



Annual Report

Banco BPI 2011

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Report

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Leading business indicators

(Consolidated figures in M.€, except where indicated otherwise)

	2007	2008	2009	2010	2011	2011, recurring ¹
Net total assets	40 546	43 003	47 449	45 660	42 956	
Assets under management ²	17 628	13 558	16 896	18 005	13 681	
Business turnover ³	59 990	64 910	64 875	66 106	63 564	
Loans to Customers (gross) and guarantees	31 217	33 079	33 562	33 621	31 535	
Total Customer resources	28 773	31 831	31 313	32 485	32 028	
Business turnover ³ per Employee (thousands of euro)	6 419	6 834	6 875	6 963	7 049	
Loans to deposits ratio ^{4,5}	136%	112%	132%	122%	109%	
Net operating revenue	1 215.5	1 181.8	1 164.8	1 098.8	1 020.1	998.7
Net operating revenue per Employee (thousands of euro)	138	125	124	115	110	107
Operating costs / net operating revenue ⁶	53.7%	55.8%	57.9%	61.2%	63.3%	64.4%
Net profit	355.1	150.3	175.0	184.8	(284.9)	115.9
Return on average total assets (ROA)	0.9%	0.4%	0.6%	0.6%	(0.4%)	0.5%
Return on Shareholders' equity (ROE) ⁷	24.7%	8.8%	8.8%	8.8%	(13.2%)	5.4%
Adjusted data per share (euro) ⁸						
Net profit per share	0.413	0.162	0.178	0.188	(0.290)	0.118
Dividend	0.163	0.064	0.071	-	-	
Book value	1.897	1.525	1.881	1.472	0.478	
Weighted average no. of shares (in millions) ⁸	860.3	926.6	982.6	982.1	982.4	
Loans in arrears for more than 90 days (in the balance sheet) / Customer loans	1.0%	1.2%	1.8%	1.9%	2.4%	
Credit at risk / Loans to Customers ^{5,9}	1.5%	1.7%	2.4%	2.7%	3.2%	
Net credit loss ¹⁰	0.25%	0.32%	0.50%	0.35%	0.43%	
Adjusted net credit loss ¹¹	0.23%	0.32%	0.38%	0.46%	0.43%	
Pension liabilities to Employees	2 445	2 298	2 275	2 306	836	
Cover of pension obligations ¹²	114%	99%	108%	104%	100%	
Shareholders' equity	1 635	1 498	1 847	1 447	469	
Core Tier I capital ⁵	1 389	2 083	2 041	2 267	2 321	
Core Tier I capital ratio ⁵	5.4%	8.0%	7.8%	8.7%	9.2%	
Closing price (euro) ⁸	4.683	1.591	1.927	1.259	0.481	
Stock market capitalisation at year end	4 074	1 575	1 908	1 247	476	
Dividend yield	3.2%	1.4%	4.5%	-	-	
Distribution network	865	934	946	959	917	
BPI Group staff complement (number)	9 345	9 498	9 437	9 494	9 018	

1) Results, earnings and efficiency indicators excluding non-recurring impacts occurring in the year.

Table 1

2011 net profit was penalised by non-recurring factors which generated a negative overall impact of 401 M.€ after taxation, primarily due to the partial transfer of pension liabilities to the Social Security system (-71 M.€) and to the recognition of impairment losses arising from the exposure to Greek sovereign debt (-420 M.€), which were partially offset by gains from the repurchase of own debt (81 M.€) and those associated with the contribution in kind of 11% of Viacer (60 M.€) to the pension fund.

2) Figures not corrected for double counting (investments of financial products in other financial products). Includes unit trust funds, retirement-savings plans (PPR's) and equity savings plans (PPA's), capitalisation insurance, limited-risk / capital-guaranteed bonds, Private Banking and institutional Clients' assets under discretionary management and advisory mandate and assets of pension funds under management (including the BPI Group's Employees' pension funds).

3) Customer loans, guarantees and total Customer resources (balance sheet resources, unit trust funds, PPR's and PPA's).

4) Deposits as a percentage of net loans.

5) Calculated in accordance with Bank of Portugal Instruction 23 / 2011.

6) Personnel costs (excluding early-retirement costs), outside supplies and services and depreciation and amortisation as a percentage of net operating revenue.

7) In calculating ROE, revaluation reserves are excluded from shareholders' equity.

8) Figures adjusted for capital increases through cash injection in June 2008 and by way of the incorporation of reserves in May 2011.

9) Credit at risk includes loans in arrears for more than 90 days, associated loans falling due, restructured loans and insolvent situations.

10) Loan impairment charges in the year, after deducting recoveries of loans written off (income statement) / Customer loans.

11) In 2007, excludes 6.2 M.€ of impairments relating to the revaluation of fixed properties at 31 December 2006; in 2009, excludes an extraordinary charge of 33.2 M.€; in 2010, that extraordinary charge was utilised and, therefore added to impairment charges for the year.

12) In 2008 and 2011 includes contributions to the pension fund made at the beginning of the following year.

Introduction

Difficult times

The 2011 financial year was decisively marked by two events of the utmost importance on the external front: the deteriorating euro crisis compounded by the paroxysm of the Greek situation, and the request for a bailout presented by the Portuguese government. The latter translated itself into a demanding three-year financial stabilisation programme based on a memorandum of understanding signed in May with the European Commission, the European Central Bank and the International Monetary Fund.

These two events and their multiple ramifications explain in essence the 284.9 million euro net loss posted in 2011 by BPI – the first in its 30-year history. After taxation, the impairments arising from the exposure to Greek debt amounted to 420 million euro, while the impact of the transfer of a part of the Pension Fund to the social security system – imposed by the government's targets for the budget deficit and embodied in the memorandum of understanding –, amounted to 71 million euro as a consequence of the discount rate differential considered.

Excluding the extraordinary impacts, both negative and positive and which by their nature are non-recurrent, the Bank would have made a net profit of 116 million euro, a 25% decrease which compares favourably with the sector's pattern of results at national and international level, against an exceptionally hostile background. If we bear in mind this environment and take account of the most common structural indicators in the three critical domains for a financial institution – capital, risk and liquidity – we may conclude that BPI presents a comfortable situation in both absolute and relative terms:

- As concerns **Capital**, the core tier one ratio – without any additional capital increase and with the inclusion of all the extraordinary impacts, with the exception of the partial transfer of the Pension Fund – stood at 9.2% at 31 December, the highest level in the Bank's history and above the 9% objective laid down by the Bank of Portugal. Through the capitalisation plan unanimously approved by the Board of Directors and submitted to the authorities on 20 January, the Bank is in a position to guarantee, on the other hand, compliance with the capital ratios prescribed by the European Banking Authority (EBA) with effect from June 2012 and by the Bank of Portugal as from December 2012. These ratios stem from the assessment of the capital requirements of 71 European banks and which was concluded on 8 December 2011, as a consequence of a proposal by the EBA approved at the European Council session of 26 October. The review was carried out based on the valuation at current market prices ruling in September 2011, of the sovereign debt exposures, establishing with this calculation, a temporary capital immobilisation, supposedly designed to placate the markets' apprehensions about financial institutions' solvency. In the case of BPI, the need for an additional capitalisation of 1 389 million euro was thus defined to be realised by 30 June 2012, more than two thirds of it corresponding to the bank's exposure to sovereign debt. On the last date for the release of the present report, all the indispensable conditions for the actual design of the Bank's recapitalisation operation were not yet public knowledge.



Chairman of the Board of Directors

Artur Santos Silva

- Insofar as **Risk** is concerned, it is worth noting from the outset the joint valuation of the IMF, ECB and European Commission, published on 16 December, which scrutinised 95% of the loan portfolio and concluded that – without the need for any correction – the impairment allowances determined by BPI were adequate; the credit risk ratio and the credit risk cost were situated respectively at the end of 2011, at 3.2% and 0.43%, amongst the lowest figures for Iberian banks. Still in this regard, it is worth underlining that the credit risk indicator is significantly lower than that of the principal national competitors and that the credit risk cost – below that for the preceding year – bears testimony to the portfolio's considerable adaptability, which includes for example a total of 140 thousand home-loan Customers with an average debt of 85 thousand euro and a loan-to-value ratio of less than 50%. From a relative perspective, the comparison with the major national competitors permits ascertaining four important facts in BPI's favour: the level of recognised impairments' cover is clearly higher; the exposure to the real-estate and construction sector is far lower; loans guaranteed by securities is marginal and, finally, the percentage of Customers with non-performing loans is around half that for the national banking system.
- Turning to **Liquidity**, deposits registered 7% growth in 2011 and balance sheet resources remained stable at a level of close to 30 billion euro, whereas the loan portfolio decreased by 6%; this trend translated into a loans / deposits ratio of 109% at the end of the year, considerably below the 120% limit prescribed for Portuguese banks for 2014 in terms of the external assistance agreement; in turn, BPI's net recourse to the ECB on the same date was situated at 1.8 thousand million euro, the system's lowest volume in relative terms and also below the limit permitted for Portuguese banks in 2014. In this domain, it is also important to recall that BPI continues to be the only national bank not to resort to the State's guarantee for the issue of bonds, while the funding needs for its medium / long term debt which matures up till 2016 only amount to 900 million euro.

The Bank's sound structural position as reflected in the principal indicators relating to capital, risk and liquidity is reinforced by a progressive adjustment of its domestic cost base, which suffered a 17% decrease in real terms in the period 2007-2011 and by a successful defence of its commercial competitiveness, borne out from the outset in the annual signing up of 150 thousand new Customers over the past three years via a commercial network with a size close to that of the biggest banks in the market. BPI doubled its natural share of 10% in the SME segment while exceeding it by a wide margin in the Private Banking and Asset Management areas; it is leader in equities brokerage, namely in on-line broking services; it has a strong brand underpinned by the best quality, satisfaction and reputation indicators, and has a stable and first class shareholder structure. It has built up over the last ten years a major international presence based primarily in Angola and Mozambique, which contributed 90 million euro to 2011 consolidated earnings. In Angola, BFA, which is the leader in deposits and electronic banking, should soon reach the goal of one million Customers, with a ROE of 29% and a 37% efficiency ratio; in Mozambique, BCI, in which BPI has a 30% shareholding, is that market's second-ranked bank, with market shares of 28% and 32% respectively for deposits and loans.

It is based on this set of strong points that will underpin in the immediate future BPI's ability to respond to the difficult times ahead. The uncertainty surrounding Europe's political and institutional situation, the major effort imposed by an artificial capitalisation, the markets' abnormal functioning, the slower growth in the countries which are the main destinations for our exports and, above all, the depth of the recession in Portugal – the inevitable outcome of the unavoidable demanding and time-restricted adjustment programme –, are factors that will undoubtedly aggravate the operating conditions for banking activity on the domestic front, with unequivocal effects on business volume, risk levels and net interest income, which fell significantly already in 2011. One cannot say that these are unexpected consequences and nobody can foresee now when a “new normality” is beginning to establish itself – an expression which does not presuppose a simple return to the past, but rather a far-reaching transformation of the organisation and size of companies, of the configuration of sectors and of the functioning of the markets. Portugal's relative social calm, the authorities' determined commitment to comply with the stabilisation programme, the strong contraction in public and private consumption, the flexibility demonstrated by the manufacturing sector and, consequently, the external deficit's surprisingly rapid adjustment, are signs of an ability to adapt that clearly justifies perseverance with the objectives and confidence in the results.



Board of Directors' Executive Committee

António Farinha Morais, Manuel Ferreira da Silva, Fernando Ulrich (Chairman), Pedro Barreto, Maria Celeste Hagatong, António Domingues (Deputy-Chairman), José Pena do Amaral

Financial structure and business

The BPI Group – headed by Banco BPI – is a financial and multi-specialist group, focusing on the banking business, with a comprehensive spectrum of financial services and products for corporates, institutional and individual Customers.

The Group's operations are mainly conducted in Portugal, a developed and competitive market where BPI has a strong competitive position – the third by turnover amongst the privately held banks –, and in Angola, an emerging economy which has recorded robust and sustained growth in recent years, where BPI, through its equity interest in BFA, is market leader.

At the end of 2011, 80.6% of the Group's Shareholders' equity was allocated to domestic operations¹, and the remaining 19.4% to international activity.

Leading indicators by business segment

At 31 December 2011

Amounts in M.€

	Domestic activity	International activity	Consolidated
Net total assets ²	37 483	5 473	42 956
Loans to Customers ³ and guarantees	30 297	1 238	31 535
Total Customers resources	27 273	4 756	32 028
Business turnover ⁴	57 570	5 994	63 564
No. of Customers (thousand)	1 638	910	2 548
No. of Employees	6 846	2 172	9 018
Distribution network (no.)	759	158	917

Table 2

Main units of the BPI Group

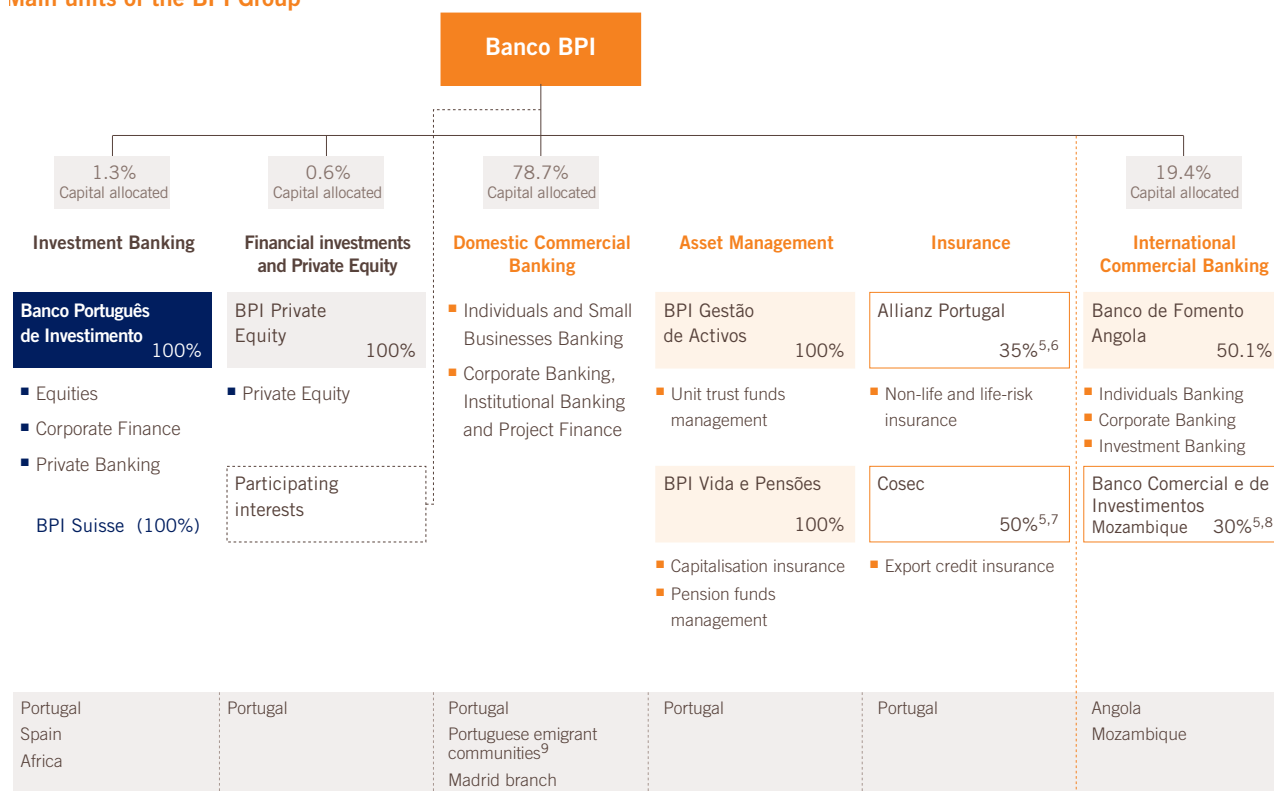


Figure 1

Note: The percentages indicated refer to the participations (direct and indirect) of Banco BPI in each company. In determining the capital allocated to the domestic activity and to the international activity business areas, the accounting capital (shareholders' equity), excluding revaluation reserves, was taken into consideration. As regard each business area integrating the domestic operations, it is assumed that the capital employed is identical to the average capital employed for this activity as a whole, except as regards the revaluation reserves which were excluded from the capital allocated.

1) BPI Group adopted the geographical segmentation as the main basis for the segmentation of its activities, having defined two segments: domestic activity and international activity.

2) The total assets figure presented for each geographic segment is corrected for the balances resulting from operations between these segments.

3) Gross loans.

4) Loans, guarantees and total Customer resources.

5) Equity-accounted subsidiaries.

6) In association with Allianz, which holds 65% of the capital.

7) In association with Euler Hermes, a company of Allianz Group.

8) In partnership with Caixa Geral de Depósitos (51%) and a group of Mozambican investors, which together, hold 19% of the share capital.

9) The BPI Group has overseas branches and representative offices in overseas cities with large communities of Portuguese emigrants.

Domestic operations

Domestic operations correspond to commercial banking business in Portugal, the provision overseas of banking services to non-residents – notably to communities of Portuguese emigrants and the services provided at the Madrid branch –, and to investment banking services, private equity, asset management and insurance.

Domestic commercial banking operations is carried on by **Banco BPI**, the fourth biggest financial institution operating in Portugal (3rd among private banks), in terms of business volume, serving more than 1.6 million Customers holding market shares of close to 10% in loans and resources.

Individuals and Small Businesses Banking serves individual Customers and small businesses with turnovers of up to 5 M.€.

Corporate, Project Finance and Institutional Banking serves companies with a turnover of more than 2 M.€, operating in competition with Individuals and Small Businesses Banking in the segment up to 5 M.€. Also includes the provision of project finance services and the relationship with Public Sector, State-owned Companies, Municipalities and the State Business Sector, Foundations and Associations.

BPI also makes available a broad range of life and non-life insurance by means of an insurance distribution agreement with Allianz Portugal, which is 35% held by the BPI Group within the scope of the strategic partnership with the Allianz Group.

Investment banking business is conducted by **Banco Português de Investimento** and is structured into four main areas: Equities, Corporate Finance – these within the geographic confines of the Iberian Peninsula and includes dedicated teams in Africa, particularly Angola and Mozambique –, Private Equity and Private Banking. BPI is a member of the Lisbon and Paris Euronext stock exchanges, the Madrid Stock Exchange and the Johannesburg Stock Exchange.

BPI's **asset management** – unit trust funds, life-capitalisation insurance and pension funds – is carried on by dedicated subsidiaries controlled 100%, with the products being placed with Customers through Banco BPI's distribution network and Banco Português de Investimento.

At the end of 2011, BPI Gestão de Activos was the third biggest fund manager in Portugal, with a market share of 16.6%, BPI Vida e Pensões was the third largest pension fund manager with a market share close to 13% and had an 8.9% market share in the segment of capitalisation and PPR products in the form of insurance.

Private equity invests essentially through venture capital funds, of which we highlight the venture capital funds promoted by the BPI Group and currently managed by a 49%-held associated company – Inter-Risco.

International operations

International operations encompass the business conducted by **Banco de Fomento in Angola (BFA)** – 50.1% held by BPI in partnership with Unitel, owner of the remaining 49.9% of the capital –, as well as the appropriation of the results attributable to the 30% interest held in **Banco Comercial e de Investimentos (BCI)**, in Mozambique.

BFA is a retail bank and has an ample base of deposits and reduced transformation of deposits in loans. BFA holds leadership positions in Angola, with market shares of close to 18% and 11% in deposits and loans, respectively, of 18% in the distribution network and 30% in cards and payment terminals.

BFA has a structured and differentiated spectrum of products and services for individuals and companies, complemented in this case by the availability of project finance, corporate finance and private equity services.

At the end of 2011, BFA served 910 thousand Customers, through a distribution network with a strong presence in Luanda and wide coverage throughout of the whole territory, comprising 136 branches, 8 investment centres and 14 corporate centres. The physical network is complemented by homebanking services – BFA Net Particulares and BFA Net Empresas.

BCI is a retail bank predominantly focused in collecting resources and granting loans, in which activities the bank has market shares of 28% and 32%, respectively. BCI serves 409 thousand Clients via a branch network of 120 units, 291 ATM and 2 460 POS.

The BPI Brand

In 2011, BPI reaffirmed its leadership in the most diverse areas of financial activity, in domains such as Customer Trust and Satisfaction, Asset Management, Brokerage and Research, and presented the best level of market efficiency as regards advertising spending for the fifth consecutive year.

The Bank continued to centre its investment and communication policy on Customer proximity and on the quality of the service provided, and confirmed its action in the social responsibility programmes, to the detriment of advertising expenditure via the high visibility channels.

Reputation and recognition

BPI's performance continued to merit public recognition in the various areas of financial activity according to the assessment of different independent national and international entities. Amongst other honours attributed to the Bank, the following merit special attention:

■ Best National Management Company Equities

BPI Gestão de Activos elected for the third year in the eighth edition of the Morningstar-Diário Económico awards for the best unit trust funds.

■ Best National Fund Global Equities

BPI Reestruturações distinguished for the fifth time in the Morningstar-Diário Económico awards.

■ Best Fund Open-end Pensions

BPI Valorização distinguished for the third year with the Country Award, by the magazine *IPE, Investment & Pensions Europe*.



Best Asset Management Company (Equities)



Best Pension Fund in Portugal



Leadership in the Iberian securities brokerage

■ Iberian Peninsula's Best Sales Team

In the categories *Equity Sales* and *Small & Mid Caps Sales*, according to Thomson Reuters, in the *Extel Surveys* to the principal international fund managers. Members of BPI's research team were also nominated individually. BPI was also voted the second *Leading Brokerage Firm* and achieved fourth position in the *Country Analysis*.

■ Top Iberian Peninsula Broker

According to *Thomson Reuters Starmine*.

■ Iberian Peninsula's 2nd Best Research Team

In the *2011 Institutional Investors All-Europe*, edition, one of the sector's most prestigious prizes.

■ Best Research House in Portugal

For the sixth time in nine editions, in the *Investor Relations & Governance Awards 2011*, organised by Deloitte and the Diário Económico.

■ Best Financial System Report and Accounts

For the thirteenth time out of the last 24 years, according to the *Investor Relations & Governance Awards 2011*.

■ Most active Investment House

Distinction attributed in the 1st edition of *NYSE Euronext Lisbon Awards* in the categories *Most active investment house in Bond Dealing*, in *Research* and *most active Equities Fund*, *BPI Alternative Fund Iberian Equities Long Short*.

Satisfaction and trust

In the 2011 edition of the Reader's Digest Selections' Trusted Brands survey, BPI was voted the most trusted private bank amongst private institutions, occupying for the third consecutive year 2nd place in the ranking of the most trusted banking brands.

According to the ECSI Portugal – National Index of Customer Satisfaction, BPI occupies first place in 2011 amongst the banks surveyed individually in the Satisfaction index ranking.

The Financial System's Base Survey (Estudo de Base do Sistema Financeiro – BASEF) published by Marktest, once again ranks BPI with the highest satisfaction index amongst the Portuguese financial system's five largest banks with respect to satisfaction indicators relating to attendance and total satisfaction, a leading position that it has always occupied.

The same survey reveals that BPI occupies the first four positions in the ranking in 47% of the image and satisfaction indicators. It is important to recall that the BASEF is compiled based on market perceptions, influenced by direct experience and by the volume of advertising expenditure.

The results presented become even more significant when we take into account that BPI's advertising expenditure in 2011 represented a mere 2% of the total advertising spending of the five largest Portuguese banks, and the fact that BPI continued to abstain from advertising via the higher visibility vehicles – television and outdoor – in the last 4 years.

Investment and communication

The financial sector registered a 13% decline in advertising investment in the past year, occupying eighth position in the universe of all sectors of activity.

In the financial sector's total expenditure ranking, BPI maintained 12th place with a share of 1% and a 21% decrease relative to the preceding year.

For the fifth consecutive year, BPI achieved the best efficiency ratio for the financial sector's investment, needing to invest less than half that spent by the second-placed bank for each unit of advertising recollection.

In the communication policy domain, the Bank continued to give priority to the quality of the service rendered and the close relationship with Customers, and confirmed its work in the social responsibility arena.

In this regard, the following merit highlighting:

- the commemoration of 20 years in the management of retirement-savings plans through the launch of a campaign intended to remind people of the importance of starting early to plan for retirement. An itinerant retirement week was realised with the object of making local populations aware of the importance of saving for retirement. In this regard, great emphasis was placed on boosting commercial activity through intensive training initiatives at the branch network and promotional action at a local level.



Há 20 anos a planear a reforma.

■ Mais de 300 mil Clientes investem em PPR BPI

Faça a sua simulação em bancobpi.pt ou num Balcão ou Centro de Investimentos BPI.



Planning for retirement

- reinforcement of campaigns dedicated to savings solutions, which seek to alert Customers to the growing importance of regular saving, in accordance with each one's financial means.
- the BPI África campaign, whose goal was to disseminate the national fund with the highest return in 2010, presenting at the same time the African market as an alternative for a diversified portfolio.
- the focus on the sale of insurance through the holding of campaigns directed at individual and corporate Customers. These campaigns were also accompanied during the course of 2011 by training and incentivising sessions at the commercial network.
- BPI also launched the “Export with us” campaigns via which it presented a range of products and services dedicated to international trade, with special emphasis on credit solutions and the specialist support of BPI's international network, commercial risk insurance and specific solutions for strategic markets.

- for the 4th year running, BPI is leader in the support afforded to some 5 thousand Small and Medium-sized Enterprises which attained the status of PME Líder and no. 1 Bank of PME Excelência companies.



BPI – The Bank of the SMEs

- the second edition of the BPI Capacitar and BPI Inovação projects and the renewal of the support for some of the most important Portuguese cultural institutions, to be described in greater detail in a separate chapter of this report.
- the dynamic review of sponsorships, including the creation of a mobile agency at the National Agricultural Fair which enabled the 157 thousand visitors to this fair to carry out the majority of banking operations.



BPI Savings Plans – Piece by piece (advertising campaign)



BPI África – Best Investment Fund of the year (advertising campaign)



Export with us (advertising campaign)



Allianz Health Insurance – Takes care of each and every one (advertising campaign)

Social responsibility

BPI interprets its corporate responsibility as being the set of duties and obligations the Institution is bound by towards the community of which it forms a part and to the specific interest groups that depend on its activity: Customers, shareholders, Employees and investors, represented in the capital market where the shares are subjected to permanent scrutiny.

From this perspective, the exercise of corporate social responsibility assumes multiple dimensions of quite contrasting natures which from the outset entail compliance with the Law and applicable regulations, the observance of specific conduct rules, the corporate governance policy and its execution, the relationship with Investors, the promotion of quality service and the policy of human resources advancement, as well as the support for initiatives within society in fields such as health, solidarity, education, research, the environment and culture. As has become customary, BPI's Annual Report deals with each one of these topics under specific chapters, duly highlighted in the text, while presenting in this chapter an overview of the Bank's involvement in each one of the major themes in which the exercise of BPI's social responsibility is referred to.

GOVERNANCE POLICY

Since its inception BPI has pursued a set of practices and guiding principles, the application of which ensures a diligent, effective and balanced management of the interests of all its Shareholders and other stakeholders.

Some of the structural pillars of BPI's governance policy are the creation of value as management's overriding objective, the adoption of best market practices in terms of communication and the dissemination of information, the independence of executive management *vis-à-vis* any Shareholder or specific interest groups, and the commitment to stringent standards of ethical and professional conduct. These aspects are described in greater detail in a specific annual report which BPI has published since 2000, when such practice was not yet mandatory for quoted companies in Portugal.

The bank has implemented – in the majority of cases ahead of time –, the corporate governance recommendations emanating from the CMVM (Portuguese securities market commission), while also keeping abreast of the pronouncements and publications on this matter of the European Commission, the OECD and other

national and international bodies.

INVESTOR RELATIONS

BPI attributes great importance to keeping a frank and transparent relationship with Shareholders, investors, financial analysts, the authorities and other capital market players.

Consequently and long before it was already common practice amongst companies listed on the stock exchange, BPI created in 1993 a structure dedicated exclusively to this end – the Investor Relations Division which reports directly to the Executive Committee of the Board of Directors and to the Chairman of the Board of Directors.

The dissemination of accurate, timely, regular, clear and unbiased information that is relevant for assessing its shares listed on the stock market constitutes one of BPI's primary concerns.

Detailed information about investor relations' activity during 2011 is provided in the BPI Group's Corporate Governance Report.

SERVICE QUALITY

The quality of service represents one of BPI's main strategic priorities and one of the brand's most distinctive attributes.

During the course of 2011, BPI was focused on the consolidation of service quality, which had a positive reflection on the satisfaction manifested by Customers. Continuity was given to a policy centred on three key pillars: Market (through the assessment of the competition), Customers (by analysing their opinions), and the Bank itself (through commercial network Employees' opinion regarding central services).

As regards the Market's assessment, the following fundamental indicators are utilised:

- National Customer Satisfaction Index (ECSI), an independent survey promoted annually by entities specialising in Quality.
- BASEF Banca, a regular market poll conducted by Marktest which gathers information about consumer behavioural patterns, attitudes and opinions relating to financial services directed at Individuals.

- Mystery Customer survey, also independent, which analyses banks operating in the domestic market.
- Bank of Portugal's Annual Report on Behavioural Supervision, with special focus on Customer complaint indicators.

The Customer aspect is studied through three main indicators: the Bank's Service Quality Index (IQS Banco), annual, the Branch Service Quality (IQS Balcão), quarterly, and the scrutiny of complaints.

The in-house evaluation of the Bank's own central services is undertaken by means of another Quality index – the Central Units IQS – which half-yearly evaluates the satisfaction of commercial network Employees with the Bank's chief service areas.

The following are the most noteworthy results in 2011:

- In the ECSI survey, BPI secured 1st place in the Satisfaction Index amongst the Banks surveyed individually.
- The BASEF Banca survey published by Marktest once again places BPI with the highest satisfaction rate amongst the Portuguese financial system's five largest banks as regards the "Satisfaction with attendance" and "Overall Satisfaction" indicators, a leading position which it has always occupied.
- As regards the "Mystery Customer" survey, the results obtained confirm the soundness of the attendance methodologies at BPI branches, maintaining the upward trend in overall results. The themes Physical Aspects and Teller Attendance consistently show superior results. The Commercial Attendance aspect recorded a rise throughout this year.
- The Bank's Service Quality Index (IQS Banco), which measures Customer satisfaction with the Bank as an organisation, moved up from 798 points in 2010 to 805 points in 2011, on a scale with a maximum of 1 000. It is worth highlighting the fact that the result obtained in 2011 is the highest since 2004.
- The high level of Customer satisfaction with attendance at BPI's branches translated into the IQS Balcão good results during 2011, which climbed to its historical high in 2011.

The quality of service is a factor bolstering the levels of Customer confidence. In this respect, it is worth underlining the results obtained in the 2011 edition of the Reader's Digest Selections Trusted Brands survey, in which BPI was voted the most trusted private bank amongst private institutions, occupying for the third consecutive year 2nd place amongst the most trusted banking brands.

ADVANCEMENT OF HUMAN RESOURCES

The development of Employees' competencies is a fundamental factor in the pursuance of the goal of enhancing the quality of the service provided to Customers. To this end, between the 2nd half of 2010 and June 2011 a programme of behavioural training was conducted in the e-Learning, on-the-job and personal attendance formats which had as the main objectives the fostering and consolidation of commercial pro-activeness, the training in and sharing of the best commercial practices, and the improvement in management and leadership skills.

This training project encompassed all the commercial network Employees, including sectional heads, in a universe of some 3 200 persons (415 sessions and 9 919 training hours).

PATRONAGE

In the domain of its social responsibility policy, BPI continued to support in 2011 a number of major projects and initiatives promoted by prestigious institutions, despite that the turbulent climate that characterised the year under review.

BFA – Banco de Fomento Angola, in which BPI has a 50.1% equity interest, continued to support major activities through its social fund. At the end of 2011 the social fund was worth 19.2 million dollars.

In Mozambique, Banco Comercial e de Investimento, BCI, in which BPI has a 30% equity interest, continued its support for a number of initiatives in the social solidarity, educational and cultural fields.

Social solidarity

In the social solidarity domain, the main highlight was the second edition of the BPI Capacitar Prize, with the awarding of prizes totalling 500 699 euro to eleven non-profit private institutions. The BPI Capacitar Prize is one of the most important private contributions lending support to social integration projects in Portugal and has as its mission the promotion of improving the quality of life of persons suffering from disabilities or permanent handicaps.



BPI Prize – Projects for the handicapped

As part of the Christmas Campaign which BPI has conducted for eight years now, total donations of 150 thousand euro were made to 16 institutions dedicated to supporting underprivileged children or those with special needs.

In this context, of note was the initiative “Solidarity Christmas Trees” carried out at a number of the Bank’s premises in favour of children from CADIn, Casa das Cores, Raríssimas and No Meio do Nada. The Christmas trees were decorated with stars, on the reverse side of which was written the present that the children from these institutions wanted for Christmas, which gifts were offered by Customers and Employees.



Save and help (advertising campaign)

Also noteworthy was the renewal of support for the human rights body Fundação de Direitos Humanos Pró-Dignidade; AMI – Assistência Médica em Portugal (medical care) and BUS – Bens de Utilidade Social (social utility goods).

In Angola, the following initiatives merited BFA’s support:

- Graça Suburb Project in Benguela, promoted by Leigos

para o Desenvolvimento, aimed at mobilising schools, associations, medical stations, local leaders, amongst other agents, for responding to problems addressing the occupation of free time, premature pregnancy, lack of documentation of youth and adults, and to foster the formation of associations devoted to art, sport and the proximity to university.

- Comissão Episcopal da Juventude da Diocese de Luanda (youth Episcopal commission) in supporting the World Youth Gathering in Madrid (get-together of young Catholics from all over the world with the Pope).
- Projecto CISA – Centro de Investigação em Saúde em Angola (health research centre), which envisages the establishment of a health research team in Angola.
- Fundação Lwini in the rehabilitation, enlargement and re-equipping of the orthopaedic rehabilitation centre in Negage (Uíge); the equipment and facilities at the Muxico orthopaedic centre; construction and equipping of the Malanje special learning school; rehabilitation of the water-supply system to the town Vila do Ambuila (Uíge); construction of the centre in Luanda-Sul for the physically handicapped (Zuwó Lyeto) and rehabilitation of the shelter home for orphaned children;
- Associação de Amizade e Solidariedade para com a 3ª Idade (friendship and solidarity association for senior citizens) for the staging of an event for this population group.

In Mozambique, BCI continued to support Casa do Gaiato (underprivileged children); the Associação Ajuda a Crescer; the Associação da Luta contra o Cancro (anti-cancer group); the Associação de Jovens Deficientes de Moçambique (handicapped youth); the Direcção Nacional dos Serviços Sociais da PRM (national social services department) and the Cruz Vermelha de Moçambique (Red Cross).

In the health area, BCI promoted initiatives at the Machava and Mavalene hospitals located in Maputo, and the Mozambique Central Provincial hospitals.

It also lent support to the Federação Moçambicana de Futebol (football federation), Clube Ferroviário de Maputo, Clube de Desportos da Costa do Sol and the Liga Desportiva Muçulmana de Maputo (Muslim sports league).

BPICAPACITAR²⁰¹¹

Winners (donation of 100 thousand euro):

- Associação de Paralisia Cerebral de Odemira (cerebral palsy association), with the project for the creation of a residential home for 24 users;
- Centro Social e Paroquial de Ribeirão (social and parish centre), in Vila Nova de Famalicão, for the construction of a residential home, occupational activities centre and domestic-care service for the handicapped.

Honourable mentions (donation of up to 50 thousand euro):

- Associação de Amigos do Autismo, Viana do Castelo, for the establishment of a specialised centre for occupational activities for young people suffering from autism;
- Associação de Apoio à Juventude Deficiente, Porto, for the launching of a therapy programme through surfing;
- Associação Nacional de Desporto para Deficientes Visuais, Lisbon, for promoting integration by way of sport, through the organisation of sporting events for the visually impaired;
- Associação Portuguesa de Familiares e Amigos de Doentes de Alzheimer, Cascais, for extending the timetable and areas for the domestic-care service;

- Associação Portuguesa de Pais e Amigos do Cidadão Deficiente Mental, Aveiro, (support group for the mentally handicapped) for the building of a greenhouse for mentally-handicapped citizens;
- Associação Portuguesa de Pais e Amigos do Cidadão Deficiente Mental, Albergaria-a-Velha, for the installation of a staircase chair elevator at its occupational activities centre;
- Regional branch of the Cruz Vermelha Portuguesa de Arcos de Valdevez (Portuguese Red Cross), for the creation of a support office to the dependent citizen, which provides technical assistance and small alterations or improvements in order to afford users greater comfort and quality of life in their homes;
- Fundação ADFP (Professional Assistance, Development and Training), Miranda do Corvo, for the creation of a residential home giving support to the professional integration of handicapped people;
- Santa Casa da Misericórdia de Lisboa – Centro de Medicina de Reabilitação de Alcoitão (Lisbon shelter home – medicine rehabilitation centre), for the creation of a Support Products Bank for Inclusion, dedicated to the loan and / or hire of technical aid such as wheelchairs to people with no funds to acquire them.

Culture

As concerns cultural sponsorship policy, BPI continued to support in 2011 a number of key national institutions linked to the arts, such as the Museu de Serralves and the Casa da Música, of which the Bank is a founder, and the Fundação Calouste Gulbenkian, with which it associated itself for the 10th consecutive year in the cycle of the world's great orchestras.

Museu de Serralves

- Sole Patron of the Museu de Serralves, which recorded 472 thousand visits in 2011.
- Patron of the Annual Great Exhibition in 2011 entitled “Off the Wall” which boasted more than 100 thousand visitors.
- Patron “Serralves em Festa” – 40 hours of uninterrupted culture, with more than 240 cultural events and 100 thousand visitors in 2011.

Casa da Música

- Principal Patron of the Casa da Música (music hall), with 530 thousand visitors in 2011.



Exclusive Maecenas of the Serralves Art Museum – celebrating (advertising campaign)



Principal Maecenas of Casa da Música – Porto at the Sound of Music (advertising campaign)

- Patron of Sala Suggia, known as the heart of the Casa da Música, with 110 annual concerts and 80 thousand spectators.
- Sponsor of the event “Verão na Casa” (Summer at Home), a month of shows which contribute to the promotion of culture and the disclosure of the most diverse musical projects, national and international.

Fundação Calouste Gulbenkian

- Patron of the cycle of concerts of the World’s Great Orchestras with more than 12 thousand visitors in 2011.
- Patron of the exhibition ‘A perspectiva das coisas. A Natureza-morta na Europa’ (“The perspective of things – Nature dead in Europe”) with some 100 thousand visitors in 3 months.

Also worth mentioning was the renewal of the status of patron of the Museu de Arte Contemporânea de Elvas and the Fundação Museu do Douro.

Continuity was also given to the support granted to the Fundação Casa de Mateus; to Árvore – Cooperativa de Actividades Artísticas; to Armazém das Artes – Fundação Cultural; to the Festival Internacional de Curtas Metragens (short films festival) de Vila do Conde; to Bienal de Vila Nova de Cerveira; to Orfeão de Leiria, in the organisation of that city’s Music Festival; to the Instituto de História e Arte Cristãs (Christian history and art institute) and to the Igreja da Lapa (church).

In Mozambique, BCI renewed the status of sponsor of the Companhia Nacional de Canto e Dança (the national song and dance company); signed a patronage contract for a period of 3 years with the museums managed by the Universidade Eduardo Mondlane; created the BCI Literature Prize, in partnership with the Associação dos Escritores Moçambicanos (Association of Mozambique Writers); staged a number of exhibitions and promoted the launch of various works which were staged at the Bank’s Mediateca; it supported the Book Fair; the 6th edition of the documentary film festival “Dockanema” and the 3rd edition of “Mozambique Music Awards”.

Education and research

In the education and research field, BPI had current protocols with a total of 31 higher learning institutions at the end of 2011. Meriting special mention are the long-term protocols with the Instituto Superior Técnico, including the creation in 2011 of the Stem Cell and Regenerative Medicine Bio-engineering Laboratory; with the Fundação para a Ciência e Tecnologia via support for the *Lisbon MBA*; with the Universidade Nova de Lisboa – Economics Faculty; with the Universidade Católica Portuguesa; with the Fundação Escola Americana de Lisboa and with the Escola de Tecnologias Navais da Armada.

Also noteworthy was the ongoing support to *Jus Gentium Conimbrigae* and to the Direito Penal Económico e Europeu, both of the Universidade de Coimbra’s Law Faculty, as well as the cooperation with the Fundação Maria Antónia Barreiro (Colégio Montes Claros), with the Associação da Escola de Estudos Empresariais das Beiras and with the Associação Escola Superior Biotecnologia da Universidade Católica.

BPI also signed a protocol with the Fundação Cidade de Lisboa for the granting of study bursaries to students from Portuguese-speaking African countries.

In Angola, the main highlights were the collaboration with the Universidade Agostinho Neto involving support for the 1st post-graduate course in financial markets; with the Fundação Cidade de Lisboa in funding 5 annual study bursaries in the amount of 7 500 euro each, awarded since the 2010 / 2011 academic year to five university students coming preferably from Angola and with the Law Faculty of the Universidade de Lisboa in cooperation with Angolan higher education institutions: Universidade José Eduardo dos Santos Law Faculty and Universidade Mandume Ya Ndemufayo Law Faculty.

In Mozambique, BCI granted 10 bursaries to young people to study at the country’s leading universities; it awarded prizes to the best university students and promoted the offer of some school books to the National Library for distribution by the National Network of Public Libraries.

Innovation and entrepreneurship

In 2011, BPI renewed its support to the following projects in the innovation and entrepreneurship arena:

- BPI Innovation Prize.
This prize is awarded annually and is attributed for Employees' ideas which promote innovation directed at the Bank's products, services or processes.



