cause of movements:							
Distribution of period income		403,395	-		553,020	-	
Transfers between reserves		419,110	419,110		475,525	475,525	
Actuarial differences		29,459	14,757		7,721	7,192	
Merger adjustments		6	20		1,645	5,412	
Consolidation adjustments and other		643,911	95,171		466,901	351,218	
Transactions with own securities		7,813	13,536		34,025	144,275	
Total		1,503,694	542,594		1,538,837	983,622	

The total balance in these reserves reflected in the consolidated balance sheets differs from the reserves carried in the individual balance sheets of Banco Popular (Note 1) due to certain adjustments and eliminations on consolidation. The following table shows the effect of these adjustments, relating basically to intragroup dividends and transfers from reserves in consolidated companies to Banco Popular due to consolidation adjustments.

€ thousand	**2012**	**2011**
Amount in Banco Popular's balance sheet	5,809,676	5,484,097
Consolidation adjustments:	1,237,286	1,007,650
Due to dividends	43,474	193,964
Due to merger and other (net)	1,193,812	813,686
Amount in consolidated balance sheet	7,046,962	6,491,747

Set out below is a breakdown by entity of the balance of reserves/(losses) attributed to dependent entities, jointly-controlled entities and associates at December 31, 2012 and 2011:

€ thousand	**2012**	**2011**
Deposit-taking entities:		
Bancopopular-e, S.A	77,569	53,077
Banco Popular Pastor, S.A.	(6)	-
Banco Popular Portugal, S.A.	20,841	22,913
Popular Banca Privada, S.A.	(36,333)	(38,682)
TotalBank	(10,741)	(23,288)
Financing companies:		
Pastor Servicios Financieros E.F.C., S.A.	2,771	-
Popular Factoring, S.A. (Portugal)	(7,265)	2,418
Popular de Factoring, S.A.	27,096	20,928
Portfolio companies:		
Bolshispania, S.A. S.I.C.A.V.	6	-
Gestora Popular, S.A.	13,500	13,673
Grupo La Toja Hoteles	-	-
Inverpastor, S.A. S.I.C.A.V	52	-
Pastor Privada Eolica 2, S.L.	-	-
Pastor Privada Eolica 3, S.L.	-	-
Pastor Privada Investment 1, S.L.	-	-
Pastor Privada Investment 2, S.L.	-	-
Pastor Privada Investment 3, S.L.	-	-
PBP Cartera Premium SICAV	1,732	(471)
Popular Bolsa S.V., S.A.	986	979
Popular Gestao de Activos, S.A.	745	716
Popular de Participaciones Financieras, S.A.	8,490	8,454
Popular Gestión Privada SGIIC, S.A.	1,349	1,272
Sobrinos de Jose Pastor Inversiones, S.A.	-	-
Special-purpose entities:		
Aliseda, S.A.	(771,123)	(489,304)
BPE Finance International, LTD	(6)	(6)
BPE Financiaciones, S.A.	7,451	7,244
BPE Preference Internacional, LTD	(12)	(12)
BPE Representaçoes y Participaçoes, S.	-	-
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.	(1)	-
Consulteam Consultores de Gestao, S.A.	(285,595)	(237,035)
Finespa, S.A.	10,371	10,552
Fondo Imopopular, FEIIF	(489)	(18)
Gestora Europea de Inversiones, S.A.	(31,730)	(11,327)
Gold Leaf Title Company	171	95
IM Banco Popular FPYME 1, FTA	11,624	10,974
IM Banco Popular FPYME 2, FTA	1,959	2,924
IM Banco Popular FPYME 3, FTA	2,654	-
IM Banco Popular MBS 2, FTA	2,770	1,390
IM Cédulas Grupo Banco Popular 1, FTA	(372)	(500)
IM Cédulas Grupo Banco Popular 3, FTA	(540)	(637)
IM Cédulas Grupo Banco Popular 5, FTA	-	-
IM Grupo Banco Popular Empresas 1, FTA	6,230	21,710
IM Grupo Banco Popular Empresas 3, FTA	29,847	14,912
IM Grupo Banco Popular Empresas 4, FTA	11,054	-

€ thousand	2012	2011
IM Grupo Banco Popular FPYME I, FTA	5,232	20,629
IM Grupo Banco Popular FPYME II, FTA	13,878	13,935
IM Grupo Banco Popular Leasing 2, FTA	3,449	-
Inmobiliaria Viagracia, S.A.	103,758	101,166
Inmobiliaria Vivesa, S.A	-	1,511
Intermediacion y Servicios Tecnológicos, S.A.	670	582
Inversiones Inmobiliarias Alprosa, S.L.	728	1,053
Inversiones Inmobiliarias Canvives, S.L.	(130,761)	(69,076)
Inversiones Inmobiliarias Cedaceros, S.L.	(29,453)	(5,992)
Inversiones Inmobiliarias Gercevio, S.L.	(6,287)	(2,486)
Inversiones Inmobiliarias Jeraguilas, S.L.	(6)	(5)
Inversiones Inmobiliarias Tamadaba, S.A.	(32)	(36)
Isla de los Buques, S.A.	1,544	1,406
Manberor, S.L.	(5)	(1)
Meglahe, S.L	(5)	(5)
Naviera Cañada, S.L.	-	-
Naviera Islas Cies, S.L.	-	-
Pastor Participaciones Preferentes, S.A.	-	-
Pastor Representaciones Argentina	-	-
Pastor Representaciones Brasil	-	-
Popular Arrendamiento Fundo FIIAH para Arrend. Habitacional	921	-
Popular Capital, S.A.	33,844	28,414
Popular de Mediacion, S.A.	(39)	24
Popular Español Asia Trade, LTD	-	-
Read Leaf Holding	(143)	(114)
Residencial Valdemar, S.L.	-	-
Urbanizadora Española, S.A.	11,591	11,430
Velazquez, 34, S.L.	(3,676)	287
Non-financial companies:		
Cercebelo Assets, S.L.	-	-
Desarrollo de Aplicaciones Especiales, S.A	-	547
Eurovida, S.A. (Portugal)	40,110	32,585
FIB Realty Corporation	-	-
Panorama Ibicenca, S.A	-	117
Popular de Comunicaciones, S.A	-	17
Popular de Informática, S.A	-	(2)
Finisterre, S.A.	-	-
General de Terrenos y Edificios Servicios Integrales, S.L.	-	-
General de Terrenos y Edificios, S.L.	-	-
Gestora Inmobiliaria La Toja, S.A.	-	-
La Toja, S.A.	-	-
Pastor Vida, S.A.	-	-
Popular de Renting, S.A.	6,388	6,139
Popular Seguros, S.A.	802	436
Promoción Social de Viviendas, S.A.	200	199
Total Sunset INC	-	-
Vilamar Gestion, S.L.	-	-
Subtotal dependent entities	**(852,237)**	**(464,289)**
Jointly-controlled entities		
Targo Bank, S.A.	21,992	10,349
GAT FTGENCAT	1,113	1,221
Inverlur Aguilas I, S.L.	-	-
Inverlur Aguilas II, S.L.	-	-
Platja Amplaries, S.L.	(6,410)	(17)
Saite, S.A.	-	-
Saite-Cobal, S.A.	-	-
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	4,511	4,086
Targoinmuebles, S.A.	-	-
Subtotal jointly-controlled entities	**21,206**	**15,639**
Total consolidation reserves	**(831,031)**	**(448,650)**
Associates		
Allianz Popular, S.L.	52,366	49,424
Amarres Deportivos, S.L.	-	-
Aviación Intercontinental, A.I.E	1,931	394
Fernando Oliveira Cortiças, S.A.	-	-
Fotovoltaica Monteflecha, S.L.	122	-
Inversiones Area Sur, S.L.	4,445	5,125
Inversiones en Resorts Mediterraneos, S.L.	(52,118)	(22,899)

€ thousand	2012	2011
Mercavalor S.V., S.A.	66	-
Metrovacesa, S.A.	-	-
Nuevo Agora Centro de Estudios, S.L.	(85)	-
Perez Torres Hadling, S.A.	10	-
Puertos Futuros, S.L.	-	-
Ronautica Marinas Internacional, S.A.	6	-
Sistema 4B, S.A.	3,127	(502)
Trindade Fundo de Investimento Inmobiliario Fechado	(2,992)	(2,948)
Total equity method reserves	**6,878**	**28,594**

Other equity instruments

This item relates to the equity component of hybrid financial instruments having the nature of equity, equity increases caused by remuneration for personnel and other equity items not classified in different items in equity.

In the final quarter of 2009, the Group issued necessarily convertible subordinated debentures totalling € 700 million. The purpose of this issue was to bolster and optimise the Group's capital structure by substantially increasing the percentage of the Group's core or tier 1 capital. The debentures were convertible into shares as a result of voluntary conversion requests from the holders on October 23, 2010, 2011 and 2012 (voluntarily), or necessarily on October 23, 2013.

In October 2012, Banco Popular Español, S.A. offered the holders of this issue (Issue I-2009) the possibility of exchanging their debentures for subordinated bonds subject to similar terms and a new maturity date in November 2015 (Issue II-2012); acceptances and rejections totalled € 656,511 thousand and € 31,760 thousand, respectively.

In accordance with the exchange schedule, Banco Popular Español, S.A. accepted voluntary conversion requests amounting to € 5,018 thousand (€ 4,383 thousand of issue II-2012 and € 635 thousand of issue I-2009) and € 5,487 thousand for necessarily convertible debentures in 2012 and 2011, respectively; the relevant amounts were capitalised, reducing the amount of this instrument by € 5,018 thousand and € 5,487 thousand in 2012 and 2011, respectively.

The nominal interest rate on the debentures was 7% to the first anniversary of the issue and the three-month Euribor + 4% from that date to the maturity date of the issue or conversion into shares if sooner. The fixed annual nominal remuneration rate of the new issue II/2012 is 7%, subject to the conditions relating to the non-receipt of remuneration described in the issue prospectus.

For conversion purposes, the reference price of the shares in Banco Popular Español, S.A. is 7.1377 euros per share and the conversion ratio of the debentures (number of Bank shares per debenture) is 140.101153 shares per debenture. Consequently, the number of shares to be acquired by the debenture holders on conversion will be calculated by multiplying shares per debenture by the number of debentures held. If this calculation gives rise to a fraction, it will be rounded and Banco Popular Español, S.A. will pay the difference in cash to the debenture holder on the same date the shares are registered in the holder's name. For the purposes of this cash payment, fractions will be valued at the conversion price. [Following the successive capital increases carried out in 2012, the conversion price of these issues is € 3.64 per share for Issue II/2012 and € 3.57 per share for issue I/2009].

The following table shows a breakdown of this caption for 2012 and 2011:

€ thousand	2012	2011
Opening balance	685,814	691,302
Issues		
Disposals due to conversion	(5,018)	(5,487)
Other movements	98	(1)
Closing balance	680,894	685,814

Treasury shares

This item reflects all the own equity instruments held by all the Group entities.

Movements in own equity instruments bought and sold during 2012 and 2011 are set out below:

€ thousand	
Balance at January 1, 2011	117,337
Increases	938,299
Decreases	902,841
Balance at December 31, 2011	152,795
Increases	1,097,319
Decreases	1,115,491
Balance at December 31, 2012	134,623

Profit/(loss) for the year

The following table contains the accounting results attributed by each entity to the Group. The eliminations and adjustments shown at the end on a separate line give rise to the attributed amount that relates the consolidated income statement to consolidated equity.

€ thousand	2012	2011
Deposit-taking entities:		
Banco Popular Español, S.A.	(2,719,525)	623,028
Bancopopular-e, S.A	28,575	24,492
Banco Popular Pastor, S.A.	(1)	-
Banco Popular Portugal, S.A.	2,692	13,432
Popular Banca Privada, S.A.	593	3,433
TotalBank	41,627	5,064
Financing companies:		
Pastor Servicios Financieros E.F.C., S.A.	2,265	-
Popular Factoring, S.A. (Portugal)	3,515	3,135
Popular de Factoring, S.A.	14,288	6,168
Portfolio and services companies:		
Bolshispania, S.A. S.I.C.A.V.	184	-
Gestora Popular, S.A.	(6,253)	(242)
Grupo La Toja Hoteles	999	-
Inverpastor, S.A. S.I.C.A.V	(13)	-
Pastor Privada Eolica 2, S.L.	(1)	-
Pastor Privada Eolica 3, S.L.	(1)	-
Pastor Privada Investment 1, S.L.	-	-
Pastor Privada Investment 2, S.L.	(106)	-
Pastor Privada Investment 3, S.L.	-	-
PBP Cartera Premium SICAV	4,474	2,481
Popular Bolsa S.V., S.A.	1,005	1,020
Popular Gestao de Activos, S.A.	(263)	291
Popular de Participaciones Financieras, S.A.	85	364
Popular Gestión Privada SGIIC, S.A.	14	77
Sobrinos de Jose Pastor Inversiones, S.A.	(20,960)	-
Special-purpose entities:		
Aliseda, S.A.	(975,674)	(260,506)
BPE Finance International, LTD	-	-
BPE Financiaciones, S.A.	5	206
BPE Preference Internacional, LTD	-	-
BPE Representaçoes y Participaçoes, S.	(90)	-
Centro de Análisis y reclam de incumpl., S.A.	-	-
Consulteam Consultores de Gestao, S.A.	(94,158)	(40,646)
Finespa, S.A.	2,122	189
Fondo Imopopular, FEIIF	(2,238)	(178)
Gestora Europea de Inversiones, S.A.	(36,069)	(74)
Gold Leaf Title Company	71	76
IM Banco Popular FPYME 1, FTA	748	650

€ thousand	2012	2011
IM Banco Popular FPYME 2, FTA	(1,183)	(965)
IM Banco Popular FPYME 3, FTA	9,414	2,654
IM Banco Popular MBS 2, FTA	418	1,380
IM Cédulas Grupo Banco Popular 1, FTA	100	100
IM Cédulas Grupo Banco Popular 3, FTA	-	-
IM Cédulas Grupo Banco Popular 5, FTA	-	-
IM Grupo Banco Popular Empresas 1, FTA	751	(15,480)
IM Grupo Banco Popular Empresas 3, FTA	(1,916)	14,935
IM Grupo Banco Popular Empresas 4, FTA	27,804	11,054
IM Grupo Banco Popular FPYME I, FTA	110	(15,397)
IM Grupo Banco Popular FPYME II, FTA	(549)	(57)
IM Grupo Banco Popular Leasing 2, FTA	11,969	3,449
Inmobiliaria Viagracia, S.A.	(1,687)	(5,034)
Inmobiliaria Vivesa, S.A	-	4
Intermediacion y Servicios Tecnológicos, S.A.	(630)	88
Inversiones Inmobiliarias Alprosa, S.L.	792	(325)
Inversiones Inmobiliarias Canvives, S.L.	(589,775)	(48,154)
Inversiones Inmobiliarias Cedaceros, S.L.	(13,816)	(22,376)
Inversiones Inmobiliarias Gercevio, S.L.	(2,979)	(2,220)
Inversiones Inmobiliarias Jeraguilas, S.L.	(19,195)	(1)
Inversiones Inmobiliarias Tamadaba, S.A.	(16,054)	5
Isla de los Buques, S.A.	(3)	138
Manberor, S.L.	(2)	(4)
Meglahe, S.L	(2)	(1)
Naviera Cañada, S.L.	(3)	-
Naviera Islas Cies, S.L.	245	-
Pastor Participaciones Preferentes, S.A.	32	-
Pastor Representaciones Argentina	-	-
Pastor Representaciones Brasil	4	-
Popular Arrendamiento Fundo FIIAH para Arrend. Habitacional	(91)	-
Popular Capital, S.A.	3,728	11,917
Popular de Mediacion, S.A.	23	287
Popular Español Asia Trade, LTD	-	-
Read Leaf Holding	(1,149)	(29)
Residencial Valdemar, S.L.	(18,849)	-
Urbanizadora Española, S.A.	166	160
Velazquez, 34, S.L.	(5,629)	1,542
Non-financial companies:		
Cercebelo Assets, S.L.	(46)	-
Desarrollo de Aplicaciones Especiales, S.A	-	138
Eurovida, S.A. (Portugal)	9,580	8,718
FIB Realty Corporation	-	-
Panorama Ibicenca, S.A	-	(1)
Popular de Comunicaciones, S.A	-	(2)
Popular de Informática, S.A	-	(1)
Finisterre, S.A.	-	-
General de Terrenos y Edificios Servicios Integrales, S.L.	1,313	-
General de Terrenos y Edificios, S.L.	(464)	-
Gestora Inmobiliaria La Toja, S.A.	(29)	-
La Toja, S.A.	-	-
Pastor Vida, S.A.	2,046	-
Popular de Renting, S.A.	2,268	1,525
Popular Seguros, S.A.	593	366
Promoción Social de Viviendas, S.A.	1	2
Total Sunset INC	-	-
Vilamar Gestion, S.L.	(7,560)	-
Subtotal parent entity and dependent entities	(4,362,344)	330,875
Jointly-controlled entities		
Targo Bank, S.A.	242	9,717
Cedulas TDA 19 (1)	-	-
GAT FTGENCAT	(8)	(91)
Inverlur Aguilas I, S.L.	(6,499)	-
Inverlur Aguilas II, S.L.	(20,087)	-
Platja Amplaries, S.L.	(2,634)	(1,875)
Saite, S.A.	420	-
Saite-Cobal, S.A.	(942)	-
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	303	425

€ thousand	2012	2011
Targoinmuebles, S.A.	-	-
Subtotal jointly-controlled entities	(29,205)	8,176
Associates		
Allianz Popular, S.L.	47,629	45,812
Amarres Deportivos, S.L.	(5)	
Aviación Intercontinental, A.I.E	2,330	1,877
Fernando Oliveira Cortiças, S.A.	-	-
Fotovoltaica Monteflecha, S.L.	33	-
Inversiones Area Sur, S.L.	(875)	(682)
Inversiones en Resorts Mediterraneos, S.L.	(1,072)	(3,717)
Mercavalor S.V., S.A.	(81)	-
Metrovacesa, S.A.	(29,320)	-
Nuevo Agora Centro de Estudios, S.L.	1,307	-
Perez Torres Hadling, S.A.	82	-
Puertos Futuros, S.L.	(1)	-
Ronautica Marinas Internacional, S.A.	(5)	-
Sistema 4B, S.A.	226	2,596
Trindade Fundo de Investimento Inmobiliario Fechado	(212)	182
Subtotal associates	20,036	46,068
Total	(4,371,513)	385,119
Consolidation adjustments and eliminations	1,910,490	94,534
Net income attributable to the Group	(2,461,023)	479,653