- COTEC BPI 2011 SME Innovation Award, promoted in partnership with COTEC Portugal – Associação Empresarial para a Inovação. In 2011, the 1st prize went to Deroovo – Derivados de Ovos, S.A., while WS Energia received a special mention. Fruit of this partnership are also the training workshops for companies covering innovation management.
- Innovative Entrepreneurship Award in Portuguese diaspora. This prize has as its objective rewarding and publicising Portuguese citizens who have distinguished themselves through their entrepreneurial, innovative and responsible role in the context of their respective adopted countries.
- New Ideas Competition. This initiative, organised in partnership with the Universidade Nova de Lisboa Rectory, aims to stimulate an entrepreneurial culture amongst its students and to promote the multi-discipline and interchange of cultures, through the constitution of teams composed of students from the university's different organic units.

- INSEAD Entrepreneurship 2011 Prize, promoted by INSEAD and seeks to distinguish a company and key manager in the Portuguese economic scene, rewarding and publicising cases of successful national entrepreneurship.

- iTGROW – Software e Sistemas, ACE, an innovative project in Portugal, with BPI and Critical Software as shareholders, with special emphasis on the recruitment and training of professionals in the areas of information systems, in close collaboration with universities. At the end of 2011, iTGROW had a total headcount of 50 Employees.



ENVIRONMENT

BPI gave continuity to a number of internal and external initiatives in the area of environmental responsibility, which contributed to reducing the issue of paper and to protecting the environment. At the end of 2011, 74% of the total correspondence sent to Customers was made available in digital form.

Distribution channels



Figure 2

Distribution network selected indicators

	Banco BPI	Banco de Fomento Angola	BCI – Banco Comercial e de Investimentos ²
Traditional branches	649	136	114
Paris branch (branches)	12	–	–
Investment centres	39	8	–
Corporate centres ¹	54	14	6
Housing shops	5	–	–
Automatic bank (ATM)	1 608	298	291
Active points of sale (POS)	43 235	2 908	2 460
Commercial partners	30 626	–	–
Internet Banking (active users)	BPI Net: 642 711 BPI Net Empresas: 72 199	BFA Net Particulares: 210 901 BFA Net Empresas: 5 092	E-banking Particulares: 19 289 E-banking Empresas: 3 939
Telephone banking (active users)	BPI Directo: 364 414	–	–

Table 3

1) The corporate banking distribution network in Portugal includes 1 Project Finance centre, 6 institutional centres and the Madrid branch.

2) 30% shareholding.

Human resources

Staff headcount

At 31 December 2011, the BPI Group's workforce numbered 9 018.

In domestic operations, the staff headcount fell by 8.2% (-610), in part as a consequence of the programme of early retirements.

In international operations, in Angola, the workforce grew by 134, which represents a 6.6% increase. At the end of 2011, Banco de Fomento Angola's headcount stood at 2 172 Employees, of which 23 is BPI staff seconded to Angola.

BPI Group Employees

		Year-end figures			Year-average figures		
		2010	2011	Δ%	2010	2011	Δ%
Domestic activity							
Activity in Portugal ¹							
Banco BPI	1	7 000	6 424	(8.2%)	7 190	6 775	(5.8%)
Banco Português de Investimento	2	165	148	(10.3%)	163	163	0.0%
Other subsidiary companies	3	79	69	(12.7%)	83	72	(13.3%)
[= Σ 1 to 3]	4	7 244	6 641	(8.3%)	7 436	7 010	(5.7%)
Overseas branches and representative offices	5	212	205	(3.3%)	213	205	(3.8%)
Domestic activity	[= 4 + 5] 6	7 456	6 846	(8.2%)	7 649	7 215	(5.7%)
International activity							
Banco de Fomento Angola	7	2 038	2 172	6.6%	1 910	2 077	8.7%
International activity	[= 7] 8	2 038	2 172	6.6%	1 910	2 077	8.7%
Total ¹	[= 6 + 8] 9	9 494	9 018	(5.0%)	9 559	9 292	(2.8%)

Table 4

BPI Group staff complement

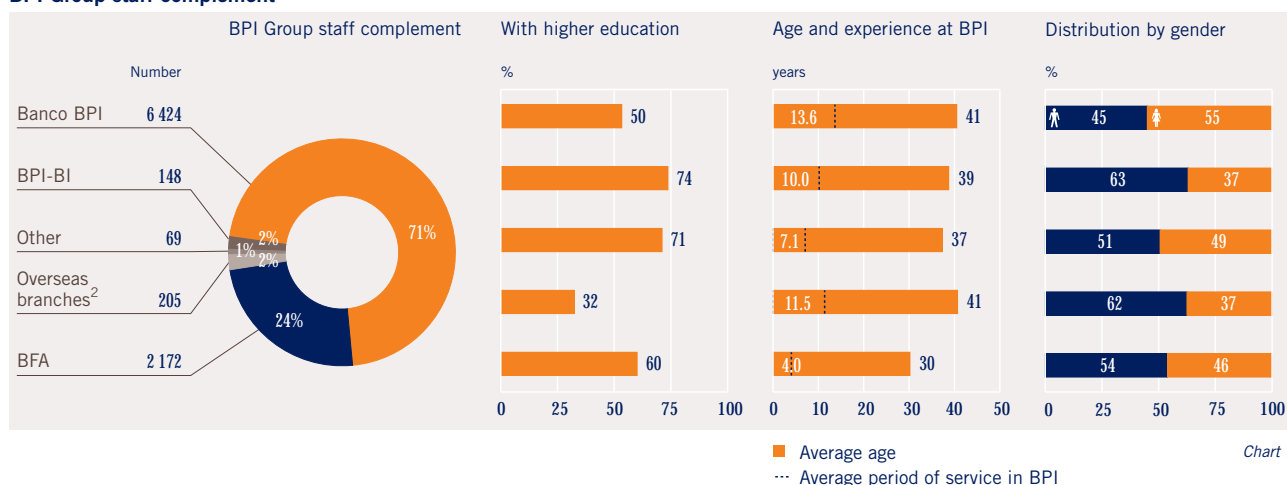


Chart 1

1) Includes fixed-term contracts and temporary employment of persons with no binding work contracts with BPI.

At 31 December 2010 and 2011, the number of Employees with fixed-term contracts stood at 358 and 76, respectively, while for the same years, the numbers relating to overseas operations were 22 and 17 respectively. In turn, the number of Employees working on a temporary basis in Portugal was 158 in December 2010 and 186 in December 2011, while overseas there was only one Employee working under this regime in 2011.

In average terms, in the period 2010 and 2011, the number of Employees with fixed-term contracts in Portugal was situated at 442 and 207 respectively, while the corresponding figures for overseas operations were 20 and 19 respectively. In turn, the number of Employees working on a temporary basis in Portugal was 181 in December 2010 and 164 in December 2011, while overseas there was only one Employee working under this regime in 2011.

Temporary employment costs are recorded in the books under the caption Outside supplies and services.

2) Overseas branches and representative offices.

Background to operations

PORTUGAL – ECONOMY AND MARKETS

GLOBAL AND EUROPEAN ECONOMIES

After the brisk pace of expansion observed in 2010 (5.2%, according to International Monetary Fund estimates), the global economy decelerated in 2011, with the most recent estimates pointing to growth slowing down to 3.8%. Source: IMF, WEO January 2012.

The cooling of the world economy is essentially explained by the slowdown in economic activity in the developed economies from 3.2% in 2010 to 1.6% in 2011 during the intensification of the uncertainty associated with the worsening of the public debt crisis, with special incidence in the euro area.

European Union difficulties

The difficulties of financing the European economies characterised by high public and external deficits forced them to formally request external financial assistance – by way of loans from official organisation – to overcome the escalating unavailability of funds for the private sector. On the heels of the requests from Greece and Ireland in 2010, Portugal joined them in 2011.

During the course of the year and to the extent that the sovereign-debt crisis affected more countries, – after contagion to Portugal, Spain, Italy and France successively felt the narrowing of their wholesale debt markets and a widening of the respective public-debt interest rate differentials *vis-à-vis* corresponding German securities–, the liquidity difficulties experienced by the states filtered through to their financial systems. These witnessed the traditional forms of funding progressively disappear, in large measure due to fears of exposures to their states' public debt.

This movement intensified with the succession of announcements of the credit rating downgrades of European states and banks by the leading rating agencies, and the decision of the European Banking Authority (EBA) highlighting the need to set aside impairment allowances and the reinforcement of capital requirements for European public debt, revoking its status of risk-free asset, which in fact had already been jeopardised with the announcement of the private sector's involvement in the pardoning of Greek debt.

In the wake of events, contagion relations between states and banks narrowed, propelling the reduction of public-debt exposure on the part of financial institutions

which in turn almost made the funding of the states most affected by the crisis impossible in a vicious cycle.

Intervention of the European authorities

The European authorities progressively augmented the support mechanisms or institutional instruments for the states experiencing the greatest difficulties throughout 2011. Hence, amongst other measures, the size and intervention capability of the European Financial Stability Fund was boosted; a permanent financial assistance mechanism for the states was instituted– the European Stability Mechanism, which comes into effect in July 2012, a year ahead of that initially projected; stepped-up budgetary integration and scrutiny of the public accounts amongst peers; steps were taken towards the pardoning of a member state's debt – Greece – on the part of the private sector; it was agreed to establish an inter-governmental treaty designed to cement fiscal integration, imposing constitutional limits to public debt and public deficit.

Despite the aforementioned reinforcement of the support mechanisms or institutional instruments to deal with their inadequacy to rescue states such as Italy given the size of its public debt, as well as some ambivalence of the European authorities concerning the future model for the single currency, investor distrust regarding the euro zone's future continues to prevail.

European Central Bank intervention

The European Central Bank's action contributed decisively to the improvement in market conditions, mitigating against more negative developments, expanding its programme of public debt purchases at the height of the crisis, above all that of Italy and Spain, ensuring the stabilisation of these states' funding. More recently, whilst the European authorities reinforced their commitment to the survival of the European project, the member states reiterated their undertaking to correct budgetary imbalances while the ECB indicated its willingness to provide ample funds to European banks with longer maturities (three years). In this manner, it was possible to stabilise the European public debt market, averting the rise in credit risk premiums for those countries most ravaged by the instability in the funding base, at the same time reducing the uncertainty regarding the origins of European banks' funding in light of their heavy debt repayment schedule in 2012.

PORTUGUESE ECONOMY

GDP, employment and inflation

In 2011, in a more adverse global environment than initially forecast, Portugal was under intense scrutiny given the request for financial assistance from international organisations (European Commission, European Central Bank; International Monetary Fund). The agreement concluded in May involves funds of 78 thousand million euro and extends until 2014. In exchange, this official loan not only obliges the Portuguese State's undertaking to comply with the budgetary consolidation targets, but also observance of the rigorous calendar of structural reforms in a number of domains, with the overriding objective of raising competitiveness and growth potential. In addition to the structural measures directed at conferring sustainability to the budget consolidation process, other key aspects are reforms to the labour market and local and regional administration, the restructuring of the state business sector, the justice system, increased competition in closed services sectors, the liberalisation of the electricity market and the creation of alternative energy solutions, amongst others. Its ultimate (overarching) goal is to ensure that the Portuguese economy makes progress on the competitive front through the decrease in production costs, in particular those which are energy related, and improving the profitability of manufacturing structures with a view to boosting GDP growth, incentivising reproductive investment and strengthening the financing sector.

The successive external assessments of the attainment of the programmed targets confirm their strict compliance by the Portuguese authorities. As regards the budget balance, the official estimate for 2011 points to 4% of GDP, outpacing the 5.9% target agreed to with the Troika of international organisms. However, excluding non-recurrent measures (e.g. the transfer of banking sector pension funds to the Social Security's general regime), the budget balance would have been situated at 7.5% of GDP: a decrease of 2.3 percentage points when compared with 2010 (9.8% of GDP). This result is justified by the strong brake applied to spending (including average salary cuts in the civil service of 5%) and additional tax revenues (hike in the VAT rates applied to gas and electricity prices and by imposition of an IRS (personal income tax) surcharge levied on a portion of the Christmas subsidy), realised above all in the second half of the year. Besides meeting the prescribed budgetary targets, the government has progressed in the adoption of the structural reforms, benefiting from the considerable degree of acceptance by the population, a manifestation of strong social cohesion in light of the pronounced deterioration of the labour market. One cannot disregard the significant increase in unemployment which was situated at 12.7% in annual average terms in 2011 (14% in the fourth quarter of the year).

GDP growth

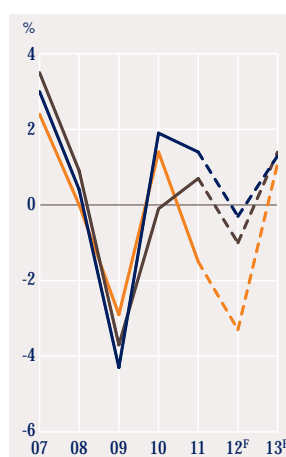


Chart 2

— Portugal
— Spain
— EMU

Source: European Commission,
2012 – Interim forecasts, Feb. 12;
2013 – Autumn forecasts.

Current and capital balance as % of GDP

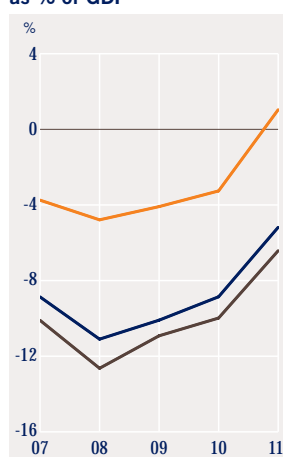


Chart 3

— Goods and services balance (excluding energy)
— Current account balance
— Current and capital balance

Source: Bank of Portugal.

Understandably, the Portuguese economy's performance in 2011 felt the contractive nature of the budgetary policy and the gradually more adverse external environment. Estimates point to a retreat in economic activity of 1.5% in 2011, following the 1.4% expansion in 2010. The chief negative contributions had their origin in the behaviour of households' consumption (-6%, expected annual rate of change), investment (-12.8%) and public spending (-2.9%), while the external sector's net contribution should partially offset the drop in domestic demand. Indeed, exports grew in a sustained manner throughout the year, by around 15% in nominal terms, or roughly 7.3% in real terms, while imports contracted by 4.3%. The performance of net exports reflects the swiftness of the national economy's private sector adjustment, manifesting itself in a strong contraction in the Portuguese economy's external funding needs (5.2% of GDP in 2011 which compares with 8.9% in 2010). The flexibility of companies' and individuals' correction has been a common feature of all the economic adjustment programmes that Portugal has been subjected to. The private sector's deleveraging process

reveals progress *vis-à-vis* the public sector, at the same time as there has been an inflow of residents' capital from abroad.

Deposits

Deposits of the resident non-financial private sector (individuals and companies) grew by about 5% in 2011, outpacing forecasts and going against the EMU trend. Indeed, 2011 saw a decline in deposits in the euro area, particularly in the economies most affected by the sovereign debt crisis. In this regard, Portugal clearly stands out for the trust deposited by resident economic agents in local financial institutions. As concerns individuals, deposits in the resident banking system increased by some 5.7% (annual rate of change), with the preference for time deposits being evident. Turning to companies, total deposits grew by around 1.5%. The savings rate climbed notwithstanding the fall in households' disposable income. Contributing to the increase in deposits was the flight from riskier investments (namely, from the equities market due to risk aversion) and a policy of offering more attractive returns on deposits on the part of the banking sector. The cost of new time-deposit operations climbed from 1.56% (2010 average) to 3.62% (2011 average). During 2011, the remuneration rates on time deposits rose from 3.1% in January to a high of 4.5% in September. In December, they stood at 2.94%. The fall registered from October onwards is explained by the Bank of Portugal's intervention. Since the beginning of November, a penalty was imposed on time deposits with rates in excess of 300 basis points (b.p.) above the Euribor 6-month rate, expressed in the penalisation of own funds by 0.5% of the interest over the imposed limit, weighted by the maturity.

Loans

Loans to residents registered a clear tendency to slow down, stagnating in 2011 (growth of about 0.5%). Excluding public administration, there was a 1.5% contraction. Of special note was the decrease in credit extended to companies (-1.7%), while loans to individuals for home acquisition stabilised (-0.4%). The deleveraging process agreed to with the Troika – the loans / deposits ratio was situated at around 150% at the time of the negotiation of the bailout package, while having to shrink to 120% by the end of 2014 – justifies the more

restrictive posture of the credit concession policies of domestic financial institutions. Also noteworthy were the new rules imposed by the EBA, reinforcing the demands relating to the capital ratio and introducing changes to the valuation criteria for European public debt.

Insofar as non-performing loans are concerned, a generalised deteriorating trend was evident throughout 2011 in all sectors. This trend was however more marked in the non-financial companies segment, with the overdue loans ratio climbing to 6.6%, up 2.2 percentage points relative to a year earlier. The most affected sectors were Construction (11.7%), Commerce, Transport and Storage (both with 8%). As regards loans to individuals (non-performing ratio of 3.3% in November), the worsening trend was most patent in consumer credit (9.9%), being more gradual in the home loans segment (1.9%), the segment with the highest weighting in total loans advanced by the banking system: 40% of total loans and 82% of loans to individuals.

Evolution of loans in Portugal

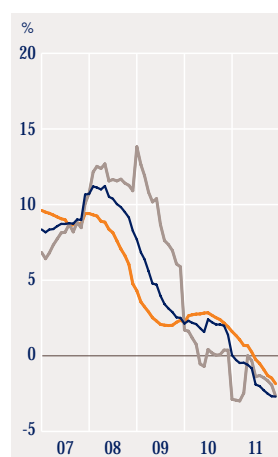


Chart 4

— Individuals
— Companies
— Total lending¹

Note: Year-on-year growth rate.
Source: Bank of Portugal.

Trend in deposits in Portugal and in the EMU

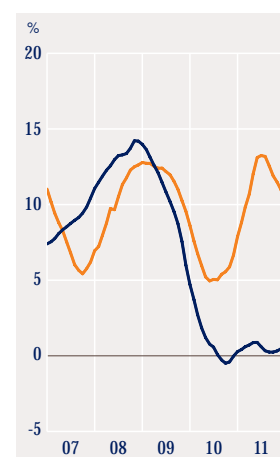


Chart 5

— Portugal
— EMU

Note: growth rates of average balances (12-months moving average).
Source: ECB.

1) Total loans to residents, excluding Public Administration.

Outlook for 2012

In 2012, the European authorities are expected to pursue their drive to bolster confidence in the European Project through greater integration and the institution of long-term stabilisation mechanisms, thereby facilitating the funding of States belonging to the euro area.

The IMF forecasts a deceleration in global economic growth to 3.3%, a scenario that will be determined by the euro zone's behaviour, where GDP is expected to suffer a 0.5% decline.

The Portuguese economy is projected to record a 3.1% contraction according to Bank of Portugal forecasts (Winter Bulletin). Net external demand should generate a less favourable contribution due to the more adverse international backdrop. As regards domestic demand, it is worth highlighting the 6% retreat in private consumption, a reflection of the drop in households' disposable incomes and the higher unemployment. Investment should continue to shrink, echoing the construction sector's restructuring, the retraction in public works and the modest outlook for the trend in demand of the majority of sectors, above all those most exposed to domestic demand.

MARKETS

Currency market

In 2011, the currency market was dominated by a high degree of volatility resulting from the intensification of the crisis in the European public debt market, as well as the signs of deterioration in growth prospects. Consequently, the interest in refuge instruments intensified, with special emphasis on the Swiss franc which registered considerable upward movement. This fact warranted the intervention of the Swiss National Bank in order to keep the Swiss currency's exchange rate against the euro close to 1.20.

The EUR / USD exchange rate fluctuated between a low of 1.29 and a high of 1.49, closing the year 2011 close to the level observed at the start of the year: around 1.30. In the first half of the year, the signs of greater restrictiveness in monetary policy in the euro zone and the effects associated with the earthquake in Japan were mirrored in a movement involving the repatriation of funds and the heavy selling of dollars, leading to the single currency's appreciation which in early May was trading at close to 1.50 against the North American dollar. The heightening of the sovereign debt crisis and the risks of contagion to countries such as Italy and

Spain explain the about-turn in the trend evident in the first six months of the year, leading to the EUR / USD rate to close the year at fractionally below 1.30.

Money market

The year 2011 was characterised by predominantly accommodative monetary policies in the developed countries. Indeed, the monetary authorities of the US, United Kingdom and Japan renewed their quantitative efforts with a view to ensuring the maintenance of low interest rates over a prolonged period of time.

However, in the Europe, the European Central Bank's action was clearly less straightforward. During the first half of the year, in spite of the escalating dysfunctioning of the interbank and public debt markets, manifested in the high risk premiums demanded, the disclosure of economic data indicating an upturn in economic activity and the rise in inflation in the euro area justified the hike in the ECB's benchmark rate from 1% to 1.25% in April and to 1.5% in July.

Evolution of reference rates

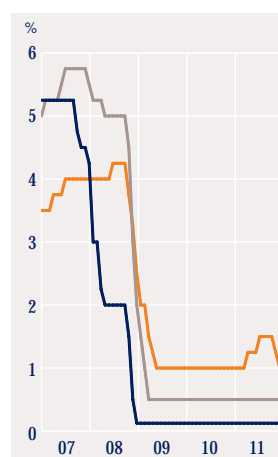


Chart 6

— ECB
— BoE
— Fed

Source: Central banks.

Net financing with ECB in the Eurosystem

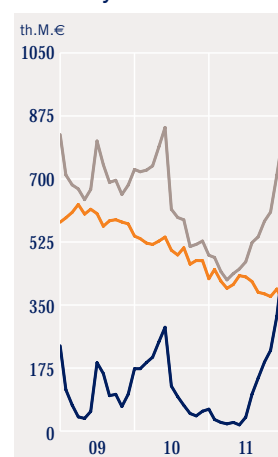


Chart 7

— Gross loans
— Deposits
— Net loans

Source: Central banks.

Subsequently, the imminence of these markets' closure to central European states and banks – explained by the phenomenon of contamination associated with the sovereign debt crisis – dictated an alteration to the ECB's behaviour. Consequently, it began to adopt an expansionist stance as regards monetary policy which in

the first instance led to a cut in the key rate to 1.25% in November.

In December, the ECB adopted a more aggressive posture. In addition to totally cancelling the increase in the refi rate, bringing it back down to 1%, it adopted a series of additional measures of an accommodative nature, introducing the provision of funds with 3-year maturities, relaxing the rules for the acceptance of eligible guarantees, and lowering the mandatory cash reserves rate from 2% to 1%.

Euribor rates tracked the movements of the monetary authority, rising slightly up till July, month in which they reached the year's high (1.831% to 3-month Euribor) to then stabilise at around 1.75% till the end of December, at which time the announcement of the ECB's decisions triggered a steep downward movement.

On the other hand, in the USA interest rates (three-month Libor) were situated at around 0.4% for the greater part of the year; however, in spite of the Federal Reserve's commitment to maintain key interest rates until 2014, the mounting confidence in a revival of economic activity led to these climbing progressively in the closing months of the year.

Bond market

North American and German 10-year public debt securities commenced the year above 3.5% and 3%, respectively, but ended the year at below 2%.

In the early months of 2011, the more favourable prospects for growth and a more aggressive posture on the part of the ECB translated into a greater appetite for higher-risk assets and, consequently, into a rise in public-debt yields.

However, in the second half of the year, growth prospects abated and risk aversion intensified, once again as a reflection of the European sovereign debt crisis. The contagion to Italy and France via the exposure of their banks to Italian public debt, exposed the debilities of the financial stabilisation model pursued by the European authorities. Indeed, amongst others, the possibility of a debt pardon on the part of the private sector to Greek securities and the EBA's recommendation of reinforcing shareholders' equity so as to accommodate potential losses arising from European sovereign debt, in parallel with the adoption of new rules for the revaluation of

these portfolios held by European banking institutions, sparked a strong flight to less risky assets such as German and North American debt.

The aversion to risk materialised in the climb in the risk premiums on 10-year debt. In the case of Italy, the spread relative to German bonds surged from 180 basis points (b.p.) in January to 520 at the end of the year; while in Spain it reached a maximum of 470 b.p. in the final months of the year. In Portugal, the spreads on ten-year securities worsened from 380 b.p. in January to 1 170 b.p. in December. The intensified utilisation of the Public Debt Purchase Programme by the ECB as from August averted an even steeper climb, while the abundance of liquidity made available under the three-year refunding operations were favourable to a recovery in the propensity for risk.

10-year sovereign debt
Yield

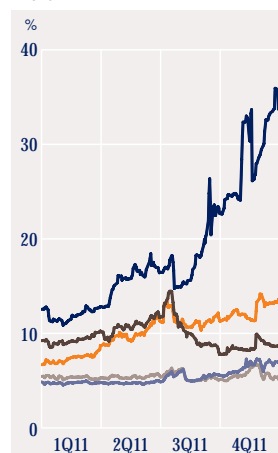


Chart 8

— Greece
— Ireland
— Portugal
— Spain
— Italy

Source: BPI, Reuters.

Corporates and financials
Credit risk premiums

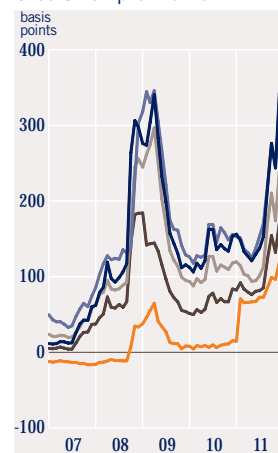


Chart 9

— Financials
— BBB
— A
— AA
— AAA

Source: Credit Suisse, Bloomberg.

In the case of Greek debt, the premium climbed from 960 b.p. to approximately 33.7%. It will be recalled that the second financial bailout package for Greece entails the acceptance of a debt pardon on the part of the private holders of Greek public debt of about 50% relative to the nominal value and 75% in terms of current value, a level that is close to the secondary market prices observed at the date of the package negotiation.

The miscellaneous debt market closely shadowed the oscillations in risk aversion, registering throughout the year the escalating exigency of risk premiums, particularly acute in the case of companies with lower credit ratings and for financial institutions. In fact, while the spread *vis-à-vis* the swap in the “AAA” risk class jumped from 22 b.p. to 60 b.p. between January and December, in the “BBB” class the rise was from 150 b.p. to 300 b.p. This movement was very similar to that observed in the premiums of financial institutions in the same period. Perhaps even more important than the behaviour of prices on the secondary market was the trend on the primary market. After a start to the year marked by the demand for riskier assets, the propensity for risk waned during the second half of the year, characterised by the scarcity of placings or even the market's closure to institutions from the so-called peripheral euro area. The increased liquidity sponsored by the ECB helped promote a change in behaviours in this market, favouring the shrinking of spreads and the manifestation of demand in the primary market in the opening months of the year.

Equities market

Global context

Against a background of great uncertainty regarding the outcome of the sovereign debt crisis in Europe, the vast majority of European stock market indices evidenced a negative trend in 2011, with the Eurostoxx 600 closing the year down 11%, while the S&P500 – the American market's principal index – ended the year with a performance of 0%.

Iberia – secondary market

In Portugal and Spain, the benchmark indices PSI-20 and IBEX 35 closed the year falling by 28% and 13%, respectively. The IMF's intervention in Portugal and the prohibition of short selling of financial stocks in Spain are two factors which help to explain this differential. Trading volumes in 2011 decreased 31% in Portugal to

27 th.M.€ and 12% in Spain to 856 th.M.€, which constituted a worse performance than that of the EuroStoxx 600 and S&P global indices (-8% and -3%, respectively).

Iberia – primary market

In 2011 the Iberian primary market was also negatively affected by the instability in the sovereign debt markets. There was no initial public offering for subscription on the Portuguese market and only two on the Spanish continuous market– Banca Cívica and Bankia, placed primarily with retail investors. In the meantime, the Spanish alternative market – MAB – showed some activity with the entrance to the stock exchange market of 4 more companies (compared with the 10 offerings which took place in 2010). In addition, the distribution sector company DIA (spin-off from Carrefour) began to be quoted on the Spanish market but without a public offer.

As regards capital increases of quoted companies, 2011 was a year of little activity with no operation of any appreciable size in Spain and only a couple of capital increases in Portugal realised by BCP (260 M.€, besides the debt-for-equity swap operation) and Inapa (54 M.€ in preference shares).

Equity indexes evolution

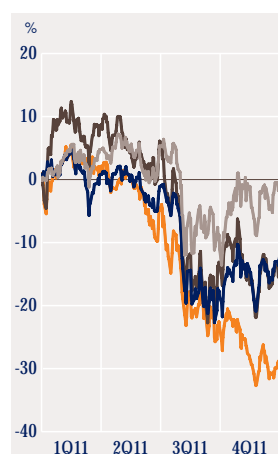


Chart 10

— PSI-20
— IBEX 35
— DJ Stoxx 600
— S&P 500

Source: Bloomberg.

Turnover Secondary market

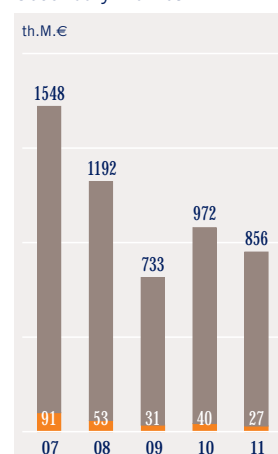


Chart 11

■ IBEX 35
■ PSI-20

Source: Bloomberg, Madrid Stock Exchange, BPI.

ANGOLAN ECONOMY

Economic activity

In recent years, the main contribution to Angola's economic growth has emanated from the non-oil sector. The latest estimates point to this sector having posted an expansion of 7.6% in 2010 and 7.7% in 2011¹. Globally, preliminary estimates for 2011 point to a slight acceleration in economic activity, from 3.6% to 3.7%. The oil sector was affected by restrictions of a technical order, with output falling short of expectations: output is estimated to be 1.7 million barrels / day which compares with 1.76 in 2010 and 1.81 in 2009.

As for 2012, the prospects point to an acceleration in economic activity – the IMF forecasts 10.8% growth –, benefiting above all from the expected increase in oil exploration levels, which should recover to levels closer to those observed in 2008, and also from the start of liquefied natural gas production. Amongst the non-oil sectors, significant expansion is expected in agriculture (13.9%); energy (11.8%); diamonds (10.1%), and construction (7.5%).

Real GDP growth in Angola

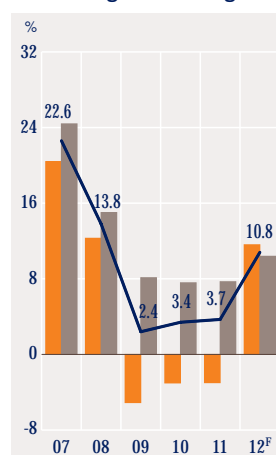


Chart 12

Oil sector
Non-oil sector
Total

Foreign exchange reserves

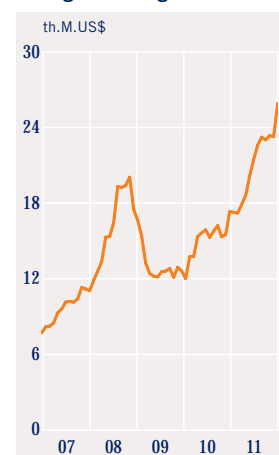


Chart 13

Sources: Angolan Central Bank, International Monetary Fund (IMF), Angolan Government, BPI.

Economic indicators and forecasts

	2008	2009	2010 ^E	2011 ^F	2012 ^F
Real Gross Domestic Product growth (yoy, %)	13.8	2.4	3.4	3.7	10.8
Oil sector	12.3	(5.1)	(3)	(3)	11.6
Non-oil sector	15.0	8.1	7.6	7.7	10.4
Oil production (millions of barrels / day)	1 906.0	1 809.0	1 755.0	1 703.0	1 900.0
Price of Angolan oil (average, USD / barrel)	93.9	60.9	77.8	102.0	98.8
Consumer Price Index (y-o-y change, end of period)	13.2	14.0	15.3	13.9	11.2
Fiscal balance (% of GDP)	8.9	(4.9)	6.8	8.5	8.5
Non-oil primary fiscal balance (% of non-oil GDP)	(70.8)	(48.5)	(41.3)	(42.6)	n.d.
Net foreign exchange reserves (in millions of USD)	17 499.0	12 621.0	17 327.0	21 363.0	34 629.0
Imports cover by gross reserves ²	5.1	3.6	4.9	5.3	5.3
Average exchange rate (AKZ / USD)	75.0	79.3	91.9	n.d.	n.d.

Source: IMF, Country Report, December 2011. E – Estimate. F – Forecast.

Table 5

External sector

In 2011, the goods and services balance should reach 2.2% of GDP, benefiting from the higher exports, explained above all by the rise in the average price per barrel of oil on the international market.

In December, foreign exchange reserves totalled 25 th.M.US\$, an increase of 7.7 th.M.US\$ when compared with 2010. Besides the improvement in the trade

balance, this favourable trend resulted from the inflow of funds associated with the accord signed with the IMF.

The Kwanza remained stable throughout the year. However, since September, – a period characterised by the greater agitation on the international financial markets and the increased local demand for dollars –, the currency registered a slight depreciation, in the order of

1) According to International Monetary Fund (IMF) estimates.

2) Gross foreign exchange reserves in terms of cover of months' goods and services imports in the following year.

1.5%. In 2012, the authorities should pursue a policy of currency stabilisation, with this variable acting as adjustment mechanism for domestic demand so as to ensure balanced external balances.

Public accounts

In 2011, the Angolan government should present a budget surplus of 8.5% of GDP. The set-off of the decline in oil production via the oil price, coupled with a prudent management of current and capital spending, lies behind this positive balance of the public accounts.

Turning to 2012, the IMF and the government coincide with their forecasts of a budget balance of 8.5%, with the Angolan authorities pursuing their efforts aimed at presenting balanced public accounts.

The State's favoured funding mode in 2011 was the issue of Treasury Bills (TB), above all those with longer-dated maturities (364-day TBs corresponding to 65% of the total placed). The outstanding balance at the end of the year totalled 340 th. M.AKZ; 240 th. million more than in 2010. There was also a steep drop in average placing rates which, in the 364-day maturity class, slid from 13% in January to 5% in December, after having recorded a low of 4.63% in September.

Inflation and interest rates

Banco Nacional de Angola took the first steps towards indirect monetary control in October 2011. In this new scenario, the Monetary Policy Committee (Comité de Política Monetária – CPM) was set up and meets every month. In October, it fixed the Basic Interest Rate (BNA rate) at 10.5%, the principal intervention instrument. The LUIBOR – Luanda Interbank Offered Rate was also created and is designed to offer economic agents a benchmark for short-term interest rates. It is worth noting that the BNA Rate decreased 25 b.p. at the January CPM meeting to 10.25%.

In December 2011, inflation stood at 11.4%, below the 12% official target and inducing a decline in interest rates on the interbank market. Thus, average central bank securities placing rates fell from 9.2% in January to 7% in December. The persistence of negative real interest rates places obstacles to the structural formation of savings and compounds the correct allocation of resources to investment projects owing to the implicitly required low rates of return.

Turning to 2012 the authorities have set a 10% target for inflation, hoping that the decelerating trend will continue although acknowledging that this is an ambitious goal.

Loans

In 2011, total domestic credit grew by an annual average 21%, while lending to the private sector increased 20% in annual average terms.

The weight of financing extended to the public sector on total lending granted by commercial banks declined to 31% against the 35% observed at the close of 2010. In the private sector, lending to individuals posted a change of 29%, predominantly for home purchases. In terms of the weight of total financing granted, the following sectors continue to feature prominently: wholesale and retail trade (17.4%), real-estate activities, rentals and services provided to companies (15.2%), manufacturing (8.5%) and construction (8.2%).

Deposits

Deposits grew in annual average terms by 13.2% in 2011 (16.7% in 2010). The growth in deposits accelerated throughout the year, starting from a year-on-year increase of 5.6% in January to reach 35% in December.

Loans evolution

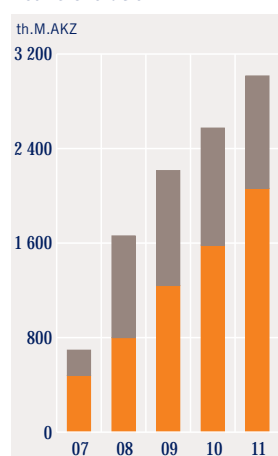


Chart 14

■ Total domestic credit
■ Credit to the private sector

Deposits evolution

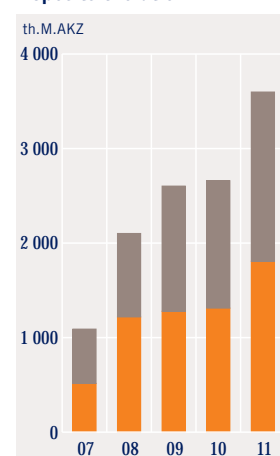


Chart 15

■ Total deposits
■ In domestic currency

Source: Banco Nacional de Angola (Central Bank).

MOZAMBICAN ECONOMY

GROWTH

Mozambique maintained growth rates above the average for the region in the last two years, with the trend accelerating. The pace of Gross Domestic Product (GDP) expansion was situated at 6.8% in 2010 and could surpass 7% in 2011. This good performance is due on the one hand to the appropriate economic policies in response to both the external slowdown in 2008-9 and the more recent situation of high inflation (notably in 2010). The development of the energy-production and natural-resources exploration sectors has also acted as the motor driving economic growth, which for the time being is primarily reflected in certain tertiary sector activities.

In 2011, accumulated growth in the first nine months of the year was situated at 7%, according to the INE (Mozambique statistics institute). The contributions of the agricultural sector, with the significant weight of GDP (roughly 26%), and of certain services (financial services, transport and communications, trade and repair services) were major factors behind this performance. It is worth highlighting the marked dynamism of the mining industry in the third quarter of 2011, registering a 34.8% year-on-year change, reflecting the start-up of coal exploitation in the coal-bearing basin of Moatize, in the Tete province.

Considering the Mozambique Consumer Price Index (CPI), an aggregate which incorporates the cities of Maputo, Beira and Nampula, year-on-year inflation fell to 6.1% in December 2011 (17.4% in the same period a year ago), with the annual average rate descending to 11.2%, (12.4% in 2010). It should be pointed out that the target set by the government's Economic and Social Plan was 8.4% for year-on-year inflation and 10.8% for the average inflation rate, notwithstanding that these objectives have as their reference point only the city of Maputo's CPI.

Mozambique's economic performance should continue to outpace that of the region's economies and even those of the group of emerging economies– the IMF projects that in the coming years GDP will grow at rates in excess of 8%, in volume, reflecting above all the expected gradual increase in coal production and exports. Recently, vast natural gas reserves were also confirmed in the river Rovuma basin, in the Province of Cabo Delgado, reserves these which are considered by the prospecting companies to be potentially very substantial on a global scale.

In a first development phase, these projects involve the importation of specialised services and materials or machinery which the country lacks, with a weight on imports, in parallel with the boosting of the domestic economy – notably the tertiary sector – and later will

translate into an expressive increase in exports, the strengthening of tax receipts and the lesser dependence on international donors.

Real GDP growth in Mozambique

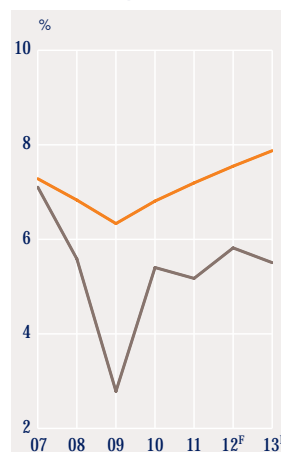


Chart 16

— Mozambique
— Sub-Saharan Africa

Trend in loans and in deposits

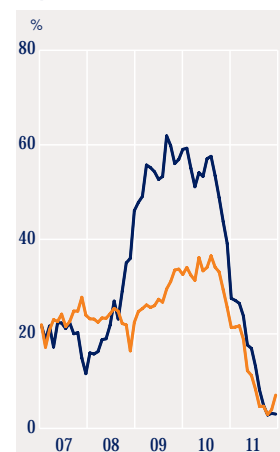


Chart 17

— Loans
— Deposits

Note: year-on-year growth rates.

Source: International Monetary Fund (IMF) and Banco de Moçambique (central bank).

FINANCIAL SECTOR, DEPOSITS AND CREDIT

In general, the Mozambique banking sector remained resilient to the crisis. The majority of foreign-owned Mozambique banks benefited from capital increases, which, coupled with the decrease in lending activity, increased the capital adequacy ratio for the entire system to 18.7% at the end of June 2011, according to the IMF.

The tightening of liquidity conditions due to the Bank of Mozambique's restrictive monetary policy, aimed at subduing inflationary pressures, and the turmoil felt by the European banking sector, were mirrored in the more cautious posture of the financial institutions internally and thus in limited credit expansion. Up till November and in annual average terms, total lending to economic activity recorded a 13.4% change (50% in 2010), with the pronounced decelerating trend being noticeable during the second half of the year. The main sectors were trade, transport and communications, as well as other sectors not detailed (which include the extractive industry). As regards the banking system's deposits, these also registered expressive deceleration, having increased in average terms 10.6% up till November, which compares with 31.8% in 2010.

Domestic Commercial Banking

INDIVIDUALS AND SMALL BUSINESSES BANKING

Individuals and Small Businesses Banking had 1 561.3 thousand Customer accounts at the end of 2011, 3.1% more than in December 2010, and was responsible for the portfolio of Customer resources worth 21 897 M.€ and a loan and guarantees portfolio valued at 15 418 M.€. 134 thousand new accounts were opened during the year.

CUSTOMER RESOURCES

At 31 December 2011, Individuals and Small Businesses Banking Customer resources amounted to 21 896.7 M.€ (-2.1% than in 2010).

Customer resources ¹		Amounts in M.€		
		2010	2011	Δ%
On-balance sheet resources				
Sight deposits	1	3 624.2	3 508.1	(3.2%)
Time deposits	2	9 661.6	11 080.5	14.7%
Bonds and structured products ² placed in Customers	3	3 590.1	2 814.3	(21.6%)
Funding [= Σ 1 to 3]	4	16 875.9	17 402.9	3.1%
PPR (insurance capitalisation) ³	5	1 206.5	1 191.9	(1.2%)
Insurance capitalisation ⁴	6	2 065.9	1 638.3	(20.7%)
On-balance sheet resources [= Σ 4 to 6]	7	20 148.2	20 233.0	0.4%
Unit trust funds ⁴	8	1 330.0	948.1	(28.7%)
PPR ⁵	9	878.8	715.6	(18.6%)
Off-balance sheet resources [= 8 + 9]	10	2 208.8	1 663.6	(24.7%)
Total Customer resources [= 7 + 10]	11	22 357.1	21 896.7	(2.1%)

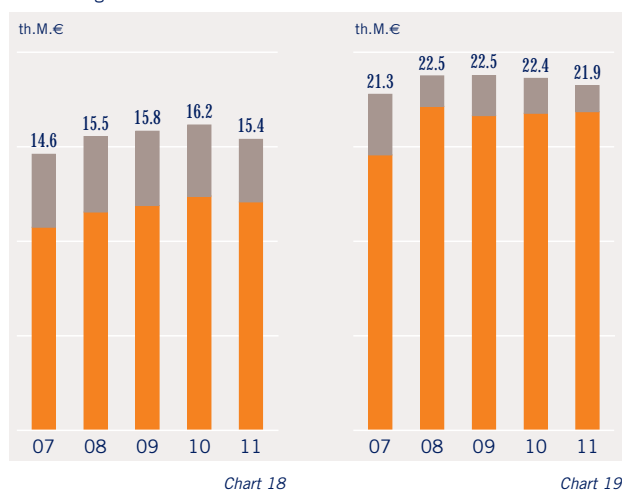
Table 6

In a fiercely competitive market for attracting resources that inevitably led to an increase in the respective cost, BPI centred its action on protecting its Customer resources' base: time deposits expanded 1 418.9 M.€ (+14.7%) while the group of resources making up the Bank's funding registered an increase of 527.0 M.€ (+3.1%), despite the Bank having offered lower remunerations than the prevailing market.

Individuals and Small Businesses Banking

Loans and guarantees

Customer resources



■ Other loans and guarantees
■ Mortgage loans

■ Off-balance sheet
■ On-balance sheet

The portfolio of retirement-savings plans in the form of capitalisation insurance recorded an 8.5% decrease (-177.8 M.€) in 2011, influenced by the cut in the tax benefits associated with these products. Notwithstanding this trend, at the end of 2011 there were 399 thousand Customers with retirement-savings plans (Portuguese initials PPR), representing an increase of 54.5 thousand Customers (+16%) relative to 2010. It is worth noting that 50% of Customers with PPR's have associated regular contribution plans.

The 21% decrease in capitalisation insurance (excluding PPR's) and 29% in unit trust (mutual) funds as a result of the reorientation of investments to bank deposits and the decrease in the value of the securities portfolios explain the 2.1% drop in total Customer resources (-460.4 M.€).

CUSTOMER LOANS

At 31 December 2011, the loan and guarantees portfolio of individuals and small businesses amounted to 15 418.3 M.€ (-4.6% than in 2010).

1) Does not include securities portfolio.

2) Guaranteed-capital and limited-risk bonds.

3) Retirement-savings plans (PPR) in the form of capitalisation insurance.

4) Excludes PPR.

5) Retirement-savings plans (PPR) in the form of unit trust funds.

Customer loans and guarantees	Amounts in M.€		
	2010	2011	Δ%
Loans to individuals			
Mortgage loans ^{1,2}	12 394.3	12 116.7	(2.2%)
Personal loans ³	774.6	744.6	(3.9%)
Credit cards ⁴	187.5	174.9	(6.7%)
Car finance ⁵	331.0	267.4	(19.2%)
Loans to individuals	13 687.4	13 303.6	(2.8%)
Loans to small businesses			
Commercial loans ⁵	1 718.5	1 457.9	(15.2%)
Equipment leasing ⁵	112.8	84.5	(25.1%)
Property leasing ⁵	437.1	395.1	(9.6%)
Factoring	16.8	10.6	(37.1%)
Loans to small businesses	2 285.2	1 948.1	(14.8%)
Total loan portfolio	15 972.6	15 251.7	(4.5%)
Guarantees and sureties	187.3	166.6	(11.1%)
Total	16 160.0	15 418.3	(4.6%)

Table 7

The loan and guarantees portfolio of individuals and small businesses posted a decrease of 741.7 M.€ (-4.6%) in 2011. Loans to individuals decreased by 383.8 M.€ (-2.8%) while loans to small businesses were down 337.1 M.€ (-14.8%).

The mortgage loan portfolio was down 2.2% to 12 116.7 M.€ at the end of 2011, reflecting a contraction in demand in tandem with the increased stringency applied to the criteria for granting loans and the review of the spreads on new loans, adjusting them to the bank's higher funding costs on the Portuguese market.

At the end of 2011 the personal loans portfolio amounted to 744.6 M.€ (-3.9% relative to 2010). The selling of non-financial products registered a positive trend, posting growth of 40.1% in the number of the new contracts concluded and 7.8% in the amount financed. Contributing to this performance were the various campaigns implemented with prestigious brand names, namely Broggian Diamonds, Lments Jewels, Breitling, Casa Leitão, Philips and Montblanc, amongst others.

Despite the commercial loans, leasing and factoring portfolio having posted a 14.8% decline in 2011, BPI maintained a leading position in the programmes

launched by the government aimed at supporting small and medium-sized enterprises, as well as in the Fincresce Programme, under which the PME Líder status and PME Excelência status are attributed. As regards the Individuals and Small Businesses Banking network's involvement in these programmes, the main highlights in 2011 were:

- the contracting of 12 700 operations worth 533.1 M.€ pursuant to the PME Investe, Madeira and Açores Credit Lines (of a total of 15 800 contracted by the bank);
- the attribution of the PME Líder status to 1 439 companies and the PME Excelência status to 403 companies.

Credit and debit cards

Banco BPI had 560.8 thousand credit cards in circulation at the close of 2011, representing an increase of 13.4 thousand cards (+2.5%) relative to 2010.

Credit and debit cards

Selected indicators

	2010	2011	Δ%
Credit cards			
Number of credit cards at the end of the year (x th.)	547.4	560.8	2.5%
Billing (M.€)	1 057.2	1 025.1	(3.0%)
Loan portfolio (M.€) ⁷	187.5	174.9	(6.7%)
Debit cards			
Number of debit cards at the end of the year (x th.)	1 045.7	1 089.7	4.2%
Billing (M.€)	5 697.7	5 788.0	1.6%

Table 8

The number of debit cards placed with Customers increased 4.2% in 2011 (+44 thousand cards) to 1 090 thousand cards. Billing was up 1.6% on the preceding year, totalling 5 788 M.€.

1) Loans secured by fixed property. Corresponds primarily to home loans and loans for home alterations.

2) Figures for 2010 and 2011 include 820.9 M.€ and 762.2 M.€, from securitisation operations derecognized from the balance-sheet.

3) Includes consumer loans and credit lines made available for privatisations.

4) Includes outstanding credit of non-Bank Customers.

5) Includes car financing and leasing originated by Individuals and Small Businesses Banking.

6) Includes overdrafts, current account loans, discounted bills receivable and other loans which form part of the loans products tailored mainly for sole traders and small businesses.

7) Outstanding owed by Individuals and Small Businesses Banking Customers and non Customers.

NON RESIDENTS

The non-residents' segment is served by a network of branches and investment centres in Portugal, for which the Bank has a specific product range and overseas structure – six representative offices¹, an information office¹, two money remitter offices¹ and a branch in France which had 12 agencies – geared to business prospecting and providing support to Customers.

Individuals and Small Businesses Banking's non-resident segment² was responsible for a resources portfolio of 4 487 M.€³ (-0.2% relative to 2010) and a loan portfolio of 522 M.€ (-1.0% relative to 2010), representing 20% and 3% respectively of Individuals and Small Businesses Banking's resources³ and loans.

The French branch had a resources portfolio of 216 M.€ (+ 7% relative to 2010) and a Customer loans portfolio of 87 M.€ at the end of 2011.

HOMEBANKING

BPI places at its Customers' disposal the following homebanking services – BPI Directo, BPI Net, BPI Net Empresas, Mobile Banking and SMS Banking, as well as the brokerage services BPI Online and BPI Net Bolsa. The growing adherence by Customers to the homebanking service has permitted the progressive transfer of the branches' transactional activity to these channels, liberating the commercial network to concentrate on more value-added services.

Homebanking services

Selected indicators

	2010	2011	Δ%
BPI Directo / Net			
Active subscribers (in thousands)	801	907	13%
Active users (in thousands)	717	810	13%
% of the Banks' total consultations (account-balances and activity) ⁴	67%	69%	2 p.p.
% of the Banks' total transactions ⁴	87%	88%	1 p.p.
BPI Net Empresas			
Active subscribers (in thousands) ⁵	76	85	12%
Active users (in thousands) ⁵	64	72	13%
Volume transacted (M.€)	46.7	48.8	4%
Online brokerage			
Market share	20.8%	20.5% ⁶	(0.3 p.p.)

Table 9

SERVICE QUALITY

The indicators which assess service quality registered a significant improvement, namely the Bank service quality index (in Portuguese – IQS Banco) and the branch service quality index (in Portuguese – IQS Balcão), the last-mentioned reached 889 points in 4th quarter 2011, the best result since its launch at the end of 2002.

2011 results – Customer satisfaction

IQS Banco: annual survey

The Bank Service Quality Index (IQS Banco) evaluates the level of BPI's service as an organisation, based on an annual survey conducted amongst a significant sample of Customers. This index was situated at 805 points in 2011 (798 points in 2010), on a scale whose maximum is 1 000.

IQS Balcão: quarterly survey

In monitoring the quality of BPI's attendance, the Branch Service Quality Index is used (Índice de Qualidade de Serviço do Balcão – IQS Balcão), which evaluates Customer satisfaction with the service received at each branch. The results have revealed an improving trend since the 4th quarter of 2008.

Service quality in branches

IQS Branch in the 4th quarter 2011

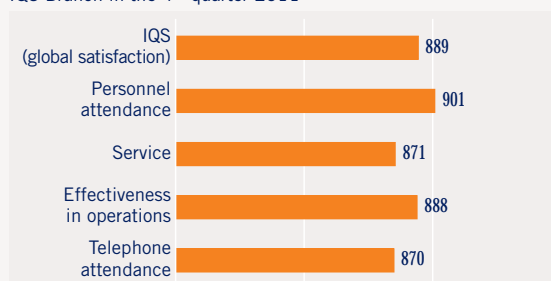


Chart 20

1) The business originated by the representative offices and by the remittance offices is domiciled at the Individuals and Small Businesses network.

2) Does not include the branch in France.

3) Does not include securities portfolio.

4) All BPI Net and BPI Directo consultations and transactions as a percentage of the Bank's total. Does not include ATM.

5) Does not include Small Businesses Clients that also use the BPI Net service. Those Clients are only considered in the BPI Net service.

6) The amount in 2011 is referred to the period between January and November 2011.

CORPORATE BANKING, INSTITUTIONAL BANKING AND PROJECT FINANCE

At the end of 2011, Corporate Banking, Institutional Banking and Project Finance's Customer loans portfolio totalled 11 548 M.€, down 1 004 M.€ (8%) on the figure at 31 December 2010, in line with the objective set by the Bank to reduce the loan portfolio by a thousand million euro in the light of the balance sheet deleveraging demands and the reinforcement of capital ratios imposed on Portuguese banks.

Bank guarantees totalled 2 152 M.€ at the end of 2011, presenting a 13% decrease when compared to the previous year (2 482 M.€), stemming essentially from the strong contraction in investment, notably public works. Resources grew by 5.9%, standing at 2 230 M.€ at the end of the year.

Banco BPI continued to focus its priorities on supporting Portuguese SME's and, more particularly, on export companies as a whole which continue to reveal growth potential. BPI continued to work closely with Customers thereby ensuring a high quality of service and reinforced the bank's products and services offer, namely with respect to companies with international activity.

The challenging economic conditions faced by the business community are reflected in an increase in terms of risk. The Bank continued to pursue a policy of great rigour in the analysis of credit risk, as well as practices and processes which ensure a permanent surveillance and monitoring of risk by the commercial area.

LARGE CORPORATIONS

The Customer loans portfolio of the large corporations segment stood at 4 092 M.€ in December 2011, which corresponds to a decrease of 9.7% over the year. This trend is due in large part to the maturing of syndicated loans granted to Spanish companies domiciled at the Madrid branch.

Corporate Banking, Institutional Banking and Project Finance

Selected indicators

Amounts in M.€

		2010	2011	Δ%
Loans to Customers				
Large corporations	1	4 529.6	4 092.1	(9.7%)
Companies (SME)	2	3 409.8	3 190.0	(6.4%)
Project Finance	3	2 328.1	2 279.3	(2.1%)
Institutional Banking and State Business	4	2 284.4	1 986.5	(13.0%)
[= Σ 1 to 4]	5	12 552.0	11 548.0	(8.0%)
Guarantees	6	2 482.1	2 151.5	(13.3%)
Loans and guarantees¹	7	15 152.3	13 753.3	(9.2%)
Resources²	8	2 105.3	2 229.7	5.9%

Table 10

COMPANIES

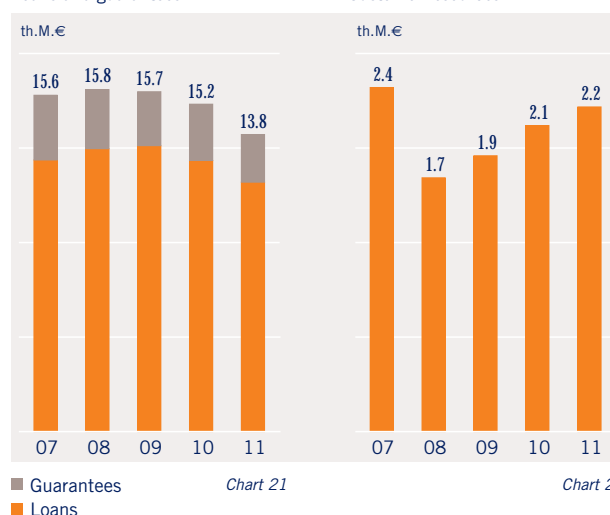
At the end of 2011 the corporate loans portfolio totalled 3 190 M.€, that is, 6.4% less than at the end of the previous year, resulting primarily from the steep fall in investment and the decline in the activity of companies concentrating on the domestic market.

BPI maintained its policy of supporting companies, continuing to have a prominent position in all programmes targeted at SME's with protocols with the government: PME Investe, PME Líder and PME Excelência, Mutual Guarantee.

Corporate Banking, Institutional Banking and Project Finance

Loans and guarantees

Customer resources



1) Includes loans to Customers, bank guarantees, loans to credit institutions and securitised loans.
2) Sight and term deposits.

SUPPORT TO SME

In 2011 BPI maintained a very prominent position in lending support to small and medium-sized enterprises (SME, the corresponding Portuguese term is PME). Support was strengthened through the lines PME Investe VI – Aditamento, Linha Export Investe, extending the maturity of the lines PME Investe, Linha de Crédito Açores Investe II, Linha Açores Reestruturação II and Linha Madeira Micro e Pequenas Empresas II.



BPI – The Bank of the SMEs

These lines, which are the object of protocols signed with the Portuguese State, permit beneficiary companies to obtain medium-term bank loans under very attractive terms and have become a fundamental instrument for companies to access credit in the current financial environment. Since the launching of these credit lines, BPI has occupied a leading position, as borne out by the following data:

Credit line	Operations contracted by BPI (no.)	Amount BPI (M.€)		Market share (%)
		Contracted	Outstanding	
PME Investe ¹	> 15 500	1 612	1 056	19%
Açores ²	140	16	9	
Madeira ³	150	7	3	

Table 11

BPI PME+ LINE

The BPI PME+ credit line for medium-term investments continued to be available in 2011 under very competitive terms and complementing the subsidised PME Investe lines. In 2011, Banco BPI processed some 350 operations involving this line (55 M.€), 30% more than in 2010.

PME LÍDER

IAPMEI and Turismo de Portugal promoted the 5th edition of the PME Líder initiative, a status which rewards companies with sound risk profiles, that evidence growth and enhanced competitiveness-oriented strategies. BPI was for the 5th consecutive time the main bank in supporting some 6 700 SME's which attained the PME Líder status in 2011. BPI was the bank having signed up the most companies applying for PME Líder status: 36% adhered to the PME Líder programme via BPI. 65% of PME Líder firms are BPI Customers.

The PME Excelência status distinguishes the PME Líder firms presenting the best performance and risk profile. Also

in 2011, just as in all the past editions, BPI assumed the undisputed leadership position with 45% of the PME Excelência firms having adhered via the Bank.



Congratulations (SME) Excellence 2011



Congratulations (SME) Leader in 2011

MUTUAL GUARANTEE

Banco BPI continued to play a prominent role in the dynamic promotion of mutual guarantee business in close liaison with the mutual guarantee companies (Norgarante, Lisgarante, Garval and Agrogarante), stemming from the Bank's eminent position within the ambit of the PME Investe lines.

In 2011, BPI maintained its leading position with a share of approximately 21% in terms of both the amount and the number of operations contracted and the accumulated portfolio within the mutual guarantee system.

It is also worth underlining BPI's position in the agricultural sector where it has a leading position in the amount of guarantees issued and contracted by Agrogarante in 2011, with a 25% market share.

EIB CREDIT LINE

Under a contract with the European Investment Bank, BPI has a credit line geared to Small and Medium-sized Enterprises (the 18th subject to a protocol with the EIB), in the overall amount of 200 M.€. The Bank has up till now backed 549 SME projects, with an average value of 262 thousand euro, and 28 projects presented by institutional entities with an average amount of 1.9 M.€, which is equivalent to a 98% utilisation of the line.

ENTREPRENEURIAL LINES

In 2011 Banco BPI maintained its active involvement in supporting entrepreneurship by means of, namely the FINICIA II line (Microcredit Line), the FINICIA III line (FIINICIA FAME) and the lines IEFPI (Invest + and Microinvest), within the ambit of which BPI contracted during 2011, 137 operations with a global value of 3.7 M.€.

1) PME Investe I, II, III, IV, V, VI e VI – phase 2.

2) SAFIAGRI, Açores Empresas, Açores Investe and Açores Reestruturação de Crédito lines.

3) Credit line PRO-INVEST, Micro e Pequenas Empresas da Madeira, Linha de Apoio à Recuperação Empresarial da Madeira and PME Madeira.

SUPPORT FOR EXPORTS

In order to give support to exporting companies BPI has a comprehensive product range directed at these companies and specialist teams who enable them to respond to specific needs, while 2011 saw the development of innovative products for this segment.

Secure exports

In order to boost its support for the international operations of Portuguese companies, the Bank created at the end of 2011 a generalist range of products for exporters with innovative characteristics, namely a package of products which aggregate support solutions for exports, financing and risk cover, the latter in partnership with Cossec.

Cross selling with COSEC

In 2011 COSEC launched a new product range tailored for export companies, with more advantageous accessibility and pricing conditions, which was extensively promoted by Banco BPI. The contribution to this campaign made through the Corporate Banking network was decisive and encompassed 40% of the new Customers canvassed.

This drive is mirrored in the high growth in new business brokered by Banco BPI, which represented one third of the total new Customers who contracted new credit insurance in the year with Cossec. New business activity originated at Banco BPI thus grew by a year-on-year 24%.

Associated with the good performance in new business was also a good retention of the portfolio of Customers brokered by Banco BPI, meaning that the bank is currently responsible for 21% of Cossec's total Customer portfolio.

In line with previous years and since 2009, Banco BPI was also very active in promoting support lines for trade credit backed by State guarantee amongst national companies. In 2011, Banco BPI contributed to the contracting of 67% of the Linha Cobertura Adicional OCDE I policies, 47% of the Linha Cobertura Adicional OCDE II and 59% of the line for countries falling outside the OECD, Mexico and Turkey.

Electronic channels

In order to respond to all the needs of companies with international activity, new functionalities were developed at BPI Net Empresas, in this way enabling companies to manage online their operations, namely the management of export and import documentary credit operations.

In order to respond to companies with varying profiles and sizes, irrespective of the place where they are located, BPI Net Empresas' functionalities are now available in Castilian and English.

Structures and specialist teams

In key markets for local companies such as Spain, Angola, Mozambique and Brazil, Banco BPI boasts a unique position; in Spain, through the privileged relationship with La Caixa; in Angola, via BFA; in Mozambique through BCI; and in Brazil, in collaboration with Itaú BBA. In this fashion, BPI offers in collaboration with the above partners an array of products and services to assist companies wishing to invest in or export to these markets: "Iberian Solutions for Companies", "Angola Solutions-Companies", "Mozambique Solutions-Companies" and "Linha Brasil Express" – the last two created in 2011.

In Portugal, BPI has specialist support structures for the above products, namely:

Spanish Companies Office

Provides support to companies operating in the Iberian market and works closely with the largest Spanish groups and companies present in the national market.

Office for Africa

Assists Customers – jointly with the BPI Corporate Centres in Portugal, and with BFA in Angola and with BCI in Mozambique – in the prospecting for business opportunities in Angola and Mozambique.

Business Development Unit

Helps companies to expand their businesses to Angola, providing a broad range of services, namely consultancy, and supports BFA in the mounting of major and more complex operations.

Trade Finance

The Trade Finance structure which is dedicated to the sale of specific products for companies in their international trade dealings.

Mozambique Financial Service Division

Given the importance of the Project Finance activities in Portuguese-speaking countries, namely in Angola, Mozambique and Cape Verde, the Mozambique Financial Services Division and a Mozambique-law Financial Services Company based in Maputo were set up in 2011. These entities will now be responsible for carrying on Project Finance activities in Africa.

COMMUNICATION AND EVENTS WITH CUSTOMERS

BPI Empresas newsletter

BPI makes available to the corporate segment a monthly electronic newsletter containing useful and up-to-date information about products and services, as well as analyses and other crucial business information. Currently, the newsletter is distributed via email to 41 thousand Corporate Banking Customers, or 115% more than in 2010.

BPI Empresas site

In the companies section of BPI's public website – www.bancobpi.pt – there is useful information about BPI products and services specially tailored to the needs of business Customers.

Events with Customers

BPI has participated in and fostered collaboration with leading public and private entities in several projects promoting themes of particular importance for business activity, amongst which the innovation and internationalisation of Portuguese companies, communicating these initiatives and other matters of interest for the sector through the most diverse means.

Seminar BPI-ITAÚ “Brazil, what is next?”

Seminar with the participation of ITAÚ covering the macroeconomic prospects for the Brazilian market.

BPI lunch debate “Investment opportunities in Angola in the agricultural sector”

Event devoted to business opportunities in the agricultural and agro-industrial industries.

Congress addressing exports “Promotion of Portuguese exports in a global economy”

Congress at which an analysis was undertaken of the direction of international trade and the best forms of approaching the new emerging economy markets.

Seminar ABC Market “Angola today – Old challenges, New opportunities”

Debate on the present state of the Angolan market, existing opportunities and challenges, forms of support offered by BPI and BFA.

Portuguese-Spanish Chamber of Commerce

BPI participated in an active manner in six lunches with businessmen with the object of providing a forum for debating major issues for Portuguese businessmen and their Spanish counterparts.

Innovation and Entrepreneurship

SME Innovation COTEC-BPI Prize: BPI supported yet another edition of the prize sponsored by COTEC Portugal and which is aimed at distinguishing a group of SME's with an innovative attitude and activity, examples of creating value for the country. The 2011 prize was awarded to Deroovo – Derivados de Ovos, S.A., with the company WS Energia receiving a special mention.

INSEAD Entrepreneurship Award 2011-2012: BPI sponsored the 5th edition of this award, which seeks to honour those companies who stand out for their innovation, growth, internationalisation and the importance of their strategy for Portugal; and furthermore, the outstanding manager on the Portuguese economic scene, rewarding his / her management ability and entrepreneurship. The award winner will be announced in May 2012.

INSTITUTIONAL BANKING AND STATE BUSINESS SECTOR

Institutional Banking and State Business Sector is dedicated to serving institutional Clients and companies belonging to the State business sector.

In 2011 this segment's portfolio decreased 13%, to be situated at 1 987 M.€.

PROJECT FINANCE

In the light of constraints imposed by the current macroeconomic landscape, the project finance market in Portugal continues to register significant slowdown due to the suspension of the launching of new public investment projects under the public-private partnership regime.

BPI's strategy in this market also remained deliberately focused on greater selectivity in the financing of projects, on the decision to not participate in new operations on the international market and on the strengthening of monitoring activities relating to the portfolio of loans and guarantees under management.

As a result of this background, the project finance segment's loan portfolio was down 2.1% relative to the end of the previous year, presenting in December 2011 a figure of 2 279 M.€, without prejudice to the maintenance of a number of projects still in the disbursement phase, essentially concentrated in the domestic market (at the end of the period under review, the loan portfolio presented a stock of amounts to be disbursed in the order of 360 M.€, around 28% below that noted in December 2010).

In parallel, the Bank sought to boost financial advisory activities. In this respect and on the domestic front, BPI was particularly involved in the health, infrastructures and transportation sectors encompassing both private and central and local administration entities, while also continuing to carry on its role of permanent financial advisor in several projects.

Bancassurance

In the insurance area, BPI has a strategic partnership with the sector's world leader – the German Allianz group. This association has been cemented through BPI's 35% stake in the capital of Allianz Portugal, and in a distribution agreement in terms of which insurance policies are marketed via the Bank's commercial network.

BPI thus makes available an extensive range of insurance products to both the individual Customers segment and to the corporate and small business segments. This range includes both life assurance – death and disability insurance – and the other branches – motor insurance and all-risks insurance: household, fire, alterations and installations, public liability, theft, personal accident, unemployment and sickness.

Bancassurance's 2011 performance is reflected in the following revenue indicators: the amount of commissions increased to 37.7 M.€; the life assurance and non-life insurance premiums amounted to respectively 75.8 M.€ and 59.7 M.€, which corresponds to growth rates of 9.1% in life and 0.7% in non-life insurance (the market contracted 0.5% in both life and non-life business); at the end of the year, the number of active insurance policies

was 479 thousand in life assurance and 432 thousand in non-life insurance business.

Commissions

Intermediation of insurance products

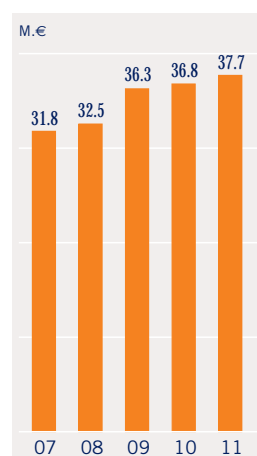


Chart 23

Insurance

Life-risk and non-life

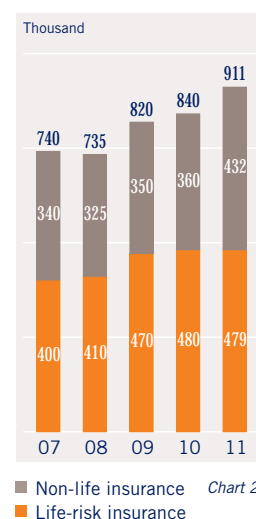


Chart 24

Asset management

OVERVIEW

At the end of 2011, BPI Asset Management managed financial assets totalling 7 416 M.€.

Assets under management	Amounts in M.€		
	2010	2011	Δ%
Unit trust (mutual) funds	2 584	1 912	(26%)
Real estate unit trust funds	274	200	(27%)
Pension funds	3 183	1 565	(51%)
Capitalisation insurance	4 035	3 405	(16%)
Institutional Customers	639	494	(23%)
Total¹	10 479	7 416	(29%)

Table 12

The decrease of 3 063 M.€ in the value of assets under management over the year is explained on the one side by the transfer to the Portuguese State of pension fund assets worth 1 373 M.€ in the wake of the partial transfer of retirement pension and pensioners' liabilities to the Social Security system and, on the other, the decline in the value of securities portfolios and redemptions, reflecting the reallocation of investments to other types of placements, notably bank deposits.

At the end of 2011, BPI's Asset Management occupied third place in the ranking of unit trust fund managers in Portugal, with a 16.6% market share (17.2% in 2010), third place in pension fund management with a market share of 13% (17% in 2010), fifth position in terms of the capitalisation insurance portfolio with a 8.9% market share (9.1% in 2010) and tenth position in open-ended real-estate unit trust fund management with a 3.9% market share (5.1% in 2010).

Assets under management 2007-2011

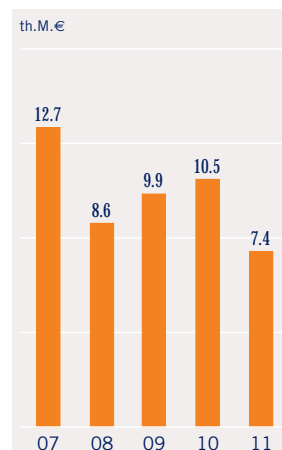


Chart 25

Breakdown at 31 Dec. 11

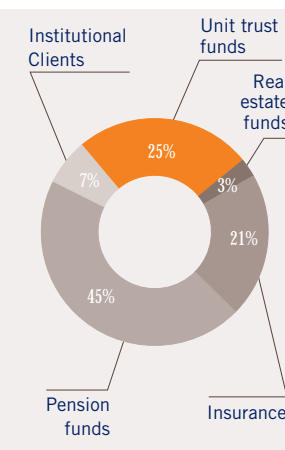


Chart 26

UNIT TRUST FUNDS

The amount of unit trust (mutual) funds under BPI management decreased 26% in 2011, which compares with an average 24% decline registered by the investment funds' national market. At the end of 2011, BPI Gestão de Activos has a 16.6% market share, occupying third place on the national ranking of fund managers.

Unit trust funds under management	Amounts in M.€		
	2010	2011	Δ%
Bonds and money market	559	391	(30%)
Capital growth (equities)	575	416	(28%)
Tax efficiency (PPR/E and PPA)	935	761	(19%)
Diversification	516	344	(33%)
Total	2 584	1 912	(26%)

Table 13

Diário Económico / Morningstar Awards

BPI Asset Management once again saw the quality of its management recognised, having been distinguished in the annual competition of the best unit trust funds sponsored by Morningstar and Diário Económico.

BPI Gestão de Activos won the award for "Best National Equities Manager", with the BPI Restructuring fund being rated the "Best Global Equities National Fund".

11th IPE European Pension Awards 2011

The BPI Valorização open-end pension fund secured in 2011 the award for the Best Portuguese Pension Fund 2011 adjudged by the magazine IPE, Investment & Pensions Europe – for the fourth time since 2005.

The award obtained by the BPI Valorização open-ended pension fund was attributed by the qualitative selection process of equities funds which make up its portfolio and whose performance has been above average when compared with that of its benchmarks.

1) Adjusted to eliminate double counting.

Three new harmonised unit trust funds were launched during the year – BPI Ásia Pacífico in Portugal and the BPI África and BPI América funds in Luxembourg. BPI América began to be commercialised with two participating units, one for a class without currency risk and the other for a class with dollar risk. A new special investment fund was also launched – BPI Metais Preciosos (precious metals).

REAL-ESTATE UNIT TRUST FUNDS

The portfolio of real-estate funds fell from 274 M.€ to 200 M.€, a 27% decline relative to 2010.

This decrease is explained by the alteration, at BPI Gestão de Activos' initiative, to the redemption conditions attaching to the Fundo Imofomento. BPI Gestão de Activos altered that fund's redemption commissions, making it more protected against future withdrawals with a view to aligning participants' investment time spans with the type of assets in which the fund has invested. Before implementing this change, all participants were offered the possibility to exit the fund, with 75% of the capital having opted to remain in the fund.

INSURANCE

The capitalisation insurance portfolio was 16% lower and stood at 3 204 M.€, at the close of 2011.

Capitalisation insurance portfolio under management¹

		Amounts in M.€		
		2010	2011	Δ%
Under commercialisation				
With guaranteed capital or income				
PPR	1	1 229	1 219	(0.8%)
Other savings plans / capitalisation	2	1 948	1 566	(19.6%)
[= 1 + 2]	3	3 178	2 785	(12.4%)
Without guaranteed capital or income				
	4	560	373	(33.4%)
[= 3 + 4]	5	3 738	3 158	(15.5%)
Excluded from commercialisation ²	6	64	46	(27.6%)
Total	[= 5 + 6]	3 802	3 204	(15.7%)

Table 14

The insurance business of BPI Vida e Pensões posted a 66% decrease in the volume of premiums issued to 391 M.€, after the new contracting of capitalisation

insurance in 2010 having grown 70%, to total 1 175 M.€ (atypically high value).

The decrease in new contracting and in the value of the portfolios was transversal to the entire market for capitalisation products and PPR's in the form of insurance. The low new business level resulted mainly from the competition, from the offer of time deposits with very attractive rates and also from the negative impact of tax changes on new PPR contracting, sales of which were severely penalised. It should be noted that in the Portuguese PPR market, new contracting was down 60% relative to 2010, having decreased 46% at BPI Vida e Pensões.

In 2011, BPI Vida e Pensões launched the product BPI Reforma Objectivo PPR (2025 and 2035), a retirement-savings plan which adapts to investors' life cycle.

PENSION FUNDS

At the end of the year, BPI Vida e Pensões was responsible for 125 business pension plans and managed 36 pension funds whose net assets totalled 1 565 M.€. The decrease of 1 618 M.€ in assets under management when compared with the previous year is chiefly explained by the transfer of part of retirement-pensions and pensioners' liabilities to the Social Security system, which involved the transfer of pension fund assets worth 1 373 M.€.

In 2011 BPI Vida e Pensões was adjudicated the full or shared management of three corporate pension plans.

BPI Vida e Pensões occupied third place in the ranking of pension fund management in terms of the volume of assets under management at the end of 2011. Its estimated market share was 13%, not taking into account the amounts allocated to PPR's and PPA's and the amounts under management of the Bank of Portugal and Previsão Pension Fund Management Company, whose sole objective falls within the management of the respective shareholders' pension funds.

BPI Vida e Pensões was the market leader with a 35.3% share in the management of open-ended pension funds.

1) Amount of the mathematical provisions of the capitalisation insurance products. Does not include BPI Vida e Pensões' own portfolio and BPI Vida PPR pension fund. The amount of assets under management stood at 3 405 M.€ at the end of 2011.

2) Products closed to new and / or additional subscriptions.

Investment banking

2011 activity was marked by a series of assignments and initiatives which underscore BPI's ability to internationalise its successful Iberian investment banking model – which entails BPI's strong affirmation in Iberian equities brokerage and which is widely acknowledged by international investors and borne out by the regular leading position in the Extel and Institutional Investor rankings –, broadening its Customer base and diversifying its revenue sources:

- admission as member of the Johannesburg Stock Exchange, to add to its presence on the Euronext Lisbon and Paris stock markets and the Madrid Stock Exchange (Bolsa de Madrid);
- the opening of two offices outside the Iberian Peninsula – in Cape Town, South Africa, which will enable it to cover various sub-Saharan emerging markets, including Angola and Mozambique, and in Paris –, and the start of coverage of African and French equities;
- co-leadership in the placing of Pescanova's convertible bonds;
- participation in the operation involving the admission of Sonae Sierra Brasil to the Bovespa stock market;
- the procurement of several consultancy mandates to Spanish companies.

CORPORATE FINANCE

Mergers and Acquisitions activity in Portugal maintained the downward trend observed since 2007 and which intensified in 2011 owing to the sovereign debt crisis in Portugal, obliging the pursuance of recessive policies dictated by budget consolidation and by the deleveraging drive from the vast majority of economic agents, factors constituting a backdrop that is not conducive to the execution of mergers and acquisition deals involving national economic agents.

In fact, mergers and acquisition transactions with Portuguese targets announced in 2011 listed on Bloomberg, excluding EDP's privatisation, fell 85% in value relative to 2010 (-81% in completed transactions), and were 81% below the 2008-2010 average (-86% in completed transactions). If one considers only transactions as financial advisor, the decline is even more pronounced.

Nonetheless, BPI's Corporate Finance Division was chosen to render services in certain high profile operations, amongst which advising an international candidate for the privatisation of a part of EDP's capital and to an international financial investor in the acquisition of Galp's natural gas distribution assets.

In addition, BPI advised a broad group of national entities, including its traditional Customers and new Customers in the taking of investment, restructuring and financing decisions.

Amongst the processes in which BPI was involved, the following consulting assignments merit special mention (i) to ExpressGlass in the analysis of an investment opportunity; (ii) to the Soares da Costa group in the evaluation and analysis of strategic options for a subsidiary; (iii) to FC Porto SAD in the issuance of a bond loan; (iv) to food sector companies in the analysis of consolidation opportunities; and (v) to a quoted Spanish company in the acquisition of a company in Brazil.

Also noteworthy was the advisory service provided by BPI to Partex in the valuation of its oil-related assets.

Some of the advisory mandates of a public nature in which BPI was involved in 2011 are listed next.

ExpressGlass – Advising in the study of a strategic investment decision.

Sonae – Advising in an acquisition in the retail area.

Infrastructure fund – Advising in the taking of a decision for the acquisition of Galp's natural gas assets.

Partex – Advising in the determination of the fair value of oil-related assets.

Desfo Group – Advising in the analysis of strategic options.

Soares da Costa – Advising in the valuation and analysis of strategic options for the subsidiary.

FCPorto SAD – Support in the mounting and placing of a bond loan.

International Energetic Operator – Privatisation of EDP.

Food Sector – potential establishment of partnerships.

Duro Felguera – Advising in the taking of a strategic investment decision.

BUSINESS DEVELOPMENT UNIT

BPI's Business Development Unit has as its mission:

- providing financial advisory and investment banking services to Angolan entities, whether they be governmental or public or private corporates, with a view to Angola's economic and financial market development;
- supporting and incentivising foreign investment in Angola, through its proactive offer of a comprehensive range of advisory services to companies wishing to operate and grow in Angola;
- supporting BFA in the mounting of larger or more complex operations.

The Business Development Unit is manned by the team comprising Angolan and Portuguese professionals with considerable experience and credentials in investment banking business and the provision of financial advisory and consultancy services. The unit acts in liaison with BFA's team, significantly reinforcing BPI's positioning as a key financial partner of companies operating in Angola.

The unit's operations are founded on a continual drive aimed at the identification of investment opportunities in Angola, in particular, in the sectors with the most potential for development and in their promotion, within and outside Angolan territory, so as to identify the players who are best placed to realise these.

Over the past few years, the team has carried out an intensive institutional marketing drive – “Angolan Opportunity” in different geographical regions that led to support for investment in Angola from international companies from sectors such as agriculture and fishing, foodstuffs, drinks, manufacturing industry, infrastructure etc.

In 2011 the Unit realised close to 300 direct contact initiatives and meetings with potential investors which resulted in the procurement of several financial advisory mandates.

EQUITIES

Secondary market

In 2011, BPI brokered share dealings worth 7.9 th.M.€ and generated net brokerage commissions of 9.6 M.€. This figure for commissions compares with the 11.4 M.€ earned in 2010. In online brokerage, Banco BPI was market leader with 19% share. BPI has an aggregate market share of 20.6% having brokered 2.5 th.M.€.

Primary market

BPI participated in the placing of convertible bonds for the Spanish firm Pescanova involving an amount of 180 M.€ (Co-Lead Manager) and the participation for the first time in the listing of a company, Sonae Sierra Brasil, on the Brazilian market (Bovespa). BPI acted as Co-Manager.

Research and sales

BPI continues to be amongst the research houses with the biggest coverage of companies listed on the Portuguese and Spanish markets: at the end of 2011, the universe covered by BPI Equity Research included 105 Iberian companies (75 companies in Spain and 30 in Portugal), 2 French and 1 Danish company. In 2011, BPI began coverage of DIA and Bankia in Spain

and just as was the case in 2010 with the renewables sector, in 2011 the “Infrastructures Specialist” project was unveiled, which translated into the expansion of universe of sectorial coverage to France, through Eiffage and Vinci.

In 2011, BPI Equity Research compiled 520 reports dealing with Iberian companies (excluding daily newswires). The “Iberian Small & Mid Caps Guide” and the “Iberian Strategist” are nowadays prestigious reference works in the institutional investor community specialising in these types of companies.

BPI continued to organise various events with the object of approximating companies and the institutional investor community. Amongst these initiatives, we cite the VIII Iberian Conference held in Cascais on September. This event was attended by 39 companies and some 80 institutional investors. In addition, BPI organised in conjunction with Euronext NYSE the Portuguese Day in New York, an event attended by 14 companies listed on the Euronext Lisbon market.

In 2011, BPI maintained active contact with some 400 institutional investors, of which around 90% are international Clients.

Turning to stock brokerage for individuals, more than 95% of the volume brokered was realised via the internet. The BPI Group offers primarily two online channels which permit access to research and to the national market and 12 international markets:

- BPI NetBolsa, which is integrated into the range of homebanking services at the disposal of Banco BPI Customers, being the leader in Portugal in online stock brokerage by volumes traded;
- BPI Online, the Investment Bank's exclusive channel.

In 2011, BPI initiated two stock-broking projects: in France and South Africa, in the last-mentioned it obtained a licence to deal on the Johannesburg stock exchange.

BPI Capital África

BPI launched a new project in the area of stock broking for institutional investors in South Africa through a subsidiary (BPI Capital África) headquartered in Cape Town. BPI Capital África became a member of the Johannesburg Stock Exchange (the African continent's largest) in June 2011 and commenced research coverage of six South African companies by the end of the year. This coverage will increase progressively during 2012, extending also to companies on all sub-Saharan stock markets (in particular Nigeria, Kenya and Zimbabwe), so as to constitute an integrated product to be distributed on a global scale in line with what now occurs with the Iberian research product.

Trading

The principal trading activity was segregated in the BPI Alternative Fund – Iberian Equities Long Short. At the end of 2011 the Bank held 85% of the fund's participating units.

The fund achieved a positive performance of 2.74% net of commissions and taxes. In relative terms, the annual performance of the BPI Alternative Fund place it in the 85 percentile from a sample of 1 200 funds (according to Bloomberg) which follow from the European space a Long / short strategy in shares. This sample of funds presented a median return of -5.5%.

Recognition

At the close of 2011, the Iberian team comprised 34 Employees, of whom 11 work in the Madrid office: 16 constituted the research team and 18 were involved in sales and trading.

This team received widespread recognition in the main brokers' rankings at Iberian level, having received the following accolades.