Dividends and remuneration

Set out below is a breakdown of dividends and remuneration reflected in the consolidated balance sheets, after deducting dividends received by the entities of the Banco Popular Group, at December 31, 2012 and 2011:

€ thousand	2012	2011
Paid	-	68,419
By Banco Popular Español, S.A. (Note 4)	-	70,007
Eliminated on consolidation	-	(1,588)
Total	-	68,419

Movements in this item during the two periods are as follows:

€ thousand	
Balance at January 1, 2011	167,275
Increases	68,419
Decreases	167,275
Balance at December 31, 2011	68,419
Increases	-
Decreases	68,419
Balance at December 31, 2012	-

Finally, movements in own funds in the consolidated balance sheets are set out below:

€ thousand	
Balance at December 31, 2010	8,775,632
Treasury shares	(35,458)
Capital increase	(37,146)
Issuance/remuneration of convertible debentures	(42,465)
Profit/(loss) on transactions with treasury shares	(5,723)
Actuarial differences	18,996
Consolidation and other operations (net)	39,078
Net profit for 2011	479,653
Dividends paid/declared in 2011	(68,419)
Balance at December 31, 2011	9,124,148
Treasury shares	18,172
Capital increase	4,244,311
Issuance/remuneration of convertible debentures	(31,252)
Profit/(loss) on transactions with treasury shares	(72,637)
Actuarial differences	(885)
Consolidation and other operations (net)	(22,956)
Net profit for 2012	(2,461,023)
Dividends paid/announced in 2012	-
Balance at December 31, 2012	10,797,878

42. Equity valuation adjustments

This equity item includes the amounts, net of the tax effect, of the portion attributable to the Group of the adjustments to assets and liabilities temporarily recognized in equity through the statement of recognized income and expense until they are extinguished or realized, at which time they are definitively recognized in equity through the income statement. The portion of the adjustments attributable to minority interests is recognized in a specific item. Set out below is a breakdown of these consolidated balance sheet items at December 31, 2012 and 2011:

€ thousand	2012	2011
Available-for-sale financial assets	(917,734)	(912,391)
Cash flow hedges	-	33,857
Hedges of net investments in foreign operations	-	-
Exchange differences	31,120	36,611
Non-current assets for sale	-	-
Entities measured under the equity method	-	-
Other valuation adjustments	-	-
Total	(886,614)	(841,923)

Gross figures are set out below:

€ thousand	2012	2011
Available-for-sale financial assets	(1,297,504)	(1,282,979)
Debt securities	(1,286,152)	(1,254,720)
Equity instruments	(11,352)	(28,259)
Cash flow hedges	-	48,367
Hedges of net investments in foreign operations	-	-
Exchange differences	44,457	52,301
Non-current assets for sale	-	-
Entities measured under the equity method	-	-
Other valuation adjustments	-	-
Corporate income tax	366,433	340,388
Total	(886,614)	(841,923)

The item Available-for-sale financial assets includes changes in the value of these financial assets, net of the tax effect, before they are transferred to the income statement, in the event of their sale or maturity, or asset impairment, should a negative value be obtained.

Movements in equity valuation adjustments with respect to available-for-sale financial assets are set out below:

€ thousand	2012	2011
Opening balance	(1,282,979)	(888,161)
Net transfer to income statement	(142,344)	(52,771)
Valuation gains/(losses)	127,819	(342,047)
Other movements	-	-
Closing balance	(1,297,504)	(1,282,979)

The information on cash flow hedges at year-end 2012 and 2011 includes cumulative gains and losses on the hedging instrument (see Note 26). Consequently, movements for the year reflect the recognition of results due to the change in the value of the hedged item in respect of the hedged exposure, and the relevant tax effect.

€ thousand	2012	2011
Opening balance	48,367	39,190
Net transfer to income statement	-	-
Valuation gains/(losses)	(48,367)	9,177
Closing balance	-	48,367

Set out below are movements in equity valuation adjustments due to exchange differences:

€ thousand	2012	2011
Opening balance	52,301	43,482
Net transfer to income statement	-	-
Valuation gains/(losses)	(7,844)	8,819
Closing balance	44,457	52,301

Set out below is a breakdown of corporate income tax relating to items in this caption:

€ thousand	**2012**	**2011**
Available-for-sale financial assets	379,770	370,588
Cash flow hedges	-	(14,510)
Hedges of net investments in foreign operations	-	-
Exchange differences	(13,337)	(15,690)
Non-current assets for sale	-	-
Entities measured under the equity method	-	-
Other valuation adjustments	-	-
Total	366,433	340,388

Finally, a breakdown is provided below by entity of the equity valuation adjustments resulting from the consolidation process:

€ thousand	**2012**	**2011**
Banco Popular Español, S.A.	(814,396)	(641,671)
BPE Representaçoes y Participaçoes, L.T.D.A.	(42)	-
Pastor Representaciones Brasil	1	-
TotalBank	33,355	35,068
Inmobiliaria Viagracia, S.A.	897	1,203
Popular de Participaciones Financieras, S.A.	3,581	3,258
Banco Popular Portugal, S.A.	(114,604)	(237,224)
Popular Banca Privada, S.A.	3,193	4,468
Bancopopular-e, S.A.	53	41
Pastor Representaciones Argentina	(1)	-
Eurovida, S.A. (Portugal)	(27)	(7,739)
Popular Seguros, S.A.	154	(268)
Targobank, S.A.	108	-
BPE Preference International L.T.D.	(3)	(2)
Gold Leaf Title Company	40	49
Read Leaf Holding	1,025	2,139
BPE Finance International L.T.D.	(1)	(6)
Gestora Popular, S.A.	-	(371)
Gestora Europea de Inversiones, S.A.	-	(868)
Pastor Vida, S.A.	53	-
Total	(886,614)	(841,923)

43. Minority interest

This balance sheet caption reflects the portion of the Group entities' equity attributable to third parties outside the Group, including income for the year and valuation adjustments through equity.

Set out below is a breakdown of this caption by dependent entity:

€ thousand	2012	2011
Popular Factoring (Portugal), S.A.	67	84
Urbanizadora Española, S.A.	300	296
Popular Gestión Privada, GGIIC, S.A.	1,177	1,168
Popular Banca Privada, S.A.	22,134	19,943
PBP Cartera Premium	-	83,743
Grupo La Toja Hoteles	13,136	-
Pastor Privada Investment 1, S.A.	5,661	-
Pastor Privada Investment 3, S.A.	1,629	-
Desarrollo de Aplicaciones Especiales, S.A.	-	712
Promocion Social de Viviendas, S.A.	53	53
Total	44,157	105,999

Movements in Minority interest during 2012 and 2011 are set out below:

€ thousand	2012	2011
Opening balance	105,999	49,052
Net income	80	4,323
Dividends paid	(137)	(11,761)
Merger adjustments and other (net)	(61,785)	64,385
Closing balance	44,157	105,999

44. Tax situation

Since 2008, Banco Popular Español, S.A. has been the parent entity of the Consolidated Tax Group, the Tax Group subsidiaries being the entities that fulfil the requirements of the Tax Consolidation Regime regulations. The rest of the Group entities are subject to the tax legislation applicable in each case.

Additionally, with respect to value added tax, the Group is subject to the Special Regime for Groups of Entities provided by Law 36/2006, a regime created for a separate business sector. The Group of Entities is formed by Banco Popular Español, S.A., as the parent entity, and by the Spanish dependent entities that fulfil the relevant requirements and opted to form part of the VAT Group. The rest of the Group entities are subject to the tax legislation applicable in each case.

Taxes payable by each consolidated entity are recognized in the balance sheet item "Tax liabilities", as required by regulations, net of tax withholdings and prepayments.

At December 31, 2012, all the Group entities are open to inspection for the main taxes to which they are subject and the periods that are not statute barred.

In July 2012 the tax inspection of Banco Popular Español for the main taxes to which it is subject was completed. The period inspected encompasses 2005 to 2007 for corporate income tax, and 2006 and 2007 for the other taxes. Tax assessments raised were accepted in the amount of € 17,001 thousand and contested in the amount of € 2,275 thousand.

In September 2011, the partial inspection of Banco de Vasconia, S.A. (absorbed by Banco Popular Español) on certain corporate income tax matters was completed and tax assessments were raised and contested in the amount of € 217 thousand.

Also in September 2011, the inspection of Banco de Castilla, S.A. (absorbed by Banco Popular Español), covering the period 2005 to 2007 for corporate income tax and 2006 and 2007 for other taxes, was completed, tax assessments having been accepted in the amount of € 731 thousand and contested in the amount of € 325 thousand.

At December 31, 2012 tax inspections had been raised against and contested by Banco Popular Español and the absorbed entities Banco de Castilla, Banco de Vasconia and Banco de Galicia for a total of € 2,954 thousand for corporate income tax, withholding tax and value added tax, the relevant appeals having been lodged. In view of the provisions set up by the Group, the Directors of Banco Popular consider that any liabilities that may result from the appeals lodged against the assessments raised will not have a significant effect on the consolidated financial statements.

Additionally, as a result of the merger by absorption of Banco Pastor completed on June 28, 2012, Banco Popular Español, S.A. became subrogated to tax assessments raised against Banco Pastor and contested in the amount of € 7,012 thousand, relating to corporate income tax and value added tax, the relevant appeals having also been filed.

Due to the different interpretations that may be afforded to the tax regulations applicable to the Group's operations, there could be certain contingent tax liabilities for the years open to inspection that cannot be objectively quantified. However, in the opinion of the parent entity's directors, any tax liabilities that might arise would not have a material impact on the consolidated financial statements.

Tax benefits in the form of double taxation deductions, allowances, deductions for research and development, professional training, reinvestment, contributions to pension plans and donations are treated as a reduction in income tax each year. The requirements of prevailing regulations must be met in order for these tax deductions to be applicable.

The following table shows, for 2012 and 2011, the reconciliation of Banco Popular Español, S.A.'s reported income and taxable income, and the calculations necessary to determine income tax expense, taking into account both pre-tax income and permanent differences with respect to reported income, and eliminations, additions and deductions from tax payable, as applicable under the tax consolidation regime.

€ thousand		2012	2011
Reported income before taxes		(3,906,799)	767,352
Permanent differences:		(48,229)	(370)
Increases		18,147	24,912
Decreases		66,376	25,282
Temporary differences:		2,844,675	16,407
Arising in the year		2,931,624	73,568
Increases		3,406,024	149,115
Decreases		474,400	75,547
Arising in prior years		(86,949)	(57,161)
Increases		8,323	2,524
Decreases		95,272	59,685
Balancing entry in equity		(89,901)	20,720
Offset of tax losses		-	(6,255)
Tax base		(1,200,254)	797,854
Gross tax charge	30%	-	(239,356)
Tax deductions		-	(87,095)
For double taxation		-	65,950
For donations		-	4,699
For investments and other		-	2,364
For reinvestment		-	14,082
Allowances		-	(278)
Corporate income tax payable		-	151,983
Tax due to movements in equity		26,970	(6,216)
Tax due to tax losses		(381,521)	1,877
Deferred taxes (net)		(844,329)	(4,922)
Other items		11,606	1,602
Total income tax		(1,187,274)	144,324

The same information provided in the above table is set out below for the consolidated Group as a whole.

€ thousand		2012	2011
Reported income before taxes		(3,491,719)	444,141
Permanent differences:		(65,552)	(550,873)
Increases		46,108	29,949
Decreases		111,660	580,822
Temporary differences:		127,254	183,853
Arising in the year		1,171,346	236,198
Increases		1,663,554	487,314
Decreases		492,208	251,116
Arising in prior years		(1,044,092)	(52,345)
Increases		36,621	164,740
Decreases		1,080,713	217,085
Balancing entry in equity		(89,625)	34,016
Tax losses		-	37,838
Tax base		(3,519,642)	148,975
Gross tax charge	30%	-	44,692
Tax deductions		-	21,849
For double taxation		-	692
For donations		-	4,710
For investments and other		-	2,365
For reinvestment		-	14,082
Allowances		-	663
Corporate income tax payable		-	22,180
Adjustment due to application of different tax rates		(1,984)	(3,002)
Corporate income tax debited to equity		26,888	(10,205)
Deferred taxes (net)		(38,176)	(55,156)
Tax credits for tax losses and deductions from tax payable		(1,034,025)	(7,017)
Other items		16,521	13,365
Total income tax		(1,030,776)	(39,835)
Income tax in Portugal and USA		(6,804)	(5,619)
Income tax in Spain		(1,023,972)	(34,216)

Set out below is an itemized breakdown of the permanent and timing differences reflected in the previous table:

	Permanent differences			
€ thousand	**2012**		**2011**	
	Increases	**Decreases**	**Increases**	**Decreases**
Donations	4,868	-	13,557	-
Provisions, releases and use of other provisions	1,137	17,366	3,422	58,749
Correction for monetary depreciation	-	7,762	-	9,843
Adjustments for tax-lease structures	796	33,591	927	3,527
Equity consolidation adjustments	31,566	51,607	4,399	50,467
Non-deductible rent	6,981	-	6,905	-
Adjustment to fair value and goodwill	-	-	-	456,923
Other	760	1,334	739	1,313
Total	46,108	111,660	29,949	580,822

	Timing differences			
€ thousand	**2012**		**2011**	
	Increases	**Decreases**	**Increases**	**Decreases**
Provisions for pensions and similar commitments	58,099	61,179	5,349	48,762
Credit loss provision	1,486,117	1,217,908	328,026	53,291
Depreciation and amortization	57,942	9,843	11,173	61,131
Goodwill	30,000	4,833	151,724	4,833
Provisions, releases and use of other provisions	20,013	166,732	33,738	264,647
Fees and financial expense	5,794	3,100	-	3,726
Consolidation adjustments	-	19,480	115,456	774
Taxes	-	15,058	-	15,300
Tax regime for mergers	42,210	34,173	-	-
Other adjustments	-	40,615	6,588	15,737
Total	1,700,175	1,572,921	652,054	468,201

Set out below is a breakdown of corporate income tax by country for the main Group entities, after consolidation adjustments:

€ thousand	**2012**	**2011**
Spain		
Banco Popular Español, S.A.	(734,704)	113,145
Aliseda S.A.	(246,801)	(117,806)
Rest of Consolidated Tax Group	(56,578)	(34,382)
Other	14,111	4,827
Total	(1,023,972)	(34,216)
Portugal		
Banco Popular Portugal, S.A.	(22,065)	10,406
Popular Factoring, S.A. (Portugal)	1,482	1,340
Eurovida, S.A. (Portugal)	4,127	3,317
Consulteam	10,623	(19,848)
Other	(214)	130
Total	(6,047)	(4,655)
USA		
TotalBank	(800)	(1,010)
Other	43	46
Total	(757)	(964)
TOTAL	(1,030,776)	(39,835)

Set out below is an analysis of the consolidated entities' corporate income tax by geographic zone and business sector:

€ thousand	Spain		Portugal		USA		Total	
Business sector	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Deposit-taking entities	(722,714)	130,133	(22,065)	10,406	(800)	(1,010)	(745,579)	139,529
Insurance companies	877	-	4,346	3,451	-	-	5,223	3,451
Other companies	(302,135)	(164,349)	11,672	(18,512)	43	46	(290,420)	(182,815)
Total	(1,023,972)	(34,216)	(6,047)	(4,655)	(757)	(964)	(1,030,776)	(39,835)

Set out below is a breakdown of consolidated income tax on ordinary and non-recurring income. Non-recurring income arises generally from non-typical financial operations.

€ thousand	2012	2011
Corporate income tax on:		
Ordinary income	(1,067,962)	(30,430)
Non-recurring income	37,186	(9,405)
Total income tax	(1,030,776)	(39,835)

Set out below is an itemized breakdown of non-recurring income:

€ thousand	2012			2011		
	Gross amount	**Corporate income tax**	**Net amount**	**Gross amount**	**Corporate income tax**	**Net amount**
Other gains						
Gain on sale of tangible assets	87,789	23,693	64,096	88,991	15,502	73,489
Gain on sale of shareholdings	72,752	16,615	56,137	463,449	(11,231)	474,680
Total	160,541	40,308	120,233	552,440	4,271	548,169
Other losses						
Losses on sale of tangible assets	10,401	3,120	7,281	39,853	11,956	27,897
Losses on sale of shareholdings	6	2	4	5,734	1,720	4,014
Total	10,407	3,122	7,285	45,587	13,676	31,911
Net amounts	150,134	37,186	112,948	506,853	(9,405)	516,258

The following table contains a breakdown of corporate income tax, distinguishing between tax expense accrued during the year (current and deferred) and other prior-year items.

€ thousand	2012	2011
Current and deferred tax expense accrued	(1,047,297)	(45,851)
Deferred tax expense	(38,176)	(55,156)
Current tax expense	(1,009,121)	9,305
Adjustments to income tax	16,521	6,016
Different from prior-year forecast	(942)	13,183
Tax assessments	11,399	563
Reinvestment deduction pending application	(369)	(7,349)
Other	(6,433)	(381)
Total	(1,030,776)	(39,835)

At December 31, 2012 and 2011, the Group recognizes income tax-loss carryforwards and prior-year deductions and allowances pending offset or application for which no tax credits have been recorded because the necessary requirements are not fulfilled.