Thomson Extel

- #1 Iberian Equity Sales and Small & Mid Caps Sales;
- #2 Iberian Brokerage firm;
- #2 Iberian Research Team.

Institutional Investors

- #2 2011 Institutional Investor Awards – All Europe.

Starmine

- #1 Top Brokers Iberia.

PRIVATE BANKING

At the end of December 2011, BPI Private Banking's business volume was 3 244 M.€, representing an 8% decrease relative to the end of 2010. Assets under BPI Private Banking's discretionary management and effective advisory mandate recorded 7% decrease to stand at 2 759 M.€.

The economic and markets background for private banking activity deteriorated substantially with the deepening of the sovereign debt crisis in Europe and the worsening of the Outlook for economic growth, in particular in the developed economies, engendering uncertainty and volatility in the markets and an increased aversion to risk, which made the process of advising and selecting investments even more demanding and complex. In this context, commercial activity centred on the preservation of Clients financial assets, while also seeking to promote a gradual diversification of a portion of investments so as to take advantage of investment opportunities in expanding emerging economies.

The canvassing for new Clients in 2011 represented 8.5% of the initial Client base.

Private Banking

Selected indicators		Amounts in M.€		
		2010	2011	Δ%
Assets under management				
Advisory services	1	2 534	2 490	(2%)
Discretionary management	2	423	269	(37%)
[= 1 + 2]	3	2 957	2 759	(7%)
Stable investments under custody	4	441	354	(20%)
Loans portfolio	5	127	130	3%
Business volume	[= Σ 3 to 5]	3 525	3 244	(8%)

Table 15

PRIVATE EQUITY

The Group's private equity business is conducted by BPI Private Equity essentially by way of investments in venture capital funds, and a 49% stake in Inter-Risco, a venture-capital management company. BPI Private Equity also has its own investment portfolio which it manages directly.

At the end of 2011, the overall portfolio of the Group's private equity area's assets, composed of its own portfolio and the participating interests in venture capital funds was worth some 73 M.€ in terms of balance sheet values.

The participating units in the venture capital funds corresponded to:

- the 51.5% participating interest in the Fundo Caravela – Fundo de Capital de Risco with a capital of 30 M.€, promoted by BPI and managed by Inter-Risco. This fund is in the disinvestment phase;
- the 46% participating interest in the Fundo Inter-Risco II, launched in 2010, and which is also managed by Inter Risco. In December 2011, the fund-raising period came to an end, having reached an inflow of 81.5 M.€. Besides BPI's participation as a sponsor with a position of 37.5 M.€, it has as key investors the European Investment Fund and the Fundação Calouste Gulbenkian. The fund pursues a generalist sectorial approach and targets buy-out and build-up investments in unquoted small and medium-sized Portuguese companies. The investment period began in 2010 and extends until 2014. In 2011 the fund acquired a stake in the 32 Senses Group, a project in the oral health area in Portugal which at the end of the year integrated 34 dental clinics;
- the 9% interest in the Fundo PVCi, a fund worth 111 M.€ and managed by the European Investment Fund, directed at investment in private equity and venture capital funds in Portugal.

The current portfolio of investments under management in BPI's Private Equity area is as follows:

Private Equity Investments

	% held	Description
Managed funds		
Caravela fund	51.5%	Investments in early-stage and development capital in Portuguese SME
Inter-Risco II fund	46.0%	Expansion and buyout investments in Portuguese SME
PVCi	9.0%	Investment in private equity and venture capital funds in Portugal
Own portfolio¹		
Inter-Risco	49.0%	Management of private equity funds

Table 16

1) Includes 2.1% in Arco Bodegas Unidas (Wine production and sales), 20.0% in Caravela Gest (Food retailer – Haagen Dazs) and 9.2% in Conduril (civil engineering and public works).

International activity

BANCO DE FOMENTO ANGOLA

BFA continued to expand its physical and virtual distribution network in 2011, to reinforce its staff complement and to endow the Bank with the operational infrastructure which, in parallel with the development of a segmented product range and innovative and financial products and services, will enable it to improve the level of service, maintaining the high intake of new Customers which now approximates the million mark.

Resources

Customer resources¹ registered growth of 11% to 6 156 M.US\$ (4 756 M.€). In December BFA had a 16.4% market share in deposits, which equates to third place in the market.

Loans

The loan and guarantees portfolio, measured in dollars¹, registered an 18% decrease to stand at 1 502 M.US\$ (1 161 M.€), with the Bank maintaining strict criteria in risk assessment. BFA's market share in December 2011 was 10.4%², which percentage corresponds to fifth place in the market.

At the end of 2011, 66% of the loan and guarantees portfolio corresponded to the companies segment, and the remaining 34% to the individuals segment.

Cards and automated banking

BFA occupies a leading position in debit and credit cards in Angola – at the close of 2011, it had 571 thousand valid debit cards in circulation, which corresponded to a 24% market share, and 11 861 active credit cards (Classic and Gold).

BFA retained its leadership in the number of active POS and ATM in 2011, terminating the year with 2 908 POS terminals and 298 ATM, which correspond in both cases to top place with market shares of 32% and 22%, respectively.

Banco de Fomento Angola

Selected indicators

	Amounts in M.€		
	2010	2011	Δ%
Net total assets	4 858	5 437	12%
Loans to Customers	1 189	1 021	(14%)
Loans to Customers and guarantees	1 382	1 161	(16%)
Customer resources	4 176	4 756	14%
Shareholders' equity	481	550	14%
Employees (no.)	2 038	2 172	7%
Branches (no.)	143	158	10%
ATM machines (no.)	262	298	14%
POS (no.)	2 018	2 908	44%
Customers (thousand)	781	910	17%

Table 17

Customer loans

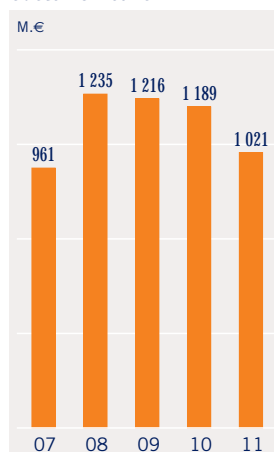


Chart 27

Customer deposits

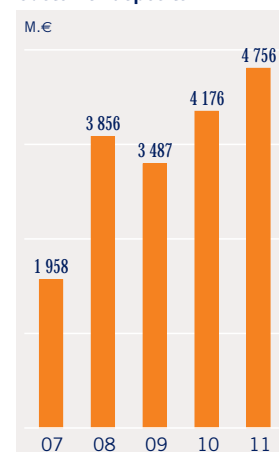


Chart 28

Securities portfolio

BFA's securities portfolio totalled 2 203 M.€ at the end of 2011 (4% more than in 2010). Half of the portfolio corresponded to short-term securities (with maturities up to one year) issued by the Angolan Treasury and by the Central Bank of Angola and the other half corresponded to Angolan Treasury Bonds with maturities of 1 to 6 years.

Customers

Prospecting for new Customers maintained a good pace with 17% growth, climbing from 781 thousand in December 2010 to 910 thousand in December 2011.

1) When analysing the performance of BFA's commercial activity, variances in dollars are used for those items bearing in mind that more than 60% of Customer resources and 68% of the loan book are denominated in dollars, and therefore are more representative of the evolution of business in Angola. When analysing the impact on the Group's financial statements, the consolidation currency is the euro. Expressed in euro, Customer resources grew by 14% while the loan and guarantees portfolio decreased by 16% in 2011.

2) According to the Central Bank's statistics, for this purpose, loans are deemed to include loans, Treasury Bills and Treasury Bonds, as well as financial investments.

Employees

At the end of 2011, BFA's headcount comprised 2 172 Employees, which corresponds to 7% annual growth.

Customers

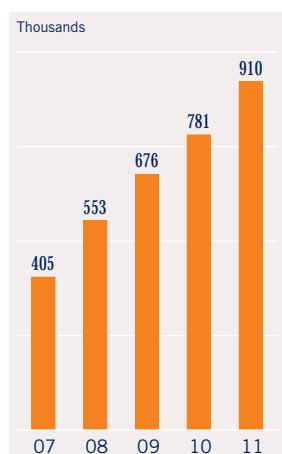


Chart 29

Subscribers of homebanking services

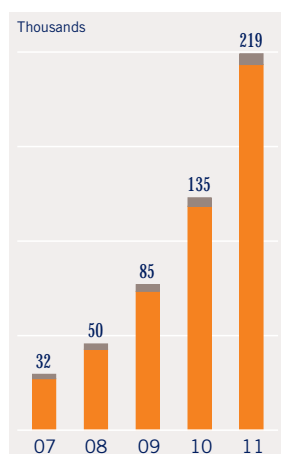


Chart 30

■ BFA NET Empresas (companies)
■ BFA NET Particulares (individuals)

Commercial network

The distribution network continued to expand with an increase of 10% relative to December 2010. 15 new branches were opened.

Distribution network

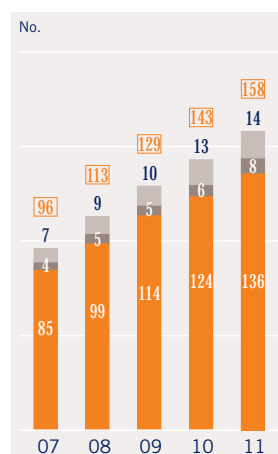


Chart 31

■ Corporate centres
■ Investment centres
■ Retail branches

Employees

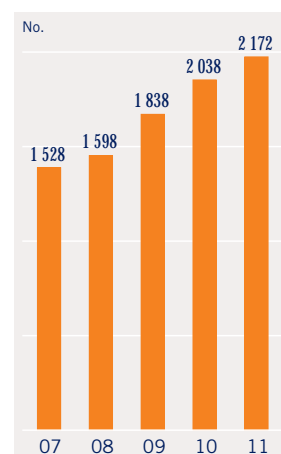


Chart 32

Sirius Award – Company of the Year – financial sector

BFA was distinguished with the award “Financial sector Company of the Year” in the 1st edition of the “Sirius Awards”, an initiative organised by Deloitte and which seeks to reward the best management practices in Angola. Within the ambit of that category, the quality and reach of the strategies and projects and the quality, rigour and extent of the information published, are evaluated.

EMEA Finance – Best Bank in Angola 2011

The magazine EMEA Finance distinguished for the 2nd time Banco de Fomento Angola with the prize “Best Bank in Angola” in 2011 for its performance and the consistency of its results.

The accolade is based on market share, commercial area growth, the diversity of products, the results and strategy. Directed at the financial community in Europe, Middle East and Africa, the magazine EMEA Finance analyses and classifies the performance of each country's leading banks.

Deutsche Bank – “Excellence Award”

BFA was honoured for the 9th consecutive year by Deutsche Bank Trust Company Americas with the award for “Straight Through Process Excellence Award”, which evaluates the quality of the automatic processing of foreign currency operations. BFA received the Excellence Award as a result of the high success of the index of automatic processing of foreign operations.

Superbrands Angola – Brand of Excellence

For the 2nd consecutive year, Banco de Fomento Angola is distinguished as the Brand of Excellence by Superbrands Angola, an international organisation which is dedicated to the promotion of brands in 89 countries.

A group of specialists and personalities with profound knowledge of brands in Angola integrates the Superbrands Board whose task is to classify the best. The selection criteria are various: familiarity, relevance, satisfaction, loyalty and commitment, being based on the identification of the brands which stand out in their activity.

CAMPAIGNS

“Civil Servant Solutions”

BFA was one of the first private banks to sign a protocol with the Angolan government to adhere to the Civil Servants Payments System (Sistema de Pagamentos da Remuneração dos Funcionários Públicos – SRAP). The Bank participated actively in the project and in the working group created with the object of decentralising the payment of civil servants’ salaries and fostering their recourse to banking services.

During the first four months of the year, BFA launched a campaign with the objective of prospecting for civil servant Customers through the opening of an account and salary domiciliation. The campaign was communicated during 3 months resorting to 5 communication vehicles: radio, outdoors, the press, Internet and placard (poster) displays at the branches.

By the end of the year, 11 557 civil servants had their salaries domiciled at BFA.

“We give credit to the Angolan economy”

In May 2011, BFA launched the Credit for Investment campaign in kwanzas, entitled “We give credit to the Angolan economy”.

With this campaign, which is aligned to the Angolan authorities’ goal of stimulating investment in the country through the promotion of finance to companies in kwanzas, BFA underscores its strategic commitment to supporting Angola’s development.

BFA began to offer the lowest market rate for credit for investment in kwanzas (14%), and in September revised the interest rate downwards to 11%.

“BFA SMS”

In October 2011, BFA unveiled an advertising campaign

publicising the launch of the service “BFA SMS”. This service enables the Bank’s Customers to consult bank account movements via their mobile phones, 24 hours a day, in any place and with total security.

Customers subscribing to this type of service permitted the progressive transfer of transactional activity from the branches to these channels, freeing the commercial network for higher value-added functions, namely the commercial relationship with Customers, translating into an improvement in the quality of service.

BFA SMS assumes special importance in the range of services through the medium of electronic banking taking into account the large number of potential users: the estimates point to the existence of eight million active mobile phones.

“With Mwangolé pay at your leisure”

With the goal of fostering the increase in sales volume and encouraging the use of the Mwangolé credit cards, BFA launched the “BFA – with Mwangolé pay at your leisure” campaign, in terms of which Customers using the card during the campaign period – between November 2011 and January 2012 –, were eligible to win trips as prizes.

Circulation levy

The National Taxes Division (Direcção Nacional de Impostos – DNI) – Ministry of Finance, annually promotes the sale of stamps relating to the traffic circulation rate which is a compulsory levy for all motorised vehicles circulating in Angola.

In November 2011, BFA launched an advertising campaign entitled “BFA – Circulation levy” and disseminated via the display posters inside the branches, with the objective of informing the public about the availability of the circulation levy stamps at the network of BFA branches.



Salary Account – Easier than ever to get my salary (advertising campaign)



BFA SMS – your Bank by SMS (advertising campaign)



With Mwangolé pay at your leisure (advertising campaign)



Pay here the circulation levy (advertising campaign)

BCI – BANCO COMERCIAL E DE INVESTIMENTOS

Total assets amounted to 1 467 M.€ at the end of 2011, which represents 36% growth relative to 2010. In November 2011, the Bank had a 26.7% market share of the Mozambique financial system's total assets.

Deposits

Deposits taken from Customers registered in 2011, when measured in euro, 36% growth, amounting to 1 062 M.€. Deposits in national currency constituted the most important component of that growth. At the end of November 2011, BCI's market share of deposits stood at 27.5%, which represents a share gain (+0.4 p.p.) when compared with the figure at the end of 2010.

Loans

The net loans portfolio, valued in euro, posted a 31% expansion to 908 M.€. This positive variation was chiefly propelled by the growth of loans in local currency which reversed the trend of the foreign currency's dominance.

BCI's market share in the lending segment was situated at 31.9% in November 2011.

Distribution network

During 2011, BCI continued to bolster its physical branch network, opening 25 new branches, of which 6 correspond to BCI Exclusivo Centres, geared to serve top-range Customers within the retail segment. It also embarked on the enlargement of the ATM network, adding 71 units to the Ponto 24 network, and the POS capability, installing 1 095 new units in 2011. At the end of the year, the bank thus had a total of 114 branches, 6 business centres, 291 ATM and 2 460 POS, which served some 409 thousand Customers. The workforce comprised 1 703 Employees.

Banco Comercial e de Investimentos

Selected indicators

	Amounts in M.€		
	2010	2011	Δ%
Net total assets	1 081	1 467	36%
Loans to Customers (net)	692	908	31%
Customer deposits	779	1 062	36%
Shareholders' equity	80	117	47%
Employees (no.)	1 344	1 703	27%
Branches (no.)	95	120	26%
ATM machines (no.)	220	291	33%
POS (no.)	1 365	2 460	80%
Customers (thousand)	262	409	57%

Table 18

Customer loans

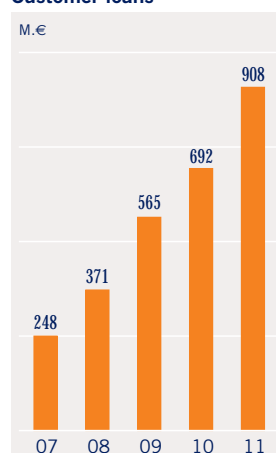


Chart 33

Customer deposits

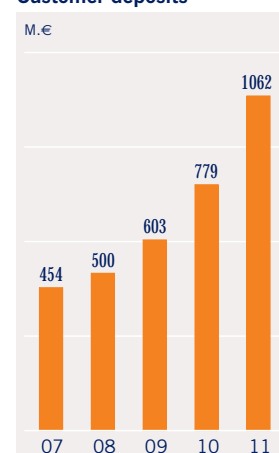


Chart 34

Banco BPI continues to be actively involved in the direct monitoring of the Mozambique market and in the study of a number of structural-making projects in Mozambique, linked to various sectors. Of these, special mention is made of the following due to their scale and importance, not only in the national but also the regional context, power generation and transmission and transport infrastructures, as well as the agro-industrial sector.

Financial review

OVERVIEW OF CONSOLIDATED RESULTS

BPI recorded a consolidated net loss of 284.9 M.€ in 2011, due to the non-recurring impacts which globally penalised the result for the year by 400.8 M.€. Earnings per share were -0.29 €.

The non-recurring impacts amounted to 541.7 M.€ after taxation:

- recognition of impairments due to the exposure to Greek public debt (419.8 M.€);
- partial transfer of the pension funds and liabilities to the Social Security system (70.9 M.€);
- early-retirement costs (28.4 M.€);
- banking sector's extraordinary contribution, audit costs under the Special Inspections Programme covering the loan portfolio and costs with the Investors' Compensation System (22.6 M.€).

The negative impacts listed above were partially offset by non-recurring, positive after-tax impacts of 140.9 M.€:

- gains from the repurchase of liabilities (81.0 M.€);
- gains associated with the contribution in kind to the pension fund of the 11% participating interest in Viacer (59.9 M.€).

Excluding the non-recurring impacts (negative and positive), recurring consolidated net profit was 115.9 M.€, which corresponds to a 25.2% decrease relative to the comparable net profit of 154.9 M.€ earned in 2010. The return on average shareholders' equity (ROE), excluding non-recurring items was 5.4% (7.4% in 2010).

Consolidated net profit

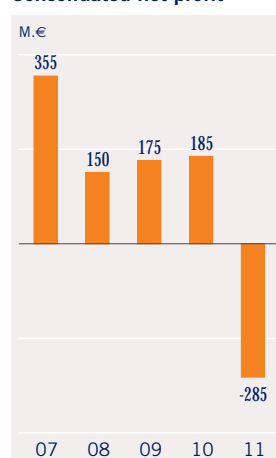


Chart 35

Recurring net profit

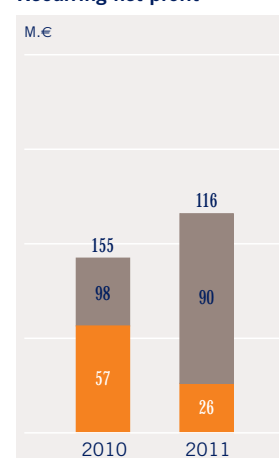


Chart 36

■ International activity
■ Domestic activity

Recurring net profit, efficiency and profitability

Amounts in M.€

	2010	2011			Δ%
	Consolidated	Domestic activity	International activity	Consolidated	Consolidated
Net profit as reported					
Net profit (as reported)	184.8	(374.9)	90.0	(284.9)	n.m.
Net profit per share (as reported) ¹	0.188	(0.382)	0.092	(0.290)	n.m.
Recurring net profit, efficiency and profitability					
Net profit (recurring)	154.9	25.9	90.0	115.9	(25.2%)
Net profit per share (recurring)	0.158	0.026	0.092	0.118	(25.2%)
Net operating revenue	1 076.9	693.9	304.8	998.7	(7.3%)
Net operating revenue per Employee ² (thousands of euro)	113	96	147	107	(4.6%)
Operating costs ³ / net operating revenue	62.5%	76.5%	36.9%	64.4%	
Return on average total assets (ROA)	0.5%	0.1%	3.7%	0.5%	
Return on average Shareholders' equity (ROE)	7.4%	1.4%	28.9%	5.4%	

Table 19

1) Corresponds to net profit divided by the weighted average number of shares, after deducting treasury stocks, and adjusted for the capital increase through incorporation of reserves that took place in May 2011 (982 million of shares).

2) Number of Employees of the companies which are consolidated in full.

3) Personnel costs (excluding costs with early-retirements), outside supplies and services, depreciation and amortisation.

Consolidated income statement

Amounts in M.€

		2010 proforma ²	2010			2011			Δ% Recurring results
			Recurring results	Non- recurring	As reported	Recurring results	Non- recurring	As reported	
Net interest income (narrow sense)	1	626.4	626.4		626.4	543.3		543.3	(13.3%)
Other income ¹	2	38.1	38.1		38.1	33.4		33.4	(12.3%)
Net interest income	[= 1 + 2]	664.5	664.5		664.5	576.8		576.8	(13.2%)
Technical result from insurance contracts	4	16.1	16.1		16.1	16.0	(46.1)	(30.1)	(0.5%)
Commissions and other similar income (net)	5	313.9	313.9		313.9	297.0		297.0	(5.4%)
Profits from financial operations	6	119.2	97.3	21.8 ³	119.2	97.4	108.8	206.2	0.1%
Operating income and charges	7	(15.0)	(14.9)		(14.9)	11.5	(41.2)	(29.7)	177.3%
Net operating revenue	[= Σ 3 to 7]	1 098.7	1 076.9	21.8	1 098.8	998.7	21.5	1 020.1	(7.3%)
Personnel costs	9	430.9	395.4	36.1 ⁴	431.5	378.1	39.9	418.0	(4.4%)
Outside supplies and services	10	232.1	232.1		232.1	228.1	2.8	230.8	(1.8%)
Depreciation of fixed assets	11	45.2	45.2		45.2	36.8		36.8	(18.5%)
Operating costs	[= Σ 9 to 11]	708.2	672.8	36.1	708.8	643.0	42.7	685.7	(4.4%)
Operating profit	[= 8 - 12]	390.5	404.2	(14.3)	389.9	355.7	(21.2)	334.4	(12.0%)
Recovery of loans written-off	14	15.9	15.9		15.9	20.3		20.3	28.1%
Loan provisions and impairments	15	121.1	154.3	(33.2) ⁵	121.1	144.8	68.3	213.2	(6.2%)
Other impairments and provisions	16	29.1	29.1		29.1	52.8	445.3	498.1	81.2%
Profits before taxes	[= 13 + 14 - 15 - 16]	256.1	236.6	18.9	255.5	178.4	(534.9)	(356.5)	(24.6%)
Corporate income tax	18	(5.7)	5.1	(11.0) ⁶	(5.9)	(7.1)	(134.1)	(141.2)	(239.4%)
Equity-accounted results of subsidiaries	19	29.1	29.1		29.1	28.4		28.4	(2.5%)
Income attributable to minority interest	20	105.7	105.7		105.7	98.0		98.0	(7.3%)
Net profit	[= 17 - 18 + 19 - 20]	185.2	154.9	29.9	184.8	115.9	(400.8)	(284.9)	(25.2%)
Cash flow after taxation	[= 21 + 11 + 15 + 16]	380.6	383.5	(3.3)	380.2	350.4	112.8	463.2	(8.6%)

1) Unit linked gross margin, income from securities (variable yield) and commissions related to deferred cost (net).

Table 20

Proforma 2010 earnings

2) Considering the retrospective application of the recognition of actuarial and financial variances directly in shareholders' equity to the 2010 financial statements.

Alteration to the accounting policy for recognising actuarial and financial variances relating to pensions in 2011

At the end of 2011, BPI changed the accounting policy for the recognition of actuarial and financial variances relating to the pension and other post-employment, defined-benefit plans, ceasing to use the corridor method and starting to recognise actuarial and financial gains and losses directly in shareholders' equity, in the statement of comprehensive income in the period in which they occur, as prescribed in IAS 19. The change in accounting policy aims to bring forward the adoption of the alterations to IAS 19 issued in June 2011, which are expected to become mandatory in the European Union for the annual periods commencing on or after 1 January 2013 (see note to the financial statements 2.1).

Non-recurring impacts on 2010 earnings:

- 3) Gain on the revaluation of the equity holding in Unicre (21.8 M.€ after tax). The revaluation of this holding is explained by the fact that Unicre is now deemed to be an associated company and recognised using the equity method (the investment was previously recorded in the portfolio of available-for-sale assets) by virtue of BPI having raised the holding in the company's capital from 17.6% to 21%;
- 4) Early-retirement costs (25.7 M.€ after tax) relating to the actual departure of 202 Employees due to early retirement and to disability and 65 departures realised at the beginning of 2011.
- 5) Decrease in the amounts set aside for loan impairments by virtue of the utilisation of the extraordinary impairment charge made in Dec.09 (23.6 M.€ after tax).
- 6) Within the ambit of the measures adopted by the Stability and Growth Programme II (PEC II) a state tax surcharge of 2.5% was introduced by Law 12-A / 2010 of 30 June to be applied to that part of taxable profit which exceeds 2 M.€. As a consequence, BPI recalculated the Group's deferred taxes recorded as at 31 December 2009, having registered a gain of 10 M.€ in 2010 net profit (in the caption "corporate income tax"), as prescribed in IAS 12. The remaining amount (1 M.€) refers to the tax effect of the other non-recurring impacts.

Non-recurring impacts on 2011 earnings:

The non-recurring impacts on 2011 net profit are described in detail in pages 52 to 55 of the present Report.

A SOUND FINANCIAL BASE

At 31 December 2011, Banco BPI presents an adequate capitalisation level, a loans / deposits ratio which already complies with the rule applicable from 2014, a reduced recourse to the European Central Bank (also complying with the limit applicable in 2014), full cover of pension liabilities by the respective pension funds¹ and good risk indicators.

Adequate capitalisation

The Core Tier I capital ratio – essentially shareholders' equity and minority interests excluding preference shares – stood at 9.2%, up 0.5 p.p. in relation with the preceding year. BPI thus complied with the new minimum core tier I capital requirement of 9% prescribed by the Bank of Portugal for the end of 2011, without recourse to any capital increase.

Quality of assets

BPI maintains good loan quality indicators:

- the ratio of loans in arrears for more than 90 days was 2.4%;
- the credit-at-risk² ratio was 3.2%;
- accumulated impairments for loans with defaulting instalments³ and guarantees (real or personal) covered 85% of the total loan exposure, that is, loans in arrears for more than 30 days and associated loans not yet due;

- the results of the Special Inspections Programme (SIP) covering the loan portfolio carried out within the ambit of the Economic and Financial Assistance Programme to Portugal show that the level of impairment allowances was adequate. The exercise encompassed 95% of the BPI Group's entire loan portfolio;
- the cost of credit risk⁴ reflected in the income statement represented 0.43% of the loan portfolio;

Core tier I ratio

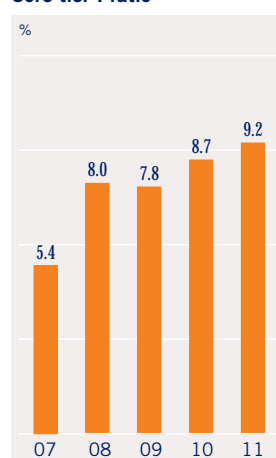


Chart 37

Loans-to-deposits ratio⁵

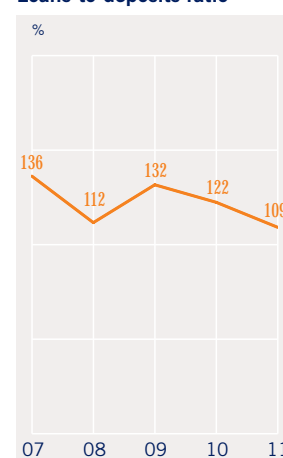


Chart 38

Capital, assets quality and pension liabilities

Amounts in M.€

	2010	2011		
	Consolidated	Domestic activity	International activity	Consolidated
Capital				
Shareholders' equity and minority interests	1 964	238	585	822
Core Tier I capital	2 267			2 321
Total own funds	2 902			2 349
Risk weighted assets	26 036			25 152
Core Tier I ratio	8.7%			9.2%
Assets quality				
Loans in arrears for more than 90 days	577	622	65	687
Loans in arrears for more than 90 days / Loans to Customers	1.9%	2.2%	5.9%	2.4%
Credit at risk ² / Loans to Customers	2.7%	3.0%	9.0%	3.2%
Net credit loss ⁴	0.35%	0.42%	0.62%	0.43%
Pension liabilities				
Employees' pension liabilities	2 306	836		836
Employees' pension funds' assets	2 409	839 ¹		839

Table 21

1) Including a contribution of 37.9 M.€ transferred to the pension fund in January 2012.

2) According to Bank of Portugal Instruction 23 / 2011, includes loans in arrears for more than 90 days, associated loans not yet due, restructured loans (previously with instalments in arrears for more than 90 days and in respect of which the debtor had not adequately reinforced the guarantees furnished or paid in full the outstanding interest and other charges) and insolvency situations still not contemplated in loans in arrears for more than 90 days.

3) In addition, BPI had impairment allowances of 236.5 M.€ for loans with no arrear instalments and for guarantees. Taking this figure also into account, cover for total overdue loans and associated loans falling due stood at 105%.

4) Loan impairments in the year, deducted of recoveries of loans in arrears written-off (in the income statement) / Customer loans average portfolio.

5) In accordance with Bank of Portugal's Instruction 23 / 2011.

- the gross value of loan-recovery (foreclosure) properties was 139.2 M.€ and was 38% covered by impairments;
- the exposure to the construction and real-estate activities sector is not very material, representing about 5% of the loan portfolio.

Full cover of pension liabilities

At 31 December 2011, following the transfer to the Social Security system of part of the liabilities for pensions and to pensioners (1 274 M.€) and of the value of the pension fund corresponding to the liabilities transferred (1 373 M.€), the liabilities which remain BPI's responsibility (835.8 M.€) were 100% covered by the pension funds¹.

Balanced funding and liquidity

Balance sheet funding is stable and the liquidity situation balanced:

- improvement in the commercial liquidity gap by virtue of the 7.1% expansion in deposits and the 5.8% contraction in the loan portfolio, reflecting the balance sheet deleveraging process in domestic activity;
- the transformation of deposits into loans ratio, in accordance with the Bank of Portugal's Instruction 23 / 2011, was 109% at the end of 2011, with the result that BPI already complies with the maximum ratio of 120% prescribed for Portuguese banks in 2014.
- the net funding obtained from the ECB amounted to 1.8 th.M.€ at the December 2011, a figure below the maximum that will be permitted to Portuguese banks at the end of 2014;
- the Bank also had assets capable of transformation into immediate liquidity in operations with the ECB of 3 917 M.€;
- the refinancing needs of medium-long term debt to occur in the next few years are not significant: 516 M.€ in 2012 and 414 M.€ from 2013 till 2016.

Consolidated balance sheet

Amounts in M.€

		2010 Proforma ²	2010	2011	Δ%
Assets					
Cash, deposits at central banks and deposits and loans to credit institutions	1	3 105.9	3 105.9	3 867.5	24.5%
Loans and advances to Customers	2	30 055.0	30 055.0	28 318.3	(5.8%)
Financial assets held for dealing	3	1 241.7	1 241.7	937.5	(24.5%)
Financial assets available for sale	4	8 156.3	8 156.3	6 778.1	(16.9%)
Investments held to maturity	5	1 043.6	1 043.6	766.2	(26.6%)
Investments in associated companies and jointly controlled entities	6	194.2	194.2	179.2	(7.7%)
Other	7	1 682.5	1 863.1	2 109.1	13.2%
Total assets [= Σ 1 to 7]	8	45 479.2	45 659.8	42 955.9	(5.9%)
Liabilities and shareholders' equity					
Resources of central banks	9	1 245.5	1 245.5	2 499.2	100.7%
Credit institutions' resources	10	4 726.1	4 726.1	2 071.5	(56.2%)
Customer resources and other loans	11	23 240.9	23 240.9	24 671.3	6.2%
Debts evidenced by certificates	12	7 782.3	7 782.3	6 692.0	(14.0%)
Technical provisions	13	2 991.9	2 991.9	2 625.2	(12.3%)
Financial liabilities associated to transferred assets	14	1 570.4	1 570.4	1 414.6	(9.9%)
Participating bonds and other subordinated loans	15	647.6	647.6	214.5	(66.9%)
Other	16	1 491.5	1 491.2	1 945.3	30.4%
Shareholders' equity attributable to BPI shareholders	17	1 265.6	1 446.6	469.4	(67.6%)
Minority interests	18	517.4	517.4	353.0	(31.8%)
Total Shareholders' equity and minority interests [= 17 + 18]	19	1 783.0	1 963.9	822.4	(58.1%)
Total liabilities and Shareholders' equity [= Σ 9 to 18]	20	45 479.2	45 659.8	42 955.9	(5.9%)
Note: bank guarantees	21	3 012.0	3 012.0	2 540.7	(15.7%)
Off-balance sheet Customer resources	22	2 613.7	2 613.7	1 912.6	(26.8%)

Table 22

1) Including a contribution of 37.9 M.€ transferred to the pension fund in January 2012.

2) Considering the retrospective application of the accounting policy for the recognition of actuarial and financial variances directly in shareholders' equity to the 2010 financial statements.

SUMMARY OF NON-RECURRING IMPACTS ON NET PROFIT, ACCOUNTING SHAREHOLDERS' EQUITY AND REGULATORY CAPITAL

The **2011 result** was influenced by non-recurring factors which generated an overall negative impact of net profit of 400.8 M.€.

The non-recurring negative impacts on earnings totalled 541.7 M.€, due above all to the partial transfer of pension liabilities and fund assets to the Social Security system (-70.9 M.€) and to the recognition of impairments on the exposure to Greek sovereign debt (-419.8 M.€).

These impacts were partially offset by non-recurring gains of 140.9 M.€ from the repurchase of own liabilities and from the contribution in kind to the pension fund of 11% of Viacer and the consequent revaluation of the participating interest that remained at the Bank (14% of Viacer).

The **accounting shareholders' equity** registered non-recurring negative impacts of 557.1 M.€. Besides the impacts on net profit already referred to (400.8 M.€), it also includes:

- the negative impact of 316.7 M.€ stemming from the recognition in accounting equity of the total actuarial

variances relating to liabilities to pensioners and current Employees. Of that figure, 193.7 M.€¹ refers to the liabilities transferred to the Social Security system and 123.0 M.€² relates to liabilities which remain at the Bank;

- deferred tax assets of 91.4 M.€ related to the actuarial variances;
- gain of 69.0 M.€, after taxation, from the repurchase of preference shares issued by BPI Capital Finance.

The non-recurring impacts on **core tier I** capital at the end of 2011 were a negative 169.5 M.€, given that *vis-à-vis* accounting shareholders' equity:

- the negative impacts from the partial transfer of the pension liabilities of 261.8 M.€ (70.9 M.€ in the income statement and 190.9 M.€ of negative actuarial variances accommodated in the prudential corridor at the end of 2011) will only be reflected in June 2012;
- 117.2 M.€ of negative actuarial variances relating to the liabilities not transferred were accommodated in the prudential corridor envisaged by the Bank of Portugal, and therefore had no impact on core Tier I capital.

Non-recurring impacts at 31 December 2011

Amounts in M.€

			In net profit			In accounting Shareholders' equity	In core tier I
		Caption	Pre-tax	Taxes	After taxes		
Costs							
Transfer of pension liabilities to the Social Security							
Difference between transferred liabilities and pension fund assets	1	OIC	(99.7)	(28.8)	(70.9)	(70.9)	
Negative actuarial deviations ¹	2					(193.7)	
Actuarial deviations from non-transferred pension liabilities ²	3					(123.0)	
Deferred tax assets relating to actuarial deviations	4					91.4	91.4
Impairments for Greek sovereign debt ³	5	TRIC / LI / OIP	(559.7)	(139.9)	(419.8)	(419.8)	(419.8)
Costs with early retirements	6	PC	(39.9)	(11.5)	(28.4)	(28.4)	(28.4)
Contribution over the banking sector	7	CIT	-	15.3	(15.3)	(15.3)	(15.3)
Investor Indemnity System	8	OIC	(7.1)	(1.8)	(5.3)	(5.3)	(5.3)
Audit costs with the Special Inspections Program (SIP)	9	OSS	(2.8)	(0.7)	(2.1)	(2.1)	(2.1)
Costs	[= Σ 1 to 9]	10	(709.2)	(167.5)	(541.7)	(767.0)	(379.4)
Revenues							
Repurchase of liabilities and preference shares							
Upper tier II and lower tier II bonds and securitisations	11	PfFO	108.8	27.8	81.0	81.0	81.0
Preference shares	12					69.0	69.0
Contribution in kind to the pension fund ⁴	13	OIC	65.5	5.6	59.9	59.9	59.9
Revenues	[= Σ 11 to 13]	14	174.3	33.4	140.9	209.9	209.9
Total impact	[= 10 + 14]	15	(534.9)	(134.1)	(400.8)	(557.1)	(169.5)

TRIC – Technical result from insurance contracts; PffO – Profits from financial operations; OIC – Operating income and charges; PC – Personnel costs; OSS – Outside supplies and services; LI – Loan impairments; OIP – Other impairments and provisions; CIT – Corporate income tax.

Table 23

1) Includes 190.9 M.€ of deviations accommodated in the prudential corridor and 2.8 M.€ of deviations outside the corridor that were deducted from core capital at 31 December 2011.

2) Figures relating to liabilities to pensioners and Employees on the payroll (includes 117.2 M.€ of variances accommodated in the prudential corridor and 5.8 M.€ of variances written off from core capital at 31 December 2011 due to their being outside the prudential corridor). In addition, the Bank recognised in shareholders' equity negative actuarial and financial variances of 0.3 M.€ relating to Directors' pension liabilities.

3) 46.1 M.€ recorded in the caption "Operating income and charges", 68.3 M.€ recorded in the caption "Loan impairments" and 445.3 M.€ recorded in the caption "Other impairments and provisions".

4) Contribution in kind to the pension fund with 11% of Viacer capital and revaluation of the 14% shareholding in Viacer that remained in the Bank.

NEGATIVE NON-RECURRING IMPACTS

Partial transfer of pension liabilities to the Social Security system

At the end of 2011, BPI agreed with the Portuguese State to the partial transfer of liabilities for current pension payments relating to retirees and pensioners (survivors) and the liabilities relating to the Ex-Cafeb, as well as those relating to former banking Employees entitled to a pension (regime substituting the Social Security system)¹.

The present value of the liabilities transferred was 1 274 M.€ (60% of the pension liabilities relating to BPI Group Employees), while the amount of the pension funds' assets to be transferred to the Social Security system was fixed at 1 373 M.€. The difference between the value of the liabilities transferred and that of the pension fund's assets stems from the use of different actuarial assumptions by BPI and by the State² in the valuation of

the liabilities transferred, and was recorded as a cost in BPI's income statement (70.9 M.€, after taxation).

The Bank has already transferred 766 M.€ in cash, while the transfer of the remainder will be effected by 30 June 2012.

According to regulations issued by the Bank of Portugal, the impact of the partial transfer of pension liabilities will be recognised in core tier I capital at 30 June 2012. Besides the impact on net profit (70.9 M.€), the accumulated negative actuarial and financial variances relating to the transferred liabilities – which in December 2011 are accommodated in the prudential corridor (190.9 M.€) – will be recognised, making a total deduction from core capital of 261.8 M.€.

Accounting and prudential treatment of the negative actuarial variances

At the end of 2011, BPI changed the accounting policy for the recognition of actuarial and financial variances relating to pension plans and other defined post-employment benefits, ceasing to use the corridor method and beginning to recognise the actuarial and financial gains and losses directly in shareholders' equity, in the statement of comprehensive income, in the period in which they occur as prescribed in IAS 19. This change in accounting policy aims to introduce ahead of time the alterations to IAS 19 issued in June 2011, which are expected to become mandatory in the European Union for the financial years commencing on or after 1 January 2013.

For purposes of the prudential treatment of actuarial variances pursuant to Bank of Portugal Notice 2 / 2012:

- the prudential corridor corresponding to 10% of liabilities or of the pension fund (whichever is the higher), also began to be applied to the actuarial variances recognised directly in accounting equity;
- the transitional widening of the corridor created in 2008 (Bank of Portugal Notice 11 / 2008) was kept in the proportion to the liabilities which remain the Bank's responsibility, after transfer of the part of the liabilities to the Social Security system.

At 31 December 2011, and after the change to the financial assumptions relating to the growth rate for salaries and pensions, which gave rise to a decrease in liabilities and in the accumulated negative actuarial and financial variances of 116.5 M.€, BPI had accumulated negative actuarial variances of 316.7 M.€³ relating to pensioners and current Employees.

Those negative variances (316.7 M.€) were recognised in accounting shareholders' equity, as well as the respective deferred tax assets (91.4 M.€), resulting in a negative impact of 225.3 M.€³.

In terms of regulatory capital, the prudential corridor calculated on the value of the liabilities before the transfer to the Social Security system (given that the relevant impact will only be recognised in June 2012), permitted accommodating, at the end of 2011, 308.1 M.€ of negative actuarial variances, of which:

- 190.9 M.€ relating to the liabilities transferred;
- 117.2 M.€ relating to the liabilities which remain the Bank's responsibility.

There were 8.6 M.€ of negative variances outside the prudential corridor which were deducted from core capital on that date.

1) As regards these beneficiaries, the bank is still responsible for the future revision of pensions, the pensions payable to the survivors of current pensioners, the extra-ACT supplementary pensions and the SAMS costs and death subsidies.

2) Assumptions used by the Portuguese State: (i) discount rate of 4%; (ii) mortality table for female population: TV 88 / 90. Assumptions used by BPI: (i) discount rate of 5%; (ii) mortality table for female population: TV 88 / 90 less 1 year. Both entities used the same mortality table for male population (TV 73 / 77 less 1 year).

3) Figures relating to liabilities to pensioners and Employees on the payroll. In addition, the Bank recognised in shareholders' equity negative actuarial and financial variances of 0.3 M.€ relating to Directors' pension liabilities.

Impairments from exposure to Greek foreign debt

The BPI Group recognised, in the 2011 income statement, impairment charges of 559.7 M.€ (419.8 M.€, after taxation) for the exposure to Greek sovereign debt. The amount recorded as impairments for the year has an implicit estimated loss of 77% based on the fair value, updated at 31 December 2011¹, of the new securities received for participating in the Greek public-debt swap operation (Private Sector Involvement) under the 2nd financial bailout programme agreed to between Greece and the EU and IMF.

In greater detail:

- 468.9 M.€ (before taxation) relates to the securities held by Banco BPI² and include 61.3 M.€ of unrealised losses stemming from the accounting effect of the hedging of the fixed interest-rate risk;
- 90.8 M.€ (before taxation)^{3,4} relates to the cost assumed by BPI with impairments recognised by BPI Vida e Pensões for Greek sovereign debt held in the capitalisation insurance portfolios (in Banco BPI's consolidated balance sheet these securities are recorded as assets held to maturity).

Other negative non-recurring impacts

BPI recognised costs of 51.0 M.€ (after taxation) with other non-recurring factors which resulted from:

- cost of 28.4 M.€ relating to a programme of early retirements which covered 252 Employees;
- charge of 15.3 M.€ relating to the extraordinary contribution levied on the banking sector in Portugal⁵;

- cost of 5.3 M.€ relating to the contribution to the Investor Compensation System (Sistema de Indemnização de Investidores – SII) by virtue of its activation in order to overcome the negative net assets situation of Banco Privado Português;
- cost of 2.1 M.€ with the remuneration of the auditors of the Special Inspections Programme covering the loan portfolio (SIP).

POSITIVE NON-RECURRING IMPACTS

Repurchase of own issues

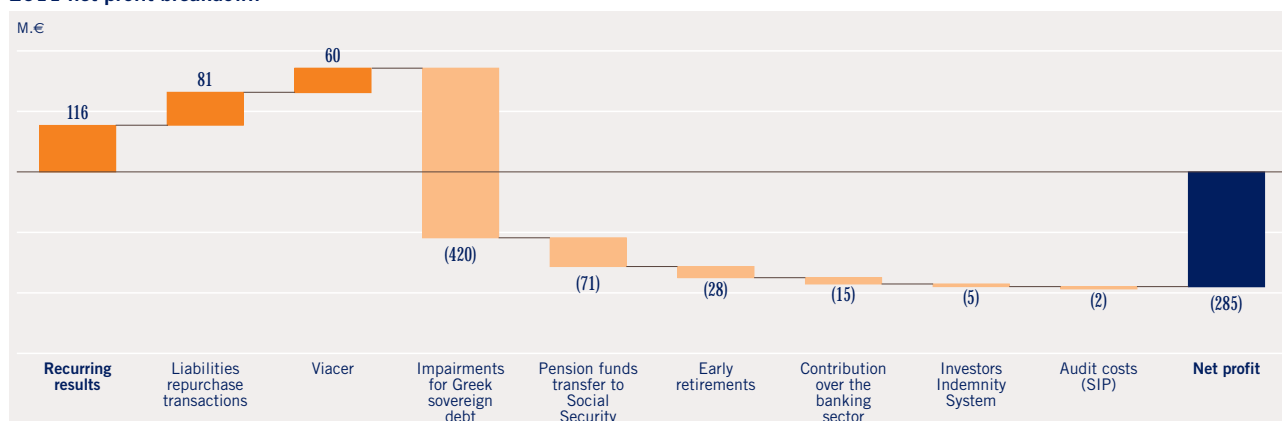
BPI realised non-recurring gains of 150 M.€ (after taxation) from the repurchase of liabilities and preference shares:

- gains of 81 M.€ realised with the repurchase of liabilities (upper tier II, lower tier II bonds and securitisations) and recorded in the income statement;
- gain of 69.0 M.€ from the repurchase of preference shares issued by BPI Capital Finance, with a nominal value of 185.2 M.€, and which was recorded directly in accounting shareholders' equity, and thus not affecting the earnings for the year.

Contribution in kind to the Pension Fund

BPI recorded a gain of 59.9 M.€ (after taxation) relating to the contribution in kind to the Pension Fund of 11% of the capital of Viacer and to the revaluation of the participating interest remaining with the Bank (14% of Viacer recorded in the portfolio of available-for-sale financial assets).

2011 net profit breakdown



1) Market price of new securities at 12 March 2012 revalued at the end of 2011 at the effective rate of interest on the bonds previously held.

Chart 39

2) Recorded in the portfolio of available-for-sale financial assets up till 31 October 2011 and transferred on that date to the Customer loans portfolio, at their market value, after recognition of impairments. Of the amount of impairments recognised in the year, 401 M.€ was registered under the caption "Other impairments and provisions" at 31 October 2011, before the aforementioned reclassification, and 68 M.€ recorded under the caption "Loan impairments", corresponding to the additional impairment charges in the wake of the Bank's participation in the Greek public-debt exchange programme.

3) 46 M.€ were recorded in the caption "Technical result from insurance contracts" and 45 M.€ in the caption "Other impairments and provisions".

4) BPI Vida e Pensões recognised impairment losses of 117.7 M.€ for Greek sovereign debt exposure in the insurance capitalisation portfolios, which entailed a loss for the BPI Group of 90.8 M.€ (before taxes).

5) The extraordinary contribution levied on the banking sector in Portugal, in force since 1 January 2011, is applied to liabilities, after deducting basis and complementary own funds included therein and deposits covered by the deposits guarantee fund, and to the national value of unhedged derivative financial instruments.

PRIVATE SECTOR INVOLVEMENT IN THE RESTRUCTURING OF GREEK PUBLIC DEBT

Banco BPI's exposure to public debt issued by Greece at 31 December 2011, prior to the abovementioned exchange operation, was 480 M.€ (nominal value).

Impairments at 31 October 2011

As at 31 October 2011, Banco BPI recognised impairments in the amount of 400.5 M.€ relating to these securities registered in the portfolio of available-for-sale financial assets, based on the market price ruling on that date (36.25%) and including 54.3 M.€ of unrealised losses stemming from the accounting effect of the hedging of the interest-rate risk.

After the recognition of the impairment and given the significant decline in the trading volume of Greek public debt securities, the Bank reclassified the portfolio of available-for-sale securities to the loan portfolio at market value on 31 October 2011 (182.2 M.€).

In addition, BPI Vida e Pensões held Greek public debt securities in the capitalisation insurance portfolios in the amount of 154 M.€ (nominal value). At 31 October 2011, BPI Vida e Pensões recognised impairment losses amounting to 78.1 M.€ on these securities recorded in the portfolio of held-to-maturity investments assuming, based on the information available to date, a recoverable amount corresponding to 50% of the bonds' principal and interest, which entailed a loss for the BPI Group of 51.3 M.€.

Restructuring of Greek public debt

The terms of the exchange offer of the bonds representing Greek public debt (Exchange Offer) were announced on 21 February and were aimed at materialising the private sector's involvement in the restructuring of Greek public debt – an operation commonly referred to as “PSI – Private Sector Involvement”, in the context of economic reform agreed to by Greece with the European Union and the International Monetary Fund.

Banco BPI decided to accept the Exchange Offer, with the transaction occurring on 12 March 2012.

Given that the 2011 Annual Report had not yet been submitted to date to the Board of Directors for approval in the terms provided for under “IAS 10 – Events occurring after the balance sheet date”, the Exchange Offer of bonds representing Greek public debt corresponds to an “event occurring after the balance sheet date giving place to adjustments”, which entails the recognition of the respective impacts on the 2011 accounts.

The principle terms of the agreement on the private sector's involvement in the restructuring of Greek public debt announced on 21 February 2012 are the following:

- debt pardon of 53.5% of the nominal value of the public debt securities issued by Greece currently held in private hands;
- exchange of 46.5% of the current Greek public debt securities, in the following proportions:

% of the nominal value of the securities currently held	Securities	Maturity
31.5%	New Greek debt securities	2042 (partial repayments from 2023)
15.0%	EFSF issues	2013 and 2014

EFSF – European Financial Stability Fund.

Table 24

- issue of Greek Republic securities whose repayment is dependent on the behaviour of Greek Gross Domestic Product (“Detachable GDP-Linked Securities”)¹ with a nominal value equal to the nominal value of the new Greek public debt securities;
- interest accrued up till 24 Feb. 2012 associated with the Greek public debt securities will be exchanged for debt securities to be issued by the EFSF with six month maturity.

The exchange operation represented a loss of approximately 77%, with reference to 31 December 2011, considering the present value of the new securities received in the exchange offer² relative to the nominal value of the public debt securities issued by Greece held by the BPI Group at 31 December 2011.

As a consequence, the BPI Group recognised additional impairment losses of 107.9 M.€ (before taxation) in the 2012 consolidated financial statements:

- 68.3 M.€ for Banco BPI's Customer loans portfolio, including 7.0 M.€ related to the effect of hedge accounting.
- 39.6 M.€ for BPI Vida e Pensões' held-to-maturity investments portfolio.

In this manner, the recognition of impairments arising from the exposure to Greek sovereign debt implied total losses in 2011 earnings of 559.7 M.€ (419.8 M.€ after taxation):

- 451.8 M.€³ arising from impairments recorded at the end of October 2011 (338.9 M.€ after taxation);
- 107.9 M.€ (81.0 M.€ after taxation) from the participation in the Greek public debt exchange operation (PSI).

1) Can have an annual return (interest) of 1% effective from 2015 if Greek Gross Domestic Product attains certain targets.

2) Market price of new securities at 12 March 2012 (effective date of the exchange) revalued at the end of 2011 at the effective rate of interest on the bonds previously held. The securities “Detachable GDP-Linked Securities” were considered as having no value.

3) 400.5 M.€ (before tax) relates to securities held by Banco BPI and the remaining 51.3 M.€ (before tax) relates to the cost assumed by BPI with impairments recognised by BPI Vida e Pensões for Greek sovereign debt held in the capitalisation insurance portfolios.

GROUP CAPITAL

ACCOUNTING SHAREHOLDERS' EQUITY

Accounting shareholders' equity totalled 822.4 M.€ at the end of 2011 and corresponds to:

- own equity attributable to BPI shareholders and minority interests (in essence corresponding to Unitel's 49.9% shareholding in the capital of BFA) of 769.3 M.€;
- preference shares issued by BPI Capital Finance of 53.1 M.€.

The 958.2 M.€¹ decrease in shareholders' equity and minority interests (excluding preference shares) in 2011 is chiefly explained by:

- non-recurring negative impacts of 557.1 M.€, of which 400.8 M.€ recognised in net profit for the year and 156.3 M.€ recognised directly in accounting shareholders' equity;

- the negative change in the fair value reserve of 539.7 M.€ as a consequence of the higher unrealised losses on public debt bonds in the portfolio of available-for-sale financial assets, in particular Portuguese public debt as a consequence of the worsening of the sovereign debt crisis in Europe;
- positive result from recurrent operations of 115.9 M.€.

CAPITAL RATIOS

The core Tier I capital ratio stood at 9.2% at the close of 2011.

The 0.5 p.p. rise in the capital ratio when compared with the figure in 2010 (8.7%) reflects the increase in core capital of 53.6 M.€ (impact of +0.2 p.p. on the ratio) and the 884 M.€ decrease in risk-weighted assets (impact of +0.3 p.p. on the ratio), explained by the decrease in the loan portfolio in domestic activity.

Banco BPI was one of the 71 European banks submitted to the recapitalisation exercise proposed by the European Banking Authority (EBA), the results of which were announced in December 2011. The exercise was aimed at evaluating the capital needs of European Union banks so as to attain a minimum core tier 1 capital ratio of 9% with effect from 30 June 2012, including a reinforcement of temporary and exceptional capital which reflects the valuation at market prices as at 30 September 2011 of sovereign debt exposure. In BPI's case, the need for additional capital of 1 389 M.€ was identified, resulting almost entirely from the exposure to sovereign debt (1 359 M.€), namely Portuguese public debt (989 M.€). Of the reinforcement identified, 175 M.€² relating to the exposure to Greek public debt has already been guaranteed given that in the 4th quarter of 2011, BPI recognised impairments (in the income statement) relating to unrealised losses on that exposure.

In this context, Law 63 – A / 2008, of 24 November, as republished by Law 4 / 2012, of 11 January, lays down measures for the strengthening of credit institutions' financial solidity as part of the initiative for shoring up the financial stability and the availability of liquidity in the financial markets. At 20 January 2012, Banco BPI handed over to the authorities a "Capitalisation Plan" which includes the measures to be implemented for compliance with the abovementioned solvency ratios, namely the use of

the temporary and refundable public recapitalisation fund provided for in Law 63 – A / 2008, of 24 November, as republished by Law 4 / 2012 of 11 January. Based on this plan, and the fulfilment measures contemplated in it, of which we highlight the use of the aforesaid line, the Bank will be in a position to guarantee compliance with the capital ratios required by the EBA as from June 2012 and by the Bank of Portugal in December 2012.

Capital buffer required by the European Banking Authority

Amounts in M.€

		Nominal value	Core Tier I temporary buffer
Sovereign bonds (after tax)			
Portugal	1	2 730	(708)
Italy	2	975	(139)
Ireland	3	355	(56)
Greece	4	480	(175)
Sovereign bonds ³	[Σ 1 to 4]		(1 078)
Local governments ⁴	6		(281) ⁵
Subtotal	[= 5 + 6]	7	(1 359)
Deductions to core Tier I	8		(99)
Excess vs. 9.0% core	9		69
Total	[Σ 7 to 9]	10	(1 389)

Table 25

1) Decrease of 777.2 M.€ in relation to 2010 proforma figure.

2) The additional capital required for the exposure to Greek sovereign debt in the final result of the EBA's exercise takes into consideration the deduction from core tier I capital made by BPI at the end of September 2011 of 100.8 M.€, in compliance with a Bank of Portugal ruling. That deduction corresponded to 21% of the nominal value of the securities registered in the portfolio of available-for-sale securities.

3) Includes the revaluation of interest rate risk hedging derivatives.

4) Credit exposure of 1 058 M.€ at 30 September 2011.

5) Before taxes.

Core capital totalled 2 320.7 M.€ at 31 December 2011. This figure stems from accounting shareholders' equity and minority interests excluding preference shares (686.9 M.€), to which the following adjustments are made:

- addition of negative actuarial variances accommodated in the prudential corridor (117.2 M.€);

- addition of unrealised losses on bonds available for sale (1 241.4 M.€), which in accordance with Bank of Portugal regulations are not deducted from regulatory capital;
- addition of the negative impact of the partial transfer of the pension funds to the Social Security system (261.8 M.€) which will only be recognised in core capital at 30 June 2012.

Own funds requirements ratio

Calculated according to the Bank of Portugal rules

Amounts in M.€

		2010	2011
Accounting shareholders' equity attributable to BPI shareholders	1	1 446.6	469.4
Minority interests, excluding preference shares	2	249.2	280.0
BFA dividends attributable to minority interests	3	(63.6)	(62.5)
	[Σ 1 to 3]	1 632.2	686.9
Exclusion of:			
Impact of the partial transfer of pension liabilities to the Social Security	5		261.8
Actuarial deviations from pension liabilities that remain in the bank without impact in core tier I ¹	6		117.2
Fair value reserve in bonds, net of deferred taxes ²	7	711.9	1 241.4
Positive fair value reserve in equities ³	8	(23.7)	(25.1)
Revaluation reserves of fixed assets included in Tier II	9	(8.5)	(8.5)
Other adjustments	10	0.3	8.0
	[Σ 5 to 10]	679.9	1 594.8
Inclusion of:			
Intangible fixed assets	12	(6.4)	(9.6)
Loan provisions calculated in accordance with Bank of Portugal rules deducted of loan impairments recognised in the consolidated income statement ⁴	13	(111.0)	
Deferred adjustments resulting from the transition to IAS / IFRS ⁵	14	72.3	48.5
	[Σ 12 to 14]	(45.0)	39.0
Core Tier I	[= 4 + 11 + 15]	2 267.1	2 320.7
Preference shares	17	246.7	53.4
Deduction of participating interests in credit institutions and insurance companies	18	(134.5)	(101.6)
Basis own funds	[= 16 + 17 + 18]	2 379.3	2 272.5
Complementary own funds	20	523.0	76.9
of which, complementary own funds before deductions	21	663.1	184.7
of which, deduction of participating interests in credit institutions and insurance companies	22	(134.5)	(101.6)
of which, other deductions	23	(5.6)	(6.1)
Total own funds	[= 19 + 20]	2 902.2	2 349.4
Risk-weighted assets	25	26 035.8	25 152.2
Total own funds requirements (risk-weighted assets x 8%)	26	2 082.9	2 012.2
Core Tier I ratio	[= 16 / 25]	8.7%	9.2%
Tier I ratio	[= 19 / 25]	9.1%	9.0%
Own funds requirements ratio	[= 24 / 25]	11.1%	9.3%

1) Negative actuarial deviations accommodated in the prudential corridor (118.7 M.€ in 2011) and positive deviations outside the prudential corridor (1.5 M.€ in 2011). Table 26

2) Effective from October 2008, through Bank of Portugal Notice 6 / 2008, unrealised losses on the portfolio of available-for-sale bonds, without signs of impairment, which are recorded directly in shareholders' equity, in the fair value reserve, are not deducted to the regulatory own funds. Similarly, the unrealised gains on bonds available for sale (recorded in the fair value reserve) are excluded from the regulatory own funds.

3) The unrealised gains on shares available for sale which are recorded directly in shareholders' equity (in the fair value reserve), are excluded from core capital. Subsequently, 45% of the unrealised gains is added to complementary own funds (in 2011 the amount added to complementary own funds was 11.3 M.€, corresponding to 45% of 25.1 M.€).

4) In accordance with Notice 6 / 2010, and as from 2011, the bank now deducts from core capital the difference (when positive) between the amount of the specific loan provisions calculated according to the Bank of Portugal's rules (whereas previously, pursuant to Bank of Portugal Notice 12 / 92, total provisions were taken into account, that is, including also general provisions) and the amount of impairments recognised in the consolidated accounts. In the procedure followed previously, the difference written off from basis own funds, as regards that part which corresponded to general provisions, was added afterwards to complementary own funds.

5) The impacts of the transition to IAS / IFRS are being recognised in own funds until 2014, including.

SUMMARY OF RECURRING CONSOLIDATED RESULTS AND ROE

In 2011, the **BPI Group's recurring activity**, that is, excluding non-recurring impacts, generated a net profit of 115.9 M.€. The return on consolidated average shareholders' equity (ROE) was 5.4% in 2011.

Domestic operations contributed 25.9 M.€ to recurring consolidated net profit. The ROE on domestic operations, to which 86% of the Group's average capital was allocated, was situated at 1.4%.

The contribution from **international operations** to consolidated net profit, which mainly refers to the business carried on in Angola through BFA, amounted to 90.0 M.€. The ROE on international activity, to which the remaining 14% of the Group's average capital was allocated, was situated at 28.9%.

Return on consolidated Shareholders' equity¹

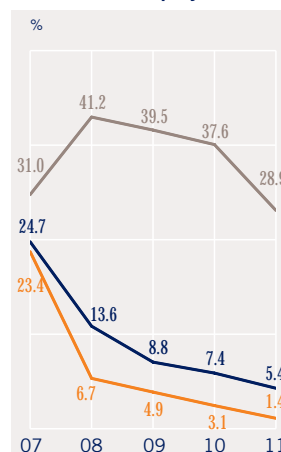


Chart 40

Average capital allocation in 2011

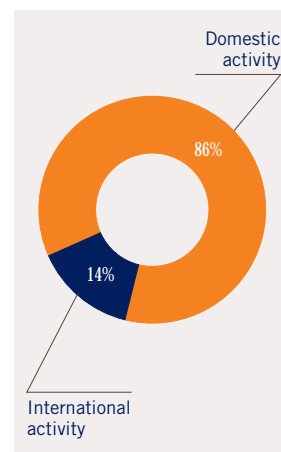


Chart 41

— Consolidated
— International activity
— Domestic activity

ROE by business area in 2011

Amounts in M.€

		Domestic activity				International activity	BPI Group (consolidated)
		Commercial banking	Investment banking	Participating interests and other	Total		
Average risk weighted assets	1	22 489.6	259.8	183.8	22 933.2	2 593.1	25 526.2
Capital allocated	2	1 677.6	53.8	114.2	1 845.5	311.7	2 157.2
Capital reallocation	3	132.2	(32.9)	(99.4)			
Adjusted Shareholders' equity for ROE calculation [= 2 + 3]	4	1 809.8	20.9	14.8	1 845.5	311.7	2 157.2
Recurring net profit	5	16.0	5.0	4.9	25.9	90.0	115.9
Adjustment to profit due to capital reallocation	6	2.2	(0.5)	(1.6)			
Recurring net profit (adjusted) [= 5 + 6]	7	18.2	4.5	3.3	25.9	90.0	115.9
ROE [= 7 / 4]	8	1.0%	21.5%	22.2%	1.4%	28.9%	5.4%

Geographical segmentation of the BPI Group's domestic activity

Table 27

- i) The domestic activity comprises the commercial banking activity conducted in Portugal (including the provision of banking services to non-residents abroad, namely to Portuguese emigrant communities, and those of the Madrid branch), as well as the activities relating to investment banking, private equity and other investments.
- ii) International operations comprise the activity conducted by Banco Fomento Angola, 50.1% held and consolidated in full, as well as the appropriation of the 30% equity interest held in BCI in Mozambique, the activity of BPI Dealer in Mozambique (92.7% held) and the activity of BPI Capital África in South Africa (100% held). International operations' contribution to net profit in 2011 from Banco Fomento Angola amounted to 84.8 M.€, from BCI was 6.3 M.€, from BPI Dealer Mozambique was 0.006 M.€ and from BPI Capital África was -1.2 M.€.

Calculation of ROE by business areas

The return generated by each area results from the quotient between the contribution to the consolidated net profit and the capital allocated to the area. In determining the capital allocated to the domestic activity and to the international activity business areas, the accounting capital (shareholders' equity), excluding revaluation reserves, was taken into consideration. As regard each business area integrating the domestic operations, it is assumed that the capital employed is identical to the average capital employed for this activity as a whole, except as regards the revaluation reserves which were excluded from the capital allocated. The amount of capital allocated to each area is calculated by multiplying the assets weighted by the quotient between shareholders' equity (excluding revaluation reserves) and the assets weighted for the whole of the aforesaid areas. Whenever the shareholders' equity of a business area is more (or less) than the allocated capital, it is assumed that there has been a redistribution of capital, whereby that area's contribution is adjusted by the costs (revenue) resulting from the increase (decrease) in outside resources by virtue of the capital reallocation.

1) Excluding non-recurring impacts (in 2008, 2010 and 2011).

RECURRING RESULTS FROM DOMESTIC OPERATIONS

NET PROFIT FROM RECURRING ACTIVITY

The recurring activity in domestic business operations generated net profit of 25.9 M.€ in 2011 (56.6 M.€ in 2010).

The 30.7 M.€ decrease in net profit relative to recurring net profit in the previous year is mainly explained:

- by the 76.6 M.€ drop in net interest income as a result of the higher average cost of time deposits;
- by the increase of 22.9 M.€ in impairment charges, net of loan recoveries.

Those impacts were only partially offset:

- by the decrease of 35.4 M.€ in operating costs;
- by the lower charge for corporate income tax of 19.2 M.€.

Domestic activity net profit

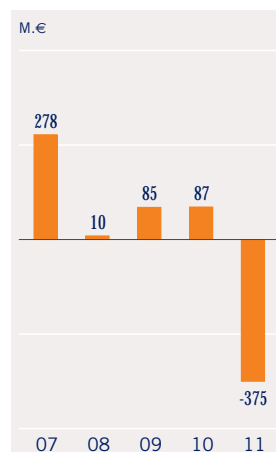


Chart 42

Recurring net profit in the domestic activity

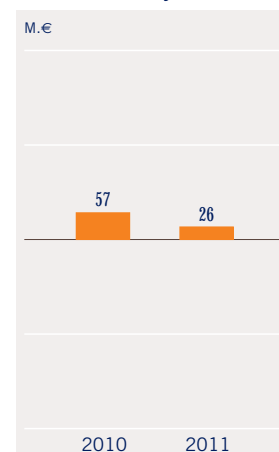


Chart 43

Domestic activity income statement

Amounts in M.€

		2010 proforma ¹	As reported		Non-recurring		Recurring results			
			2010	2011	2010	2011	2010	2011	Δ M.€	Δ%
Net interest income (narrow sense)	1	417.2	417.2	345.3			417.2	345.3	(71.9)	(17.2%)
Other income ²	2	38.1	38.1	33.4			38.1	33.4	(4.7)	(12.3%)
Net interest income	[= 1 + 2]	455.4	455.4	378.8			455.4	378.8	(76.6)	(16.8%)
Technical result from insurance contracts	4	16.1	16.1	(30.1)		(46.1)	16.1	16.0	(0.1)	(0.5%)
Commissions and other similar income (net)	5	267.4	267.4	253.6			267.4	253.6	(13.8)	(5.2%)
Profits from financial operations	6	50.9	50.9	142.8	21.8	108.8	29.1	34.0	4.9	16.9%
Operating income and charges	7	(13.8)	(13.8)	(29.7)		(41.2)	(13.8)	11.5	25.3	183.8%
Net operating revenue	[= Σ 3 to 7]	775.9	776.0	715.4	21.8	21.5	754.1	693.9	(60.2)	(8.0%)
Personnel costs	9	381.2	381.8	365.1	36.1	39.9	345.8	325.2	(20.6)	(5.9%)
Outside supplies and services	10	186.3	186.3	182.6		2.8	186.3	179.8	(6.5)	(3.5%)
Depreciation of fixed assets	11	34.0	34.0	25.6			34.0	25.6	(8.3)	(24.5%)
Operating costs	[= Σ 9 to 11]	601.5	602.2	573.3	36.1	42.7	566.1	530.6	(35.4)	(6.3%)
Operating profit	[= 8 - 12]	174.3	173.8	142.0	(14.3)	(21.2)	188.1	163.3	(24.8)	(13.2%)
Recovery of loans written-off	14	13.8	13.8	17.5			13.8	17.5	3.7	27.1%
Loan provisions and impairments	15	99.9	99.9	203.8	(33.2)	68.3	133.1	135.4	2.3	1.7%
Other impairments and provisions	16	22.4	22.4	492.0		445.3	22.4	46.7	24.4	108.8%
Profits before taxes	[= 13 + 14 - 15 - 16]	65.8	65.2	(536.3)	18.9	(534.9)	46.3	(1.4)	(47.7)	(103.1%)
Corporate income tax	18	(5.2)	(5.3)	(147.6)	(11.0)	(134.1)	5.6	(13.5)	(19.2)	-
Equity-accounted results of subsidiaries	19	23.0	23.0	21.5			23.0	21.5	(1.5)	(6.6%)
Minority interests	20	7.0	7.0	7.7			7.0	7.7	0.7	9.3%
Net profit	[= 17 - 18 + 19 - 20]	86.9	86.5	(374.9)	29.9	(400.8)	56.6	25.9	(30.7)	(54.2%)
Cash flow after taxation	[= 21 + 11 + 15 + 16]	243.2	242.8	346.6	(3.3)	112.8	246.1	233.8	(12.4)	(5.0%)

Table 28

1) Considering the retrospective application of the accounting policy for the recognition of actuarial and financial variances directly in shareholders' equity to the 2010 financial statements.

2) Unit linked gross margin, income from securities (variable yield) and commissions related to deferred cost (net).

Domestic activity

BALANCE SHEET

The domestic operations balance sheet mainly reflects the commercial banking business carried on in Portugal. At the end of 2011, loans to Customers represent 71% of assets and Customer resources constitute the principal source of balance sheet funding. On-balance sheet Customer resources (excluding capitalisation insurance) fund 81.9% of loans.

On-balance sheet Customer resources and medium and long-term debt represented 81.9% of assets.

Short-term funding corresponds to securities repos (1 143 M.€), to the net debtor position on the interbank market (921 M.€) and to the net recourse to short-term funding from the ECB (1 800 M.€).

At the end of 2011, the Bank still had assets capable of being transformed into funding at the ECB totalling 3 917 M.€, which represented 10% of domestic operations' total assets.

For the coming years, the Bank has reduced net requirements of resources for the refinancing of its medium and long-term debt, taking into consideration the maturities as well as the repayments of the bonds held in the portfolio of available-for-sale assets. The debt refinancing requirements, net of bond repayments, total 516 M.€ in 2012 and 414 M.€ in the period 2013 to 2016.

Domestic activity balance sheet structure in 2011

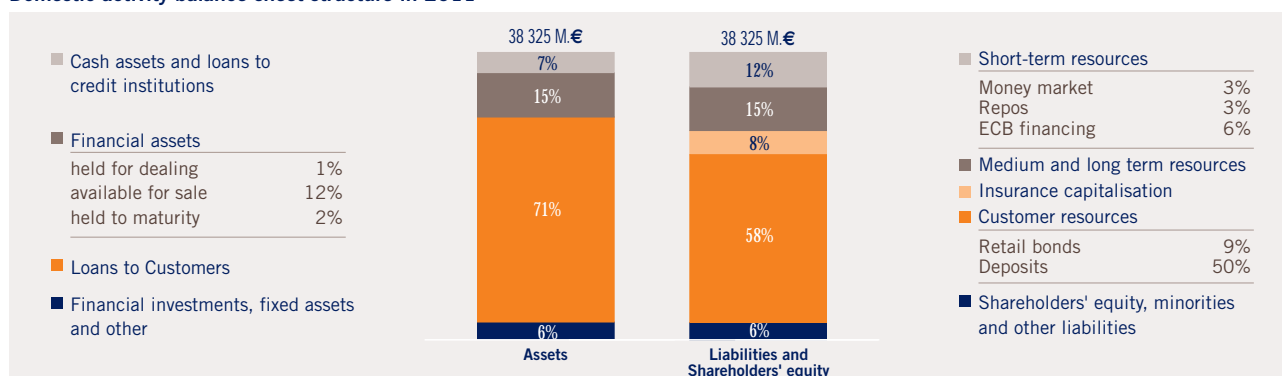


Chart 44

Customer loans

The loan portfolio attributable to domestic activity decreased by 1 568 M.€ (-5.4%) in 2011 as a consequence of the deleveraging process to which Portuguese banks are subjected, and the contraction in demand for loans, provoked by the deterioration of the economic and financial landscape.

The corporate and institutional banking loans and project finance portfolios decreased by 1 000 M.€ (-8.0%).

Roughly half of that decline resulted from the reduction of the Madrid branch's loan portfolio, namely the early repayment of certain operations and the decrease in the project finance loan portfolio domiciled at that branch, the performance of which reflects BPI's decision not to participate in new operations on the international market.

Customer loans portfolio

Amounts in M.€

		2010	2011	Δ%	
Corporate banking, institutional banking and project finance					
Large corporations	1	2 978.8	2 956.9	(0.7%)	
Medium-sized companies	2	3 371.4	3 151.8	(6.5%)	
Institutional banking	3	1 352.9	1 253.9	(7.3%)	
State business sector	4	931.5	732.7	(21.3%)	
Project Finance	5	1 413.3	1 480.2	4.7%	
Madrid branch	6	2 504.1	1 972.6	(21.2%)	
[= Σ 1 to 6]	7	12 552.0	11 548.0	(8.0%)	
Loans to individuals and small businesses					
Mortgage loans	8	11 571.4	11 354.1	(1.9%)	
Consumer loans	9	1 357.2	1 237.2	(8.8%)	
Loans to small businesses	10	2 350.4	1 979.5	(15.8%)	
[= Σ 8 to 10]	11	15 278.9	14 570.8	(4.6%)	
Other loans	12	852.1	807.8	(5.2%)	
Loans in arrears	13	570.2	662.0	16.1%	
Loan impairments	14	(475.3)	(537.7)	13.1%	
Interests	15	87.9	122.7	39.7%	
Subtotal	[=7 + Σ 11 to 15]	16	28 865.8	27 173.6	(5.9%)
Greek sovereign debt ¹	17		124.0		
Total	[= 16 + 17]	18	28 865.8	27 297.7	(5.4%)
Note:					
Securitised loans written off from the balance sheet	19	824.1	765.8	(7.1%)	
Guarantees	20	2 818.9	2 400.4	(14.8%)	

Table 29

liabilities to the Social Security system, the Portuguese State undertook to acquire from the Bank during the 1st half of 2012 loans advanced to public entities of 0.7 th.M.€.

Loans to individuals and small businesses were some 700 M.€ lower (-4.6%). The most pronounced decline was noted in the small businesses segment, with the relevant portfolio contracting 15.8%, while mortgage loans shrank by 1.9%.

Customer resources

Customer deposits increased by 990 M.€ (+5.5%) to total 19.0 th.M.€ at the end of 2011. The aggregate composed of deposits and bonds placed with Customers remained stable, totalling 22.4 th.M.€.

Total Customer resources which in addition to resources carried on the balance sheet, also include the unit trust funds, PPR and PPA posted a 3.7% decrease in 2011.

The negative trend in capitalisation insurance (-15.7%) and unit trust funds, PPR and PPA (-26.8%) is explained by the lower value of the securities portfolios, in particular those with greater exposure to the equity markets, and by a re-intermediation to deposits, with special incidence on money market funds.

It should be pointed out that in terms of the agreement for the partial transfer of the pension funds' assets and

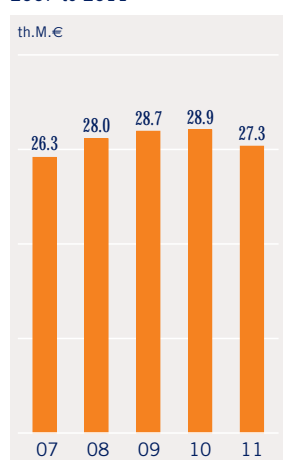
Loans to Customers
2007 to 2011

Chart 45

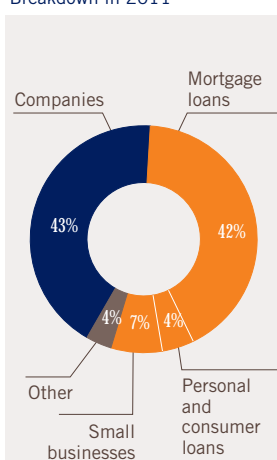
Loan portfolio
Breakdown in 2011

Chart 46

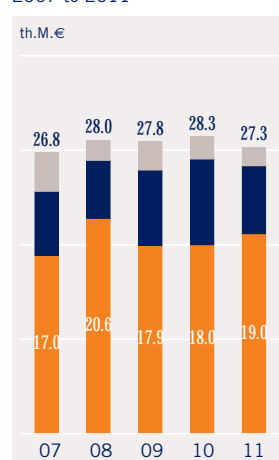
Customer resources
2007 to 2011

Chart 47

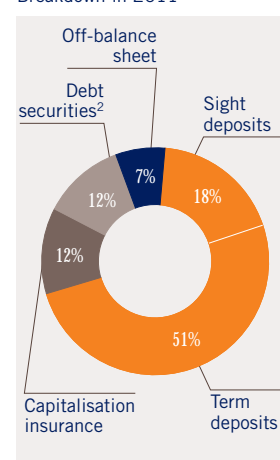
Customer resources
Breakdown in 2011

Chart 48

■ Off-balance sheet
■ Other on-balance sheet
■ Deposits

1) Greek sovereign debt exposure, net of impairments. In the 4th quarter 2011, Greek sovereign bonds in the available-for-sale securities portfolio were reclassified to the loan portfolio.
2) Includes structured products, fixed-rate bonds and subordinated bonds placed with Customers.

Domestic activity

Total Customer resources		Amounts in M.€		
		2010	2011	Δ%
On-balance sheet resources				
Deposits				
Sight deposits	1	5 680.6	5 142.0	(9.5%)
Term and savings deposits	2	12 352.0	13 880.4	12.4%
	[= 1 + 2]	18 032.6	19 022.5	5.5%
Bonds placed with Clients ¹	4	4 338.9	3 344.7	(22.9%)
Subtotal	[= 3 + 4]	22 371.5	22 367.1	(0.0%)
Insurance capitalisation and PPR (BPI Vida e Pensões)	6	3 802.6	3 205.0	(15.7%)
On-balance sheet resources	[= 5 + 6]	26 174.1	25 572.1	(2.3%)
Off-balance sheet resources				
Unit trust funds, PPR and PPA ²	8	2 613.7	1 912.6	(26.8%)
Off-balance sheet resources	[= 8]	2 613.7	1 912.6	(26.8%)
Corrections for double counting ³	10	(479.4)	(212.0)	
Total Customer resources⁴	[= 7 + 9 + 10]	28 308.4	27 272.7	(3.7%)
Note:				
Net loan portfolio	12	28 865.8	27 297.7	
Loans (net) to Customer resources ratio ⁵	13	129%	122%	

Table 30

Securities and financial investments portfolio

The portfolio of available-for-sale financial assets was worth 4 586.5 M.€, at market values at the end of 2011.

The securities and financial investments portfolio which includes, besides the financial assets available for sale, the assets held for trading⁶ and the portfolios of held-to-maturity investments and participating interests totalled 6 422.9 M.€.

In 2011, BPI sold off the portfolio of Brazilian sovereign debt (with a balance sheet value of 259 M.€ at the end of 2010), while the corporate bonds portfolio declined by some 300 M.€ (at acquisition cost) reflecting redemptions and some selective sales of securities.

In October 2011 and after having recognised impairments⁷ for exposure to Greek sovereign debt, and given the significant decrease in the market of the respective volumes traded, BPI reclassified the Greek sovereign debt securities from the portfolio of available-for-sale assets to the loan portfolio.

Financial assets available-for-sale portfolio				Amounts in M.€	
		2010		2011	
		Acquisition cost	Book value	Acquisition cost	Book value
Sovereign debt					
Portugal	1	2 884.9	2 614.1	2 973.1	2 068.3
Italy	2	1 003.5	971.7	1 003.5	864.7
Greece	3	530.4	324.6		
Ireland	4	357.3	282.8	357.3	298.0
[= Σ 1 to 4]	5	4 776.2	4 193.2	4 334.0	3 231.0
Brazil	6	248.9	259.2		
[= 5 + 6]	7	5 025.1	4 452.4	4 334.0	3 231.0
Corporate bonds	8	1 510.9	1 481.4	1 207.0	1 074.0
Equities	9	77.8	55.9	138.8	110.2
Other	10	118.3	124.3	163.2	171.2
Total	[= Σ 7 to 10]	6 732.0	6 114.0	5 843.0	4 586.5

Table 31

1) Structured products (bonds whose remuneration is indexed to the equity, commodities and other markets, with total or partial guarantee of the capital invested at the end of the term), fixed-rate bonds and subordinated bonds.

2) Excludes pension funds.

3) Placements of unit trust funds managed by BPI in the Group's deposits and structured products.

4) Corrected for double counting.

5) Net loan portfolio as % of Customer resources, excluding insurance capitalisation.

6) The balance sheet caption "Financial assets held for dealing and at fair value through the income statement" includes the following securities:

- equities (164 M.€) associated with the trading activity through the management of an arbitrage portfolio realised at Banco Português de Investimento and in the participation and management of BPI Alternative Fund: Iberian Equities Long Short. At the end of December 2011, that fund had an allocated capital of 72 M.€, of which 85% was held by BPI, with the result that it was consolidated in full;
- BPI Vida e Pensões' securities portfolio (385 M.€) associated with the portfolio of capitalisation insurance commercialised by that subsidiary;
- derivative instruments at fair value (343 M.€). These essentially correspond to interest rate swaps and options incorporated into structured issues, classified as "embedded derivatives" and which for accounting purposes are separated from the respective base contract.

7) See pages 54 and 55 on the recognition of impairment losses for Greek sovereign debt exposure and corresponding impacts on the income statement.

REVENUE

Net operating revenue from domestic banking operations fell by 60.2 M.€ (-8%) in 2011, due primarily to the contraction of 76.6 M.€ (-16.8%) in net interest income.

Net interest income

The decline of 71.9 M.€ (-17.2%) in narrow net interest income is mainly explained by the increase in the average cost of resources, in particular time deposits, the impact of which on the interest margin was only partially offset by the higher contribution from the loan portfolio as a result of the widening of respective spreads.

Trend in net interest income

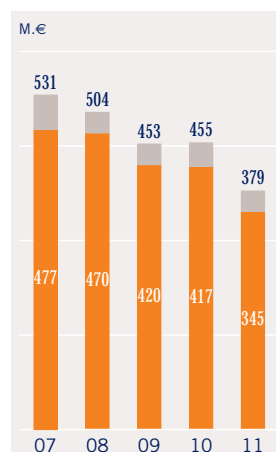


Chart 49

Loans and deposits spread

Quarterly average interest rates

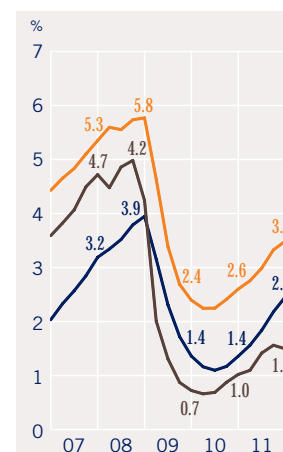


Chart 50

■ Other income
■ Net interest income (narrow sense)

— Loans
— Deposits
— Euribor 3-months

Average interest rates on remunerated assets and liabilities

Amounts in M.€

		2010			2011		
		Average balance	Interest	Average interest rate	Average balance	Interest	Average interest rate
Loans to Customers							
Companies, institutionals and project finance	1	13 031.9	318.1	2.4%	12 164.0	419.2	3.4%
Mortgage loans	2	10 942.4	179.6	1.6%	11 062.6	244.2	2.2%
Other loans to individuals	3	1 296.9	84.3	6.5%	1 241.2	84.5	6.8%
Loans to small businesses	4	2 439.8	76.4	3.1%	2 168.7	86.8	4.0%
Other	5	775.5	12.6	1.6%	826.1	26.3	3.2%
	[= Σ 1 to 5]	28 486.5	671.1	2.4%	27 462.6	861.1	3.1%
Customer resources ¹	7	19 169.0	232.5	1.2%	20 271.5	410.9	2.0%
Other income and costs	8		(21.3)			(104.9)	
Narrow net interest income	[= 6 - 7 + 8]		417.2			345.3	
Interest-earning assets ²	10	37 737.3			33 740.1		
Interest-bearing liabilities ²	11	38 107.6			34 930.0		
Unitary interest margin	[= 9 / 10]			1.11%			1.02%
Intermediation margin							
(= interest rate on loans – interest rate on Customer resources)	[= 6 - 7]			1.14%			1.11%
Net interest margin as % do ATA	14			0.95%			0.87%
Euribor 3 months (annual average)	15			0.81%			1.39%
Euribor 3 months (3 month moving average)	16			0.77%			1.34%

Table 32

Negative impacts:

- the increase in the average interest on time deposits from 0.38 p.p. above Euribor in 2010 to 1.16% above Euribor in 2011 (+0.8 p.p.), which originated a negative impact on net interest income of 82 M.€.