Set out below is a breakdown of these income tax tax-loss carryforwards, deductions and allowances:

€ thousand	**2012**			**2011**		
Item	**Amount**	**Tax payable**	**Last year for offset or use**	**Amount**	**Tax payable**	**Last year for offset or use**
Tax-loss carryforwards	15,369	4,113	2,024	15,369	4,113	2024
Total tax credit	-	-	-	-	4,113	-

Set out below is the reconciliation of the consolidated Group's income tax expense calculated based on reported profit before tax, taking into account the different tax rates in Portugal and USA:

€ thousand	**2012**		**2011**	
	Amount	**Rate (%)**	**Amount**	**Rate (%)**
Reported profit before tax	(3,491,719)		444,141	
General tax rate on reported profit	(1,047,516)	30.00	133,242	30.00
General tax rate on elimination of results of equity-consolidated entities	(6,012)	0.17	(13,820)	(3.11)
General tax rate on permanent differences: on fair value adjustments	-	-	(137,077)	(30.86)
General tax rate on other permanent differences	(13,654)	0.38	(14,365)	(3.24)
Tax losses	32,101	(0.92)	11,683	2.63
Tax deductions and allowances	(10,374)	0.30	(22,512)	(5.07)
Adjustments for rates other than the general rate	(1,984)	0.06	(3,002)	(0.68)
Other	16,663	(0.48)	6,016	1.35
Corporate income tax expense and average tax rate	(1,030,776)	29.51	(39,835)	(8.98)

Tax rates for corporate income tax or similar taxes in the main countries in which the Group operates in 2012 and 2011 are set out below:

Tax rate (%) Country	**2012**	**2011**
Spain	30.00	30.00
Portugal	26.50	26.50
USA*	37.63	37.63

* State and federal tax.

45. Residual terms of the balances in the consolidated balance sheets

Set out below is a breakdown by term to maturity of certain balances in the Group's consolidated balance sheets for 2012:

€ thousand	Demand	To 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
ASSETS							
Cash and balances with central banks	2,117,182	-	-	-	-	-	2,117,182
Financial assets held for trading	167,380	962	25,616	129,938	512,761	1,260,194	2,096,851
Other financial assets at fair value through profit or loss	-	-	-	-	-	493,623	493,623
Available-for-sale financial assets	-	271,799	320,483	2,123,527	5,559,551	2,567,640	10,843,000
Loans and receivables:	3,433,634	7,768,239	7,783,446	15,222,610	24,893,517	55,342,687	114,444,133
Loans and advances to credit institutions	2,313,661	1,619,252	249,113	35,979	36,598	404,055	4,658,658
Loans and advances to other debtors	1,112,083	6,122,155	7,495,194	15,068,160	24,462,751	54,548,950	108,809,293
Debt securities	7,890	26,832	39,139	118,471	394,167	389,683	976,182
Held-to-maturity investment portfolio	-	428,575	761,667	2,038,961	5,115,408	2,669,861	11,014,472
Hedging derivatives	-	-	13,244	62,732	471,676	130,705	678,357

€ thousand	Demand	To 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
LIABILITIES							
Financial liabilities held for trading	4,269	2,676	23,491	123,078	270,885	1,066,742	1,491,141
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	93,060	93,060
Financial liabilities at amortized cost	24,497,135	21,664,802	34,614,017	34,651,679	18,939,325	7,359,208	141,726,166
Deposits from central banks	-	-	19,879,980	-	684,177	-	20,564,157
Deposits from credit institutions	1,002,462	6,734,571	1,050,095	830,496	2,608,942	2,175,914	14,402,480
Deposits from other creditors	23,252,801	12,032,415	9,022,543	25,972,127	8,723,372	826,954	79,830,212
Debt certificates including bonds	216,085	1,607,345	4,661,400	7,849,057	6,625,324	2,483,394	23,442,605
Subordinated liabilities	-	-	-	-	297,511	1,872,943	2,170,454
Other financial liabilities	25,786	1,290,472	-	-	-	-	1,316,258
Hedging derivatives	-	1,808	8,184	34,180	1,131,318	873,374	2,048,864

The same information is presented below for 2011:

€ thousand	Demand	To 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
ASSETS							
Cash and balances with central banks	522,205	-	-	-	-	-	522,205
Financial assets held for trading	37,529	12,486	17,978	170,156	782,819	295,596	1,316,564
Other financial assets at fair value through profit or loss	-	-	-	-	-	377,504	377,504
Available-for-sale financial assets	5,392	239,179	675,336	1,171,068	4,930,987	3,383,784	10,405,746
Loans and receivables:	2,683,476	9,331,656	6,490,844	14,668,628	25,731,559	41,835,757	100,741,920
Loans and advances to credit institutions	1,315,741	2,234,295	169,360	251,425	-	-	3,970,821
Loans and advances to other debtors	1,367,735	7,097,361	6,321,484	14,417,203	25,731,559	41,835,757	96,771,099
Debt securities	-	-	-	-	-	-	-
Held-to-maturity investment portfolio	-	270,467	501,480	1,298,545	3,813,021	1,684,902	7,568,415
Hedging derivatives	-	3,017	172	204,285	433,787	450,779	1,092,040

€ thousand	Demand	To 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
LIABILITIES							
Financial liabilities held for trading	-	15,900	17,115	151,068	697,522	222,718	1,104,323
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	93,761	93,761
Financial liabilities at amortized cost	22,676,715	10,319,042	13,495,106	33,201,113	30,358,247	8,175,608	118,225,831
Deposits from central banks	-	-	-	4,918,709	9,075,019	-	13,993,728
Deposits from credit institutions	861,147	3,560,642	1,335,866	1,291,092	3,055,859	1,231,941	11,336,547
Deposits from other creditors	21,785,488	4,510,716	8,628,058	21,151,407	10,187,482	2,479,369	68,742,520
Debt certificates including bonds	30,080	1,324,513	3,531,182	5,839,905	7,688,823	1,980,435	20,394,938
Subordinated liabilities	-	-	-	-	351,064	2,483,863	2,834,927
Other financial liabilities	-	923,171	-	-	-	-	923,171
Hedging derivatives	-	2,519	48,571	155,708	401,450	805,808	1,414,056

46. Fair value

Set out below is a breakdown of the fair value of the main balance sheet items carried at amortized cost and at acquisition cost.

The assets and liabilities reflected at amortized cost were measured by discounting future flows, applying a zero coupon risk-rate curve. This interest rate curve is plotted from the quoted rates of Spanish Government debt securities in order to arrive at pure discount factors with which to calculate present values that are acceptable in the market as unbiased rates. The curve is plotted using an equation that matches the rates observed in the market to obtain forward interest rates for any term or intermediate maturity.

€ thousand	2012		2011	
Financial assets at amortized cost	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and balances with central banks	2,117,182	2,117,151	522,205	522,204
Loans and receivables	113,467,951	120,831,721	100,741,920	106,992,136
Loans and advances to credit institutions	4,658,658	4,660,808	3,970,821	4,007,224
Loans and advances to other debtors	108,809,293	116,170,913	96,771,099	102,984,913
Held-to-maturity investment portfolio	11,014,472	10,832,120	7,568,415	7,349,583
Total financial assets at amortized cost	126,599,605	133,780,991	108,832,540	114,863,924

€ thousand	2012		2011	
Financial liabilities at amortized cost	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Deposits from central banks	20,564,157	20,564,361	13,993,728	14,006,166
Deposits from credit institutions	14,402,480	15,260,044	11,336,547	11,969,472
Deposits from other creditors	79,830,212	81,016,182	68,742,520	69,244,687
Debt certificates including bonds	23,442,605	25,051,073	20,448,938	21,796,259
Subordinated liabilities	2,170,454	2,394,838	2,834,927	3,213,449
Other financial liabilities	1,316,258	1,287,597	923,171	906,705
Total financial liabilities at amortized cost	141,726,166	145,574,095	118,279,831	121,136,739

A efectos de esta nota. las valoraciones iniciales correspondientes a inversiones inmobiliarias. activos no corrientes en venta y existencias son realizadas por sociedades especializadas. sin embargo. el valor razonable de estos inmuebles se ha calculado aplicando la metodología descrita en la Nota 3,

€ thousand	2012		2011	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Tangible assets	1,892,725	1,923,670	1,734,231	2,098,670
For own use	859,793	890,738	689,735	706,339
Assets assigned under operating leases	26,738	26,738	-	-
Investment property	1,006,194	1,006,194	1,044,496	1,412,529
Non-current assets for sale	4,896,644	4,896,644	3,601,723	5,167,285
Inventories	741,680	741,680	450,106	551,909

47. Contingent risks

Set out below is a breakdown of contingent risks, which are amounts that the Group will be required to pay on behalf of third parties in the event of default by the obligors, as a result of commitments undertaken by the Group in the ordinary course of business, at December 31, 2012 and 2011:

€ thousand	2012	2011
Financial guarantees	2,115,535	1,798,676
Assets assigned to third-party obligations*	812,059	217
Documentary credits	618,963	544,179
Risks from derivatives contracted with third parties	776,504	882,233
Other guarantees and sureties furnished	7,749,202	8,322,310
Other contingent risks	3,127,220	2,430,514
Total	15,199,483	13,978,129
Memorandum item: Doubtful contingent risks	267,259	256,439

* The 2012 balance relates to the guarantee deposits required by the European Investment Bank for lending operations.

48. Contingent commitments

This caption refers to irrevocable commitments, basically consisting of amounts drawable by third parties that could give rise to the recognition of financial assets. The following table shows the balances at year-end 2012 and 2011:

€ thousand	2012	2011
Drawable by third parties	8,866,047	9,482,110
Credit institutions	58,475	39,283
General government	133,989	500,335
Private sector	8,673,583	8,942,492
Forward financial asset purchase commitments	308,162	355,307
Conventional asset acquisition contracts	163,829	220,286
Securities subscribed but not paid	-	-
Securities placement and subscription commitments	332,300	196,250
Documents delivered to clearing houses	471,112	651,011
Other items	150,000	-
Total	10,291,450	10,904,964

Set out below is a breakdown of amounts drawable by third parties subject to the limits stipulated in loan agreements, distinguishing between amounts immediately drawable and amounts contingent on the occurrence of future events:

€ thousand	2012	2011
Immediately drawable	7,944,580	8,493,635
Drawable contingent on future events	921,467	988,475
Total	8,866,047	9,482,110

With respect to amounts drawable by third parties (see previous table), credit limits by counterparty during 2012 and 2011 are as follows (gross amounts without valuation adjustments):

€ thousand	Limit		Utilized		Drawable	
	2012	2011	2012	2011	2012	2011
Credit institutions	4,722,512	4,011,548	4,664,037	3,972,265	58,475	39,283
General government	3,973,438	1,712,329	3,839,449	1,211,994	133,989	500,335
Private sector	122,133,036	106,603,266	113,459,453	97,660,774	8,673,583	8,942,492
Total	130,828,986	112,327,143	121,962,939	102,845,033	8,866,047	9,482,110

49. Interest and similar income

This caption relates to interest, commission and fee income, which is calculated by applying the effective interest rate to assets bearing implicit or explicit yields, whether or not they are carried at fair value, and corrections of income as a result of accounting hedges. Interest is carried at the gross amount, without deducting any tax withholdings at source.

This caption includes the financial income of all the Group and jointly-controlled entities engaged in banking, insurance and non-financial activities.

The following table contains an analysis of interest and similar income, including a breakdown by geographic zone, for 2012 and 2011:

€ thousand	2012	2011
Central banks	8,258	15,970
Credit institutions	30,120	38,822
Loans and receivables	4,820,036	4,014,846
Debt securities	629,892	501,642
Allocable to pension-linked insurance contracts and similar items	6,303	6,738
Other	1,804	2,503
Total	5,496,413	4,580,521
Of which:		
Spain	5,034,525	4,172,294
European Union	393,889	346,694
Other OECD countries	67,995	61,530
Other countries	4	3

Set out below is a breakdown of interest and fees/commission income:

€ thousand	2012	2011
Interest	5,255,646	4,388,911
Fees and commissions	240,767	191,610
Total	5,496,413	4,580,521

50. Interest expense and similar charges

Interest expense and similar charges consist of interest and fee costs incurred, which are calculated by applying the effective interest rate to all financial liabilities bearing implicit or explicit yields, including benefits in kind, whether or not they are carried at fair value, and corrections of costs as a result of accounting hedges, and interest expense allocable to pension funds. This caption includes the financial expense of all the Group and jointly-controlled entities engaged in banking, insurance and non-financial activities.

Set out below is a breakdown of these charges including a breakdown by geographic zone for 2012 and 2011:

€ thousand	2012	2011
Central banks	174,549	46,720
Credit institutions	327,578	209,075
Customer funds	1,520,820	1,598,071
Debt certificates including bonds	670,578	506,636
Subordinated liabilities	61,115	113,968
Attributable to pension provision and similar items	9,119	7,666
Other	13,898	11,474
Total	2,777,657	2,493,610
Of which:		
Spain	2,583,646	2,305,668
European Union	168,753	141,210
Other OECD countries	16,944	17,183
Other countries	8,314	29,549

Of the total amounts shown above, € 13,491 thousand and € 11,469 thousand relate to fees and commissions in 2012 and 2011, respectively.

51. Return on equity instruments

This income statement caption reflects dividends and remuneration on equity instruments collected or declared by companies outside the Group's consolidation scope. The dividends are recognized when the Group's right to receive payment is declared, irrespective of whether or not payment is delayed and provided they accrued after the shareholding was acquired.

€ thousand	2012	2011
Investments in associates	-	-
Investments in jointly-controlled entities	-	-
Investments in Group entities	-	-
Other equity instruments	4,106	8,495
Total	4,106	8,495

52. Share of profit from equity method companies

This line in the income statement includes the profits or losses generated during the financial year by the Group's equity-consolidated entities.

The Banco Popular Group does not apply the equity method to jointly-controlled entities, which are consolidated using the proportionate method.

€ thousand	2012	2011
Associates	23,070	46,068
Jointly-controlled entities	-	-
Total	23,070	46,068

53. Fees and commissions

a) Fee and commission income

Non-financial service fee income obtained by the Group in 2012 and 2011 is analyzed below by nature:

€ thousand	2012	2011
Contingent exposures and commitments:	152,850	131,703
Collateral and other contingent exposures	102,912	95,156
For availability and other contingent commitments	49,938	36,547
Services inherent in asset operations:	91,663	91,401
Bill discounting	24,027	25,692
Factoring	6,499	5,740
Other asset transactions	61,137	59,969
Handling services:	720,377	598,800
Collection and payment mediation:	324,309	273,137
Draft collection	13,262	9,314
Cheques	16,081	16,447
Direct debits	17,529	14,233
Means of payment	228,326	189,067
Fund mobilization	49,111	44,076
Foreign currency purchase and sale	4,073	3,322
Securities purchase and sale	11,237	9,063
Administration of customers' securities portfolios:	81,647	73,465
Securities portfolio	28,214	23,549
Asset management	3,015	3,246
Mutual funds	40,249	39,718
Pension funds	10,169	6,952
Other financial assets	-	-
Administration of demand and savings accounts	107,880	98,964
Other	191,231	140,849
Total	964,890	821,904

b) Fee and commission expense

Non-financial fee and commission expense incurred by the Group in the last two periods is analyzed below to the same level of detail:

€ thousand	**2012**	**2011**
Contingent exposures and commitments:	7,121	4,943
Collateral and other contingent exposures	7,121	4,943
For availability and other contingent commitments	-	-
Services inherent in asset operations:	402	414
Bill discounting	-	-
Factoring	-	-
Other asset transactions	402	414
Handling services:	163,697	131,015
Collection and payment mediation:	132,688	98,109
Draft collection	3,870	3,403
Cheques	-	-
Direct debits	-	-
Means of payment	125,946	92,753
Fund mobilization	2,872	1,953
Foreign currency purchase and sale	-	-
Securities purchase and sale	4,917	2,566
Administration of customers' securities portfolios:	-	-
Securities portfolio	-	-
Asset management	-	-
Mutual funds	-	-
Pension funds	-	-
Other financial assets	-	-
Administration of demand and savings accounts	-	-
Other	26,092	30,340
Total	171,220	136,372

c) Net fees and commissions

Finally, for ease of comprehension and analysis of the Group's services activity, net fees and commissions are shown below by nature:

€ thousand	2012	2011
Contingent exposures and commitments:	145,729	126,760
Collateral and other contingent exposures	95,791	90,213
For availability and other contingent commitments	49,938	36,547
Services inherent in asset operations:	91,261	90,987
Bill discounting	24,027	25,692
Factoring	6,499	5,740
Other asset transactions	60,735	59,555
Handling services:	556,680	467,785
Collection and payment mediation:	191,621	175,028
Draft collection	9,392	5,911
Cheques	16,081	16,447
Direct debits	17,529	14,233
Means of payment	102,380	96,314
Fund mobilization	46,239	42,123
Foreign currency purchase and sale	4,073	3,322
Securities purchase and sale	6,320	6,497
Administration of customers' securities portfolios:	81,647	73,465
Securities portfolio	28,214	23,549
Asset management	3,015	3,246
Mutual funds	40,249	39,718
Pension funds	10,169	6,952
Other financial assets	-	-
Administration of demand and savings accounts	107,880	98,964
Other	165,139	110,509
Total	793,670	685,532

54. Gains or losses on financial assets and liabilities (net)

This income statement caption basically reflects the amount of valuation adjustments to financial instruments generated during the year (with the exception of adjustments allocated to interest accrued under the effective interest method), asset impairment adjustments and gains or losses on the sale of assets (except for gains or losses on transactions involving securities of the Group itself and its dependent companies and jointly-controlled entities and associates, and treasury shares) and instruments classified as non-current assets or disposal groups held for sale.

The item "Financial assets held for trading" includes the restatement of floors segregated from the former Banco Pastor's loan portfolio in the amount of € 79,992 thousand.

The item "Own securities repurchased" under "Financial assets not carried at fair value through profit or loss" includes the results obtained at December 31, 2012 on the repurchase of subordinated liabilities (€ 76,126 thousand), other repurchases of own covered bonds and securitizations (€ 55,104 thousand), and the restatement of subordinated liabilities issued to exchange other Group issues (€ 32,737 thousand).

The accompanying table provides an itemized breakdown of this income statement caption for the last two periods:

€ thousand	**2012**	**2011**
Financial assets held for trading (Note 20)	153,457	6,454
Other financial assets at fair value through profit or loss (Note 21)	(19,603)	(1,884)
Financial assets not carried at fair value through profit or loss (Notes 22, 23 and 35)	177,719	53,310
Available-for-sale financial assets	11,114	52,771
Own securities repurchased	163,967	-
Other	2,638	539
Other	(6,736)	23,599
Total	304,837	81,479

55. Exchange differences (net)

This caption reflects the gains or losses on the purchase and sale of foreign currency and differences resulting from the translation of monetary items denominated in foreign currencies to euros.

€ thousand	**2012**	**2011**
Gains	63,896	57,358
Losses	8,748	9,613
Total	55,148	47,745

56. Other operating income

This caption relates to income from the Group's operating activities not included in other captions.

It may be broken down into:

i) Income from insurance and reinsurance contracts and treaties issued: insurance premiums collected and reinsurance income accrued by dependent and jointly-controlled insurance and reinsurance companies consolidated using the proportionate method.

ii) Sales and income for the provision of non-financial services: sales of goods and income from services in the ordinary course of business of the Group's non-financial companies, such as income from property investments and operating leases (excluding gains from the sale of investment property). It includes revenue from the sale of inventories.

iii) Other: operating income not included in the above items, such as financial fees compensating related direct costs, expenses recognized in the income statement by nature and capitalized, and indemnities from insurance companies.

The compensating financial fees reflect the compensation of direct costs in asset transactions that the Group would not have incurred had the transactions not been effected.

Set out below is a breakdown of this caption for 2012 and 2011:

€ thousand	2012	2011
Income from insurance and reinsurance contracts and treaties issued	23,206	19,590
Sales and income from non-financial services rendered	25,134	21,848
Other operating income	87,112	103,039
Operating income from investment property	21,383	12,378
Income from other operating lease transactions	1,277	1,710
Financial fees compensating direct costs	33,869	31,287
Capitalized expenses	7,446	3,018
Other	23,137	54,646
Total	135,452	144,477

The 2011 balance in the item "Other" includes income of € 40 million from the agreements with Allianz, SE to incorporate the company Allianz Popular, S.L., as explained in Note 8.

57. Other operating expenses

This heading relates to operating activities not included in other captions. A breakdown of this consolidated income statement caption for 2012 and 2011 is as follows:

€ thousand	2012	2011
Expenses from insurance and reinsurance contracts and treaties issued	15,260	12,975
Costs to sell and difference between opening and closing inventories	26,907	27,914
Other operating expenses	215,056	63,184
Operating expenses from investment property	11,527	9,186
Contributions to guarantee funds	165,576	37,488
Directors' fees	-	-
Other	37,953	16,510
Total	257,223	104,073

It may be broken down into:

i) Expenses from insurance and reinsurance contracts and treaties issued: claims paid and other expenses directly related to insurance contracts, reinsurance premiums paid to third parties and net provisions for insurance contracts, incurred by proportionately-consolidated dependent and jointly-controlled insurance or reinsurance companies.

ii) Costs to sell and difference between opening and closing inventories: costs attributable to the sale of goods or provision of services in the ordinary course of business of the Group's non-financial companies and the cost recognized in the income statement in respect of the carrying amount of inventories sold during the year.

iii) Other operating expenses: other operating expenses not included in the above items, such as contributions to deposit guarantee funds and operating expenses from investment property, excluding losses from the sale of property.

"Contributions to guarantee funds" relates to both the Deposit Guarantee Fund and the Investment Guarantee Fund, as explained in Note 13.

Of the total of € 11,527 thousand recognised in "Operating expenses from investment property" in 2012, € 4,155 thousand relates to properties leased at December 31, 2012.

58. Personnel expenses

This income statement caption reflects all remuneration earned by permanent or temporary staff, irrespective of their functions or activities, including the current service cost of pension plans and net of amounts refunded by the social security system or other social welfare entities. A breakdown is as follows:

€ thousand	2012	2011
Salaries and bonuses to serving personnel	721,246	583,746
Social security contributions	174,006	139,692
Appropriations to internal pension funds	2,052	6,154
Contributions to external pension funds	23,510	25,417
Employee termination expenses	6,827	5,653
Training expenses	2,457	1,892
Remuneration tied to equity instruments	-	-
Other personnel expenses	19,636	16,202
Total	949,734	778,756

The following benefits in kind were allocated to certain employees of the Spanish banks:

€ thousand	2012	2011
Advances	2,842	2,570
Life insurance	3,287	1,875
Health insurance	219	134
Housing	1,470	1,102
Total	7,818	5,681

Advances were basically granted under Article 40 of the Collective Bargaining Agreement for the Banking Sector and are subject to a maximum limit of nine interest-free monthly payments to meet the needs addressed in that agreement. The life insurance item relates to all the employees of the Group's banks in Spain.

The housing item relates to properties owned or leased by Group entities and used by its employees. The following tables provide information on the evolution of the Group's headcount by category, grouped as stipulated in the collective bargaining agreement for the Spanish banking sector, the information on the other Group entities having been duly adapted, at December 31, 2012 and 2011, including the average headcount each year.

	Year end		Annual average	
	2012	2011	2012	2011
Directors and senior management	83	79	87	77
Technical personnel	13,634	10,893	13,984	10,766
Clerical staff	2,784	3,090	3,114	3,234
Total	16,501	14,062	17,185	14,077

Set out below is the distribution of the Banco Popular Group's staff for the last two years by gender:

	2012		2011	
	Women	Men	Women	Men
Directors and senior management	18	65	14	65
Technical personnel	4,887	8,747	3,501	7,392
Clerical staff	1,103	1,681	1,175	1,915
Total	6,008	10,493	4,690	9,372

Set out below is a breakdown of the Group's staff by age group and length of services for 2012 and 2011:

Data as % in 2012	Age						
Years of service	Under 21	21 to 30	31 to 40	41 to 50	51 to 60	Over 60	Marginal distribution of length of service
Under 6	-	8.38	8.96	0.70	0.03	0.01	18.08
6 to 10	-	2.10	17.50	0.63	0.08	-	20.31
11 to 20	-	0.01	15.24	8.40	0.25	0.03	23.93
21 to 30	-	-	0.04	10.54	3.02	0.08	13.68
31 to 40	-	-	-	0.41	16.62	1.99	19.02
41 to 50	-	-	-	-	2.99	1.99	4.98
Distribution by age group	-	10.49	41.74	20.68	22.99	4.10	100.00

Data as % in 2011	Age						
Years of service	Under 21	21 to 30	31 to 40	41 to 50	51 to 60	Over 60	Marginal distribution of length of service
Under 6	-	12.66	8.89	0.61	0.06	0.01	22.23
6 to 10	-	1.49	17.64	0.61	0.15	-	19.89
11 to 20	-	0.04	11.09	8.86	0.36	0.04	20.39
21 to 30	-	-	0.02	5.84	3.98	0.18	10.02
31 to 40	-	0.02	0.02	0.11	19.92	2.95	23.02
41 to 50	-	0.01	0.01	-	2.81	1.62	4.45
Distribution by age group	-	14.22	37.67	16.03	27.28	4.80	100.00

59. Other administrative expenses

This caption reflects the Group's other administrative expenses, including levies and taxes on its activities, as analyzed below:

€ thousand	2012	2011
On property, installations and supplies:	210,983	152,431
Rent	135,804	101,148
Property upkeep	47,600	32,277
Utilities	18,799	11,900
Stationery and office supplies	8,780	7,106
IT	80,764	59,842
Communications	34,605	28,505
Advertising and publicity	49,155	40,972
Legal and lawyer expenses	14,122	7,892
Technical reports	31,975	21,292
Security and fund transport services	23,732	19,433
Insurance premiums and self-insurance	10,025	5,024
Governance and control bodies	84	86
Representation and travel expenses	10,621	9,074
Association dues	3,548	2,250
Outsourced administrative services	64,527	35,952
Levies and taxes:	97,167	76,503
On property	9,684	5,896
Other	87,483	70,607
Transfers to foundations	4,849	13,513
Other expenses	18,832	11,440
Total	654,989	484,209

The supplier payment provisions brought in by Law 15/2010 (5 July), which amended Law 3/2004 (29 December), to combat late payment in commercial transactions, included maximum periods for payments between companies and a time frame to bring them into effect. For payments made as from December 2012, the maximum period is 75 days, which is reduced to 60 days for payments made as from 1 January 2013.

In general, the Banco Popular Group applies a 30-day supplier payment period. As regards settlement of invoices issued by suppliers in 2012, of the € 43,687 thousand paid in 2012, € 39,336 thousand or 90.04% of the total was paid within the 75-day period stipulated by law and € 4,351 thousand (9.96%) was paid after 75 days. The overall average payment period was 41.98 days.

60. Depreciation and amortization

This caption includes the amounts charged to the income statement each year for depreciation and amortization calculated for each asset category based on their estimated useful lives. Set out below is a breakdown of depreciation and amortization for 2012 and 2011 for each category of assets:

€ thousand	2012	2011
Tangible assets:	86,531	67,877
For own use:	79,272	62,061
IT equipment and installations	31,531	24,146
Furniture, vehicles and other installations	41,352	32,972
Buildings	6,386	4,943
Other	3	-
Investment property	7,259	5,816
Other assets assigned under operating leases	-	-
Intangible assets	70,188	38,314
Total	156,719	106,191

61. Period endowment to provisions (net)

This caption reflects period provisions net of recoveries of amounts provisioned in prior years, except for charges or contributions to pension funds that are included in period personnel expenses.

€ thousand	2012	2011
Endowment to provision for pensions and similar obligations:	51,434	(19,209)
Pension funds	4,490	(19,489)
Early retirements	46,518	(302)
Payments to pensioners	426	582
Extraordinary contributions to defined contribution plans	-	-
Provisions for taxes and other legal contingencies	(16,686)	7,641
Provisions for contingent exposures and commitments:	9,823	(5,385)
For contingent exposures	9,823	(5,385)
For contingent commitments	-	-
Other provisions	(6,924)	(1,079)
Total	37,647	(18,032)

62. Financial asset impairment losses (net)

This caption reflects the amounts of impairment losses on financial assets net of recoveries of amounts provisioned in prior years, as described in Note 15.h).

Set out below is a breakdown by asset category:

€ thousand	2012	2011
Available-for-sale financial assets (Note 22)	99,297	30,212
Loans and receivables (Note 23)	4,210,776	940,158
Held-to-maturity investment portfolio	-	-
Total	4,310,073	970,370

63. Other asset impairment losses (net)

This caption relates basically to losses from the impairment of non-financial assets and from equity instruments classed as shareholdings, net of recoveries of amounts provisioned in prior years, which have not been classified as non-current assets for sale.

Set out below is a breakdown of this income statement caption for 2012 and 2011:

€ thousand	2012	2011
Intangible assets:	57,677	30,000
Goodwill	57,434	30,000
Other intangible assets	243	-
Other assets:	453,817	368,741
Tangible assets	269,365	185,159
Shareholdings	11,524	10,760
Other assets	172,928	172,822
Total	511,494	398,741

64. Gains/(losses) on the disposal of assets not classified as non-current assets for sale

This caption reflects gains and losses from the sale of tangible and intangible assets and shareholdings that do not fulfil the requirements to be classified as non-current assets for sale (see Note 31).

A breakdown by nature of assets is set out below

€ thousand	Gains		Losses		Net	
	2012	2011	2012	2011	2012	2011
Tangible assets	87,789	88,991	10,401	39,853	77,388	49,138
Shareholdings	72,752	463,449	6	5,734	72,746	457,715
Intangible assets	-	-	-	-	-	-
Total	160,541	552,440	10,407	45,587	150,134	506,853

65. Negative differences on business combinations

During 2012 and 2011, the Group did not complete any business combinations in which the cost of the business combination was lower than the fair value of the assets, liabilities and contingent liabilities acquired.

66. Gains/(losses) on non-current assets for sale not classified as discontinued operations

This caption reflects gains and losses obtained on the sale of non-current assets or disposal groups, including associated liabilities, classified as for sale but not as discontinued operations, and impairment losses on the assets, net of recoveries.

It also includes gains and losses from the sale of strategic equity instruments classified as available for sale, even where the instruments were not carried as non-current assets for sale in a previous balance sheet.

Set out below is a breakdown of this caption at December 31, 2012 and 2011 (Note 27):

€ thousand	2012	2011
Gains on non-current tangible assets for sale	95,562	3,542
Non-current tangible asset impairment losses	(50,942)	(10,794)
Non-current asset impairment losses	(843,633)	(331,859)
Total	(799,013)	(339,111)

67. Result attributed to minority interest

This caption reflects the profits or losses generated during the year attributed to minority shareholders and related adjustments.

A breakdown of this consolidated income statement caption for 2012 and 2011 is as follows:

€ thousand	2012	2011
Credit institutions		
Deposit-taking entities:		
Popular Banca Privada, S.A.	(44)	1,519
Financing companies:		
Popular Factoring, S.A. (Portugal)	6	6
Portfolio and services companies:		
Popular Gestión Privada, S.G.I.I.C., S.A.	9	52
Pbp Cartera Premium	-	2,608
Grupo La Toja Hoteles	105	-
Special-purpose entities:		
Urbanizadora Española, S.A.	4	4
Other entities		
Desarrollo Aplicaciones Especiales, S.A.	-	134
Total	80	4,323

68. Information on related parties

The amounts recognised in the financial statements that derive from transactions with related parties other than Group and jointly-controlled entities or associates are insignificant and there are no relevant transactions on which additional information should be provided.

All transactions with significant shareholders, directors and executives form part of the Group's ordinary business and are effected at arm's length. Specifically, exposures relating to directors and senior managers break down as follows: € 575,909 thousand in loans and credit lines; € 1,026 thousand in finance leases; and € 21,875 thousand in bank guarantees. Interest rates on the loans and credit lines are between 1.375% and 9.000%; finance leases range between 4.500% and 6.000%; and guarantee commissions are between 0.100% and 0.288% quarterly.

Additionally, transactions with Group and jointly-controlled entities and associates are effected at arm's length and eliminated on consolidation, where applicable.

The Group records no doubtful debts with related parties.

Set out below is an itemized breakdown of the main balance sheet and income statement balances relating to transactions with significant shareholders, directors and executives of the Group companies, in the item "Other related parties", and balances between Group companies, dependent companies, jointly-controlled entities and associates consolidated using the equity method.

The amounts reflected in paragraph two of this note relate to significant shareholders, directors and executives of Banco Popular and therefore differ from the balances recognised in "Other related parties", which include amounts relating to other Group companies.

€ thousand	**Other related parties**		**Dependent entities**		**Jointly-controlled entities**		**Associates**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Assets								
Loans and advances to other debtors	636,299	496,453	15,256,242	15,556,704	378,671	313,398	571,341	502,456
Liabilities								
Deposits from other creditors	202,007	239,288	10,067,231	11,873,726	10,100	311,746	905,062	433,282
Debt certificates including bonds	-	-	12,476,642	15,125,623	104,293	-	-	70,988
Contingent risks	23,686	35,994	2,131,357	5,199,557	91,749	572	31,624	27,927
Contingent commitments	-	-	1,774,638	530,721	27,724	3,212	14,007	46,787
Profit/(loss)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Interest collected	10,726	6,934	1,316,278	1,356,535	17,322	101,724	20,323	13,750
Interest paid	3,452	5,335	1,279,333	1,699,943	17,396	16,218	8,118	18,978
Fee and commission income	729	602	97,838	74,649	19,456	1,906	32,010	48,610
Fee and commission expense	4	5	119,543	136,775	19,378	9,844	-	-

69. Securitizations

The following table shows the accounting situation of securitized assets.

€ thousand	**2012**	**2011**
Loans and receivables written off the balance sheet	1,585,312	-
Mortgage assets securitized through mortgage bonds	1,501,839	-
Mortgage assets securitized through mortgage transfer certificates	45,451	-
Other assets securitized	38,022	-
Other transfers to credit institutions	-	-
Other transfers	-	-
Memorandum item: written off balance sheet before 1.1.2004	115,973	-
Maintained in full in the balance sheet (Note 23)	6,129,119	7,761,801
Mortgage assets securitized through mortgage bonds	-	-
Mortgage assets securitized through mortgage transfer certificates	3,170,238	3,328,690
Other assets securitized	2,899,002	4,369,981
Other transfers to credit institutions	59,879	63,130
Other transfers	-	-
Partially written off	-	-
Partially maintained	-	-
Total	7,714,431	7,761,801

The following securitization funds were included in the Group during 2012 due to the Banco Pastor integration:

- Securitization funds fully written off the balance sheet because the risks and rewards had been substantially transferred, amounting to € 1,585,312 thousand; € 115,973 thousand of that figure relates to securitizations prior to 1 January 2004 which, under IFRS-EU, were not consolidated on first-time adoption.

- Securitization funds maintained in the balance sheet totalling € 393,836 thousand, of which € 241,362 thousand relates to "Mortgage assets securitized through mortgage transfer certificates" and € 152,474 thousand relates to "Other assets securitized".

Set out below are the amounts issued by the securitization funds included in the above table and the issue dates and outstanding balances of the securitization bonds issued at December 31, 2012 and 2011:

€ thousand			**Outstanding nominal balance at:**	
	Issue date	**Amount issued**	**2012**	**2011**
TDA 13 (1) and (2)	Dec 00	150,300	19,286	-
TDA Pastor 1 (1) and (2)	Feb 03	494,600	96,687	-
IM Pastor 2 (1)	Jun 04	1,000,000	263,106	-
IM Banco Popular FTPYME1, FTA	Dec 04	2,000,000	181,540	240,376
IM Pastor 3 (1)	Jun 05	1,000,000	335,324	-
GAT FTGENCAT 2005, FTA	Dec 05	200,100	18,486	25,471
EDT FTPYME Pastor 3 (3)	Dec 05	520,000	41,793	-
IM Pastor 4 (1)	Jun 06	920,000	423,945	-
IM Grupo Banco Popular Empresas 1, FTA	Sep 06	1,832,400	314,143	379,286
GC FTPYME Pastor 4 (3)	Nov 06	630,000	97,199	-
IM Grupo Banco Popular FTPYME I, FTA	Dec 06	2,030,000	426,633	515,287
TDA Pastor CONSUMO 1 (1)	Apr 07	300,000	37,888	-
GC Pastor HIPOTECARIO 5 (1)	Jun 07	710,500	409,075	-
IM Grupo Banco Popular FTPYME II, FTA	Jul 07	2,039,000	309,459	406,730
IM Banco Popular FTPYME 2, FTA	Sep 08	1,000,000	375,966	445,729
IM Grupo Banco Popular Empresas 3, FTA	Jul 09	2,250,000	2,250,000	2,250,000
IM Banco Popular MBS 2, FTA	Mar 10	685,000	573,725	610,147
TDA Pastor 9 (3)	Dec 10	440,000	254,844	-
IM Grupo Banco Popular Empresas 4, FTA	Apr 11	2,500,000	1,133,124	1,887,902
IM Grupo Banco Popular Leasing 2, FTA	Jun 11	1,500,000	783,287	1,500,000
IM Banco Popular FTPYME 3, FTA	Nov 11	1,300,000	918,501	1,267,649
Total			9,264,011	9,528,577

(1) Securitizations recognised off-balance-sheet deriving from the Banco Pastor integration.