The higher costs of those resources is explained by the intensification of competition in attracting Customer resources.

1) Deposits, checks, orders payable and other Customer resources.

2) BPI Vida e Pensões' remunerated assets and liabilities and corresponding interest income and expense were excluded from the table for the reason that the interest income and expense earned on capitalisation insurance is essentially recorded in the captions "Gross margin on unit links" and "Technical results of insurance contracts".

Domestic activity

Positive impacts:

- the continuation of the loan spreads adjustment process. The average contractual spread on portfolios (spread relative to benchmarks, on the respective repricing dates) rose by 0.31 p.p. (to 1.64%), as a result above all of the credit price adjustment in the corporate segment. The trend in spreads by segments (of the average portfolio) was as follows:
- in loans to companies, climbed 0.53 p.p. to 1.98%;
- in loans to individuals and small businesses, climbed 0.12 p.p., to 1.35%, reflecting primarily the trend in the average spread on mortgage loans (0.09 p.p. increase, to 0.80%).

It is worth noting that net interest income in absolute terms has similarly been under pressure since 2008 from a climate of low market interest rates, bearing in mind that these are directly mirrored in the narrowing of the unit margin on sight deposits. The average unit margin on sight deposits was situated at 1.3% in 2011 compared with 3.9% in 2008.

Commissions

Commissions and other net income declined 5.2% in 2011.

Commissions and other fees (net)		Amounts in M.€		
		2010	2011	Δ%
Commercial banking				
Cards	1	63.9	64.8	1.4%
Loans and guarantees	2	54.8	50.4	(8.0%)
Intermediation of insurance products	3	37.3	38.4	2.8%
Deposits and related services	4	27.0	25.8	(4.6%)
Banking services	5	10.2	4.9	(52.5%)
Securitised loans	6	5.0	8.8	77.5%
Other	7	(0.7)	0.1	
[= Σ 1 to 7]	8	197.5	193.2	(2.2%)
Asset management	9	51.1	46.8	(8.3%)
Investment Banking				
Brokerage and placing	10	14.8	11.8	(20.8%)
Corporate finance	11	3.3	1.7	(47.7%)
Other	12	0.7	0.1	(82.6%)
[= Σ 10 to 12]	13	18.8	13.6	(27.8%)
Total	14	267.4	253.6	(5.2%)
[= 8 + 9 + 13]				

Table 33

Commercial banking commissions fell by 2.2%, mainly due to the 8.0% decrease in commissions associated with loans (-4.4 M.€), reflecting the drop in the volumes of loans contracted, and the 4.9 M.€ decrease in project finance consultancy commissions¹. The 8.3% fall in asset management commissions is explained by the decrease in the amount of assets under management by virtue of the re-intermediation of resources onto the balance sheet and the lower value of the securities portfolios, in particular of the funds exposed to the European equity markets.

For their part, investment banking commissions were down 28% as a consequence of the decline in brokerage commissions on the broking of Portuguese and Spanish equities, which were penalised by the lower volumes traded on those markets.

Profits from financial operations

Profits from financial operations were 34 M.€ in 2011 (29.1 M.€ in 2010).

Profits from financial operations		Amounts in M.€		
		2010	2011	Δ M.€
Operations at fair value	1	24.8	25.1	+0.3
Available for sale assets	2	(8.0)	0.3	+8.3
Financial income from pensions	3	12.2	8.5	(3.6)
Total	[= Σ 1 to 3] 4	29.1	34.0	+4.9

Table 34

The profits from operations at fair value totalled 25.1 M.€, and resulted chiefly from:

- currency gains of 7.7 M.€ resulting from the exchange rate margin on operations effected by the commercial network with Customers;
- gains from equities dealing of 5.2 M.€, associated with a portfolio of long-short equities and an arbitrage portfolio of PSI-20 futures;
- gains of 2.9 M.€ on structured products derived from dealings on the secondary market in order to guarantee the liquidity of the securities, from the revaluation of positions and from the early winding up of hedge positions.

The financial net income with pensions² was situated at 8.5 M.€ and resulted from the existence of surplus funding at the pension funds and a positive difference between the pension fund's expected rate of return (5.5%) and the discount rate (5.25%) up till the end of the 1st half of 2011.

1) Recorded in the caption "Banking services".

2) The financial net income with pensions corresponds to the difference between the pension funds' expected income and the interest cost of the liabilities.

Other operating gains and losses

Other operating gains (net of losses) were 11.5 M.€ with the result that when compared to the negative figure of 13.8 M.€ reported in 2010, presents a positive change of 25.3 M.€.

Other operating gains and losses		Amounts in M.€		
		2010	2011	Δ M.€
Contributions to the deposit guarantee fund	1	(3.7)	(3.5)	+0.2
Subscriptions and donations	2	(4.7)	(3.9)	+0.7
Taxes	3	(5.5)	(6.2)	-0.6
Sale of own tangible assets	4	0.1	9.7	+9.6
Change in the VAT pro rata ¹	5	0.0	13.8	+13.8
Other	6	(0.0)	1.6	+1.6
Total	[= Σ 1 to 6]	(13.8)	11.5	+25.3

Table 35

OPERATING COSTS

Operating costs – personnel costs, outside supplies and services and depreciation and amortisation – excluding costs with early retirements, decreased by 6.3% in 2011. This behaviour reflects the rationalisation of the workforce and the distribution network headcount, the decrease in remuneration and the strict cost control.

However, the indicator “operating costs as a percentage of net operating revenue” shows an unfavourable trend, rising from 75.1% in 2010 to 76.5% in 2011, as a consequence of the lower net operating revenue.

Operating costs		Amounts in M.€		
		2010	2011	Δ%
Personnel costs ²	1	345.8	325.2	(5.9%)
Outside supplies and services	2	186.3	179.8	(3.5%)
Operating costs before depreciation and amortisation	[= 1 + 2]	532.1	505.0	(5.1%)
Depreciation and amortisation	4	34.0	25.6	(24.5%)
Operating costs	[= 3 + 4]	566.1	530.6	(6.3%)
Efficiency ratio ³	6	75.1%	76.5%	

Table 36

Personnel costs

Personnel costs, excluding early retirement costs, decreased by 5.9% in 2011, resulting chiefly from:

- the 5.6% reduction in the average staff headcount in domestic activity, reflecting in part the execution in the 2nd half of the year of an early retirements programme that resulted in the departure of 252 Employees;
- the 20% decline in the variable component of Employees remuneration;
- the zero growth in the fixed component of remuneration under the salary-scale review in Portugal laid down in the Vertical Employment Collective Agreement for the Banking Sector (Acordo Colectivo de Trabalho Vertical do Sector Bancário – ACTV).

Personnel costs		Amounts in M.€			
		2010 proforma ⁵	2010	2011	Δ%
Remunerations					
Fixed remunerations	1	234.1	234.1	223.6	(4.5%)
Variable remunerations ⁴	2	21.4	21.4	17.0	(20.4%)
Other ⁶	3	10.2	10.2	9.2	(10.3%)
Remunerations	[= Σ 1 to 3]	265.8	265.8	249.9	(6.0%)
Pension costs and social charges ⁷	5	79.4	80.0	75.3	(5.8%)
Total	[= 4 + 5]	345.1	345.8	325.2	(5.9%)

Table 37

Net operating revenue and operating costs

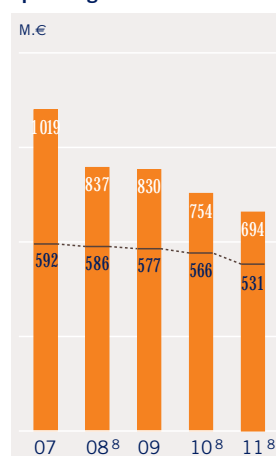


Chart 51

Personnel costs

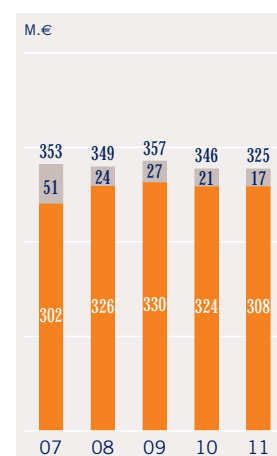


Chart 52

■ Net operating revenue
— Operating costs²

■ Variable remunerations
■ Fixed remunerations, social charges and pension costs

1) A provision was constituted for the same amount (which neutralises the impact on earnings of the aforementioned alteration) until validation of the calculation by the Tax Authority, at which moment that provision is reversed.

2) Excluding costs with early retirements.

3) Operating costs as percentage of net operating revenue.

4) No provision was recorded in the accounts for the year for the awarding of variable remuneration to the members of the Board of Directors' Executive Committee.

5) Considering the retrospective application of the accounting policy for the recognition of actuarial and financial variances directly in shareholders' equity to the 2010 financial statements.

6) Includes bonuses and motivation incentives for the commercial network, long service awards, cost of loans to Employees and others.

7) Includes current service cost, other Employer's contributions, the amortisation of actuarial and fund income variances recorded outside the corridor and the amortisation of changes to pension plan conditions. In 2011 (and 2010 proforma) the actuarial and financial deviations began to be recognised directly in shareholders' equity.

8) Excluding non-recurring impacts.

Pension liabilities to Employees

After the partial transfer of pension liabilities to retirees and pensioners and the correspondent funds' assets to the Social Security system, the present value of liabilities remaining at the Bank amounted to 835.8 M.€ at 31 December 2011.

Of that figure, 357 M.€ refers to liabilities for past services of Employees on the payroll¹ and 478.8 M.€ corresponds to the liabilities associated with retirees' and pensioners' pensions which were not transferred to the Social Security system.

The Employees' pension funds' assets totalled 839.1 M.€², which guaranteed the funding of 100% of the amount of the pension liabilities to be borne by the Bank.

Pension liabilities

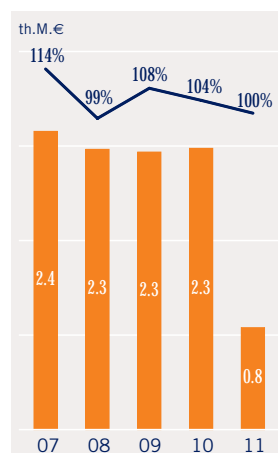


Chart 53

Banco BPI pension funds' assets

At 31 December 2011

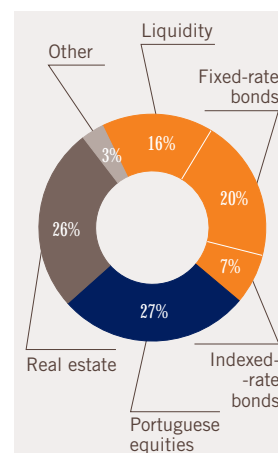


Chart 54

■ Pension liabilities
— Coverage by the pension funds assets

Employees' pension liabilities and pension funds

Amounts in M.€

		31 Dec. 10		31 Dec. 11	
			Before transfer to Soc. Security	Impact transf. Soc. Security	After transfer to Soc. Security
Pension liabilities	1	2 306.1	2 109.4	(1 273.6)	835.8
Pension funds ²	2	2 409.4	2 212.4	(1 373.2)	839.1
Financing surplus	3	103.3	103.0		3.4
Financing of pension liabilities	4	104.5%	104.9%		100.4%
Total prudential corridor					
10% prudential corridor	5	240.9	217.5	(133.5)	83.9
Temporary corridor (Bank of Portugal notice 11 / 2008)	6	190.6	95.3	(57.5)	37.8
	7	431.6	312.8	(191.1)	121.7
Total actuarial deviations					
Deviations accommodated in the prudential corridor	8	(255.0)	(309.9)	191.2	(118.7)
Positive deviations outside the corridor	9	0.2	1.7	(0.2)	1.5
Deviations impacting regulatory capital (outside the corridor)	10	-	(8.6)	2.8	(5.8)
	11	(254.8)	(316.7)	193.7	(123.0)

Table 38

Financial and actuarial assumptions

In June 2011, BPI altered the discount rate of liabilities from 5.25% to 5.5%, bringing it into line with the pension funds' expected rate of return, and in December it adopted a discount rate of 5.83% for the pension liabilities associated with Employees on the payroll and of 5.0% for the liabilities associated with retirees, given the shorter maturity of the last-mentioned.

The value of the pension liabilities which result from the utilisation of the discount rates referred to previously for the population of current Employees and retirees at 31 December 2011 is similar to that arrived at had a single discount rate of 5.5% been utilised for the entire population.

1) All the bank Employees benefiting from the CAFEB were, as from 1 January 2011, integrated in the Social Security system. See notes to the financial statements 2.7 and 4.26.

2) The pension funds assets at 31 December 2011 include a contribution of 37.9 M.€ transferred to the pension fund in January 2012.

In December 2011, the Bank also revised the financial assumptions for the growth in pensionable salaries from 3.0% to 2.0%, and for pensions from 1.75% to 1.25%, reflecting the expectation of the more moderate trend in salaries and pensions over the next few years.

The expected rate of return for the pension funds was maintained at 5.5%.

Actuarial and financial assumptions

	Dec. 10	Jun. 11	Dec. 11
Discount rate – current Employees	5.25%	5.50%	5.83%
Discount rate – retirees	5.25%	5.50%	5.00%
Pensionable salary increase rate	3.00%	3.00%	2.00%
Pension increase rate	1.75%	1.75%	1.25%
Pension fund income rate	5.50%	5.50%	5.50%
Mortality table	TV 73 / 77-M – 1 year ¹ TV 88 / 90-W – 1 year ¹		

Table 39

Actuarial variances

Negative actuarial variances (accumulated) increased 61.9 M.€ to a total of 316.7 M.€, at the end of 2011. This trend is chiefly explained by:

- negative variances of 300.7 M.€ as a result of the difference between the pension funds' actual return in 2011 (-7.2%) and the respective financial assumption (+5.5%);
- positive variances of 181.3 M.€ arising from the change in the actuarial assumptions, which originated a reduction in liabilities by that amount;
- positive variances of 39.6 M.€ arising from the fact that the ACTV salary-scale review rate was below that of the assumption considered.

At the end of 2011, BPI changed the accounting policy for the recognition of actuarial and financial variances relating to the pension plans and other post-employment defined-benefit benefits, ceasing to use the corridor method and starting to recognise actuarial and financial gains and losses directly in shareholders' equity, in the statement of comprehensive income, in the period in which they occur as required under IAS 19. This change in accounting policy aims to bring forward the adoption of the alterations to IAS 19 issued in June 2011, and which are expected to become mandatory in the European Union for the financial years commencing on or after 1 January 2013.

Pension costs in the year

Costs associated with pensions in the year were 66.8 M.€ (before taxation), 1.0 M.€ less than in 2010.

Pension costs²

Amounts in M.€

		2010 proforma ³	2010	2011	Δ M.€
In personnel costs					
Contributions to Social Security	1	(48.1)	(48.1)	(67.4)	(19.3)
Current service cost	2	(31.0)	(31.0)	(7.0)	+24.0
Amortisation of deviations outside the corridor	3		(0.6)		+0.6
Other	4	(0.3)	(0.3)	(0.9)	(0.6)
[= Σ 1 to 4]	5	(79.4)	(80.0)	(75.3)	+4.7
In profits from financial operations					
Expected pension funds return	6	131.4	131.4	128.9	(2.5)
Interest cost	7	(119.2)	(119.2)	(120.4)	(1.2)
[= 6 + 7]	8	12.2	12.2	8.5	(3.6)
Total	9	(67.2)	(67.8)	(66.8)	+1.0

Table 40

The higher contributions to the Social Security system result from the integration into the Social Security General Regime effective from 1 January 2011 of Employees on the payroll (admitted until 3 March 2009) in respect of the benefits for the service rendered after that date⁴. Under the agreement, the TSU (Portuguese initials for the Single Social Rate) contribution to be borne by the Bank increased from 11% (to the CAFEB) to 23.6% (Social Security general regime). Meantime, the increased Social Security contributions were offset by the decrease in the normal cost, given that in relation to those Employees and for the service rendered after that date, the Bank ceased to bear the pension charges for old age and those relating to maternity, paternity and adoption benefits.

Liabilities for the Directors' complementary pensions plan

At 31 December 2011, liabilities for the Directors' complementary pensions plan totalled 31.1 M.€ and are 100% covered by the pension fund.

1) For the population covered, an age of 1 year less than the beneficiaries' actual age is considered, which equates to considering a longer life expectation.

2) Includes costs related with Directors' pensions plan.

3) Considering the retrospective application of the accounting policy for the recognition of actuarial and financial variances directly in shareholders' equity to the 2010 financial statements.

4) The rules laid down in the Collective Employment Accord for the banking sector continue to apply as regards welfare benefits, with the result that the pensions borne by the Bank will be deducted from the pensions that will be paid by the Social Security for the period of service rendered to the Bank with effect from 1 January 2011.

IMPAIRMENTS AND PROVISIONS

Impairments in the year, after deducting recoveries of loans previously written off, amounted to 164.7 M.€ and corresponded to:

- loan impairments (net of recoveries) of 118.0 M.€;
- impairments for other purposes of 46.7 M.€. This figure includes impairments for foreclosed fixed properties and equipment of 17.5 M.€ and provisions of 13.3 M.€ relating to the pro rata calculation of VAT to be deducted¹.

Customer loan impairments

Net credit loss, which corresponds to the amount of impairment losses (135.4 M.€) net of recoveries of loans (17.5 M.€), was 118.0 M.€ in 2011. Net credit loss in 2011 represented 0.42% of the loan portfolio's average balance. The average value of this indicator in the past five years was 0.25%.

Total impairments net of recoveries
As % of net operating revenue²

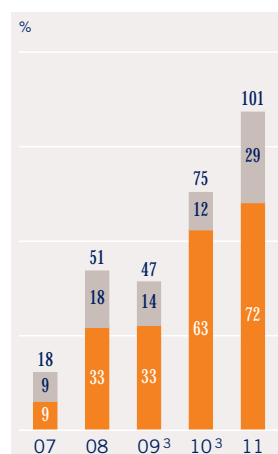


Chart 55

Cost of risk and net credit loss
As % of loan portfolio

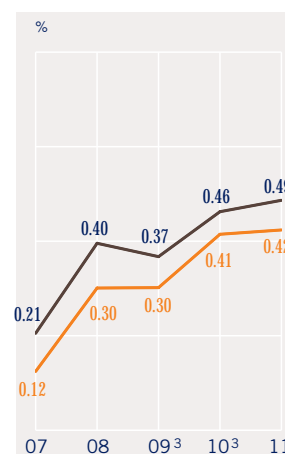


Chart 56

■ Other purposes
■ Loans

— Loan impairments
— Net credit loss

Loan impairments

Amounts in M.€

		2010				2011			
		Impairments	As % of loan portfolio ⁴	Impairments net of recoveries	Em % da carteira de crédito ⁴	Impairments	As % of loan portfolio ⁴	Impairments net of recoveries	As % of loan portfolio ⁴
Corporate banking, institutional banking and project finance	1	87.4	0.68%	83.3	0.65%	51.9	0.43%	46.9	0.39%
Individuals and small businesses									
Mortgage loans	2	22.3	0.20%	21.8	0.19%	34.4	0.30%	33.3	0.29%
Loans to individuals – other purposes	3	12.7	0.95%	9.7	0.72%	14.0	1.09%	9.2	0.72%
Loans to small businesses	4	11.4	0.47%	5.5	0.23%	35.5	1.63%	28.9	1.33%
[= Σ 2 to 4]	5	46.4	0.31%	37.0	0.24%	83.9	0.56%	71.5	0.48%
Other	6	(0.7)	(0.08%)	(0.9)	(0.11%)	(0.4)	(0.04%)	(0.4)	(0.05%)
Subtotal⁵	7	133.1	0.46%	119.4	0.41%	135.4	0.49%	118.0	0.42%
Utilisation of the extraordinary charge	8	(33.2)	(0.12%)	(33.2)	(0.12%)				
Total⁶	9	99.9	0.35%	86.2	0.30%	135.4	0.49%	118.0	0.42%

Table 41

1) These provisions have as a compensating effect a gain of the same amount recorded under the caption "Other operating gains" relating to the change of the pro-rata VAT.

2) Excludes non-recurring impacts in 2008, 2010 and 2011.

3) In 2009, an extraordinary charge of 33.2 M.€ was excluded from the impairment charges for the year and in 2010 that extraordinary charge was added to the impairment allowances for the year due to its use.

4) Average performing loan portfolio.

5) Does not correspond to the impairment charges recorded in the income statement in 2010, given that, the extraordinary charge made in December of 2009 (of 33.2 M.€) was added to the impairments for the year due to its use.

6) Total recognised as recurring item in the income statement (68.3 M.€ of non-recurring loan impairments for Greek sovereign debt securities were excluded).

RESULTS OF EQUITY-ACCOUNTED SUBSIDIARIES

The contribution of equity-accounted subsidiaries to net profit from domestic operations was 21.5 M.€ in 2011 (-6.6% relative to 2010).

The contribution of the subsidiaries in the insurance area – Allianz Portugal and Cosec – was 15.1 M.€ and represented some 70% of the total contribution of the equity-accounted subsidiaries.

Equity-accounted results of subsidiaries		Amounts in M.€		
		2010	2011	Δ%
Allianz Portugal	1	16.2	12.2	(24.6%)
Cosec	2	2.2	2.9	31.8%
	[= 1 + 2] 3	18.4	15.1	(17.9%)
Viacer	4	1.8	3.5	92.5%
Finangeste	5	1.7	0.8	(53.5%)
Unicre	6	1.2	1.8	51.6%
Other	7	(0.0)	0.3	-
Total	[= Σ 3 to 7] 8	23.0	21.5	(6.6%)

Table 42

MINORITY INTERESTS

Minority interests in the net profit from domestic operations amounted to 7.7 M.€ in 2011 (7.0 M.€ in 2010). This figure essentially corresponds to the non-cumulative dividend on the preference shares issued by BPI Capital Finance¹.

In December 2011, BPI concluded a repurchase offer directed at the holders of those preference shares, at a price of 50.3% of the nominal value, having received acceptance orders for the offer corresponding to 77% of the shares object of the offer.

At the end of 2011 and after the conclusion of the above repurchase operation, the balance sheet value of the preference shares totalled 53.1 M.€.

1) Equals the three month Euribor rate plus a spread of 1.55 percentage points with a step up to 2.55 percentage points at 12 August 2013.

RESULTS OF INTERNATIONAL OPERATIONS

NET PROFIT

The contribution from international operations to consolidated net profit was 90.0 M.€, which corresponds to an 8.4% decline relative to the preceding year (98.3 M.€).

The main contributions to net profit from international operations corresponded to:

- Banco de Fomento Angola's (BFA) contribution of 84.8 M.€, relating to the appropriation of 50.1% of its individual profit, down 8.5% on the 2010 figure;
- Banco Comercial e de Investimentos's (BCI) contribution, relating to the appropriation of 30% of its individual profit (equity accounted), grew by 13% (+0.7 M.€) to 6.3 M.€.

The return on average capital allocated to international operations was situated at 28.9% in 2011.

International activity net profit

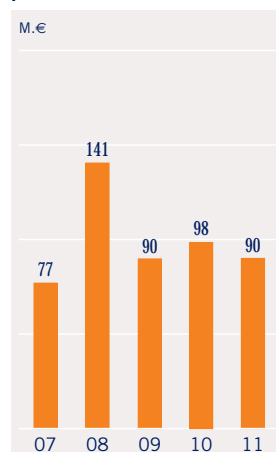


Chart 57

BFA individual net profit appropriation

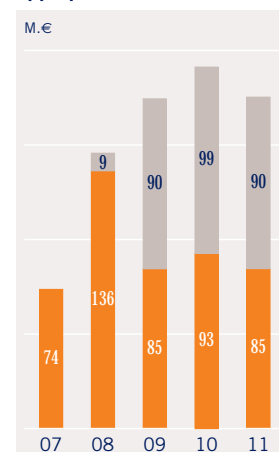


Chart 58

■ By minority interests
■ By BPI

International activity income statement

Amounts in M.€

		2010	2011	Δ M.€	Δ%
Net interest income (narrow sense)	1	209.2	198.0	(11.2)	(5.4%)
Net interest income	[= 1]	209.2	198.0	(11.2)	(5.4%)
Commissions and other similar income (net)	3	46.5	43.4	(3.1)	(6.6%)
Profits from financial operations	4	68.3	63.4	(4.8)	(7.1%)
Operating income and charges	5	(1.1)	(0.0)	1.1	96.2%
Net operating revenue	[= Σ 2 to 5]	322.8	304.8	(18.0)	(5.6%)
Personnel costs	7	49.7	52.9	3.2	6.5%
Outside supplies and services	8	45.8	48.2	2.4	5.3%
Depreciation of fixed assets	9	11.2	11.2	(0.0)	(0.1%)
Operating costs	[= Σ 7 to 9]	106.7	112.4	5.7	5.3%
Operating profit	[= 6 - 10]	216.1	192.4	(23.7)	(11.0%)
Recovery of loans written-off	12	2.1	2.8	0.7	34.4%
Loan provisions and impairments	13	21.2	9.4	(11.8)	(55.8%)
Other impairments and provisions	14	6.7	6.0	(0.7)	(10.4%)
Profits before taxes	[= 11 + 12 - 13 - 14]	190.3	179.9	(10.5)	(5.5%)
Corporate income tax	16	(0.5)	6.4	6.9	
Equity-accounted results of subsidiaries	17	6.1	6.9	0.8	13.0%
Income attributable to minority interest	18	98.7	90.4	(8.4)	(8.5%)
Net profit	[= 15 - 16 + 17 - 18]	98.3	90.0	(8.3)	(8.4%)
Cash flow after taxation	[= 19 + 9 + 13 + 14]	137.4	116.6	(20.8)	(15.1%)

Table 43

Note: The costs and income captions, as well as the captions assets and liabilities, presented as being derived from international operations, refer almost exclusively to Banco de Fomento Angola, given that BCI's (Mozambique) contribution is recognised in the BPI Group's financial statements using the equity method, while the accounts of BFE Dealer Mozambique and BPI Capital África, both consolidated in full, have a minor weight. See notes to the financial statements 2.1 and 3.

REVENUE¹

Net operating revenue derived from international banking operations (BFA's activity) decreased by 5.6% (-18.0 M.€) in 2011.

Net interest income

The negative behaviour of net interest income (-5.4%) in 2011 is chiefly due to:

- the lower average return on the securities portfolio owing to the fall in placing interest rates of securities issues realised by the Central Bank and by the Angolan State during the course of the year;
- the negative volume effect resulting from the loan portfolio's reduction (-19% in terms of average balance).

However, those negative effects were partially offset by the positive effect of the average rate at which Customer resources were remunerated.

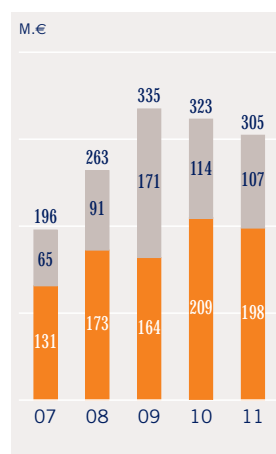
Net operating revenue

Chart 59

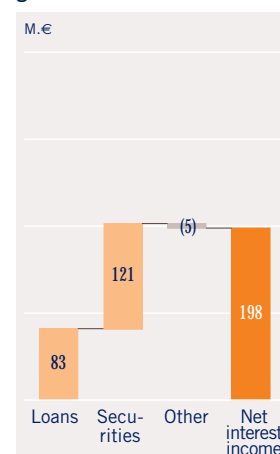
Net interest income generation in 2011²

Chart 60

■ Commissions, profits from financial operations and other
■ Net interest income

Factors influencing the trend in net interest income from BFA

Amounts in M.€

Amounts in m.c.												
		2010			2011			Change in net interest income				
		Average balance	Average rate	Interest (income / costs)	Average balance	Average rate	Interest (income / costs)	Volume effect and residual effect			Rate effect	Total
								Volume effect	Residual effect	Total		
Interest-earning assets												
Placements with credit institutions	1	413.2	0.8%	3.5	940.7	2.4%	22.2	4.4	8.0	12.5	6.3	18.7
Loans to Customers	2	1 269.9	10.6%	135.2	1 034.2	10.9%	112.2	(25.1)	(0.5)	(25.6)	2.6	(23.0)
Financial assets	3	1 824.4	11.1%	202.6	1 886.1	9.3%	174.5	6.8	(1.1)	5.7	(33.9)	(28.2)
Other	4			6.0			9.0					3.0
Interest-earning assets ³ [=Σ 1 to 4]	5	3 507.6	9.9%	347.3	3 861.0	8.2%	317.9	(13.8)	6.4	(7.4)	(25.0)	(29.4)
Interest-bearing liabilities												
Customer deposits	6	3 826.2	3.5%	132.3	4 161.5	2.8%	115.1	11.6	(2.3)	9.3	(26.4)	(17.2)
Other interest-bearing liabilities	7	82.9	3.2%	2.7	41.5	3.1%	1.3	(1.3)	0.0	(1.3)	(0.1)	(1.4)
Other	8			3.2			3.6					0.3
Interest-bearing liabilities ³ [=Σ 6 to 8]	9	3 909.2	3.5%	138.1	4 203.0	2.9%	120.0	10.3	(2.3)	8.0	(26.5)	(18.2)
Net interest income [= 5 - 9]	10			209.2			198.0	(24.1)	8.7	(15.4)	1.5	(11.2)
Average spread (between interest-earning assets and interest-bearing liabilities)	11		6.4%			5.4%						

Table 44

1) Income and costs from international operations refer to BFA's business in Angola (full consolidation method) given that the 30% shareholding in BCI in Mozambique is equity accounted.

2) Considering the average cost of interest-bearing liabilities.

3) The volume, price and residual effects calculated for the total interest-earning assets and the total interest-bearing liabilities correspond to the sum of the values of the parts.

International activity

Commissions

Commissions and other fees totalled 43.4 M.€, in 2011, which corresponds to a 6.6% decrease relative to 2010.

Commissions and other fees (net)		Amounts in M.€		
		2010	2011	Δ%
Banking services	1	23.9	22.5	(5.9%)
Deposits and related services	2	15.7	15.2	(3.1%)
Loans and guarantees	3	4.6	3.8	(16.7%)
Other	4	2.2	1.8	(18.7%)
Total	[Σ 1 to 4]	46.5	43.4	(6.6%)

Table 45

Profits from financial operations

In 2011, profits from financial operations declined 7.1% to 63.4 M.€. Profits from financial operations refer primarily to currency gains derived from commercial business operations with Customers.

OPERATING COSTS

Operating costs rose by 5.3% in 2011. The ongoing enlargement of the distribution network in Angola, which grew 10.5% in 2011, and the associated larger workforce (with an 8.7% increase in the average number of Employees) constitute the principal factors behind the trend in costs.

The indicator “operating costs as a percentage of net operating revenue” was situated at 36.9% in 2011.

Net operating revenue and operating costs

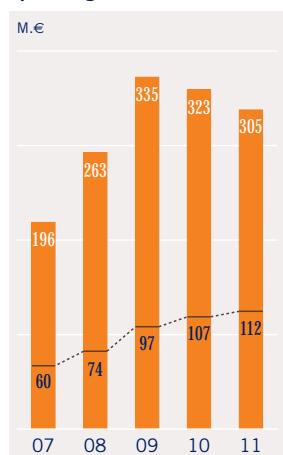


Chart 61

Operating costs as % of net operating revenue

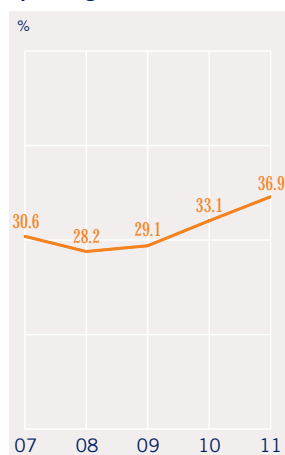


Chart 62

- Net operating revenue
- Operating costs

1) Operating costs as percentage of net operating revenue.

Operating costs

		Amounts in M.€		
		2010	2011	Δ%
Personnel costs	1	49.7	52.9	6.5%
Outside supplies and services	2	45.8	48.2	5.3%
Operating costs before depreciation and amortisation	[= 1 + 2]	95.5	101.2	5.9%
Depreciation and amortisation	4	11.2	11.2	(0.1%)
Operating costs	[= 3 + 4]	106.7	112.4	5.3%
Efficiency ratio ¹	6	33.1%	36.9%	

Table 46

LOAN IMPAIRMENTS AND PROVISIONS

Loan impairments in the year amounted to 9.4 M.€, which corresponds to a 56% decrease relative to 2010.

For their part, recoveries of loans previously written off increased by 34% to 2.8 M.€.

Hence, loan impairments after deducting recoveries totalled 6.5 M.€, which corresponded to a 66% decrease when compared with 2010. The indicator “loan impairments net of recoveries as a percentage of the loan portfolio” was situated at 0.62% (1.46% in 2010).

Total impairments net of recoveries As % of net operating revenue

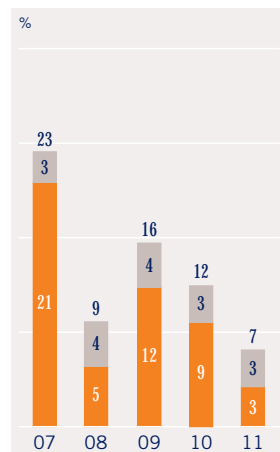


Chart 63

- Other purposes
- Loans

Equity-accounted results of subsidiaries 2007 to 2011

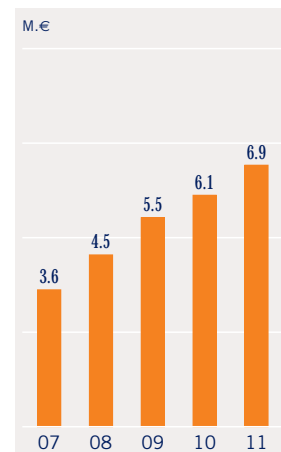


Chart 64

At the end of 2011, BFA had a ratio of Customer loans in arrears for more than 90 days of 5.9%, while loans in arrears for more than 90 days were 126% covered by total loan provisions.

Loan impairments

		2010		2011	
		M.€	% of loan portfolio ¹	M.€	% of loan portfolio ¹
Loan impairments	1	21.2	1.62%	9.4	0.89%
(-) Recoveries of loans in arrears written off	2	2.1	0.16%	2.8	0.27%
Loan impairments net of recoveries	3	19.1	1.46%	6.5	0.62%

Table 47

EQUITY-ACCOUNTED RESULTS OF SUBSIDIARIES

Equity-accounted results – which correspond to the appropriation of net income attributable to the 30% participating interest in BCI in Mozambique – grew by 13% to 6.9 M.€².

BCI's results reflect the buoyant growth in banking business, underpinned by the distribution network's expansion and the larger workforce.

Total assets grew 36%, deposits and loans registered growth rates of 31% and 36% respectively, and the number of Customers increased by 57% to 409 thousand.

MINORITY INTERESTS

Minority interests in the net profit relating to international operations correspond to the 49.9% equity interest in BFA held by Unitel.

BPI recognised minority interests of 90.4 M.€ in BFA's 2011 net profit.

1) Average performing loan portfolio.

2) BCI's contribution to BPI consolidated net profit, besides the equity-accounted results also includes the deferred tax relating to BCI's distributable results. In 2011, BCI's contribution was 6.3 M.€, up 13% on the previous year's contribution.

BALANCE SHEET

In international operations, the Bank has a very liquid balance sheet, underpinned by the taking of Customer resources and the application of this liquidity in loans (21% of Customer resources), in securities issued by the Angolan Central Bank and by the Angolan Treasury with maturities of up to one year (23% of Customer resources) and in Angolan Treasury bonds (23% of Customer resources).

At the end of 2011, Customer resources totalling 4 756 M.€, funded 88% of assets, and together with own funds practically funded all assets.

The high usage of the American dollar in the Angolan economy (the local currency is the kwanza) explains why the greater part of business transacted with Banco de Fomento Angola's Customers is expressed in American dollars. BFA maintains balanced positions in foreign currencies, with the result that BFA's balance sheet net exposure to foreign currencies is not material.

International activity balance sheet structure in 2011

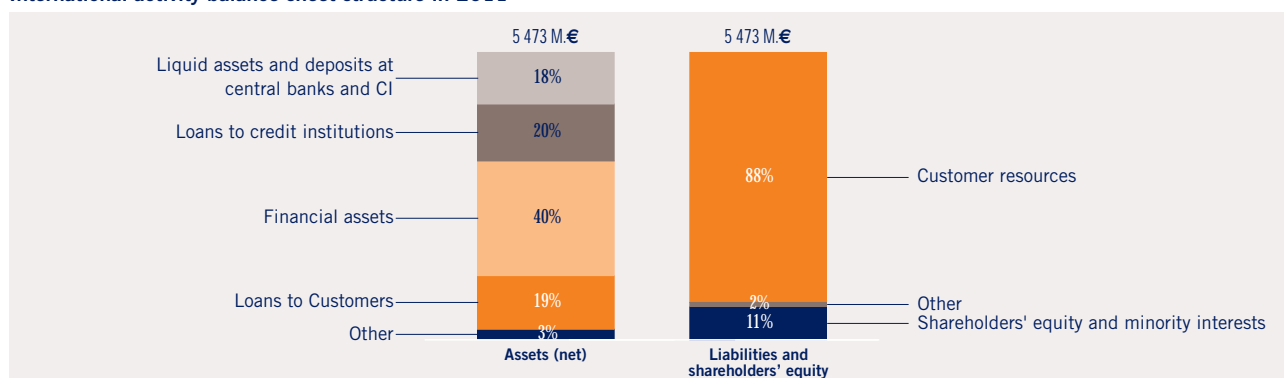


Chart 65

Customer loans

BFA's Customer loans portfolio contracted 14.2% in 2011, due primarily to the 21% decrease in the corporate loans portfolio. Loans to individuals were down 1.9%.

The decrease in BFA's loan book reflects the maintenance since 2009 of a more selective approach to lending activity, adhering to stringent risk evaluation criteria following the strong credit expansion registered in the economy in previous years.

The decrease in the loan portfolio was noted in the dollar-denominated component which decreased by 215 M.€ (-22%), whereas the component expressed in kwanzas expanded by 48 M.€ (+17%). At the end of 2011, roughly 68% of BFA's loan portfolio was expressed in dollars (76% in 2010).

Loans to Customers 2007 to 2011

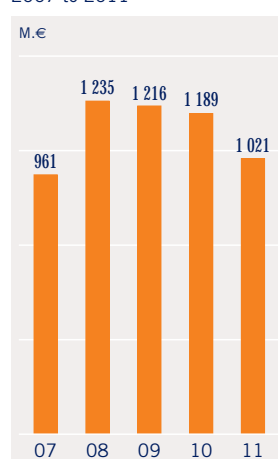


Chart 66

Loan portfolio Breakdown in 2011

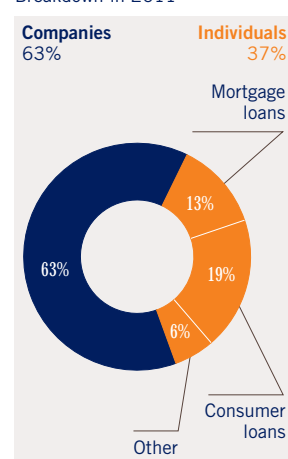


Chart 67

Customer loans portfolio

Amounts in M.€

		2010	2011	Δ%
Loans to companies	1	817.6	644.9	(21.1%)
Loans to individuals				
Housing loans	2	127.6	128.8	0.9%
Consumer loans	3	195.3	194.2	(0.6%)
Other	4	66.5	59.0	(11.3%)
[= Σ 2 to 4]	5	389.4	382.0	(1.9%)
Loans in arrears	6	50.1	66.4	32.4%
Loan impairments	7	(78.7)	(77.1)	(1.9%)
Interests and other	8	10.7	4.5	(57.9%)
Total	9	1 189.2	1 020.6	(14.2%)
Guarantees	10	193.1	140.2	(27.4%)

Table 48

Customer resources

BFA's Customer resources portfolio reflected a 13.9% expansion in 2011. Sight deposits represent around half of the resources taken from Customers.

The dollar-denominated deposits component rose by 270 M.€ (+10%), the kwanza component by 285 M.€ (+20%) while the rest of the change was registered in deposits expressed in other currencies.

In December 2011, roughly 60% of Customer deposits were expressed in dollars (62% in 2010), 36% in kwanzas and 4% in other currencies.

Total Customer resources

Amounts in M.€

		2010	2011	Δ%
Sight deposits	1	2 008.0	2 404.8	19.8%
Term and savings deposits	2	2 168.3	2 350.9	8.4%
Total	3	4 176.2	4 755.7	13.9%

Table 49

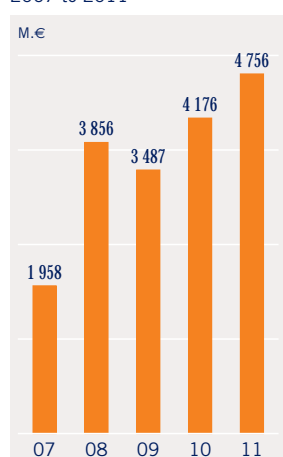
Customer resources
2007 to 2011

Chart 68

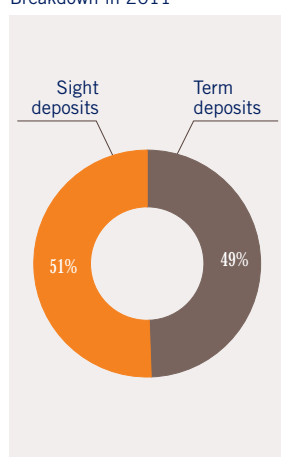
Customer resources
Breakdown in 2011

Chart 69

Securities and financial investments portfolio

The financial assets portfolio is composed of short-term securities with maturities of up to one year, expressed in kwanza and issued by Banco Nacional de Angola (Títulos do Banco Central – TBC) and by the State (Bilhetes do Tesouro) and Angolan treasury bonds (Obrigações do Tesouro Angolano) with maturities ranging from 1 to 6 years.