(2) Securitizations prior to 1 January 2004 deriving from the Banco Pastor integration.

(3) Securitizations recognised in the balance sheet deriving from the Banco Pastor integration.

Most of the bond issues were rated by the leading agencies: Fitch Rating, Moody's and Standard & Poor's, which assigned the maximum credit rating to all the bonds issued with the exception of the subordinated bonds, representing a small percentage of the total bonds issued. This may be observed in the following table:

€ thousand		Bonds with a maximum rating		Subordinated bonds	
	Bonds issued	Amount	%	Amount	%
IM Banco Popular FTPYME1, FTA	2,000,000	1,874,000	93.70%	126,000	6.30%
GAT FTGENCAT 2005, FTA	200,100	185,000	92.45%	15,100	7.55%
IM Grupo Banco Popular Empresas 1, FTA	1,832,400	1,689,300	92.19%	143,100	7.81%
IM Grupo Banco Popular FTPYME I, FTA	2,030,000	1,882,000	92.71%	148,000	7.29%
IM Grupo Banco Popular FTPYME II, FTA	2,039,000	1,885,000	92.45%	154,000	7.55%
IM Banco Popular FTPYME 2, FTA	1,000,000	917,000	91.70%	83,000	8.30%
IM Grupo Banco Popular Empresas 3, FTA	2,250,000	1,642,500	73.00%	607,500	27.00%
IM Banco Popular MBS 2, FTA	685,000	596,000	87.01%	89,000	12.99%
IM Grupo Banco Popular Empresas 4, FTA	2,500,000	1,875,000	75.00%	625,000	25.00%
IM Grupo Banco Popular Leasing 2, FTA	1,500,000	1,275,000	85.00%	225,000	15.00%
IM Banco Popular FTPYME 3, FTA	1,300,000	975,000	75.00%	325,000	25.00%
TDA 13	150,300	144,200	95.94%	6,100	4.06%
TDA Pastor 1	494,600	477,300	96.50%	17,300	3.50%
IM Pastor 2	1,000,000	962,000	96.20%	38,000	3.80%
IM Pastor 3	1,000,000	961,000	96.10%	39,000	3.90%
EDT FTPYME Pastor 3	520,000	504,600	97.04%	15,400	2.96%
IM Pastor 4	920,000	886,000	96.30%	34,000	3.70%
GC FTPYME Pastor 4	630,000	567,000	90.00%	63,000	10.00%
TDA Pastor CONSUMO 1	300,000	282,100	94.03%	17,900	5.97%
GC Pastor HIPOTECARIO 5	710,500	667,800	93.99%	42,700	6.01%
TDA Pastor 9	440,000	312,500	71.02%	127,500	28.98%
Total	23,501,900	20,560,300	87.48%	2,941,600	12.52%

Of the nominal amount outstanding at year-end 2012 and 2011, the Group holds bonds representing these issues in its portfolio. These include bonds representing the expected loss on the securitized loan portfolio, preventing the write-off of the securitized loans, and amounts that may be pledged to the Bank of Spain and the European Central Bank for use as a second liquidity line. In both cases, the amounts held by the Group's banks are eliminated on consolidation. Set out below is a breakdown at December 31, 2012 and 2011:

€ thousand	2012	2011
IM Banco Popular FTPYME1, FTA	103,950	85,674
GAT FTGENCAT 2005, FTA	18,486	25,471
IM Grupo Banco Popular Empresas 1, FTA	203,195	197,603
IM Grupo Banco Popular FTPYME I, FTA	212,444	214,370
IM Grupo Banco Popular FTPYME II, FTA	139,519	111,146
IM Banco Popular FTPYME 2, FTA	373,146	445,729
IM Grupo Banco Popular Empresas 3, FTA	2,250,000	2,250,000
IM Banco Popular MBS 2, FTA	573,725	610,147
IM Grupo Banco Popular Empresas 4, FTA	1,133,124	1,887,902
IM Grupo Banco Popular Leasing 2, FTA	783,287	1,500,000
IM Banco Popular FTPYME 3, FTA	918,501	1,267,649
Securitizations from Banco Pastor (1)	268,223	-
Total	6,977,600	8,595,691

(1) EDT FTPYME Pastor 3, GC FTPYME Pastor 4 and TDA Pastor 9.

70. Subsequent events

The following events have occurred since the year end:

On 21 January 2013 the final terms were agreed with the EOS Group for the sale of the past due debt recovery business (for the account of third parties, from 0 to 90 days) in Spain. The business to be transferred has been valued at € 135,000 thousand, entailing an extraordinary profit of € 132,925 thousand, as included in the Group's Business Plan 2012-2014.

On 30 January 2013, at the proposal of the Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee, the Board of Directors unanimously adopted the following resolutions relating to changes in the Bank's administrative body:

· Designate Mr Francisco Gómez Martín as the Bank's Chief Executive Officer, with full executive functions.
· Bring the size of the Board of Directors and the maximum age of Board Directors into line with the best standards of corporate governance in listed companies, reducing the maximum number of members from 20 to 15 and restricting the maximum age to 75. The number of Board members will be reduced gradually to the date of the 2014 Annual General Meeting and the age limit may be adjusted by the Board in the case of the controlling directors.

In January 2013, a senior debt issue in the amount of € 750,000 thousand for a 30-month period and an issue of covered bonds totalling € 500,000 thousand for a six-year period were completed and received favourably by international and domestic investors.

EXHIBIT I
Segment breakdown of the Consolidated Financial Statements for the financial year ended December 31, 2012

(€ thousand)

CONSOLIDATED BALANCE SHEET AT 31-12-12

	Credit institutions	Insurance companies	Other companies	Adjustm./ eliminations	Total
ASSETS					
Cash and balances with central banks	2,117,151	22	9	-	2,117,182
Financial assets held for trading	2,089,256	10,425	-	(2,830)	2,096,851
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to other debtors	-	-	-	-	-
Debt securities	118,843	10,423	-	(2,830)	126,436
Other equity instruments	169,067	1	-	-	169,068
Trading derivatives	1,801,346	1	-	-	1,801,347
Memorandum item: loaned or advanced as collateral	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	9,031	546,898	-	(62,306)	493,623
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to other debtors	-	-	-	-	-
Debt securities	9,031	444,954	-	(70,744)	383,241
Other equity instruments	-	101,944	-	8,438	110,382
Memorandum item: loaned or advanced as collateral	-	-	-	-	-
Available-for-sale financial assets	10,704,201	182,986	2,356	(46,543)	10,843,000
Debt securities	10,387,515	150,175	1,509	(38,105)	10,501,094
Other equity instruments	316,686	32,811	847	(8,438)	341,906
Memorandum item: loaned or advanced as collateral	5,196,453	-	-	-	5,196,453
Loans and receivables	114,645,160	67,390	26,133	(294,550)	114,444,133
Loans and advances to credit institutions	4,647,700	67,262	4,880	(61,184)	4,658,658
Loans and advances to other debtors	109,021,278	128	21,253	(233,366)	108,809,293
Debt securities	976,182	-	-	-	976,182
Memorandum item: loaned or advanced as collateral	20,162,821	-	-	-	20,162,821
Held-to-maturity investment portfolio	10,865,816	148,656	-	-	11,014,472
Memorandum item: loaned or advanced as collateral	6,213,030	-	-	-	6,213,030
Adjustments to financial assets due to portfolio hedges	222,647	-	-	-	222,647
Hedging derivatives	678,357	-	-	-	678,357
Non-current assets for sale	4,896,644	-	-	-	4,896,644
Shareholdings	1,036,659	7,500	106	(232,909)	811,356
Associates	811,356	-	-	-	811,356
Jointly-controlled entities	-	-	-	-	-
Group entities	225,303	7,500	106	(232,909)	-
Insurance contracts linked to pensions	180,587	1,971	-	(38,028)	144,530
Reinsurance assets	-	2,907	-	1,971	4,878
Tangible assets	1,868,583	87	24,055	-	1,892,725
Property, plant and equipment	885,944	87	500	-	886,531
For own use	859,206	87	500	-	859,793
Leased out under an operating lease	26,738	-	-	-	26,738
Used in community projects	-	-	-	-	-
Investment property	982,639	-	23,555	-	1,006,194
Memorandum item: acquired under a finance lease	-	-	-	-	-
Intangible assets	2,632,499	435	9	22,141	2,655,084
Goodwill	2,248,547	-	-	20,850	2,269,397
Other intangible assets	383,952	435	9	1,291	385,687
Tax assets	3,691,275	4,229	8,255	-	3,703,759
Current	172,555	76	3,930	-	176,561
Deferred	3,518,720	4,153	4,325	-	3,527,198
Other assets	1,241,964	7,793	328,665	20,455	1,598,877
Inventories	480,803	-	240,321	20,556	741,680
Other	761,161	7,793	88,344	(101)	857,197
Total assets	156,879,830	981,299	389,588	(632,599)	157,618,118

CONSOLIDATED BALANCE SHEET AT 31-12-12

	Credit institutions	Insurance companies	Other companies	Adjustm./ eliminations	Total
LIABILITIES					
Financial assets held for trading	1,491,141	-	-	-	1,491,141
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Deposits from other creditors	-	-	-	-	-
Debt certificates including bonds	-	-	-	-	-
Trading derivatives	1,486,842	-	-	-	1,486,842
Short positions	4,299	-	-	-	4,299
Other financial liabilities	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	89,764	-	3,296	93,060
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Deposits from other creditors	-	-	-	-	-
Debt certificates including bonds	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-
Other financial liabilities	-	89,764	-	3,296	93,060
Financial liabilities at amortized cost	141,805,642	18,028	308,784	(406,288)	141,726,166
Deposits from central banks	20,564,157	-	-	-	20,564,157
Deposits from credit institutions	14,337,728	-	288,564	(223,812)	14,402,480
Deposits from other creditors	79,890,845	-	-	(60,633)	79,830,212
Debt certificates including bonds	23,553,834	-	-	(111,229)	23,442,605
Subordinated liabilities	2,170,869	4,000	-	(4,415)	2,170,454
Other financial liabilities	1,288,209	14,028	20,220	(6,199)	1,316,258
Adjustments to financial liabilities due to portfolio hedges	-	-	-	-	-
Hedging derivatives	2,048,864	-	-	-	2,048,864
Liabilities associated with non-current assets for sale	-	-	-	-	-
Insurance contract liabilities	-	588,920	-	225,679	814,599
Provisions	505,223	-	2,824	-	508,047
Provisions for pensions and similar obligations	336,263	-	-	-	336,263
Provisions for taxes	68,356	-	2,498	-	70,854
Provisions for contingent exposures and commitments	85,336	-	-	-	85,336
Other provisions	15,268	-	326	-	15,594
Tax liabilities	448,415	10,106	2,709	-	461,230
Current	76,758	9,836	2,709	-	89,303
Deferred	371,657	270	-	-	371,927
Other liabilities	625,177	155,765	3,728	(265,080)	519,590
Total liabilities	146,924,462	862,583	318,045	(442,393)	147,662,697

CONSOLIDATED BALANCE SHEET 31-12-12

	Credit institutions	Insurance companies	Other companies	Adjustm./ eliminations	Total
EQUITY					
Own funds	10,797,878	118,536	71,543	(190,079)	10,797,878
Capital or endowment fund	840,855	24,100	22,371	(46,471)	840,855
Issued	840,855	24,100	22,371	(46,471)	840,855
less: uncalled capital (-)	-	-	-	-	-
Share premium	5,648,966	-	45,584	(45,584)	5,648,966
Reserves	6,222,809	82,217	9,047	(91,264)	6,222,809
Accumulated reserves/(losses)	6,168,431	82,217	9,047	(43,764)	6,215,931
Reserves (losses) of equity method companies	54,378	-	-	(47,500)	6,878
Other equity instruments	680,894	-	-	-	680,894
Equity component of compound financial instruments	-	-	-	-	-
Other equity instruments	680,894	-	-	-	680,894
less: treasury shares	(134,623)	-	-	-	(134,623)
Profit/(loss) for the period attributed to parent entity	(2,461,023)	12,219	(5,459)	(6,760)	(2,461,023)
less: Dividends and remuneration	-	-	-	-	-
Valuation adjustments	(886,614)	180	-	(180)	(886,614)
Available-for-sale financial assets	(917,914)	180	-	-	(917,734)
Other valuation adjustments	-	-	-	-	-
Cash flow hedges	-	-	-	-	-
Hedges of net investments in foreign operations	-	-	-	-	-
Exchange differences	31,120	-	-	-	31,120
Non-current assets for sale	-	-	-	-	-
Entities measured under the equity method	180	-	-	(180)	-
Minority interest	44,104	-	-	53	44,157
Valuation adjustments	(1,358)	-	-	-	(1,358)
Other	45,462	-	-	53	45,515
Total equity	9,955,368	118,716	71,543	(190,206)	9,955,421
Total liabilities and equity	156,879,830	981,299	389,588	(632,599)	157,618,118
Memorandum item:					
Contingent risks	15,253,086	-	-	(53,603)	15,199,483
Contingent commitments	10,337,031	-	-	(45,581)	10,291,450

CONSOLIDATED INCOME STATEMENT 31-12-12

	Credit institutions	Insurance companies	Other companies	Adjustm./ eliminations	Total
Interest and similar income	5,471,636	29,883	5,287	(10,393)	5,496,413
Interest expense and similar charges	2,780,119	445	8,157	(11,064)	2,777,657
Yield from capital repayable on demand	-	-	-	-	-
NET INTEREST INCOME	2,691,517	29,438	(2,870)	671	2,718,756
Return on equity instruments	1,842	2,264	-	-	4,106
Return from equity method companies	36,412	-	-	(13,342)	23,070
Fee and commission income	960,038	7,456	147	(2,751)	964,890
Fee and commission expense	171,457	1,886	54	(2,177)	171,220
Gains or losses on financial assets and liabilities (net)	323,742	(18,908)	3	-	304,837
Held for trading	153,457	-	-	-	153,457
Other financial instruments at fair value through profit or loss	2,616	(22,219)	-	-	(19,603)
Financial instruments not at fair value through profit or loss	174,405	3,311	3	-	177,719
Other	(6,736)	-	-	-	(6,736)
Exchange differences (net)	55,826	(678)	-	-	55,148
Other operating income	87,652	24,160	31,316	(7,676)	135,452
Income from insurance and reinsurance contracts and treaties issued	-	23,206	-	-	23,206
Sales and income from non-financial services rendered	-	780	26,729	(2,375)	25,134
Other operating income	87,652	174	4,587	(5,301)	87,112
Other operating expenses	219,759	16,884	23,333	(2,753)	257,223
Expenses from insurance and reinsurance contracts and treaties issued	-	16,744	-	(1,484)	15,260
Difference between opening and closing inventories	-	-	20,216	6,691	26,907
Other operating expenses	219,759	140	3,117	(7,960)	215,056
GROSS INCOME	3,765,813	24,962	5,209	(18,168)	3,777,816
Administrative expenses	1,594,556	7,065	8,338	(5,236)	1,604,723
Personnel expenses	943,347	3,841	2,383	163	949,734
Other administrative expenses	651,209	3,224	5,955	(5,399)	654,989
Depreciation and amortization	155,665	183	284	587	156,719
Period endowment to provisions (net)	37,673	-	(26)	-	37,647
Financial asset impairment losses (net)	4,309,779	272	22	-	4,310,073
Loans and receivables	4,210,754	-	22	-	4,210,776
Other financial instruments not at fair value through profit or loss	99,025	272	-	-	99,297
Financial assets carried at cost	-	-	-	-	-
Available-for-sale financial assets	99,025	272	-	-	99,297
Held-to-maturity investment portfolio	-	-	-	-	-
OPERATING PROFIT/(LOSS)	(2,331,860)	17,442	(3,409)	(13,519)	(2,331,346)
Other asset impairment losses (net)	511,111	-	360	23	511,494
Goodwill and other intangible assets	57,677	-	-	-	57,677
Goodwill	57,434	-	-	-	57,434
Other intangible assets	243	-	-	-	243
Other assets	453,434	-	360	23	453,817
Tangible assets	272,123	-	-	-	272,123
Investment property	(2,758)	-	-	-	(2,758)
Shareholdings	11,524	-	-	-	11,524
Other	172,545	-	360	23	172,928
Gains/(losses) on the disposal of assets not classified as non-current assets for sale	150,265	-	(156)	25	150,134
Negative differences on business combinations	-	-	-	-	-
Gains/(losses) on non-current assets for sale not classified as discontinued operations	(799,013)	-	-	-	(799,013)
PROFIT/(LOSS) BEFORE INCOME TAX	(3,491,719)	17,442	(3,925)	(13,517)	(3,491,719)
Income tax	(1,030,776)	5,223	1,534	(6,757)	(1,030,776)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	(2,460,943)	12,219	(5,459)	(6,760)	(2,460,943)
Profit/(loss) from discontinued operations (net)	-	-	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD	(2,460,943)	12,219	(5,459)	(6,760)	(2,460,943)
Profit/(loss) attributed to the parent entity	(2,461,023)	12,219	(5,459)	(6,760)	(2,461,023)
Profit/(loss) attributed to minority interest	80	-	-	-	80