This portfolio is used for investing BFA's surplus liquidity and for managing its balance sheet. The surplus liquidity in kwanzas is invested in short-term securities issued by BNA and the Angolan Treasury and in Treasury Bonds in kwanzas, while the surplus liquidity in dollars is placed on the interbank market and invested in Angolan Treasury Bonds expressed in dollars or indexed to the dollar.

The securities portfolio totalled 2 203.2 M.€ at the end of 2011, which corresponds to a 4.2% increase relative to 2010.

Securities and financial investments portfolio

Amounts in M.€

		2010	2011	Δ%
Short-term securities				
Central Bank securities (TBC)	1	728.5	784.3	7.7%
Angolan Treasury Bills (BT)	2	206.4	310.9	50.6%
[= 1 + 2]	3	935.0	1 095.2	17.1%
Angolan Treasury Bonds (OT)	4	1 179.7	1 107.2	(6.1%)
Other	5	0.6	0.7	19.8%
[= Σ 3 to 5]	6	2 115.3	2 203.2	4.2%
Financial investments¹	7	22.6	35.0	54.9%
Total	8	2 137.9	2 238.1	4.7%

Table 50

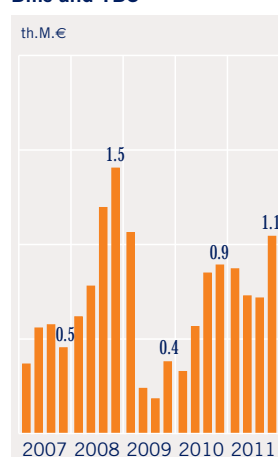
Portfolio of Angolan Treasury Bills and TBC

Chart 70

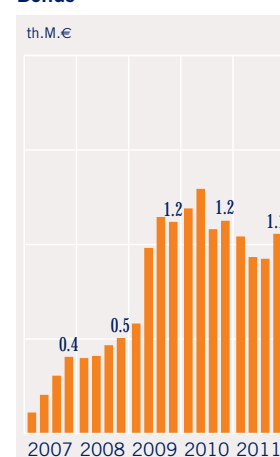
Portfolio of Angolan Treasury Bonds

Chart 71

1) Corresponds to the 30% participating interest in BCI (in Mozambique) which is recognised using the equity method.

Profitability, efficiency, loan quality and solvency consolidated indicators according to Bank of Portugal Notice 23 / 2011

	31 Dec. 10 reported	31 Dec. 11 reported	31 Dec. 11 excl. non-recurring
Net operating revenue and results of equity accounted subsidiaries / ATA	2.4%	2.4%	2.4%
Profit before taxation and minority interests / ATA	0.6%	(0.8%)	0.5%
Profit before taxation and minority interests / average shareholders' equity (including minority interests)	13.9%	(20.5%)	13.0%
Personnel costs / net operating revenue and results of equity accounted subsidiaries ¹	35.1%	36.1%	36.8%
Operating costs / net operating revenue and results of equity accounted subsidiaries ¹	59.6%	61.6%	62.6%
Loans in arrears for more than 90 days + doubtful loans / loan portfolio (gross)	1.9%	2.5%	
Loans in arrears for more than 90 days + doubtful loans, net of accumulated loan impairments / loan portfolio (net)	0.1%	0.3%	
Credit at risk ²	2.7%	3.2%	
Credit at risk ² , net of accumulated loan impairments / loan portfolio (net)	0.8%	1.1%	
Own funds requirements ratio	11.1%	9.3%	
Basis own funds ratio (Tier I)	9.1%	9.0%	
Core Tier I ratio	8.7%	9.2%	
Loans (net) to deposits ratio	122%	109%	

1) Excluding costs with early-retirements.

2) According to Bank of Portugal Instruction 23 / 2011, includes loans in arrears for more than 90 days, associated loans not yet due, restructured loans (previously with instalments in arrears for more than 90 days and in respect of which the debtor had not adequately reinforced the guarantees furnished or paid in full the outstanding interest and other charges) and insolvency situations still not contemplated in loans in arrears for more than 90 days.

ATA = Average total assets.

Table 51

Risk management

At the BPI Group, risk management is founded on the ongoing identification and analysis of the exposure to the different risks (credit risk, country risk, market risks, liquidity risks, operational and other risks) and on the execution of strategies aimed at maximising the results *vis-à-vis* risks, within predefined and duly supervised limits. Risk management is complemented by the analysis *à posteriori* of performance indicators.

ORGANISATION

The BPI Group's global risk management is entrusted to the Board of Directors' Executive Committee. At the Executive Committee level, a Director without direct responsibility for the commercial divisions is placed in charge of the risk divisions.

At senior level, there are also two specialised executive committees: the Global Risks Executive Committee (global market, liquidity, credit, country, operational risks) and the Credit Risks Executive Committee, which concentrates its activity on the analysis of large-scale operations.

The Bank has a centralised and independent structure for dealing with the analysis and control of risk in accordance with the best organisational practices in this domain and with the requirements of the Basle Accord. The Risk Analysis and Control Division is responsible for monitoring global risks and for the management of the risk datamart for the whole Group (to where all the important information about the Bank's systems converge).

In the specific domain of corporates, small businesses, institutional Clients and project finance credit risks, the Credit Risk Division undertakes an appraisal, independent of the commercial structures, of the risk of the various proponents or sureties and of the characteristics of the operations. The granting of ratings falls within this Division's terms of references, and – in high profile cases

– those of the Rating Committee. Quantitative models produced by the Risk Analysis and Control Division are available to support the attribution of ratings. The Corporate Loans Recovery Division undertakes the management of recovery proceedings in the event of default.

In the specific sphere of Individuals' credit risk, it is the task of the Individuals' Credit Risk Division to perform the functions of independently analysing proponents, sureties and operations, backed by the various risk indicators and scoring models produced by the Risk Analysis and Control Division. The management of recovery processes also forms part of the functions of the Individuals' Credit Risk Division.

In specific segments such as loans to financial institutions or derivatives, there are credit risk analysis areas which carry out similar functions to those described for companies or individuals.

The management of operational risk at the BPI Group is entrusted to two specific bodies: the Operational Risk Committee and an Operational Risk Area, as well as to members of each one of the Group's bodies charged with the identification and management of operational risks in their areas of activity.

The BPI Group's Compliance Division covers all areas, processes and activities of companies that compose the BPI Group and has as its mission contributing to the prevention and mitigation of the "Compliance Risks", which translate into the risk of legal or regulatory sanctions, financial or reputational loss as a consequence of the failure to comply with the law, regulations, code of conduct and good banking practices, fostering the observance by the BPI Group and its Employees of all the applicable rules by way of an independent involvement, in conjunction with all the Bank's organic units.

Matrix of responsibilities for risk management and control

	Identification and analysis of exposure	Strategy	Limits and control	Recovery	Performance Evaluation
Credit / counterparty risk	DACR: rating and scoring models (probabilities of default), and loss given default for all loan segments DACR and DF: external rating identification for debt securities and for credit to financial institutions DRC: Rating for Corporates, Small Businesses, Project Finance and Institutional Clients Rating Committee: Rating for large Corporates and Institutional Clients DRCP: Expert System for loans to Individuals DACR: exposure to derivatives DACR: analysis of overall exposure to credit risk	CECA, CERG: overall strategy CECA, CERG: approval of substantial operations Credit Board, DRC, DBI, DRCP, DF: approval of operations	CA (with CRF advisory) CECA, CERG, Credit Board, DRC, DRCP, DACR, DF: limits CECA, CACI, CERG, CERG, Credit Board, DACR, DO, Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control	DRCE: Companies DRCP: Individuals and Small Businesses	CECA CERG, CERG, DCPE, DACR All other Divisions
Country risk	DF: analysis of individual country risk with recourse to external ratings and analyses DACR: analysis of overall exposure	CECA and CERG: overall strategy DF, DA, DIAPE: operations	CA (with CRF advisory) CECA, CACI, CERG, DACR, DC, Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control		
Market risk	DACR: analysis of risk by books / instruments and global risks – interest rates, currencies, shares, commodities, other.	CECA and CERG: overall strategy DF, DA, DIAPE: operations	CA (with CRF advisory) CECA, CERG, DACR, DF, DA: limits CECA, CACI, CERG, DACR, DC, Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control		
Liquidity risk	DF, DA, DIAPE: individual risk analysis of liquidity, by instrument DACR: analysis of overall liquidity risk	CECA and CERG: overall strategy	CA (with CRF advisory) CECA, CACI, CERG, DACR, DC, Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control		
Operating risks	DACR: analysis of overall exposure DORG and all the Divisions: identification of critical points	CECA: overall organisation Operating Risk Committee DORG: regulations	CECA, CERG, DORG, DACR: regulation and limits CECA, CACI, DORG, DACR, DC, Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control	DJ, DAI, DO, Commercial Divisions	CECA, DORG²
Legal and compliance risks	DJ, DC DC: compliance risk analysis	CECA: compliance	CECA, CACI, DJ, DC, Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control		

CA – Conselho de Administração (Board of Directors); CACI – Comissão de Auditoria e de Controlo Interno (Audit and Internal Control Committee); CECA – Comissão Executiva do Conselho de Administração (Board of Directors Executive Committee); CERC – Comissão Executiva de Riscos de Crédito (Credit Risks Executive Committee); CERG – Comissão Executiva de Riscos Globais (Global Risks Executive Committee); CRF – Comissão de Riscos Financeiros (Financial Risks Committee) DA – Departamento de Ações (Equity Department); DACR – Direcção de Análise e Controlo de Riscos (Risk Analysis and Control Division); DAI – Direcção de Auditoria e Inspeção (Inspection Audit Division); DC – Direcção de Compliance (Compliance Division); DF – Direcção Financeira (Financial Division); DIAPE – Direcção de Investimentos Alternativos e Produtos Estruturados (Alternative Investments and Structured Products Division); DJ – Direcção Jurídica (Legal Division); DO – Direcção de Operações (Operations Division); DORG – Direcção da Organização (Organisation Division); DP – Direcção de Planeamento (Planning Division); DRC – Direcção de Riscos de Crédito (Credit Risk Division); DRCE – Direcção de Recuperação de Crédito a Empresas (Corporate Credit Recovery Division); DRCP – Direcção de Riscos de Crédito a Particulares (Individuals Credit Risk Division).

The Financial Risks Committee – a consultative body reporting to the Board of Directors – is responsible, without prejudice to the legal terms of reference vested in the Supervisory Board, for monitoring the management

policy covering all the financial risks arising from BPI's operations, namely liquidity, interest rate, exchange rate, market and credit risks, as well as monitoring the Company's pension-fund management policy.

1) As part of the execution of the audit and statutory audit of the BPI Group's accounts, the external auditors also contribute to the process of controlling the various risks to which the Group is exposed.

2) Except in the cases of compliance and DC division.

CREDIT RISK

Management process

Credit risk associated with the possibility of actual default by a counterparty (or with the change in the economic value of a given instrument or portfolio stemming from a deterioration in the risk quality of a counterparty) constitutes the primary risk factor inherent in the BPI Group's business spectrum.

Specific approval for loans to **companies and small businesses or to institutional Customers** follows the principles and procedures laid down in the credit regulations, and in essence result from the following:

- Rejection filters: the existence of incidents and defaults, liens or debts to the Tax Administration and to the Social Security Department; others.
- Exposure limits to credit risk: evaluation of the present capability to service debt and the establishment of corresponding maximum exposure limits, also paying attention to the Bank's involvement capacity.
- Acceptance / rejection boundary according to the probability of the counterparty defaulting: a boundary is set in accordance with the internal rating (potential Customers whose classification places them in a risk class which is deemed to be excessive are turned down, that is, whose probability of defaulting is high) or in accordance with an equivalent analysis by an expert system.
- Mitigation of risk attaching to operations: regard is had to any personal or tangible guarantees which contribute to reducing risks.

In the **corporate** segment, the object is to become involved with long-term operations which are associated with tangible guarantees (financial and non-financial), with collateral cover levels (net of haircuts and temporal adjustments in the case of financial assets) of 100%.

In the **small businesses** segment, the medium / long-term operations must as a rule be fully secured by tangible guarantees.

In order to mitigate credit risk on companies' derivative operations, in addition to the drafting of contracts with clauses which permit the set-off of obligations in the event of default, BPI has as a rule signed collateralisation accords with its counterparties.

The specific approval of **loans to individuals** follows the principles and procedures laid down in the credit regulations and in essence result from the following:

- Rejection filters: the existence of incidents and defaults, liens or debts to the Tax Administration and to the Social Security Department, minimum and maximum age restrictions and others.
- Exposure limits: evaluation of the present capability to service debt through the calculation of the housing-to-income ratio or the estimated value of the savings of the loan applicants, guarantors or sureties. As a general rule, applications where the housing-to-income ratio is considered to be excessive or where savings become slightly positive or even negative due to the costs of the new loan, are turned down.
- Acceptance / rejection boundary, according to the probability of the counterparty defaulting: there are reactive scorings for each loan segment (housing, personal loans, credit cards and motor car finance) designed to evaluate the probability of default by the counterparty, guarantors or sureties. In complex cases, the identification of the risk class (probability of default) requires the involvement of the Individuals Credit Risk Division. Potential Customers whose classification places them at risk which is deemed to be excessive are turned down, that is, whose probability of defaulting is high.
- Mitigation of risk attaching to operations: in the acceptance or rejection of Customers and operations, regard is had to any personal or tangible guarantees which contribute to reducing risks. In the most expressive segment – home loans –, the relationship between loan and security (or loan-to-value ratio) has a maximum ceiling of 80%.

For each one of the different divisions involved, the relevant hierarchical levels for the approval of credit according to their risk or commercial characteristics have been defined with the object of decentralising decisions and, therefore, ensuring processing speed and efficacy.

Subsequently, the Bank maintains constant vigilance over the evolution of its exposure to the different counterparties, the evolution of its portfolio (diversification by geographical area, sector, segment, counterparty, currency and maturity), and the profitability results and indices achieved *vis-à-vis* the risks assumed.

Moreover, problematic credit situations, provisioning cover indices, write-offs and recoveries are analysed every month.

An estimate is also made of the provisions for impairment losses, involving both a statistical calculation for performing loans, loans with incidents or in default, and an evaluation of the same impairment by expert systems for all the larger loans. The impairment losses and provisions are the object of a monthly assessment by the Board of Directors' Executive Committee (Executive Committee for Credit Risk), and are reviewed every six months by the external auditors and reviewed regularly by the Audit and Internal Control Committee.

Functioning as agents controlling this entire management process, in addition to the Board of Directors, the Audit and Internal Control Committee, the Supervisory Board and the Executive Committee for Credit Risk, are the Risk Analysis and Control Division, the internal and external auditors¹ and the Bank of Portugal.

Evaluation of exposure to credit risk

Companies, institutional Customers, specialised finance and small businesses

BPI uses an internal rating system for companies (excluding small businesses) with ten classes (E1 to E10) plus two classes in the case of incidents (ED1 and ED2)

and one in the case of default (ED3, which corresponds to a 100% "probability of default"). Default probabilities are associated to each classification for the evaluation of loans, guarantees and securities of medium and large-sized companies.

Internal rating of companies

Breakdown of exposure by risk classes at 31 December 2011

Risk classes		Value (M.€) ²	% of portfolio amount	One-year default probability ³
E1	1	95.2	1.2%	0.0%
E2	2	965.9	11.8%	0.2%
E3	3	893.8	10.9%	0.2%
E4	4	937.4	11.4%	0.4%
E5	5	1 857.7	22.6%	0.5%
E6	6	707.6	8.6%	0.8%
E7	7	963.4	11.7%	1.5%
E8	8	639.4	7.8%	2.7%
E9	9	249.1	3.0%	4.3%
E10	10	115.6	1.4%	8.1%
Without rating	11	168.6	2.1%	8.1%
ED1	12	116.1	1.4%	35.4%
ED2	13	22.9	0.3%	49.3%
ED3 (default)	14	489.3	6.0%	100.0%
Total	<i>[=Σ 1 to 14]</i> 15	8 221.9	100.0%	1.67%

Table 52

The average default probability of the companies portfolio from a one-year perspective weighted by the amount of liabilities stood at 1.67% at 31 December 2011. The loss on each operation in default in this segment is on average 18.57%, a figure that is higher than that of the past, indicating greater difficulties in recovering operations in default owing to the economic crisis. The expected loss is on average 0.30% for the entire portfolio.

In the project finance and structured finance areas, there is a classification system based on five classes. The portfolio is composed in the majority of cases of projects with "good" or "strong" ratings.

1) As part of the execution of the audit and statutory audit of the BPI Group's accounts, the external auditors also contribute to the process of controlling the various risks to which the Group is exposed.

2) The portfolio includes bonds, bank guarantees and commercial paper of the Companies segment and excludes factoring without recourse and derivatives.

3) In the calculation of default probabilities, all the operations in default of a single customer were regarded as being a single negative case (and not various cases). The calculation of the portfolio's average default probabilities naturally excludes the ED3 class.

Internal rating of project finance

Breakdown of exposure by risk classes at 31 December 2011

Risk classes		Value (M.€)	% of portfolio amount
Strong	1	452.8	15.6%
Good	2	2 113.2	72.7%
Satisfactory	3	229.0	7.9%
Weak	4	105.1	3.6%
Default	5	8.0	0.3%
Total	[= Σ 1 to 5]	2 908.1	100.0%

Table 53

The segment of small businesses is still at an initial stage of a rating evaluation process. Notwithstanding this fact, it is possible to estimate an average default probability over a one-year period in the case of this portfolio, and a loss in the event of default of 3.94% and 60.33%, respectively (the definition of default used in the calculations of impairment losses is that of loans in arrears for 180 days or more).

These systems for evaluating counterparty risk are complemented by other methodologies, in particular, the calculation of the capital at risk, in accordance with the assessment enshrined in regulations governing solvency ratios or a variation thereof.

Indices relating to exposure concentration are also analysed. In global terms, the portfolio reveals an average / high degree of concentration by counterparty or group (including conservative compliance with the regulations governing "large exposures") and a low degree of concentration by sectors. According to the Bank of Portugal's calculation methodology, the individual concentration index stands at 45% and the sector concentration index at 10.6%. The concentration at geographic level is inherent to the location of the Group's operations.

Financial institutions

In financing granted to other financial institutions, BPI bases its risk analysis on available external ratings. Financing relations are restricted, at the time of the investment, to investment grade institutions.

This system for evaluating counterparty risk is complemented by the calculation of the capital at risk, in accordance with the assessment enshrined in regulations governing solvency ratios.

Individuals

In the individuals domain, there is a reactive scoring model for each segment, designed to represent default probabilities (distribution of the results of each scoring by ten classes, plus two in the case of incidents and one class in the case of default).

Over the life of the operations, the default probabilities are assessed by behavioural scorings. It should be noted that in the home loan segment, notwithstanding the difficult economic environment, the portfolio's average probability of default is low (1.70%). This favourable trend is due not only to tighter decision criteria, but also to the natural decline in default probabilities on older loans (the portfolio's average age is 5 years while the peak of default probabilities in their lifespan is situated at 4 years).

Default probabilities of loans to individuals

Risk classes	Probability of default within a year ^{1,2}	Loss given default	Expected loss
Mortgage loans	1.70%	27.32%	0.48%
Personal loans	1.44%	26.96%	0.42%
Motor car finance	1.85%	11.51%	0.24%
Credit cards	1.21%	40.64%	0.49%

Table 54

The estimated loss on each operation in default in these segments is also revised periodically over the lifespan of the operations. The lowest expected loss in the event of default in the motor-car and housing finance is directly related to the existence of tangible guarantees, facilitating the recoupment of loans. The existence of promissory notes and, at times, financial collateral, also facilitates the recovery of amounts (relatively low) advanced in the form of personal loans.

1) Probability of default weighted by the liabilities in portfolio or potential liabilities (credit cards).

2) The calculation of the average default probability includes situations of loans in arrears for less than 90 days.

Loan-to-value ratio in housing loans

At 31 December 2011

	2011
New loans contracted ¹	62.5%
Housing loan portfolio	49.3%
Loans in default (more than 90 days)	68.2%

Table 55

This system for evaluating counterparty risk is complemented by the calculation of the capital at risk, in accordance with the assessment enshrined in regulations governing solvency ratios.

Debt securities portfolio

In what regards the evaluation of risks stemming from its securities portfolio, BPI resorts primarily to information obtained from external rating reports. Notwithstanding recent downgrades and the fact that bond valuations at market prices implicitly contain, in this environment, high risk premiums, the investment portfolio is predominantly composed of the securities of low credit-risk issuers.

Bonds and fixed-interest securities' investment portfolio²

	Amounts in M.€			
	2010	%	2011	%
AAA	129	1.5%	1	0.0%
AA	182	2.2%	10	0.2%
A	4 122	48.9%	1 126	17.5%
BBB	1 172	13.9%	1 047	16.3%
BB	432	5.1%	2 048	31.9%
B	34	0.4%	24	0.4%
CCC	0	0.0%	29	0.4%
CC	4	0.0%	124	1.9%
Without rating	600	7.1%	715	11.1%
Commercial paper with guarantees from credit institutions	419	5.0%	90	1.4%
Commercial paper without guarantees	1 335	15.8%	1 215	18.9%
Total	8 429	100.0%	6 428	100.0%

Table 56

Equities and participating interests portfolio

As regards the structural position of the equities and participating interests portfolio, the corresponding market

risk is not easily measured by traditional methodologies such as VaR, given the investment's time horizon, the importance of the positions or the lack of quoted prices in the equity market. According to the Basle Accord, this risk is treated as credit risk (and eventually included in the treatment of large exposures).

The realisation of a stress test on this portfolio (30% fall in quoted prices) reveals a capital at risk figure of 89.1 M.€.

Derivative operations

Credit risk analysis relating to operations in derivatives is founded on the replacement value (exposure equivalent to credit), and on default probabilities and loss values in the case of default attaching to the counterparty and to the operations, respectively.

The set-off and collateralisation contracts naturally have an influence on the calculation of this type of exposure. These agreements, which entail the receipt (and payment) of collateral amounts for hedging risks between counterparties, permitted a reduction in the substitution value of the derivatives portfolio from 539 M.€ (gross amount) to 242 M.€ (net amount, after set off and collateralisation) at the end of 2011.

Current credit risk – substitution value of derivatives by type of counterparty³

	Amounts in M.€			
	2010	%	2011	%
Over-the-counter market				
Financial institutions	25.0	14.2%	19.2	7.9%
Other financial intermediaries	0.1	0.1%	3.8	1.6%
Local and administrative public sector	0.3	0.2%	0.4	0.2%
Companies	145.7	82.9%	214.5	88.5%
Unit trust funds and pension funds	1.0	0.6%	0.0	0.0%
Individuals	3.7	2.1%	4.4	1.8%
Total	175.9	100.0%	242.3	100.0%

Table 57

This form of evaluating exposure to counterparty risk is complemented by the traditional regulatory approach (own funds requirements by capital at risk).

1) Loans granted in December 2011.

2) Includes securities in the available-for-sale portfolios, bonds classified as loans and commercial paper.

3) The total substitution value is the sum of the substitution values of the counterparties, when positive. It does not include options inserted into bonds issued or bought. The substitution value incorporates the effect of the risk reduction that results from the set-off of credit and debit balances between the same counterparties and agreements with counterparties, which serve as guarantee for compliance with obligations.

Default, provisioning and recovery levels

BPI maintains loan quality indicators at relatively good levels and adequate risk provisioning, as confirmed by the results of the inspection covering the loan portfolio carried out within the ambit of the Economic and Financial Assistance Programme for Portugal.

At the end of 2011, the ratio of loans in arrears for more than 90 days stood at 2.4% on a consolidated basis. In domestic operations – which account for roughly 96% of the consolidated loan portfolio – the ratio of loans in arrears (for more than 90 days) was 2.2% and in international operations (in Angola) – which represents 4% of the consolidated loan portfolio – it was 5.9%.

Credit-at-risk according to the Bank of Portugal's definition which, in addition to loans in arrears for more than 90 days also includes the associated loans falling due, restructured loans and insolvency situations, corresponded to 3.2% of the consolidated gross loan portfolio at the end of 2011. In domestic operations, this ratio stood at 3.0% and in international activity (in Angola) it was situated at 9.0%.

Impairment charges for the year, after deducting loan recoveries, represented 0.43% of the loan portfolio in 2011 (0.46% in 2010).

Accumulated impairment allowances in the balance sheet for loans with defaulting instalments¹ and collaterals (real and personal) guaranteed 85% cover for the total exposure in operations with principal or interest in arrears, considering for this purpose all the operations with principle or interest in arrears for more than 30 days and including the associated loans falling due.

The Special Inspections Programme (SIP) covering the loan portfolio, executed as part of the Economic and Financial Assistance Programme for Portugal, concluded that the overall impairment figure carried in the BPI Group's consolidated accounts to cover credit risk is adequate. The analysis carried out covered 95% of BPI's total consolidated loan portfolio. As regards opportunities for improving policies and procedures in credit risk management, the inspection resulted in a small number of recommendations, the application of which will be realised in the near future.

At 31 December, BPI had accumulated impairment allowances for foreclosed fixed properties which covered 38% of the respective gross balance sheet value. The net balance sheet value of those fixed properties was 85.6 M.€, which compares with a market value for the same properties of 163.9 M.€.

Ratio of loans in arrears

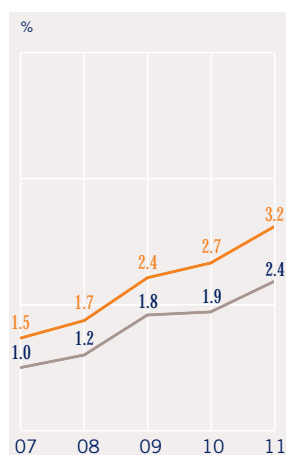


Chart 73

— Loans in arrears for more than 90 days
— Credit at risk (non-performing loans)

Coverage of loans in arrears and falling-due loans associated by impairments and collaterals

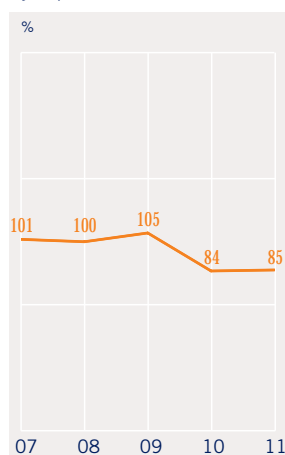


Chart 74

Note: Coverage of loans in arrears for more than 30 days and falling-due loans associated by impairments for those loans and collaterals.

Property repossessed from loans recovery

Gross value

Impairments coverage

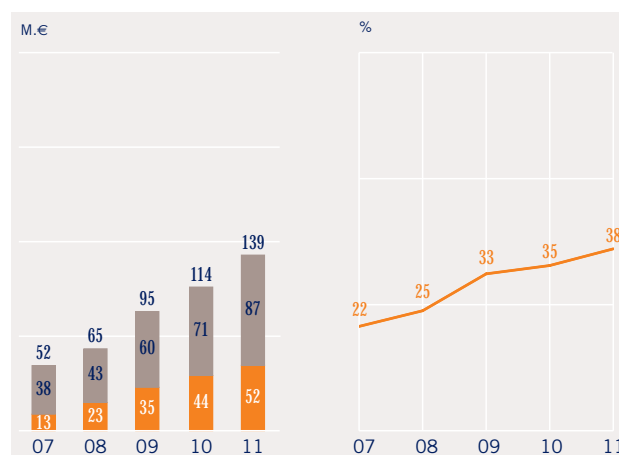


Chart 75

Chart 76

■ Other
■ Housing loans

1) In addition, BPI had impairment allowances of 236.5 M.€ for loans with no arrear instalments and for guarantees. Taking this figure also into account, cover for total overdue loans and associated loans falling due stood at 105%.

Loans to Customers in arrears and loan impairments

Amounts in M.€

		2010			2011		
		Domestic activity	International activity	Consolidated	Domestic activity	International activity	Consolidated
Customer loan portfolio (gross)	1	29 341.1	1 267.9	30 608.9	27 896.8	1 097.8	28 994.5
Loans in arrears, falling due loans and impairments							
Loans in arrears for more than 90 days	2	531.6	45.3	577.0	621.9	64.7	686.6
Loans in arrears for more than 90 days and doubtful loans ^{1,2}	3	541.6	45.3	587.0	635.8	64.7	700.4
Credit at risk ^{1,3}	4	713.6	90.2	803.7	825.6	98.3	923.9
Loans in arrears for more than 30 days	5	570.2	50.1	620.3	662.0	66.4	728.4
Loan impairments (accumulated in the balance sheet)	6	498.1	84.1	582.2	561.7	81.2	642.9
Ratios (as % of total loans)							
Loans in arrears for more than 90 days as % of loan portfolio [= 2 / 1]	7	1.8%	3.6%	1.9%	2.2%	5.9%	2.4%
Loans in arrears for more than 90 days and doubtful loans as % of loan portfolio ^{1,2,4}	8	1.9%	3.6%	1.9%	2.3%	5.9%	2.5%
Loans in arrears for more than 90 days and doubtful loans, net of accumulated impairments, as % of net loan portfolio ^{1,4}	9	0.2%	(2.8%)	0.1%	0.4%	(1.2%)	0.3%
Credit at risk as % of loan portfolio ^{1,3,4}	10	2.5%	7.1%	2.7%	3.0%	9.0%	3.2%
Credit at risk, net of accumulated impairments, as % of net loan portfolio ^{1,4}	11	0.8%	1.0%	0.8%	1.1%	2.1%	1.1%
Loans in arrears for more than 30 days as % of loan portfolio [= 5 / 1]	12	1.9%	4.0%	2.0%	2.4%	6.1%	2.5%
Loan impairments (accumulated in the balance sheet) as % of loan portfolio [= 6 / 1]	13	1.7%	6.6%	1.9%	2.0%	7.4%	2.2%
Loan impairments as % of loans in arrears for more than 90 days [= 6 / 2]	14	93.7%	185.5%	100.9%	90.3%	125.6%	93.6%
Write-offs	15	73.1	20.6	93.6	71.8	14.4	86.3
Recovery of loans and interests in arrears written-off	16	13.8	2.1	15.9	17.5	2.8	20.3

Table 58

The entry of new loans into default (for more than 90 days) in 2011, calculated as the change in loans in arrears balance between the beginning and the end of the

year, plus write-offs made in that year, amounted to 195.9 M.€, which corresponded to 0.68% of the consolidated average loan portfolio.

1) Calculated in accordance with Bank of Portugal Instruction 23 / 2011.

2) Loans in arrears for more than 90 days and doubtful debts treated as overdue for provisioning purposes.

3) According to Bank of Portugal Instruction 23 / 2011, includes loans in arrears for more than 90 days, associated loans not yet due, restructured loans (previously with instalments in arrears for more than 90 days and in respect of which the debtor had not adequately reinforced the guarantees furnished or paid in full the outstanding interest and other charges) and insolvency situations still not contemplated in loans in arrears for more than 90 days.

4) For purposes of calculating the loan quality indicators, the Group universe (perimeter) subject to Bank of Portugal supervision is taken into account so that in BPI's case, BPI Vida e Pensões is equity accounted (whereas in the consolidated accounts, according to the IAS / IFRS standards, that entity is fully consolidated).

On the other hand, an amount of 20.3 M.€ in arrear loans and interest previously written off assets was recovered, with the result that the entries of new loans into default (for more than 90 days), net of loan recoveries, amounted to 175.6 M.€, which corresponded to 0.61% of the average loan portfolio.

In domestic operations, the entries of new defaulting loans, net of recoveries, represented 0.52% of the average loan portfolio and in international operations the indicator was 2.93%.

Net credit loss, measured as the loan impairment charges after deducting arrear loan recoveries in the year, amounted to 124.5 M.€ in 2011. Impairments net of recoveries represented 0.43% of the average performing

loan portfolio in 2011 (0.42% in domestic activity and 0.62% in international activity).

Net credit loss¹

As % of the average performing loan portfolio

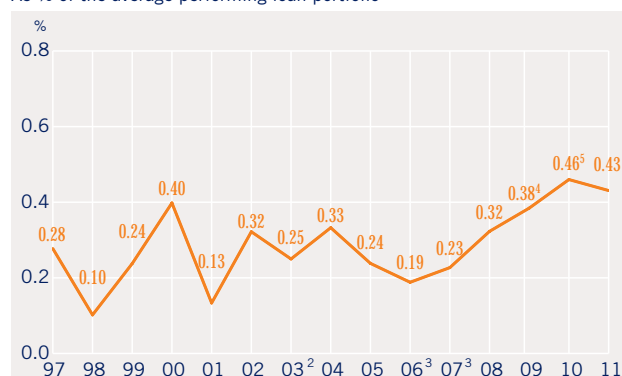


Chart 76

Credit loss and cost of risk

Amounts in M.€

		Domestic activity		International activity		BPI Group (consolidated)	
		2010	2011	2010	2011	2010	2011
Performing loan portfolio (average balance)	1	28 792.0	27 836.2	1 308.1	1 054.2	30 100.2	28 890.4
Change in loans in arrears							
Increase in loans in arrears (for more than 90 days) adjusted by write-offs	2	70.3	162.2	40.4	33.8	110.7	195.9
as percentage of loan portfolio (average balance) [= 2 / 1]	3	0.24%	0.58%	3.09%	3.20%	0.37%	0.68%
– Recovery of loans and interests in arrears written-off	4	13.8	17.5	2.1	2.8	15.9	20.3
= Increase in loans in arrears (for more than 90 days), adjusted by write-offs and deducted of recoveries of loans written-off [= 2 - 4]	5	56.5	144.7	38.3	30.9	94.8	175.6
as percentage of loan portfolio (average balance) [= 5 / 1]	6	0.20%	0.52%	2.93%	2.93%	0.32%	0.61%
Net credit loss							
Loan impairments plus the use in 2010 of the extraordinary charge booked in 2009 ⁵	7	133.1	135.4	21.2	9.4	154.3	144.8
as percentage of loan portfolio (average balance) [= 7 / 1]	8	0.46%	0.49%	1.62%	0.89%	0.51%	0.50%
– Recovery of loans and interests in arrears written-off	9	13.8	17.5	2.1	2.8	15.9	20.3
= Net credit loss [= 7 - 9]	10	119.4	118.0	19.1	6.5	138.4	124.5
as percentage of loan portfolio (average balance) [= 10 / 1]	11	0.41%	0.42%	1.46%	0.62%	0.46%	0.43%
+ Utilisation of the extraordinary charge booked in 2009	12	(33.2)	0.0			(33.2)	0.0
= Loan impairments, net of recoveries (income statement⁶) [= 10 + 12]	13	86.2	118.0	19.1	6.5	105.2	124.5
as percentage of loan portfolio (average balance) [= 13 / 1]	14	0.30%	0.42%	1.46%	0.62%	0.35%	0.43%

Table 59

1) Provisions (PCSB until 2004, inclusive) and loan impairments (IAS from 2005) in the year, after deducting recoveries of arrear loans and interest.

2) In 2003, general provisions of 27.2 M.€ were reversed, which corresponded to the excess provisions resulting from the application of the Bank of Portugal's new provisioning rules. This figure corresponded to 0.16% of the average loan portfolio.

3) In 2006, 6.2 M.€ of impairment charges made at the beginning of 2007 and relating to the revaluation of fixed properties at 31 December 2006 were included (and in 2007 that figure was excluded).

4) In 2009, it was considered the impairment charges for the year excluding the extraordinary charge made in December of that year (of 33.2 M.€).

5) In 2010 the utilisation of the extraordinary charge made in December 2009 (of 33.2 M.€) was added to the impairment charges for the year.

6) Total amount recognised in the income statement, excluding in 2011 loan impairment charges for Greek sovereign debt (68.3 M.€).

The following table presents the ratio of loans in arrears for more than 90 days and the associated loans falling due and impairment allowances in the balance sheet, by

market segment, as well as the contribution of each segment to the gross loan portfolio.

Loans in arrears and impairments accumulated in the balance sheet, by market segment

		2010			2011		
		Loan portfolio (gross), as % of total	Loans in arrears for more than 90 days + falling due loans	Impairments accumulated in the balance sheet	Loan portfolio (gross), as % of total	Loans in arrears for more than 90 days + falling due loans	Impairments accumulated in the balance sheet
Domestic activity							
Corporate banking, institutional banking and project finance	1	42%	2.0%	1.9%	41%	2.4%	2.2%
Individuals and small businesses banking							
Mortgage loans	2	39%	2.4%	0.9%	40%	2.9%	1.1%
Loans to individuals – other purposes	3	5%	2.8%	2.9%	4%	3.2%	3.2%
Loans to small businesses	4	8%	4.7%	4.3%	7%	6.9%	6.1%
[= Σ 2 to 4]	5	51%	2.8%	1.6%	52%	3.5%	2.0%
Other	6	3%	0.3%	1.0%	4%	0.4%	0.9%
[=1+5+6]	7	96%	2.4%	1.7%	96%	2.9%	2.0%
International activity	8	4%	7.1%	6.6%	4%	9.0%	7.4%
Total	9	100%	2.6%	1.9%	100%	3.1%	2.2%
Note:							
Ratio of credit at risk							
Domestic activity			2.5%			3.0%	
International activity			7.1%			9.0%	
Consolidated			2.7%			3.2%	

Table 60

At the end of 2011, total loans in arrears (instalments of principal and interest in arrears more than 30 days) amounted to 728.4 M.€ while the part not yet due in those loan operations amounted to 418.4 M.€.

In average terms, total arrear loans and associated instalments not yet due were 85% covered by the value of real guarantees (561.8 M.€) and individual impairment allowances constituted for these loans (413.4 M.€).

Loans in arrears and falling due loans

At 31 December 2011

Amounts in M.€

		Full exposure to credit operations with capital or interests in arrears			Real guarantees ² (mortgages and other ³)	Impairments ⁴
		In arrears	Falling due loans ¹	Total		
Loans with collateral	1	297.2	282.5	579.7	561.8	142.1
Loans without collateral	2	431.3	136.0	567.2		271.2
[= 1 + 2]	3	728.4	418.4	1 146.9	561.8	413.4

Table 61

1) Performing loans associated with loans in arrears.

2) The amount outstanding was considered when this is lower than the fair value of the real guarantees.

3) Include liens over bank deposits and securities.

4) In the calculation of impairments in mortgage loans in respect of which a legal recovery process has been initiated, the value of fixed properties (deemed) is the execution amount, which is less than the respective market value.

At the end of 2011, BPI held in its portfolio loan-foreclosure properties with a gross balance sheet value of 139.2 M.€. Of this figure, 52.1 M.€ refers to repossessed properties relating to home loans, and 87.1 M.€ refers to repossessed properties relating to the recovery of other loans.

At 31 December, the accumulated amount of impairment allowances for loan-foreclosure properties stood at 53.6 M.€, which corresponded to 38% of their gross balance sheet carrying value. Accordingly, the net balance sheet carrying value of these properties was 85.6 M.€, which compares with a market value of the same properties of 163.9 M.€.

Property repossessed from loans recoverage

Amounts in M.€

		2010			2011		
		Housing	Other	Total	Housing	Other	Total
Gross value	1	43.6	70.8	114.4	52.1	87.1	139.2
Impairments	2	14.6	25.4	40.0	19.6	33.9	53.6
Net value	[= 1 - 2] 3	29.1	45.4	74.4	32.4	53.2	85.6
Market value	4	55.3	72.8	128.1	65.1	98.8	163.9

Table 62

In calculating the impairment losses on properties repossessed under foreclosures, Banco BPI uses especially prudent criteria, listed as follows.

In properties repossessed under home-loan foreclosures, the amount of the impairment corresponds to the difference, if positive, between the gross amount and the valuation after taking into account certain discount factors.

Property acquisition date (AD) in years	Discount factor applied to the assessment value	Impairment if valuation equals the gross value
DA ≤ 1 year	25%	25%
1 year < DA ≤ 2 years	50%	50%
2 years < DA ≤ 3 years	75%	75%
DA > 3 years, rented or no sale possible	100%	100%

Table 63

In the case of the other properties, the following minimum values are considered for the impairment losses, if the valuations do not lead to the booking of higher impairments.

Age of property (AD) in years	Minimum impairment
2 years < DA ≤ 5 years	30% GV
DA > 5 years	50% GV
No sale possible	100% GV

GV = Gross Value.

Table 64

COUNTRY RISK

Management process

Country risk is very similar in terms of its respective effects to counterparty risk and is associated with the changes or specific turmoil of a political, economic or financial nature in those places where the counterparties operate (or, more rarely, in a third country where the business transaction takes place), which impede full compliance with the contract, irrespective of the counterparties' will or capacity. The "country-risk" designation is also used to classify the counterparty risk involved in loans to state entities, given the similarity between the analysis methods for country risk and those for a state's counterparty risk (sovereign risk).

The Board of Directors' Executive Committee approves the list of countries in respect of which country-risk exposure is authorised. Eligible countries considered are large-sized emerging markets which embrace market economy principles, are open to international trade and are of strategic importance within the framework of international politics.

In addition, the operations defined as eligible are short-term financing for external trade, the loans of certain multilateral banks, certain medium-term operations with political risk hedging or which, due to their structuring, are not subject to transfer risk.