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE AT 31-12-12

	Credit institutions	Insurance companies	Other companies	Adjustm./ eliminations	Total
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD	(2,460,943)	12,219	(5,459)	(6,760)	(2,460,943)
OTHER RECOGNIZED INCOME AND EXPENSE	(44,031)	180	-	(180)	(44,031)
Available-for-sale financial assets	(26,221)	(275)	-	11,971	(14,525)
Valuation gains/(losses)	112,809	3,036	-	11,974	127,819
Amounts transferred to income statement	139,030	3,311	-	3	142,344
Other reclassifications	-	-	-	-	-
Cash flow hedges	(48,367)	-	-	-	(48,367)
Valuation gains/(losses)	(48,367)	-	-	-	(48,367)
Amounts transferred to income statement	-	-	-	-	-
Amounts transferred to initial carrying amount of hedged items	-	-	-	-	-
Other reclassifications	-	-	-	-	-
Hedges of net investments in foreign operations	-	-	-	-	-
Valuation gains/(losses)	-	-	-	-	-
Amounts transferred to income statement	-	-	-	-	-
Other reclassifications	-	-	-	-	-
Exchange differences	(7,844)	-	-	-	(7,844)
Valuation gains/(losses)	(7,844)	-	-	-	(7,844)
Amounts transferred to income statement	-	-	-	-	-
Other reclassifications	-	-	-	-	-
Non-current assets for sale	-	-	-	-	-
Valuation gains/(losses)	-	-	-	-	-
Amounts transferred to income statement	-	-	-	-	-
Other reclassifications	-	-	-	-	-
Actuarial gains/(losses) on pension plans	(1,154)	-	-	-	(1,154)
Entities measured under the equity method	8,187	-	-	(8,187)	-
Valuation gains/(losses)	8,187	-	-	(8,187)	-
Amounts transferred to income statement	-	-	-	-	-
Other reclassifications	-	-	-	-	-
Other recognized income and expense	-	-	-	-	-
Income tax	31,368	455	-	(3,964)	27,859
TOTAL RECOGNIZED INCOME AND EXPENSE	(2,504,974)	12,399	(5,459)	(6,940)	(2,504,974)
Attributed to the parent entity	(2,506,599)	12,399	(5,459)	(6,940)	(2,506,599)
Attributed to minority interest	1,625	-	-	-	1,625

EXHIBIT I
Segment breakdown of the Consolidated Financial Statements for the financial year ended December 31, 2011

(€ thousand)

CONSOLIDATED BALANCE SHEET AT 31-12-11

	Credit institutions	Insurance companies	Other companies	Adjustm./ eliminations	Total
ASSETS					
Cash and balances with central banks	522,203	1	1	-	522,205
Held for trading	1,316,494	184	-	(114)	1,316,564
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to other debtors	-	-	-	-	-
Debt securities	140,417	114	-	(114)	140,417
Other equity instruments	25,768	-	-	-	25,768
Trading derivatives	1,150,309	70	-	-	1,150,379
Memorandum item: loaned or advanced as collateral	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	5,990	412,020	-	(40,506)	377,504
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to other debtors	-	-	-	-	-
Debt securities	5,990	304,921	-	(45,436)	265,475
Other equity instruments	-	107,099	-	4,930	112,029
Memorandum item: loaned or advanced as collateral	-	-	-	-	-
Available-for-sale financial assets	10,272,250	139,025	-	(5,529)	10,405,746
Debt securities	9,753,947	107,457	-	(599)	9,860,805
Other equity instruments	518,303	31,568	-	(4,930)	544,941
Memorandum item: loaned or advanced as collateral	2,450,083	-	-	-	2,450,083
Loans and receivables	100,818,594	46,913	1,292	(124,879)	100,741,920
Loans and advances to credit institutions	3,970,294	45,053	1,274	(45,800)	3,970,821
Loans and advances to other debtors	96,848,300	1,860	18	(79,079)	96,771,099
Debt securities	-	-	-	-	-
Memorandum item: loaned or advanced as collateral	20,216,532	-	-	-	20,216,532
Held-to-maturity investment portfolio	7,568,415	-	-	-	7,568,415
Memorandum item: loaned or advanced as collateral	2,932,355	-	-	-	2,932,355
Adjustments to financial assets due to portfolio hedges	19,546	-	-	-	19,546
Hedging derivatives	1,092,040	-	-	-	1,092,040
Non-current assets for sale	3,601,723	-	-	-	3,601,723
Shareholdings	653,904	7,500	-	(66,220)	595,184
Associates	595,184	-	-	-	595,184
Jointly-controlled entities	-	-	-	-	-
Group entities	58,720	7,500	-	(66,220)	-
Insurance contracts linked to pensions	141,809	-	-	-	141,809
Reinsurance assets	-	3,033	-	-	3,033
Tangible assets	1,734,022	67	142	-	1,734,231
Property, plant and equipment	689,526	67	142	-	689,735
For own use	689,526	67	142	-	689,735
Leased out under an operating lease	-	-	-	-	-
Used in community projects	-	-	-	-	-
Investment property	1,044,496	-	-	-	1,044,496
Memorandum item: acquired under a finance lease	-	-	-	-	-
Intangible assets	646,451	194	3	2,483	649,131
Goodwill	537,497	-	-	-	537,497
Other intangible assets	108,954	194	3	2,483	111,634
Tax assets	1,205,470	1,287	5,853	-	1,212,610
Current	165,492	71	5,534	-	171,097
Deferred	1,039,978	1,216	319	-	1,041,513
Other assets	854,406	3,775	85,862	(1)	944,042
Inventories	450,106	-	-	-	450,106
Other	404,300	3,775	85,862	(1)	493,936
Total assets	130,453,317	613,999	93,153	(234,766)	130,925,703

CONSOLIDATED BALANCE SHEET AT 31-12-11

	Credit institutions	Insurance companies	Other companies	Adjustm./ eliminations	Total
LIABILITIES					
Held for trading	1,104,323	-	-	-	1,104,323
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Deposits from other creditors	-	-	-	-	-
Debt certificates including bonds	-	-	-	-	-
Trading derivatives	1,104,323	-	-	-	1,104,323
Short positions	-	-	-	-	-
Other financial liabilities	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	93,761	-	-	93,761
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Deposits from other creditors	-	-	-	-	-
Debt certificates including bonds	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-
Other financial liabilities	-	93,761	-	-	93,761
Financial liabilities at amortized cost	118,367,682	4,245	78,917	(171,013)	118,279,831
Deposits from central banks	13,993,728	-	-	-	13,993,728
Deposits from credit institutions	11,336,303	-	75,070	(74,826)	11,336,547
Deposits from other creditors	68,788,320	-	-	(45,800)	68,742,520
Debt certificates including bonds	20,494,973	-	-	(46,035)	20,448,938
Subordinated liabilities	2,835,041	4,000	-	(4,114)	2,834,927
Other financial liabilities	919,317	245	3,847	(238)	923,171
Adjustments to financial liabilities due to portfolio hedges	-	-	-	-	-
Hedging derivatives	1,414,056	-	-	-	1,414,056
Liabilities associated with non-current assets for sale	-	-	-	-	-
Insurance contract liabilities	-	460,288	-	110,821	571,109
Provisions	281,545	-	7	-	281,552
Provisions for pensions and similar obligations	169,268	-	-	-	169,268
Provisions for taxes	41,501	-	7	-	41,508
Provisions for contingent exposures and commitments	67,086	-	-	-	67,086
Other provisions	3,690	-	-	-	3,690
Tax liabilities	278,791	330	509	-	279,630
Current	73,015	212	509	-	73,736
Deferred	205,776	118	-	-	205,894
Other liabilities	619,461	4,248	345	(110,837)	513,217
Total liabilities	122,065,858	562,872	79,778	(171,029)	122,537,479

CONSOLIDATED BALANCE SHEET AT 31-12-11

	Credit institutions	Insurance companies	Other companies	Adjustm./ eliminations	Total
EQUITY					
Own funds	9,124,148	59,134	13,375	(72,509)	9,124,148
Capital or endowment fund	140,093	15,000	3,547	(18,547)	140,093
Issued	140,093	15,000	3,547	(18,547)	140,093
less: uncalled capital (-)	-	-	-	-	-
Share premium	1,968,111	-	-	-	1,968,111
Reserves	6,071,691	35,050	8,033	(43,083)	6,071,691
Accumulated reserves/(losses)	6,003,059	35,050	8,033	(3,045)	6,043,097
Reserves (losses) of equity method companies	68,632	-	-	(40,038)	28,594
Other equity instruments	685,814	-	-	-	685,814
Equity component of compound financial instruments	-	-	-	-	-
Other equity instruments	685,814	-	-	-	-
less: treasury shares	(152,795)	-	-	-	(152,795)
Profit/(loss) for the period attributed to parent entity	479,653	9,084	1,795	(10,879)	479,653
less: Dividends and remuneration	(68,419)	-	-	-	(68,419)
Valuation adjustments	(841,923)	(8,007)	-	8,007	(841,923)
Available-for-sale financial assets	(904,384)	(8,007)	-	-	(912,391)
Other valuation adjustments	-	-	-	-	-
Cash flow hedges	33,857	-	-	-	33,857
Hedges of net investments in foreign operations	-	-	-	-	-
Exchange differences	36,611	-	-	-	36,611
Non-current assets for sale	-	-	-	-	-
Entities measured under the equity method	(8,007)	-	-	8,007	-
Minority interest	105,234	-	-	765	105,999
Valuation adjustments	(2,903)	-	-	-	(2,903)
Other	108,137	-	-	765	108,902
Total equity	8,387,459	51,127	13,375	(63,737)	8,388,224
Total liabilities and equity	130,453,317	613,999	93,153	(234,766)	130,925,703
Memorandum item:					
Contingent risks	13,511,790	-	-	(230)	13,978,129
Contingent commitments	13,231,128	-	-	(34,706)	10,904,964

CONSOLIDATED INCOME STATEMENT 31-12-11

	Credit institutions	Insurance companies	Other companies	Adjustm./ eliminations	Total
Interest and similar income	4,556,653	22,841	4,777	(3,750)	4,580,521
Interest expense and similar charges	2,495,431	87	1,879	(3,787)	2,493,610
Yield from capital repayable on demand	-	-	-	-	-
NET INTEREST INCOME	2,061,222	22,754	2,898	37	2,086,911
Return on equity instruments	6,002	2,493	-	-	8,495
Return from equity method companies	60,378	-	-	(14,310)	46,068
Fee and commission income	817,142	6,525	404	(2,167)	821,904
Fee and commission expense	137,117	969	-	(1,714)	136,372
Gains or losses on financial assets and liabilities (net)	99,441	(17,962)	-	-	81,479
Held for trading	50,530	(44,076)	-	-	6,454
Other financial instruments at fair value through profit or loss	(1,884)	-	-	-	(1,884)
Financial instruments not at fair value through profit or loss	51,682	1,628	-	-	53,310
Other	(887)	24,486	-	-	23,599
Exchange differences (net)	47,243	502	-	-	47,745
Other operating income	102,487	20,349	29,802	(8,161)	144,477
Income from insurance and reinsurance contracts and treaties issued	-	19,590	-	-	19,590
Sales and income from non-financial services rendered	-	751	29,130	(8,033)	21,848
Other operating income	102,487	8	672	(128)	103,039
Other operating expenses	62,202	14,668	29,181	(1,978)	104,073
Expenses from insurance and reinsurance contracts and treaties issued	-	14,549	-	(1,574)	12,975
Difference between opening and closing inventories	-	-	28,318	(404)	27,914
Other operating expenses	62,202	119	863	-	63,184
GROSS INCOME	2,994,596	19,024	3,923	(20,909)	2,996,634
Administrative expenses	1,262,153	6,096	1,315	(6,599)	1,262,965
Personnel expenses	774,158	3,202	1,021	375	778,756
Other administrative expenses	487,995	2,894	294	(6,974)	484,209
Depreciation and amortization	105,313	241	41	596	106,191
Period endowment to provisions (net)	(18,032)	-	-	-	(18,032)
Financial asset impairment losses (net)	970,218	152	-	-	970,370
Loans and receivables	940,158	-	-	-	940,158
Other financial instruments not at fair value through profit or loss	30,060	152	-	-	30,212
Financial assets carried at cost	-	-	-	-	-
Available-for-sale financial assets	30,060	152	-	-	30,212
Held-to-maturity investment portfolio	-	-	-	-	-
OPERATING PROFIT/(LOSS)	674,944	12,535	2,567	(14,906)	675,140
Other asset impairment losses (net)	398,741	-	-	-	398,741
Goodwill and other intangible assets	30,000	-	-	-	30,000
Goodwill	30,000	-	-	-	30,000
Other intangible assets	-	-	-	-	-
Other assets	368,741	-	-	-	368,741
Tangible assets	185,159	-	-	-	185,159
Investment property	-	-	-	-	-
Shareholdings	10,760	-	-	-	10,760
Other	172,822	-	-	-	172,822
Gains/(losses) on the disposal of assets not classified as non-current assets for sale	506,857	-	(4)	-	506,853
Negative differences on business combinations	-	-	-	-	-
Gains/(losses) on non-current assets for sale not classified as discontinued operations	(339,111)	-	-	-	(339,111)
PROFIT/(LOSS) BEFORE INCOME TAX	443,949	12,535	2,563	(14,906)	444,141
Income tax	(39,893)	3,451	768	(4,161)	(39,835)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	483,842	9,084	1,795	(10,745)	483,976
Profit/(loss) from discontinued operations (net)	-	-	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD	483,842	9,084	1,795	(10,745)	483,976
Profit/(loss) attributed to the parent entity	479,653	9,084	1,795	(10,879)	479,653
Profit/(loss) attributed to minority interest	4,189	-	-	134	4,323

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE AT 31-12-11

	Credit institutions	Insurance companies	Other companies	Adjustm./ eliminations	Total
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD	483,842	9,084	1,795	(10,745)	483,976
OTHER RECOGNIZED INCOME AND EXPENSE	(253,465)	1,624	-	(1,624)	(253,465)
Available-for-sale financial assets	(398,128)	(5,797)	-	9,107	(394,818)
Valuation gains/(losses)	(346,985)	(4,169)	-	9,107	(342,047)
Amounts transferred to income statement	51,143	1,628	-	-	52,771
Other reclassifications	-	-	-	-	-
Cash flow hedges	9,177	-	-	-	9,177
Valuation gains/(losses)	9,177	-	-	-	9,177
Amounts transferred to income statement	-	-	-	-	-
Amounts transferred to initial carrying amount of hedged items	-	-	-	-	-
Other reclassifications	-	-	-	-	-
Hedges of net investments in foreign operations	-	-	-	-	-
Valuation gains/(losses)	-	-	-	-	-
Amounts transferred to income statement	-	-	-	-	-
Other reclassifications	-	-	-	-	-
Exchange differences	8,819	-	-	-	8,819
Valuation gains/(losses)	8,819	-	-	-	8,819
Amounts transferred to income statement	-	-	-	-	-
Other reclassifications	-	-	-	-	-
Non-current assets for sale	-	-	-	-	-
Valuation gains/(losses)	-	-	-	-	-
Amounts transferred to income statement	-	-	-	-	-
Other reclassifications	-	-	-	-	-
Actuarial gains/(losses) on pension plans	26,878	-	-	-	26,878
Entities measured under the equity method	2,317	-	-	(2,317)	-
Valuation gains/(losses)	2,317	-	-	(2,317)	-
Amounts transferred to income statement	-	-	-	-	-
Other reclassifications	-	-	-	-	-
Other recognized income and expense	-	8,656	-	(8,656)	-
Income tax	97,472	(1,235)	-	242	96,479
TOTAL RECOGNIZED INCOME AND EXPENSE	230,377	10,708	1,795	(12,369)	230,511
Attributed to the parent entity	229,091	10,708	1,795	(12,503)	229,091
Attributed to minority interest	1,286	-	-	134	1,420

EXHIBIT II

Banco Pastor Group's
Consolidated Balance Sheets at February 16, 2012

(€ thousand)	**16/02/12**
ASSETS	
Cash and balances with central banks	364,534
Held for trading	173,014
Other financial assets at fair value through profit or loss	203,117
Available-for-sale financial assets	2,474,917
Loans and receivables	21,720,852
Held-to-maturity investment portfolio	2,140,914
Adjustments to financial assets due to portfolio hedges	14,127
Hedging derivatives	107,940
Non-current assets for sale	1,412,923
Shareholdings:	104,551
a) Associates	92,077
b) Jointly-controlled entities	12,474
Insurance contracts linked to pensions	21,549
Tangible assets:	164,950
a) Property, plant and equipment	137,150
b) Investment property	27,800
Intangible assets	29,066
Tax assets:	322,253
a) Current	26,267
b) Deferred	295,986
Other assets	763,104
TOTAL ASSETS	**30,017,811**
TOTAL LIABILITIES	**28,369,417**
Held for trading	124,423
Other financial assets at fair value through profit or loss	195,758
Financial liabilities at amortized cost	27,682,701
Adjustments to financial liabilities due to portfolio hedges	-
Hedging derivatives	108,039
Liabilities associated with non-current assets for sale	-
Insurance contract liabilities	2,237
Provisions	156,504
Tax liabilities:	24,179
a) Current	76,055
b) Deferred	352,429
Community projects fund	-
Other liabilities	75,576
Capital repayable on demand	-
TOTAL EQUITY	**1,648,394**
OWN FUNDS	**1,664,681**
Of which:	
Capital	90,041
Share premium	144,763
Reserves	1,296,475
VALUATION ADJUSTMENTS	**(33,116)**
MINORITY INTEREST	**16,829**
TOTAL LIABILITIES AND EQUITY	**30,017,811**
MEMORANDUM ITEM	-
Contingent risks	855,165
Contingent commitments	1,751,327

Pastor Vida, S.A.'s
Consolidated Balance Sheets at October 31, 2012

(€ thousand)	**31/10/12**
ASSETS	
Cash and balances with central banks	21
Held for trading	-
Other financial assets at fair value through profit or loss	-
Available-for-sale financial assets	40,813
Loans and receivables	18,335
Held-to-maturity investment portfolio	148,522
Adjustments to financial assets due to portfolio hedges	-
Hedging derivatives	-
Non-current assets for sale	-
Shareholdings:	-
a) Associates	-
b) Jointly-controlled entities	-
Insurance contracts linked to pensions	2,194
Tangible assets:	32
a) Property, plant and equipment	32
b) Investment property	-
Intangible assets	144
Tax assets:	2,670
a) Current	-
b) Deferred	2,670
Other assets	4,268
TOTAL ASSETS	**216,999**
TOTAL LIABILITIES	**169,015**
Held for trading	-
Other financial assets at fair value through profit or loss	-
Financial liabilities at amortized cost	13,468
Adjustments to financial liabilities due to portfolio hedges	-
Hedging derivatives	-
Liabilities associated with non-current assets for sale	-
Insurance contract liabilities	-
Provisions	-
Tax liabilities:	3,609
a) Current	3,386
b) Deferred	223
Community projects fund	-
Other liabilities	151,938
Capital repayable on demand	-
TOTAL EQUITY	**47,984**
OWN FUNDS	**47,874**
Of which:	
Capital	9,100
Share premium	-
Reserves	38,084
VALUATION ADJUSTMENTS	**110**
MINORITY INTEREST	**-**
TOTAL LIABILITIES AND EQUITY	**216,999**
MEMORANDUM ITEM	-
Contingent risks	-
Contingent commitments	-

EXHIBIT III

Agents of POPULAR BANCA PRIVADA, S.A.

FULL NAME / COMPANY NAME	LOCATION	AREA OF ACTIVITY
ADESIF 2001 SLL	ZARAGOZA	ZARAGOZA
ALAS GUILLEN, JESUS IGNACIO	BARBASTRO	ARAGON
AMOMENEA, S.L.	ARLETA	NAVARRE
ARARAS ASESORES SL	MADRID	SPAIN
ARIAS HERNANDEZ, MARIA CONCEPCION	MADRID	MADRID
ARRAEZ Y ASOCIADOS, S.A.	MADRID	MADRID
ASEMVAL HUESCA, S.L.	HUESCA	ARAGON
ASENSIO CASTEJON, MARIA PILAR	ALCAÑIZ	ARAGON
ASESORES FINANCIEROS DE CORDOBA, S.L.	CORDOBA	ANDALUSIA
ASESORIA GORDONIZ, S.A.L.	BILBAO	BASQUE COUNTRY
ASESORIA LABORAL FISCAL Y CONT	CALATAYUD	ARAGON
ASSESSOR CONSULTORIA I SERVEIS EMPRESARIALS, S.L.	LLEIDA	CATALONIA
ASSESSORS FINANCERS GIRONA SL	GIRONA	CATALONIA
ASTURAGENTES, S.L.	OVIEDO	ASTURIAS
AULINA SAQUES, JOSE	BARCELONA	CATALONIA
AYCU S.L. SUBROGACION SABINA SANCHEZ	ZARAGOZA	ARAGON
BANQUE GENEVOISE DE GESTION,SA	GINEBRA	MADRID
BARRACHINA FERRER, MANUEL	BUJARALOZ	ARAGON
BATLLE SALAMERO, MARIO	BINEFAR	ARAGON
BERGARECHE GANDARIAS, JAIME	GETXO	SPAIN
BIM CONSULTING DEVELOPMENT SL	MADRID	SPAIN
BPB PATRIMONIAL SL	AMETLLA DEL VALLES, L'	SPAIN
BUFETE SEVERINO MARTINEZ IZQUIERDO, S.L.	MADRID	MADRID
CALVETE VAL, FRANCISCO JAVIER	ZARAGOZA	SPAIN
CASAS VILA, XAVIER	BARCELONA	CATALONIA
CHOCARRO AVALOS, ANGEL LUIS	PAMPLONA	NAVARRE
DEFERRE CONSULTING SL	VALLADOLID	VALLADOLID
ECO WEALTH MANAGEMENT SL	MADRID	MADRID
EGAÑA GARCIA, FRANCISCO JOSE	PAMPLONA	SPAIN
GARAY ALVAREZ, IGOR	BILBAO	BIZKAIA
GLOBAL ADVICE CONSULTORES FINA	BILBAO	SPAIN
GLOBALTRAMIT GESTION DOCUMENTA	BARCELONA	CATALONIA
HEREDIA ARMADA, ALFONSO	GIJON	ASTURIAS
IBERMEDIACION, S.L. CORREDURIA DE SEGUROS	ZARAGOZA	ARAGON

FULL NAME / COMPANY NAME	LOCATION	AREA OF ACTIVITY
INVERCOFIS, S.L.	PAMPLONA	NAVARRE
INVERSIONES LINCE 2011 SL	MADRID	MADRID
INVERSIONES SIROCO SL	MADRID	MADRID
JUBIERRE CROS, JESUS	CALANDA	TERUEL
JUVE, GAVARA, BECH Y ROVIRA ASSOCIATS, S.A.	BARCELONA	CATALONIA
KIOSTRO SL	BARCELONA	CATALONIA
LABRADOR VILLAGRASA, CRISTINA	BUJARALOZ	ARAGON
LOREZABAL SL	PAMPLONA	NAVARRE
LUSALCA ASESORES SL	MADRID	MADRID
MORENO MARTINEZ, JOSE MARIA	LOGROÑO	NAVARRE
NEVOT SOLANO, JOSE IGNACIO	BARBASTRO	ARAGON
NORFINANCE, S.L.	BILBAO	BASQUE COUNTRY
OLAGUE RONCAL, MIGUEL	PAMPLONA	NAVARRE
OTERO CAAMAÑO, FRANCISCO BORJA	MADRID	SPAIN
PONCE BUJ, CARLOS	VALENCIA	VALENCIA REGION
RIBAS FARNOS-FRANCH ASESORES J	PALMA DE MALLORCA	BALEARIC ISLANDS
RIBAS-MARCHENA & FARNOS-FRANCH	IBIZA	BALEARIC ISLANDS
RODRIGUEZ RUIZ-BELLOSO, FRANCISCO JAVIER	ZARAGOZA	ARAGON
RODRIGUEZ SANCHO, MARCOS	CASTELLON	VALENCIA REGION
SABARI LLOBET, JOSEP MARIA	GIRONA	CATALONIA
SAN MIGUEL PRIETO ASESORES SRL	VALLADOLID	VALLADOLID
SANCHEZ CASAS ECONOMISTAS Y AB	PAMPLONA	NAVARRE
SANCHEZ URRICELQUI, JAVIER	PAMPLONA	NAVARRE
SEGARRA BARQUES, VICENTE	VALENCIA	VALENCIA REGION
SERVISA, S.A.	VALENCIA	VALENCIA REGION
SOCIEDAD DE GESTIONES DE PATRI	MADRID	SPAIN
TIHISTA BADOSTAIN, ROSARIO	PAMPLONA	NAVARRE
TORRENTBO BERTRAL, ENRIQUE	LA GARRIGA	CATALONIA
TORRES SANCHEZ, JOSE ANTONIO	TERUEL	ARAGON
VAL IBAÑEZ, MARIANO	ZARAGOZA	ARAGON
VIGIL FERNANDEZ, FRANCISCO JOSE	BARBASTRO	ARAGON
VILLARROYA PEREZ, FERNANDO	ALCAÑIZ	TERUEL
VILLARROYA PEREZ, FRANCISCO CARLOS	ALCAÑIZ	TERUEL
ZALBA BEISTI, RAQUEL	PAMPLONA	NAVARRE
ZUBIZUA SL	GETXO	BIZKAIA

EXHIBIT III

Agents of POPULAR

FULL NAME / COMPANY NAME	LOCATION	AREA OF ACTIVITY
ÁLVAREZ DOMÍNGUEZ, ALICIA	LEIRO	SPAIN
ÁLVAREZ TEIJEIRO, FRANCISCO ANTONIO	VEGADEO	SPAIN
AÑON ROIBAL, JAIME	PAIOSACO	SPAIN
ARIAS ESCUREDO, JULIO	PUENTE DE DOMINGO FLOREZ	SPAIN
ASESORIA XARPER,S.L.	BANDEIRA	SPAIN
BLANCO CORTIÑAS, RAQUEL	TRASMIRAS	SPAIN
BLANCO SECO, MARIBEL	A GOLADA	SPAIN
CABO NAYA, JULIO	CALO	SPAIN
CARBIA GONZÁLEZ, JOSE MANUEL	RIANXO	SPAIN
CASTRO GÓMEZ, MARIA BEGOÑA	PALAS DE REI	SPAIN
CELEIRO LÓPEZ, ANTONIO	TRIACASTELA	SPAIN
COTA VÁZQUEZ, SERGIO	CALVOS DE RANDIN	SPAIN
DIEGUEZ DIEGUEZ, SONIA	A GUDIÑA	SPAIN
DIGON RODRÍGUEZ, ANA MARIA	SAN ROMAN DE CERVANTES	SPAIN
ESCUREDO GARCÍA, JOAQUINA	A VEIGA	SPAIN
FEIJOO PIÑEIRO, DAVID	CABO DE CRUZ	SPAIN
FEIJOO RÍO, ELADIO	OS PEARES	SPAIN
FERNÁNDEZ BLANCO, PATRICIA	CABOALLES DE ABAJO	SPAIN
FERNÁNDEZ FERNÁNDEZ, JULIO JUSTO	SOBRADELO	SPAIN
FERNÁNDEZ FERNÁNDEZ, MAGIN	O BOLO	SPAIN
FERNÁNDEZ FERNÁNDEZ, MATILDE	CARTELLE	SPAIN
FERNÁNDEZ MAREY, MARÍA FLOR	BARALLA	SPAIN
FRANCISCO FERNÁNDEZ, MARÍA PRÁXEDES	CORTEGADA	SPAIN
FRANCO RAMOS, MANUEL ANTONIO	PALMEIRA	SPAIN
FRANCO RAMOS, MANUEL ANTONIO	AGUIÑO	SPAIN
GARCÍA LÓPEZ, NATALIA	MERA	SPAIN
GEADA LOSADA, ANA MARÍA	FERREIRA DO VALADOURO	SPAIN
GONZÁLEZ ANDRADE, MARÍA MARTINA	ENTRIMO, LOBIOS	SPAIN
GONZÁLEZ DAFONTE, JUAN MANUEL	PORQUEIRA	SPAIN
GONZÁLEZ GÓMEZ, RENATO	TORMALEO	SPAIN
GONZÁLEZ PEDROUZO, AVELINO	DACON	SPAIN
GONZÁLEZ VÁZQUEZ, MANUEL JESUS	PONTEDEVA	SPAIN
LAGARES GÓMEZ, MARÍA BELEN	PONTECARREIRA	SPAIN
LÓPEZ CASTAÑO, MERCEDES	PARAMO	SPAIN
LÓPEZ IRIARTE, JOSE MANUEL	O SEIXO	SPAIN
LÓPEZ LÓPEZ, MARÍA ASUNCION	GUNTIN	SPAIN
LÓPEZ VALEIRAS SAMPEDRO, ANTON	BARBANTES ESTACIÓN	SPAIN

FULL NAME / COMPANY NAME	LOCATION	AREA OF ACTIVITY
LÓPEZ YÁÑEZ, MARÍA FE	NAVIA DE SUARNA	SPAIN
LUIS PASCUAL, RUBIN	MACEDA	SPAIN
MONTERO RODRÍGUEZ, DELFINA	QUINTELA DE LEIRADO	SPAIN
MOURIÑO VARELA, BEGOÑA	ANTAS DE ULLA	SPAIN
NOGUEROL RODRÍGUEZ, ANDRES	O IRIXO	SPAIN
PARDO VÁZQUEZ, MARÍA ESTELA	PARGA	SPAIN
PERALTA CORDERI, JAIME	RAIRIZ DE VEIGA	SPAIN
PEREIRO LÓPEZ, MARÍA	O INCIO	SPAIN
PÉREZ CARBALLO, JULIO	VILAR DO BARRIO	SPAIN
PÉREZ CORRAL, MARÍA CARMEN	SAN AMARO	SPAIN
PÉREZ OBREGÓN, SONIA	OIMBRA	SPAIN
PIÑEIRO MARTA, PABLO	CAION - LARACHA	SPAIN
RAPADO ASESORES, S.L.	FORCAREI	SPAIN
REY VALIÑO, LUÍS CESAR	CORISTANCO	SPAIN
RIVAS FERNÁNDEZ, MARÍA	XUNQUEIRA DE AMBIA	SPAIN
RIVERA GALDO, Jose	MAÑON	SPAIN
RODRÍGUEZ ÁLVAREZ, BORJA	SAN CLODIO	SPAIN
RODRÍGUEZ FERNÁNDEZ, Mª CARMEN	CASTROVERDE	SPAIN
RODRÍGUEZ SOTELO, CESAR	SARREAUS	SPAIN
RODRÍGUEZ TEIXEIRA, SONIA	VILARDEVÓS	SPAIN
ROMERO FORMOSO, FÁTIMA	ESTEIRO	SPAIN
ROMERO GATO, LAURA	XERMADE	SPAIN
SALGADO FEIJOO, MANUEL	BALTAR	SPAIN
SANTOS GERPE, MARÍA SONIA	CAMARIÑAS	SPAIN
SOBREDO SIGUEIRO, JOSE MANUEL	PONTEVEA-TEO	SPAIN
SOMOZA DE LA FUENTE, JULIO JOSE LUÍS	A POBRA DE BROLLÓN	SPAIN
TOURIS FERNÁNDEZ, MANUEL	A BAÑA	SPAIN
VARELA RIVERA, JULIO	PORTOMARÍN	SPAIN
VARELA RIVERA, JULIO	PARADELA	SPAIN
VÁZQUEZ BAYO, MIGUEL ÁNGEL	LA BAÑA	SPAIN
VÁZQUEZ BERTOA, JOSE MANUEL	CERCEDA	SPAIN
VÁZQUEZ FERNÁNDEZ, DIEGO	CASTROCALDELAS	SPAIN
VEIGA ROCANDIO, RUBEN	A PONTENOVA	SPAIN
XIAMA BANDE, S.L.	BANDE	SPAIN

EXHIBIT IV

Information on capital increase authorizations at December 31, 2012

On 20-12-2011 the Extraordinary General Shareholders' Meeting authorized the Board of Directors to increase share capital one or more times, over a maximum five-year period, by up to one half of the share capital figure resulting from the implementation of the resolution indicated in point one.

Pursuant to Articles 297.1.b), 311 and 506 of the Spanish Companies Act 2010, the Annual General Meeting held on 11-06-2012 authorized the Board of Directors to carry out four capital increases charged to reserves.

EXHIBIT V

Independent review report on the Annual Corporate Governance Report

pwc

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

REPORT ON THE INDEPENDENT REVIEW OF THE ANNUAL CORPORATE GOVERNANCE REPORT 2012 OF BANCO POPULAR ESPAÑOL, S.A.

To the Board of Directors of Banco Popular Español, S.A.,

1. We have reviewed the adaptation of the content of the Annual Corporate Governance Report 2012 of Banco Popular Español, S.A, in connection with the recommendations contained in the Report from the Special Work Group on Good Governance in listed companies (Unified Code of Good Governance), dated 19 May 2006, and in accordance with the minimum content of the Annual Corporate Governance Report stipulated in Circular 4/2007 (27 December) issued by the Spanish National Securities Market Commission (CNMV).

2. The preparation and content of the Annual Corporate Governance Report are the responsibility of the Board of Directors of Banco Popular Español, S.A., which is also responsible for the design, implementation and maintenance of the procedures through which the information is obtained. Our responsibility is to issue an independent report based on the review procedures applied.

3. We have performed our review work in accordance with the Standard ISAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC), in connection with limited assurance engagements. In general, our review work consisted of the following procedures:

   - Reading of legal documentation, minutes of General Shareholders' Meetings, Board meetings and meetings of Board committees or commissions, the annual accounts and various internal and external communications.
   - Interviews with the personnel of Banco Popular Español, S.A., managers and other bodies responsible for areas of governance.
   - Analysis of the procedures used to compile and validate the data and information presented in the Annual Corporate Governance Report.
   - Analysis of the adaptation of the content of the Annual Corporate Governance Report to the recommendations of the Unified Code of Good Governance and to the provisions of CNMV Circular 4/2007 (27 December 2007).
   - Analysis of the information supplementing the Annual Corporate Governance Report for listed companies in accordance with sections B, C, D, E, F and G of Article 61 bis of Stock Market Act 24/1998 (28 July), as worded in Law 2/2011 (4 March) on Sustainable Economy; Review of section A on the "Information relating to the Financial Information Internal Control System (SCIIF)", contained in the SCIIF Audit Report that accompanies the Annual Corporate Governance Report.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
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R. M. Madrid, page 87,250-1, sheet 75, volume 9,267, book 8,054, section 3
Entered in the Official Register of Auditors (ROAC) under number S0242 - Tax code: B-79 031290

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- Verification, through sample review testing, of the quantitative information included in the Annual Corporate Governance Report and its adequate compilation using data supplied by the Management of Banco Popular Español, S.A..

- Obtainment of the letter of representation relating to the work performed, duly signed by the persons responsible for preparing and issuing the Information contained in the Annual Corporate Governance Report and in point 61 bis, sections B, C, D, E, F and G.

4. The scope of a review is substantially less than that of a reasonable assurance engagement. Less assurance is therefore provided. This report may not in any circumstances be treated as an audit report.

5. As regards Unified Code recommendations that have not been implemented by the Entity, the Administrators of Banco Popular Español, S.A. provide the explanations deemed fit (see section F of the Annual Corporate Governance Report). In view of the nature of our work, in such cases our work consisted only of checking that the statements contained in the Report do not contradict the evidence obtained by applying the procedures described in point 3. Value judgements on the reasonableness of such explanations fall out with the scope of this review report.

6. We have performed our work in accordance with the independence standards required by the Code of Ethics of the International Federation of Accountants (IFAC).

7. As a result of our review, no aspects were identified that lead us to believe that the Annual Corporate Governance Report 2012 of Banco Popular Español, S.A. and the additional information provided under Article 61 bis of Law 24/1988, sections B, C, D, E, F and G, contain significant errors or have not been prepared, in all material respects, in accordance with CNMV Circular 4/2007 (27 December) and, except for the matter indicated in point 5 above, in compliance with the recommendations of the Unified Code of Good Governance.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Ferrán Rodríguez
Partner
25 February 2013

pwc

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Report of the auditors on "Information relating to the Financial Information Internal Control System (FIICS)" of the Banco Popular Group for 2012

To the Board of Directors of Banco Popular Español, S.A.,

As requested by the management of Banco Popular Español, S.A. and subsidiaries (the Group) and in accordance with our proposal letter of 1 February 2013, we have applied certain procedures on the "Information concerning the Financial Reporting Control System" (FIICS), included as part of the information complementary to the Annual Corporate Governance Report for the listed companies of the Group for 2012, pursuant to Article 61 bis of Securities Market Law 24/1988 (28 July) according to the wording of Law 2/2011 (4 March) on the Sustainable Economy, which summarises the Group's internal control procedures in relation to annual financial reporting.

Securities Market Law 24/1988, following its amendment by Law 2/2011 (4 March) on the Sustainable Economy, requires that, as from the years starting 1 January 2011, the Annual Corporate Governance Report include a description of the main characteristics of the internal control and risk management systems related to the financial reporting process. In this respect, on 26 October 2011 the National Securities Market Commission published the Draft Circular, amending the standard Annual Corporate Governance Report to be published, including the way in which it should be covered by each entity in their description of the main characteristics of their FIICS. In their letter of 28 December 2011, the CNMV recalls the legal amendments to be taken into account in the preparation of "Information concerning the FIICS" until the final publication of the CNMV Circular which defines a new Annual Corporate Governance Report model.

For the purposes of sub-section 7 on the content of the FIICS of the Annual Corporate Governance Report model set out in the CNMV Draft Circular, which requires entities to mention whether the description of the FIICS has been reviewed by the external auditor and if so, to include the pertinent report, the Corporations representing the auditors of the accounts have published a Draft dated 28 October 2011 concerning Action Guidance together with standard guidelines on the auditor's report (the Draft Action Guide). Additionally, on 25 January 2012, the Spanish Institute of Auditors, in its Circular E01/2012, laid down certain additional considerations in relation to the same.

The Board of Directors is responsible for adopting suitable measures to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and improvements to the system, and the preparation and definition of the content of the accompanying Information relating to the FIICS.

It should be noted that, irrespective of the quality of design and functionality of the Group's internal control system in relation to its annual financial information, the system can only provide reasonable assurance, but not absolute assurance, in connection with the objectives pursued, due to the limitations inherent in all internal control systems.

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In the course of our audit work on the annual accounts, and pursuant to Technical Auditing Standards, our evaluation of the Group's internal control was performed for the sole purpose of allowing us to establish the scope, nature and timing of the audit procedures applied to the Entity's annual accounts.

Consequently, our appraisal of internal control, performed for the purposes of the audit of the accounts, did not have a sufficient scope to allow us to issue a specific opinion on the effectiveness of internal controls for regulated annual financial information.

For the purposes of this Report, we have exclusively applied the specific procedures described below and indicated in the Draft Guidelines, which establishes the work to be performed, the minimum scope of the work and the content of this report. As the work resulting from these procedures has, in any event, a limited scope that is substantially less than that of an audit or a review of the internal control system, we do not express an opinion on its effectiveness, or on its design and operational efficiency, in connection with the Group's financial information for 2012, described in the accompanying Information relating to the FIICS. Consequently, had we applied other procedures in addition to the ones stated below, or had we performed an audit or a review of the internal control system in relation to regulated financial information, other facts or aspects might have been detected and reported.

Additionally, as this special work is not an audit of the accounts and is not subject to the revised Audit Act introduced under Royal Decree-Law 1/2011 (1 July), we do not express an audit opinion in the terms of those regulations.

The procedures applied are listed below:

1. Reading and understanding the information prepared by the Group in relation to the FIICS attached and assessment of whether such information covers all the information required consistent with the minimum content described in the Annual Corporate Governance Report of the CNMV Draft Circular.

2. Questions posed to personnel responsible for preparing the information indicated in point 1 above, in order to: (i) obtain an understanding of the preparation process; (ii) obtain information to determine whether the terminology employed fits the definitions contained in the reference framework; and (iii) obtain information on whether not the control procedures described are in place and operational in the Group.

3. Review of the explanation documentation supporting the Information indicated in point 1 above, which will consist mainly of the documentation made available to the persons responsible for preparing the FIICS descriptive information. This documentation includes reports prepared by the internal auditors, senior management and other internal or external specialists performing Audit and Control Committee support functions.

4. Comparison of the Information indicated in point 1 above with the insight into the Group's FIICS obtained through the procedures performed during the audit of the annual accounts.

5. Reading of minutes of meetings of the Board of Directors, Audit and Control Committee and other Group committees in order to assess the consistency of the matters addressed in them in connection with the FIICS and the Information indicated in point 1 above.

6. Obtainment of the letter of representation relating to the work performed, duly signed by the persons responsible for preparing and issuing the Information indicated in point 1 above.

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As a result of the procedures applied to the Information relating to the FIICS, no inconsistencies or incidents have been identified that could affect that information.

This report has been prepared solely within the context of the requirements laid down by Securities Market Law 24/1988, as amended by Law 2/2011 (4 March) on the Sustainable Economy, and the CNMV Draft Circular of 26 October 2011 for the purposes of describing the FIICS in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
José María Sanz Olmeda
Partner

28 February 2013

Design and development
gosban consultora de comunicación

Printing
Run Digital Print

Legal Deposit
M-17344-2013

TotalBank
BALANCE SHEET
September 2013

This Month Actual	This Month Budget	Variance	%		Year to Date Actual	Year to Date Budget	Variance	%
				ASSETS				
				LOANS				
831,728,219	895,866,311	(64,138,092)	(7.16)	Real Estate Loans	797,323,218	872,776,779	(75,453,561)	(8.65)
179,117,639	264,004,644	(84,887,005)	(32.15)	Commercial Loans	193,211,132	238,678,879	(45,467,747)	(19.05)
41,529,186	41,085,561	443,625	1.08	Consumer Loans	41,849,109	40,262,760	1,586,349	3.94
0	0	0	0.00	Insurance Premium Finance	7,987	82,418	(74,430)	(90.31)
6,428,853	7,250,000	(821,147)	(11.33)	International Loans	5,887,072	6,520,024	(632,952)	(9.71)
375,702,604	412,918,814	(37,216,209)	(9.01)	Residential Mortgage	337,692,026	368,272,589	(30,580,563)	(8.30)
26,477,487	38,204,972	(11,727,485)	(30.70)	US Govt. and Agencies Programs	29,454,419	35,889,913	(6,435,494)	(17.93)
1,711,424	2,099,997	(388,573)	(18.50)	Overdrafts	1,937,359	2,099,997	(162,638)	(7.74)
0	0	0	0.00	Loans Held for Sale	364,445	0	364,445	0.00
1,462,695,412	1,661,430,299	(198,734,886)	(11.96)	Total Loans	1,407,726,768	1,564,583,360	(156,856,592)	(10.03)
(1,015,898)	(1,127,251)	111,352	9.88	Unearned Income	(1,033,804)	(1,082,433)	48,629	4.49
(20,304,683)	(22,275,449)	1,970,766	8.85	Reserve for Bad Debts	(21,220,665)	(22,112,454)	891,789	4.03
1,441,374,831	1,638,027,599	(196,652,769)	(12.01)	Net Loans	1,385,472,299	1,541,388,473	(155,916,174)	(10.12)
				INVESTMENTS				
0	1,800,000	(1,800,000)	(100.00)	US Treasuries	1,602,124	1,800,000	(197,876)	(10.99)
20,000,000	10,000,000	10,000,000	100.00	US Govt. Agencies	13,443,223	7,838,828	5,604,396	71.50
223,006,551	247,500,000	(24,493,449)	(9.90)	Mortgage-Backed Sec.`s	226,604,929	244,181,929	(17,577,000)	(7.20)
53,795,545	47,250,000	6,545,545	13.85	Municipal Bonds	53,054,459	46,254,579	6,799,880	14.70
291,181,130	210,000,000	81,181,130	38.66	CMO	268,455,648	210,000,000	58,455,648	27.84
119,701,869	170,025,000	(50,323,131)	(29.60)	Corporates	127,999,016	170,025,000	(42,025,984)	(24.72)
4,436,576	4,712,433	(275,857)	(5.85)	Trust Preferred Sec.`s	4,551,352	4,712,433	(161,081)	(3.42)
15,702,910	18,000,000	(2,297,090)	(12.76)	Other Investments	14,874,675	18,000,000	(3,125,325)	(17.36)
(5,377,447)	5,998,319	(11,375,766)	(189.65)	FASB #115 Adjustment	3,298,437	7,731,556	(4,433,119)	(57.34)
11,913,231	18,641,038	(6,727,807)	(36.09)	Fed Funds Sold	42,281,728	19,564,877	22,716,851	116.11
24,921,040	6,275,387	18,645,653	297.12	Time Deposits	30,862,392	10,249,746	20,612,646	201.10
759,281,405	740,202,177	19,079,228	2.58	Total Investments	787,027,984	740,358,947	46,669,037	6.30
2,200,656,235	2,378,229,776	(177,573,541)	(7.47)	Total Earning Assets	2,172,500,283	2,281,747,420	(109,247,137)	(4.79)
				NONEARNING ASSETS				
20,028,825	11,648,038	8,380,788	71.95	Cash and Due from Banks	20,689,966	11,594,053	9,095,913	78.45
9,626,685	11,486,774	(1,860,089)	(16.19)	Items in Process	6,632,702	11,312,617	(4,679,915)	(41.37)
6,459,291	9,923,589	(3,464,298)	(34.91)	Other Real Estate Owned	6,539,364	9,198,922	(2,659,559)	(28.91)
635,920	957,583	(321,663)	(33.59)	Customer Liab. Under Accept	606,340	957,583	(351,243)	(36.68)
158,753,195	157,951,531	801,664	0.51	Goodwill	158,768,539	157,985,534	783,005	0.50
19,202,371	19,090,140	112,231	0.59	BOLI	19,077,120	18,946,799	130,320	0.69
48,793,101	17,072,289	31,720,812	185.80	Other Nonearning Assets	51,149,539	17,585,661	33,563,878	190.86
5,587,412	6,144,004	(556,592)	(9.06)	Furniture and Fixtures	5,341,752	5,954,862	(613,111)	(10.30)
6,761,766	6,472,759	289,007	4.46	EDP Equipment	6,452,708	6,158,651	294,057	4.77
18,071,284	17,892,570	178,714	1.00	Land and Building	17,950,269	17,892,570	57,699	0.32
8,434,803	8,676,727	(241,924)	(2.79)	Leasehold Improvements	8,420,922	8,577,826	(156,903)	(1.83)
(14,406,974)	(14,400,142)	(6,831)	(0.05)	Accumulated Depreciation and Amort.	(13,474,599)	(13,502,385)	27,786	0.21
24,448,291	24,785,918	(337,627)	(1.36)	Total Fixed Assets	24,691,052	25,081,524	(390,472)	(1.56)
287,947,678	252,915,860	35,031,817	13.85	Total Nonearning Assets	288,154,622	252,662,693	35,491,929	14.05
2,488,603,913	2,631,145,636	(142,541,723)	(5.42)	Total Assets	2,460,654,904	2,534,410,113	(73,755,209)	(2.91)

TotalBank
BALANCE SHEET
September 2013

This Month Actual	This Month Budget	Variance	%		Year to Date Actual	Year to Date Budget	Variance	%
				LIABILITIES				
				INTEREST BEARING LIAB				
107,213,437	82,019,114	25,194,322	30.72	Interest Checking Accounts	91,940,700	79,797,918	12,142,782	15.22
331,962,732	373,950,298	(41,987,567)	(11.23)	Money Market Deposits Account	350,075,388	357,705,602	(7,630,214)	(2.13)
47,589,887	40,000,000	7,589,887	18.97	Brokered Money Market Accts	49,105,703	40,000,000	9,105,703	22.76
47,083,896	47,423,865	(339,969)	(0.72)	Regular Savings	47,542,741	45,891,577	1,651,163	3.60
98,392,650	133,156,266	(34,763,617)	(26.11)	Time Deposits Less than $100K	106,857,824	130,504,389	(23,646,565)	(18.12)
385,182,913	400,944,697	(15,761,785)	(3.93)	Time Deposits Over $100K	402,413,184	389,318,396	13,094,788	3.36
45,644,286	74,300,733	(28,656,447)	(38.57)	Brokered CDs	32,490,756	63,487,546	(30,996,790)	(48.82)
25,740,013	32,689,801	(6,949,788)	(21.26)	IRAs	26,103,310	31,497,015	(5,393,705)	(17.12)
1,088,809,813	1,184,484,775	(95,674,963)	(8.08)	Total Interest Bearing Deposits	1,106,529,605	1,138,202,444	(31,672,839)	(2.78)
144,360,107	136,607,029	7,753,078	5.68	DDA Regular Checking	138,915,232	125,965,491	12,949,740	10.28
445,433,308	488,543,823	(43,110,515)	(8.82)	DDA Business Checking	428,321,465	454,664,662	(26,343,197)	(5.79)
4,906,876	7,110,050	(2,203,174)	(30.99)	Other Deposits	6,384,025	7,243,998	(859,973)	(11.87)
594,700,291	632,260,902	(37,560,612)	(5.94)	Total Noninterest Bearing Deposits	573,620,722	587,874,151	(14,253,429)	(2.42)
1,683,510,103	1,816,745,678	(133,235,574)	(7.33)	Total Deposits	1,680,150,327	1,726,076,595	(45,926,268)	(2.66)
0	0	0	0.00	Subordinated Debt	0	0	0	0.00
				OTHER INTEREST BEARING LIAB				
192,430,000	250,000,000	(57,570,000)	(23.03)	FHLB Term Borrowings	188,540,073	250,000,000	(61,459,927)	(24.58)
19,000,000	0	19,000,000	0.00	Fed Funds Purchased	2,087,912	0	2,087,912	0.00
15,425,824	15,000,000	425,824	2.84	Sweep Repo Accounts	18,428,319	15,000,000	3,428,320	22.86
115,000,000	115,000,000	0	0.00	Repo-Banks	115,000,000	115,000,000	0	0.00
341,855,824	380,000,000	(38,144,176)	(10.04)	Total Other Interest Bearing Liab	324,056,305	380,000,000	(55,943,695)	(14.72)
				OTHER LIABILITIES				
635,920	774,197	(138,277)	(17.86)	Acceptances Outstanding	606,340	774,197	(167,857)	(21.68)
1,843,267	2,561,654	(718,387)	(28.04)	Accrued Interest Payable	1,815,560	2,541,607	(726,048)	(28.57)
5,658,918	6,430,977	(772,059)	(12.01)	Accounts Payable and Accrued Expenses	5,252,366	6,430,977	(1,178,611)	(18.33)
28,449,589	24,877,720	3,571,869	14.36	Other Misc Liabilities	20,967,150	24,879,941	(3,912,790)	(15.73)
36,587,693	34,644,547	1,943,146	5.61	Total Other Liabilities	28,641,417	34,626,722	(5,985,305)	(17.29)
2,061,953,620	2,231,390,225	(169,436,605)	(7.59)	Total Liabilities	2,032,848,048	2,140,703,316	(107,855,268)	(5.04)
				EQUITY				
431,937,606	394,274,241	37,663,366	9.55	Equity Capital	427,683,020	388,225,626	39,457,394	10.16
(5,287,313)	5,481,171	(10,768,484)	(196.46)	Other Comprehensive Income	123,836	5,481,170	(5,357,335)	(97.74)
426,650,293	399,755,412	26,894,881	6.73	Total Equity Capital	427,806,856	393,706,797	34,100,060	8.66
2,488,603,913	2,631,145,636	(142,541,724)	(5.42)	Total Liabilities and Equity	2,460,654,904	2,534,410,113	(73,755,209)	(2.91)
0	0	0	0.00	NUMBER OF EMPLOYEES (FTE)	0	0	0	0.00

TotalBank and Subsidiaries
Consolidated Balance Sheets
December 31, 2012 and 2011

(in thousands of dollars)

	2012	2011
Assets		
Cash and cash equivalents		
Cash and due from banks	$ 49,047	$ 23,070
Certificates of deposit	40,801	39,738
Federal funds sold	535	2,210
Total cash and cash equivalents	90,383	65,018
Securities held to maturity, at cost	141,579	153,530
Securities available for sale, at fair value	512,703	511,886
Loans held for sale	1,916	48,682
Loans receivable, net	1,382,707	1,230,998
Premises and equipment, net	25,118	26,077
Customers' acceptance liability	649	544
Goodwill	154,757	154,757
Other intangibles, net	3,531	7,481
FHLB stock and other investments, at cost	14,036	15,176
Deferred tax asset, net	36,559	-
Bank owned life insurance	18,912	18,458
Other real estate owned, net	6,681	6,728
Other assets	15,785	17,600
Total assets	$ 2,405,316	$ 2,256,935
Liabilities and Shareholder's Equity		
Deposits		
Demand deposits		
Interest-bearing	$ 472,501	$ 411,732
Noninterest-bearing	529,149	418,035
Total demand deposits	1,001,650	829,767
Saving deposits	43,428	37,425
Time deposits		
$100 and over	403,852	449,283
Under $100	124,778	153,767
Total time deposits	528,630	603,050
Total deposits	1,573,708	1,470,242
Securities sold to customers under agreements to repurchase	19,139	20,675
Bank repurchase agreements	140,000	140,000
FHLB advances	230,575	242,700
Acceptances outstanding	649	544
Accrued expenses and other liabilities	13,881	12,093
Deferred tax liability	-	2,858
Total liabilities	1,977,952	1,889,112
Commitments and contingencies (Note 12)		
Shareholder's equity		
Common stock, $1 par value; 2,691,000 shares issued and outstanding (5,000 authorized shares)	2,691	2,691
Capital surplus	473,446	473,446
Accumulated deficit	(54,050)	(106,584)
Accumulated other comprehensive income (loss)	5,277	(1,730)
Total shareholder's equity	427,364	367,823
Total liabilities and shareholder's equity	$ 2,405,316	$ 2,256,935

The accompanying notes are an integral part of these consolidated financial statements.