Country risk exposure assessment

Country risk exposure At 31 December 2011

Amounts in M.€

Country	Rating	Gross exposure ¹	Personal guaran-tees ²	Tangible guaran-tees ²	Exposure net of guaran-tees
Countries from group I³					
Euro Zone		3 359	19	(59)	3 318
	AAA	1 119	3	(38)	1 084
	AA	921	16	(21)	916
	A	875			875
	BBB	308			308
	CC	134			134
Other EU countries		546	5	(28)	523
	AAA	545	5	(28)	522
	A	1			1
Switzerland	AAA	165	11	(3)	173
USA	AAA	66		(13)	53
Other		19		(1)	18
Offshores		67		(4)	62
		4 220	35	(108)	4 147
Countries from group II⁴					
Brazil	BBB	62		(1)	61
Trade Finance		15			15
Other		48		(1)	47
Angola	BB	322	(71)	(11)	240
Trade Finance		22			22
Other		300	(71)	(11)	218
Russia	BBB	39			39
Kazakhstan	BBB	5			5
Trade Finance		1			1
Other		3			3
Turkey	BB	16			16
Mexico	BBB	52		(0)	51
Mozambique	B	24		(1)	23
Venezuela	B	22		(7)	15
Cape Verde	B	54	(49)		5
South Africa	BBB	15		(10)	4
Other		7		(2)	5
		616	(120)	(32)	464
Subsidiaries					
Angola (BFA)		281			281
Mozambique (BCI)		34			34
		315			315
Total		5 151	(85)	(140)	4 926

Table 65

Individual evaluation of each country's risk is performed with recourse to external ratings, external studies (IIF and others) and internal reports prepared by the Finance Division.

The exposure to country / sovereign risk via trading activity is included in the section dealing with market risks – trading.

Country risk exposure

Exposure net of guarantees at 31 December 2011

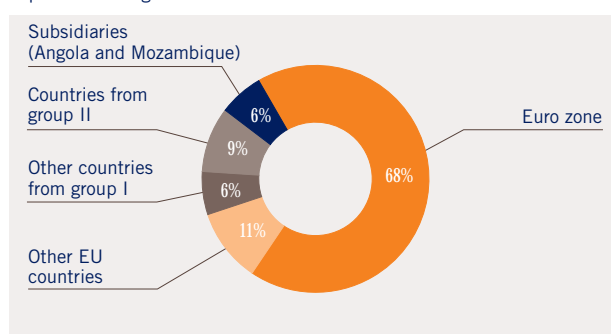


Chart 77

MARKET RISKS – TRADING POSITIONS

Management process

Market or price risk (interest rates, foreign exchange rates, equity prices, commodity prices and other) is defined as the possibility of incurring losses due to unexpected variations in the price of financial instruments or operations.

The trading positions are managed autonomously by traders and kept within the exposure limits by market or products, fixed and revised periodically. There are different exposure limits including overall VaR limits set by the Global Risks Executive Committee and later distributed autonomously amongst the various books, by the divisions involved in trading activities. In addition, stop-loss limits are defined.

As a general rule, the Bank abstains from any open positions in options sales.

1) Gross exposure includes balance sheet and off-balance sheet operations (current derivatives exposure).

2) The guarantees provided by an entity of one country to an entity of another country appear with a negative sign (diminish exposure), vis-à-vis the country benefiting from the guarantee; and appear with a positive sign (increase exposure) vis-à-vis the guaranteeing-issuing country.

3) Group I – General authorisation. Includes operations with banks domiciled in offshore centres, providing that such banks are 100% owned or are branches of authorised counterparties whose head offices are domiciled in Group 1 countries.

4) Group II – other countries / operations.

Market risk exposure assessment – trading

In evaluating exposure under trading operations, this function is carried out on a daily basis which calculates the VaR – Value at Risk – according to standardised assumptions, which as a rule are consistent with the BIS's set of recommendations. Exposure arising from options is controlled by recourse to specific models. The information generated by the risk evaluation and control system is available online to authorised users.

The VaR figures found show that the trading exposure levels are not material.

Market risk in trading books¹

Amounts in M.€

	2010		2011	
	Average VaR	Maximum VaR	Average VaR	Maximum VaR
Interest rate risk	0.2	0.8	0.7	8.3
Currency risk	0.7	2.3	0.3	1.4
Equities risk	0.5	3.0	0.5	2.6
Commodities risk	-	-	-	-
Spread risk	-	-	-	-

Table 66

MARKET RISKS – STRUCTURAL INTEREST RATE RISK POSITION

Management process

The risk management of structural interest rate positions (excluding trading activity) of up to one year has been delegated to the Finance Division within limits fixed by the Global Risks Executive Committee.

Long-term structural positions are managed in accordance with the rules laid down by the Global Risks Executive Committee.

Structural interest rate risk exposure assessment

The assessment of treasury positions (short term) and structural risk positions relating to interest rates (long term) is based on gap schedules (currency gaps, repricing gaps, duration gaps). In addition, several stress tests are conducted (parallel shift of the yield curves, slope of the curves, spread / basis risk).

At 31 December 2011, the repricing gap (of interest rates) accumulated up to 1 year was 4 382 M.€.

Interest rate risk²

Structural position, at 31 December of 2011

Amounts in M.€

	1 year	1 to 2 years	2 to 5 years	5 to 7 years	7 to 15 years	> 15 years
Accumulated gap	4 382	4 511	4 826	4 957	5 068	5 122

Table 67

The Bank is structurally exposed to the risk of a fall in interest rates, with a loss in net interest income of 15.6 M.€ associated with a stress test change in interest rates of 100 basis points.

MARKET RISKS – STRUCTURAL POSITION OF EXCHANGE RATE RISK

Management process

The management of currency risk on structural positions resulting from business dealings with the Bank's Customers is delegated to the Finance Division, within the operating bands set at senior level. As a general rule, the Bank seeks substantial hedging of these currency positions.

The structural currency positions resulting from investments or participating interests are managed in accordance with the directives laid down by the Global Risks Executive Committee. "Hedging" or "non hedging" are options to be decided upon depending on the prospects surrounding the direction of foreign exchange rates and the risk level involved.

Evaluation of the exposure to structural foreign exchange rate risk

In the currency arena, the position in kwanza reaches a significant value due to the participating interest in BFA's capital. A stress test to the structural position (depreciation of 30%) reveals a capital at risk of 121 M.€. The positions in the remaining currencies are of minor significance.

1) Potential maximum loss, with a 99% confidence level, resulting from an unfavourable trend in prices, indices and interest rates over a time span of two weeks, considering in the calculation of overall risk the effect of the correlation of returns. A normal distribution of returns is assumed. Maximum VaR extracted from daily calculations.

2) Customer sight deposits were considered as being not sensitive to the interest rate.

Foreign exchange rate risk

Structural position, at 31 December of 2011

Amounts in M.€

Type of financial instrument	Assets and liabilities by currency				
	EUR	USD	AKZ	Other	Total
Assets					
Cash and deposits at central banks	217	493	432	4	1 145
Amounts owed by credit institutions repayable on demand	306	48	2	29	385
Financial assets held for dealing and at fair value through profit and loss	808	115	11	3	937
Financial assets available for sale	6 166	1 212	1 128	0	8 507
Loans and advances to credit institutions	1 536	538	256	8	2 338
Loans and advances to Customers	26 945	891	317	164	28 318
Investments held to maturity	766				766
Hedging derivatives	267	5		7	280
Other assets	46	149	2	0	197
	37 059	3 451	2 148	216	42 873
Liabilities					
Resources of central banks	2 499				2 499
Financial liabilities held for dealing	401	53		0	454
Credit institutions' resources	1 858	194	0	19	2 072
Clients' resources and other loans	18 717	4 041	1 725	188	24 671
Debts evidenced by certificates	6 465	160		68	6 692
Financial liabilities associated to transferred assets	1 415				1 415
Hedging derivatives	641	20		0	662
Provisions	92	34	1	1	128
Technical provisions	2 625				2 625
Subordinated loans	210				210
Participating bonds	5				5
	34 928	4 503	1 726	276	41 433
Forward currency operations	(1 124)	1 130	(8)	46	44
Structural position		16	403	(18)	
Stress test ¹		3	121	(4)	

Table 68

LIQUIDITY RISK

Management process

Liquidity risk is monitored in terms of its two components: i) in the tradability of the different assets; ii) in its overall context, whereby liquidity risk is defined at grassroots level as the (in)ability to monitor the asset's growth and to satisfy treasury requirements without incurring abnormal losses.

In terms of the different assets, the various managers keep a constant watch over the transaction levels of the various instruments in accordance with a variety of

indicators (BPI's market share, number of days to unwind positions, size and volatility of spreads, etc.), although always observing the operating limits set for each market.

At overall level, the liquidity-risk management strategy falls under the Executive Committee's terms of reference and is executed by the Group's Finance Division, based on the constant vigilance of exposure indicators, as well as being the object of close monitoring by the Board of Directors' Financial Risks Committee.

1) Stress test on the currency structural position (excluding assets and liabilities held for dealing and at fair value through profit and loss). The stress test considers the impact of a 20% positive change in foreign exchange rates, except with regard to the Kwanza, in which case a 30% change was taken into account.

Liquidity and funding

Throughout 2011, international investors' perception regarding the Portuguese Republic's deteriorating risk and the successive ratings downgrades restricted Portuguese banks' access to the short-term debt markets.

In the meantime, the medium and long-term debt markets have remained closed to Portuguese banks since April 2010.

Against this very challenging backdrop for liquidity management in domestic activity, BPI maintained throughout the year a balanced position:

- at the end of 2011, Customer resources funded 82% of the loan portfolio in domestic activity;
- the utilisation of ECB resources totalled 1.8 thousand M.€ at the end of 2011;
- the short-term funding GAP decreased from 4.5 thousand M.€ in 2010 to 3.9 thousand M.€ in 2011;
- the Bank continued to add to the portfolio of assets eligible for funding from the Eurosystem. At the end of the year, the portfolio stood at 7.0 thousand M.€ (18% of domestic activity's total assets);
- liquidity needs stemming from the repayment of M / LT debt up till 2016 are not very material: 516 M.€ in 2012 and 414 M.€ from 2013 to 2016.

Short-term gap

In 2011, BPI's short-term funding gap (in domestic operations) declined by 612 M.€. The loan portfolio's contraction together with the stability in Customer resources permitted an improvement in the commercial gap of 1.0 th.M.€ and the selective sale of part of the bond portfolio led to an additional decrease in assets of 0.5 th.M.€. The above asset reductions permitted accommodating the effect of the repayment of medium and long-term debt which took place during the year (768 M.€) and of the own-debt repurchase operations (369 M.€) undertaken as part of the management of the Bank's capital structure.

Trend in short-term funding GAP

Amounts in M.€

GAP at 31 Dec. 10	(4 505)
Change in commercial liquidity GAP	1 036
Securities sale and redemptions	513
New debt issues	200
Amortisation of own debt	(768)
Repurchase of own debt	(369)
GAP at 31 Dec. 11	(3 893)

Table 69

At the end of 2011, short-term funding was structured as follows:

- net debtor position on the money market of 921 M.€;
- securities repos of 1 143 M.€;
- net funding from the ECB of 1 800 M.€.

The decrease recorded in repo operations was partially offset by an increase in funding raised on the money market and from the ECB.

Financing of short term liquidity position

Amounts in M.€

		2010	2011	Δ M.€
Short term lending				
Loans to credit institutions	1	677	152	(525)
	[= 1]	677	152	(525)
Short term borrowing				
Money market	3	(875)	(1 073)	(198)
Repos	4	(3 306)	(1 143)	2 163
	[= 3+4]	(4 181)	(2 216)	1 965
Euro commercial paper	6	(1)	(29)	(28)
Funding from the BCE	7	(1 000)	(1 800)	(800)
	[= Σ 5 to 7]	(5 182)	(4 045)	1 137
Total short term gap	[= 1+8]	(4 505)	(3 893)	612

Table 70

Own debt repurchase operations

During 2011, BPI carried out 3 operations involving the purchase of liabilities: one by private negotiation in the first half of the year and two others by means of public offer operations during the 4th quarter. Already at the start of 2012, the Bank realised two operations involving the repurchase of own debt: one covering securitisations originated by it and placed on the market and the other covering mortgage bonds.

Repurchase of own debt (public offers)

Amounts in M.€

Issue	Securities	Date	Outstanding	Price	Amount acquired
2011					
BPI Sub 2017	Lower Tier II subordinated bonds	Nov. 11	100	70%	61
BPI Capital Finance Series C	Preference shares	Nov. 11	250	50%	185
2012					
Douro RMBS 1, 2 and 3 ¹	Housing loans securitisations	Jan. 12	2 055	²	149
OH BPI 2015	Mortgage bonds	Feb. 12	1 000	85%	76

Table 71

Funding from the ECB

The Bank participated in the special ECB funding operation with a 37-month maturity which took place on 22 December, raising 2 000 M.€.

At the end of 2011, the amount of funding raised by BPI from the Eurosystem (ECB) totalled 2 300 M.€. On the same date, BPI had a deposit balance of 500 M.€ with the ECB, so that the net total funding was 1 800 M.€.

Portfolio of assets eligible for Eurosystem funding operations

At the end of 2011, BPI had a portfolio of assets eligible for the Eurosystem funding of 6 974 M.€. (net figure after value appreciation and haircuts).

Taking into account the portfolio's usages on that date for repo operations with the market or for funding from the ECB, BPI still had assets eligible for the Eurosystem funding of 3 417 M.€ plus a 500 M.€ deposit account at the ECB, making a total of assets capable of conversion into immediate liquidity of 3 917 M.€.

Assets eligible for the Eurosystem

Amounts in M.€

		2010	2011
Total eligible assets³	1	7 486	6 974
of which: assets given as collateral ⁴	2	2 187	1 257
Net eligible assets	[= 1 - 2]	5 299	5 717
Used as collateral in funding with ECB	4	1 000	2 300
Available eligible assets	[= 3 - 4]	4 299	3 417

Table 72

BPI continued to realise asset securitisation operations (issues kept in portfolio) aimed at reinforcing the amount of assets eligible for funding at the ECB. In February 2011 a new SME loan securitisation operation was realised – Douro SME 2, with a nominal value of 3 500 M.€ and in August, a new series of Mortgage Bonds was floated with a nominal value of 600 M.€.

Those issues permitted offsetting part of the negative effect on the value of the portfolio of eligible assets that resulted from the decline in the value of the public-debt positions and from the fact that certain securities lost their eligibility status due to the successive downgrades of the Republic's and banks' credit ratings.

Assets eligible for the Eurosystem funding

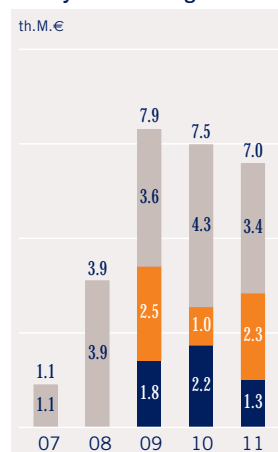


Chart 78

Net financing with the ECB

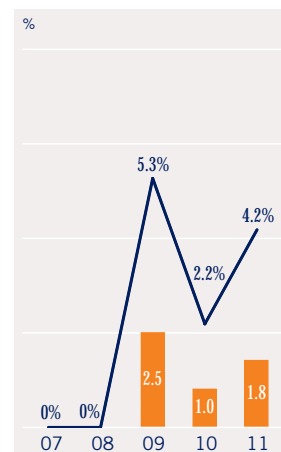


Chart 79

■ Available assets (not used)
 Assets used in:
 ■ Financing with ECB
 ■ Repo operations

■ Net financing with the ECB (th. M.€)
 — as % of consolidated total assets

1) Securitisations originated by BPI and placed on the market.

2) Prices according to the tranches, with a maximum of 65%.

3) Total assets eligible for the Eurosystem funding, net of value appreciation and haircuts and before utilisation.

4) Assets given as collateral to entities other than the ECB.

Prospects for the liquidity situation in 2012

At the end of 2011, the ECB announced an important number of measures aimed at facilitating the European Financial System's access to liquidity. These measures are intended to counteract the restrictions in accessing the markets, which restrictions intensified during the course of the year, not only for Portuguese banks but for the vast majority of banks in the euro zone.

The following are the measures concerned:

- launching of two extraordinary 3-year funding operations, for an unlimited amount and at the identical rate as the prevailing intervention rate; these operations took place in December 2011 and in February 2012;
- cut from AAA to A- of the minimum rating level at the issue date so that a loan securitisation is eligible;
- creation of a temporary solution in which the national central banks can finance the respective financial systems against the acceptance of collateral represented by credit rights with less restrictive rules than those of the ECB; the Bank of Portugal immediately commenced the implementation of these measures.

European banks have been adhering en mass to the new operations, a phenomenon which has been reflected in an expansion in the system's liquidity. This liquidity is expected to remain abundant during 2012.

Liquidity needs stemming from BPI's medium and long-term debt repayments programme in 2012 are not very significant (516 M.€) given that the repayments of own debt to be effected in the year (1 915 M.€) are offset in large part by the redemption of bonds held in the bond portfolio (1 399 M.€).

Medium and long term debt redemptions in 2012

	Amounts in M.€				
	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	Total
MLT debt redemption	(697)	(200)	(1 016)	(2)	(1 915)
Bond portfolio redemptions	57	1 225	29	88	1 399
Net effect	(640)	1 025	(987)	86	(516)

Table 73

For the following years, once again the effect of the repayment of medium and long-term debt is minimal

owing to the bond redemptions occurring simultaneously (414 M.€ from 2013 to 2016).

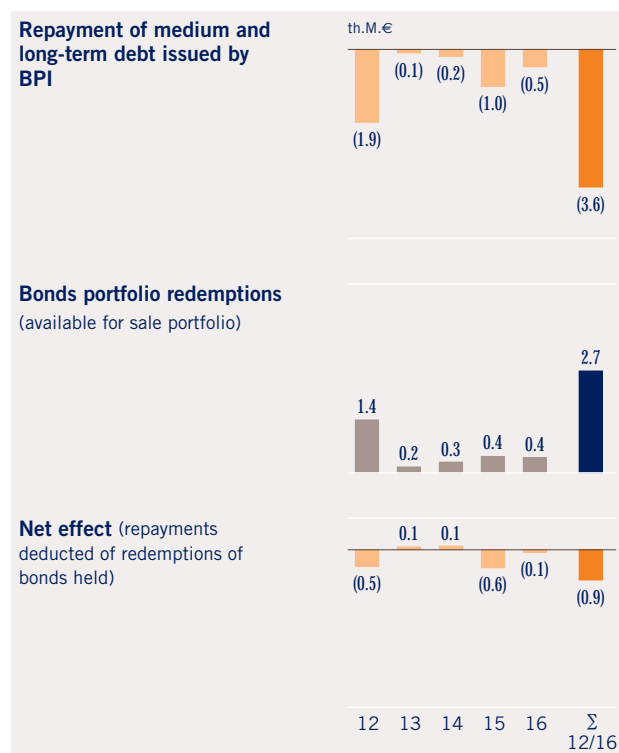


Chart 80

OPERATIONAL RISKS

Management process

At the BPI Group, operational risk management, which by definition is the risk of financial losses provoked by deficiencies (shortcomings) in the definition or execution of procedures, failures in the information systems or as a consequence of external factors, is founded on the following pillars:

- the Executive Committee's active involvement, periodically approving and reviewing the principles for the identification, evaluation, control, monitoring and mitigation of operational risk as a specific risk category. This involvement is assured by the existence of an Operational Risk Committee.
- centralisation of the operational risk control function at an area with responsibility for the conception and development of methodologies for risk management and

which is accountable for the reporting system from a global and integrated perspective. This area is integrated within the Organisation Division.

- definition of the procedures for detecting, evaluating, reducing and monitoring operational risk. The management model is based on a self-evaluation system of the risks associated with processes and in the decentralised reporting of occurrences (irregularities).
- definition of the mitigation measures for potential or actual operational risk as well as the indicators which permit their monitoring.

Assessment of exposure to operational risk

Operational risk occurrences are typified using the risk table envisaged in Bank of Portugal regulations.

In terms of the frequency of operational risk occurrences in 2011, these were slightly higher than those of 2010 (2 855 events).

The negative financial impact associated with these occurrences amounted to 4.1 M.€.¹

Business continuity

As part of the Management of Business Continuity and in conformity with the supervisory entities' recommendations, BPI established a series of policies and procedures which aim to ensure the maintenance of the organisation's continuous functioning, or – should this be totally impossible – to guarantee the timely recovery of business activity, minimising the impact on business.

The Management of Business Continuity at the BPI Group is founded on specific bodies: Business Continuity Committee, Management of Business Continuity area and personnel which on each one of the Group's bodies undertake the identification of critical activities and the implementation of contingency plans in the respective areas.

The Business Continuity Plans detail the strategy for BPI's response to events capable of undermining the safety of persons and other assets, or of provoking disruption to normal functioning, identifying the alternative procedures and resources which guarantee the continuity of critical activities. We emphasise the existence of alternative technological platforms for all the computer and communication systems, assuring the Bank's functioning even under contingency conditions.

The Business Continuity Plans and the information supporting them are located outside the Bank in redundancy systems, available and accessible to the respective managers at any moment and at any place.

2011 saw the review and testing of the Business Continuity Plans and the optimisation of the alternative procedures and resources, including premises. Two trials were successfully carried out for the reposition of the computer systems on alternative technological systems (Disaster Recovery Plan).

LEGAL RISKS

In the specific domain of Operational Risks – legal risks – there is the possibility of incurring unexpected losses stemming from shortcomings in the analysis of the legal framework applicable at a given moment to the contracts / positions to be established or from an alteration to the same legal framework.

Special attention is paid in the realm of legal risks to the analysis of the legal framework and to the identification of any regulatory shortcomings; to the analysis of the prospects of changes to the legal framework and their consequences; to the clarification of the nature of contractual relationships and the interpretation given to them by the counterparties; the analysis of products, their legal situation, centralisation of communications to the supervision authorities and the drawing up of the respective processes for submission to such authorities; and to the identification / proposals of measures capable of reducing eventual litigation risks.

1) These data are valid on the date of the compilation of the report, being subject to alterations according to the evolution of each process.

ADOPTION OF THE RECOMMENDATIONS OF THE FINANCIAL STABILITY FORUM AND OF THE COMMITTEE OF EUROPEAN BANKING SUPERVISORS RELATING TO THE TRANSPARENCY OF INFORMATION AND VALUATION OF ASSETS

The Financial Stability Forum (FSF), in the report “Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience”, of 11 April 2008, and the Committee of European Banking Supervisors (CEBS), in the reports “CEBS report on banks' transparency on activities and products affected by the recent market turmoil” and “Report on issues regarding the valuation of complex and illiquid financial instruments”, both of 18 June 2008, issued a series of recommendations relating to the transparency and disclosure of information.

The Bank of Portugal, through the circular-letters 97 / 08 / DSBDR of 3 December 2008 and 58 / 09 / DSBDR of 5 August 2009, has recommended that, in the accounting reporting, a separate chapter or a specific annex is prepared as part of the Annual and Interim Reports, designed to respond to the recommendations of the CEBS and of the FSF, taking into account the principle of proportionality and following the questionnaire presented as an annex to the Bank of Portugal's circular-letter 46 / 08 / DSBDR.

BPI attributes great importance to the maintenance of a frank and transparent relationship with shareholders, investors, financial analysts, authorities and other capital market players.

The dissemination of accurate, timely, regular, clear and unbiased information which is important for evaluating their listed shares constitutes a concern of paramount importance at BPI.

Throughout the Directors' Report, the financial statements and respective notes and the Corporate Governance Report, BPI describes in detail the Group's business and governance models, the major risks inherent in the Group's operations, the processes of risk analysis and management and the division of responsibilities amongst the various bodies, makes a detailed analysis of the activity carried out and the results obtained in 2011, and the impacts of the international financial crisis on business, results and capital, and it describes the accounting policies and valuation methods of financial assets and presents qualitative and quantitative information concerning the exposures to financial assets.

In order to comply with the Bank of Portugal's recommendation, the present chapter provides a response to the aforesaid questionnaire, using cross-references to the more detailed information presented in the Report and Accounts for 2011.

I. BUSINESS MODEL

1. Description of the business model

In the chapter of the Directors' Report dealing with the financial and business structure, a detailed description is presented of the Group's financial structure and the main business areas.

The BPI Group's activity is centred on the commercial banking business, predominantly focused on the attraction of Customer resources and on the granting of loans to individuals, companies and institutions, in Portugal through Banco BPI, and in Angola through BFA. The Group also carries on investment banking activities – Equities, Corporate Finance and Private Banking –, asset management – unit trust fund management, pension funds and capitalisation insurance – and private equity.

DR – Financial and business structure, page 8.

2. Description of strategies and objectives

In the Introduction of the Report and in the Financial Review and Risk Management chapters, the management's strategic priorities are presented and an assessment is made of the Group's performance and results in 2011.

Since the beginning of the international financial crisis midway through 2007, followed later (from 2009) by a sovereign debt crisis in Europe, with grave implications for the functioning of the international financial system, BPI has implemented a

programme in response to the challenges that this situation has posed: (i) defence and reinforcement of capital; (ii) guarantee of comfortable liquidity levels, (iii) risk reduction and control; and (iv) strengthening Customer relationship. Added to this set of priorities in 2009 was (v) the improvement in profitability, inevitably affected by the impact of the global crisis.

RG – Presentation of the report, page 5; Financial review, page 48; Risk Management, page 77.

3. Description of the importance of the operations carried out and the respective contribution to business

In the chapters “Domestic commercial banking”, “Bancassurance”, “Asset Management”, “Investment Banking”, “Private Equity” and “International activity”, the activity carried out in 2011 is described in detail for each business area. In the “Financial review” chapter, and in the notes to the financial statements, in Note “3 – Segment Reporting”, an analysis is made of each business area's contribution to the BPI Group's net profit, the balance sheet and investments, as well as of the capital allocation to each one of these areas.

DR – Domestic commercial banking, page 30; Bancassurance, page 37; Asset Management, page 38; Investment banking, page 40; Private Equity, page 43; International activity, page 44; Financial review, page 48; NFS – 3 Segment reporting, page 125.

4. Description of the type of activities undertaken

5. Description of the objective and extent of the institution's involvement relating to each activity undertaken

In the chapter dealing with financial and business structure, a detailed description is presented of the Group's financial structure and the main business areas. In the chapters "Domestic commercial banking", "Bancassurance", "Asset Management", "Investment Banking", "Private Equity" and "International activity", the activity carried out in 2011 is described for each business area.

DR – Domestic commercial banking, page 30; Bancassurance, page 37; Asset Management, page 38; Investment banking, page 40; Private Equity, page 43; International activity, page 44; Background to operations, page 21; Financial review, page 48; Risk management, page 77.

II. RISK AND RISK MANAGEMENT

6. Description of the nature and extent of the risks incurred in relation to the activities carried out and the instruments utilised

In the "Risk Management" chapter and in the notes to the financial statements, in Note "4.48 – Financial risks", a description is given of the major risks attaching to the Group's operations and the financial instruments used by it.

*DR – Risk management, page 77;
NFS – 4.48 Financial risks, page 184 and following.*

7. Description of major risk-management practices in operations

In the "Risk management" chapter and in the Corporate Governance Report, in chapter "4. Risk management", a detailed description is given highlighting the major risks attaching to the Group's operations, risk analysis and management and the division of the responsibilities amongst the various bodies.

The note to the financial statements, "4.48 – Financial risks", presents the fair value of the financial instruments and the valuation of the risk exposure resulting from financial instruments – credit risk, liquidity risk, market risk (interest-rate risk, equities risk and currency risk).

*DR – Risk management, page 77;
NFS – 4.48 Financial risks, page 184 and following;
CGovR – 4. Risk management, page 273.*

III. IMPACT OF THE FINANCIAL TURBULENCE PERIOD ON RESULTS

8. Qualitative and quantitative description of the results

In the Financial Review chapter, a qualitative and quantitative analysis is presented of the trend in the Group's business and results and of the impacts of the macroeconomic and market environment.

BPI recorded in 2011 a consolidated loss of 284.9 M.€, due to the non-recurring impacts which penalised the net profit for the year by 400.8 M.€.

The negative extraordinary impacts totalled 541.7 M.€ (after tax) and resulted from:

- the partial transfer of the pension funds and pension liabilities to the Social Security system (70.9 M.€);
- recognition in the income statement of impairment charges for unrealised losses on the exposure to Greek public debt (419.8 M.€);
- other factors (51.0 M.€).

Those negative impacts were however partially offset by extraordinary gains of 140.9 M.€ (after tax) realised on the repurchase of liabilities (81.0 M.€) and those associated with the contribution in kind to the pension fund of the 11% holding in the capital of Viacer (59.9 M.€).

Excluding those non-recurring impacts, consolidated net profit was 115.9 M.€, which corresponds to a decline of 25.2% relative to the recurring net profit earned in 2010, of 154.9 M.€.

RG – Financial Review, page 48.

9. Breakdown of the "write-downs" / losses by types of products and instruments affected by the period of turbulence

Banco BPI decided to participate in the Greek sovereign debt exchange programme (Private Sector Involvement) as part of the 2nd financial assistance programme for Greece agreed to with the EU and the IMF.

In 2011's net profit Banco BPI recognised costs of 559.7 M.€ stemming from impairments (419.8 M.€, after tax) due to exposure to Greek sovereign debt. The amount recorded as impairment charges in the year has an implicit loss of 77% based on the fair value, revalued at 31 December 2011¹, of the new securities received for participating in the Greek public debt exchange operation (Private Sector Involvement) as part of Greece's financial bailout.

The notes to the financial statements, 4.5 Available-for-sale financial assets and 4.7 Loans to Customers present details of the impairments and unrealised losses, security by security.

The notes 4.20. Provisions and impairments and 4.40. Net gains / losses from financial operations present details of the losses recognised in consolidated net profit, resulting from the loan portfolios and securities held by the BPI Group.

NDF – 4.5. Available-for-sale financial assets, page 137, 4.7. Loans to Customers, page 143, 4.20. Provisions and impairments, page 164, 4.40. Net gains / losses from financial operations, page 178.

1) Market price of new securities at 12 March 2012 (effective date of the exchange) revalued at the end of 2011 at the effective rate of interest on the bonds previously held. The securities "Detachable GDP-Linked Securities" were considered as having no value.

10. Description of the reasons and factors responsible for the impact suffered

In the “Financial review” chapter, a qualitative and quantitative review is presented showing the Group’s operational and financial performance and the impacts of the international crisis.

In the “Background to operations” chapter, a description is given of the economic environment behind the domestic and international operations (Angola and Mozambique), the behaviour of the financial markets and the impact of the international financial crisis on the economies and markets.

DR – Financial review, page 48; Background to operations, page 21.

11. Comparison of the i) impacts between (relevant) periods and ii) financial statements before and after the turbulent period

A description of the effects of the international crisis and a comparative review of the 2011 financial statements relative to the previous year are presented in the “Financial review” chapter.

DR – Financial review, page 48.

12. Breakdown of the write-downs between realised and unrealised amounts

The impact on the Group’s results of the drop in the value of the equities and bond portfolios is described in the “Financial review” chapter, in “Profits from financial operations”, in “Impairments in the year” and in the notes to the financial statements “4.40 Net income on financial operations” and “4.20 Provisions and impairment losses”.

In the notes to the financial statements “4.5 Financial assets available for sale” and “4.7 Loans and advances to Customers”, details are presented of the impairment losses and unrealised losses, security by security, at 31 December 2011.

*DR – Financial review, pages 48;
NFS – 4.5 Financial assets available for sale, page 137; 4.7 Loans and advances to Customers, page 143; 4.40 Net income on financial operations, page 178; 4.20 Provisions and impairment losses, page 164.*

13. Description of the influence of the financial turbulence on the behaviour of Banco BPI shares

In the Group’s Corporate Governance Report, the chapter “10. Banco BPI Shares”, a description is presented of the stock exchange behaviour of Banco BPI shares and of the influence that the performance of the equity markets at global level had on the share’s behaviour.

CGovR – 10. Banco BPI shares, page 304.

14. Disclosure of the maximum loss risk

In the “Risk management” chapter and in the note to the financial statements “4.48 Financial risks”, information is presented regarding the maximum losses resulting from the unexpected changes in the price of instruments or operations and risk indicators based on VaR and stress test models.

*DR – Risk management, page 77;
NFS – 4.48 Financial risks, page 184 and following.*

15. Disclosure of the impact that the trend in spreads associated with the institution’s own liabilities had on earnings

An analysis is presented in the “Financial review” chapter of the trend in remunerated asset and liability spreads and their impact on the Group’s earnings. The Bank did not revalue its liabilities.

DR – Financial review, page 63 and 71.

IV. EXPOSURE TYPES AND LEVELS AFFECTED BY THE TURBULENT PERIOD

16. Nominal value (or amortised cost) and fair value of exposures

In the note to the financial statements “4.48 Financial risks”, the book value is compared with the estimated fair value for most of the BPI Group’s assets and liabilities at 31 December 2011.

The note to the financial statements “4.5 Financial assets available for sale”, presents details of the nominal value, book value and unrealised gains and losses recorded in the fair value reserve, security by security, at that date.

NFS – 4.48 Financial risks, page 184 and following; 4.5 Financial assets available for sale, page 137.

17. Information about credit risk mitigation and respective effects on existing exposures

In the “Risk management” chapter, a description is presented of the impact of credit risk mitigation on credit operations with Customers and on derivative operations.

DR – Risk management, page 77.

18. Detailed disclosure of exposures

In the Risk Management chapter and in the note to the financial statements – “4.48 Financial risks” – an analysis is presented of the quality of the loan and securities portfolios based on rating systems and internal scoring and on the recourse to external ratings. The information is complemented by the analysis of the default levels, the existence of tangible guarantees and cover by impairment allowances.

The exposure to country risk is described in a separate section of the “Risk management” chapter.

In the notes to the financial statements “4.5 Financial assets available for sale” and Note “4.7 Loans and advances to Customers”, details are presented of the exposures to available-for-sale securities and securitised loans, security by security (including structured products, namely ABS).

DR – Risk management, page 77;

NFS – 4.48 Financial risks, page 184; 4.5 Financial assets available for sale, page 137; and 4.7 Loans and advances to Customers, page 143.

19. Movements which occurred in the exposures between the relevant reporting periods and the underlying reasons for these variations (sales, write-downs, purchases, etc.)

In the “Financial review” chapter the principal changes occurring in the financial assets and investments portfolio are described.

DR – Financial review, page 62 and 75.

20. Explanations about exposures which have not been consolidated (or which have been recognised during the crisis) and the associated reasons

The BPI Group consolidates all the exposures in which it has significant control or influence, as envisaged in IAS 27, 28 and IFRS 3. No changes were made to the BPI Group's consolidation scope as a consequence of the turbulent period in the financial markets.

21. Exposure to “mono-line” insurers and quality of insured assets

At 31 December 2011, BPI's exposure to mono-line insurers was totally indirect and stemmed from the existence of portfolio positions, the interest and principal of which were unconditionally guaranteed by this type of company. There were no losses worth noting, given that none of these securities were in default. At the end of 2011, BPI exposure to mono-line insurers amounted to 18 M.€ (book value).

V. ACCOUNTING AND VALUATION POLICIES

22. Classification of transactions and structured products for accounting purposes and the respective accounting treatment

The note to the financial statements “2.3 Financial assets and liabilities”, describes the accounting criteria used in the recognition and valuation of financial assets and liabilities are described.

BPI's investments in structured products (namely ABS) were included in the debt securities portfolio and in available-for-sale assets (notes to the financial statements 2.3.3 and 2.3.4).

The debt securitisation operations originated by BPI are recognised in financial liabilities associated with transferred assets (notes to the financial statements 2.3.4 and 4.19).

NFS – 2.3 Financial assets and liabilities, page 116; 2.3.3.

Financial assets available for sale, page 117; 2.3.4 Loans and other receivables, page 117; 4.19 Financial liabilities relating to transferred assets, page 161.

23. Consolidation of Special Purpose Entities (SPE) and other vehicles and their reconciliation with the structured products affected by the turbulent period

The vehicles through which Banco BPI's debt securitisation operations are effected are recorded in the consolidated financial statements according to the BPI Group's continued involvement in these operations, determined on the basis of the percentage of the equity interest held of the respective vehicles.

24. Detailed disclosure of the fair value of financial instruments

The note to the financial statements “4.48 Financial risks” presents details of the estimated fair value for virtually all of the BPI Group's financial assets and liabilities at 31 December 2011.

NFS – 4.48 Financial risks, page 184 and following.

25. Description of the modelling techniques utilised for valuing financial instruments

The notes to the financial statements “2.3. Financial assets and liabilities” and “4.48 Financial risks” describe the techniques utilised in valuing financial instruments.

NFS – 2.3 Financial assets and liabilities, page 116 and 4.48 Financial risks, page 184 and following.

VI. OTHER IMPORTANT DISCLOSURE ASPECTS

26. Description of disclosure policies and principles which are used in financial reporting

In the BPI Group's Corporate Governance Report, in point “9. Communication with the market”, detailed information is provided regarding the principles of financial information disclosure and the communication channels used, the Investor Relations Division's terms of reference and the activity carried out in the year.

CGovR – 9. Communication with the market, page 303.

Rating

During the course of 2011 the rating agencies Fitch, Moody's and S&P issued a succession of rating downgrades of the Republic's debt, with repercussions on the ratings of banks which were also revised downwards in the period.

Insofar as BPI is concerned the agencies Fitch and

Moody's cut the long-term and short-term ratings to BB+ / B and Ba2 / NP, respectively, putting them on a par with the ratings attributed to the Portuguese Republic¹, while Standard & Poor's revised the ratings attributed to the Bank to BB- / B (the long-term rating is one notch below that of the Republic). The Outlook for BPI's ratings is negative.

Fitch Ratings		Moody's		Standard & Poor's	
Banco BPI²		Banco BPI³		Banco BPI⁴	
Credit rating (LT / ST)	BB+ / B	Bank deposit accounts (LT / ST)	Ba2 / NP	Credit rating (LT / ST)	BB- / B
Outlook	Negative	Outlook	Under review	Outlook	Negative
Viability	b	Financial strength (BFSR)	D	Individual	b+
Individual	WD	Issuer rating	Ba2		
Support	3				
Rating floor support	BB+				
Collateralised senior debt		Collateralised senior debt		Certificates of deposits (LT / ST)	BB- / B
■ Mortgage	BBB	■ Mortgage	Baa3	Collateralised senior debt	
Non-collateralised senior debt (LT / ST)	BB+ / B	■ Public sector	Baa3	■ Mortgage	A-
Subordinated debt	BB	Non-collateralised senior debt	Ba2	■ Public sector	BB+
Commercial paper	B	Subordinated debt	Ba3	Non-collateralised senior debt	BB-
Preference shares	CC	Subordinated junior debt	(P) B1	Subordinated debt	B-
		Other short-term debt	(P) NP	Subordinated junior debt	CCC+
		Preference shares	B2	Commercial paper	B
				Short-term debt	B
				Preference shares	CCC+
Portuguese Republic sovereign risk		Portuguese Republic sovereign risk		Portuguese Republic sovereign risk	
Long term / Short term	BB+ / B	Long term / Short term	Ba3 / NP	Long term / Short term	BB / B
Outlook	Negative	Outlook	Negative	Outlook	Negative

Figure 3

1) On 13 February 2012 Moody's revised the ratings of 9 European countries, having cut the Portuguese Republic's long-term ratings from Ba2 to Ba3, and on 15 February 2012 put on review for a possible downgrade the ratings of 116 European financial institutions, amongst which BPI.

2) Rating decision on 25 November 2011.

3) Rating decision on 7 October 2011; put under review for possible downgrade on 15 February 2012.

4) Rating decision on 14 February 2012.

Proposed application of the 2011 results



PROPOSED APPLICATION OF THE 2011 RESULTS

Whereas:

- a) in 2011, Banco BPI, S.A. (Banco BPI) incurred in its individual accounts a loss of 216 769 676.12 euro;
- b) Banco BPI's shareholders' equity, as evidenced in its individual balance sheet as at 31 December 2011 forming part of the report and accounts reviewed within the scope of item 1 of the General Meeting agenda identified above, includes a figure of negative retained earnings of 25 294 433.48 euro, stemming from the amortisation of the impacts of the transition to IAS recorded in 2011;
- c) the sum of the figures referred to in a) and b) result in negative retained earnings in the amount of 242 064 109.60 euro, which can be covered by the amounts included in the issue-premium reserve and other balance sheet reserves.

Banco BPI's Board of Directors proposes:

- 1. That the loss reported in the individual accounts relating to 2011, in the amount of 216 769 676.12 euro, be transferred to the caption "Retained earnings";
- 2. That, with the aim of covering the figure of 242 064 109.60 euro of negative retained earnings included in the aforesaid caption of "Retained Earnings", the following amounts be transferred to it:
 - a) from the balance sheet caption "Issue premiums", the amount of 128 432 194.69 euro; and
 - b) from the caption "Other reserves", the amount of 113 631 914.91 euro.

The Board of Directors

Final acknowledgements



The international financial and economic crisis has assumed a new dimension in recent years, with special incidence on the sovereign debt of certain euro-zone countries, amongst which Portugal, which in 2011 submitted a request for international assistance. The consequent joint intervention of the European Commission, the European Central Bank and the IMF gave origin to a financial stabilisation programme signed in May with far-reaching implications for the functioning of the Portuguese financial system.

In this very challenging and uncertain environment, BPI maintained in 2011 the management priorities which primarily seek to safeguard its margin of autonomy with respect to liquidity, solvency and the consolidation of the Customer base. The dedicated and professional contribution of Employees, the unequivocal and constant support of the Shareholders, and the loyalty and trust of our Customers enabled the Bank to consolidate its position in the banking sector.

A special mention is made of the cessation of functions on the Bank's governing bodies of Drs. João Vieira de Castro, Ruy de Carvalho and Roberto Setúbal.

Dr. João Vieira de Castro has been associated with BPI since its inception, first as its Legal Advisor, then as Chairman of the General Board and, more recently, as Chairman of the Bank's General Meeting. His exceptional competence and the integrity of his character have profoundly marked certain of the most important moments in the Bank's history.

Dr. Ruy de Carvalho became a member of the General Board in 1985 and succeeded Dr. João Vieira de Castro in 1993 as Chairman of the General Board, a position he occupied until the statutory amendment approved in 1999 that created in substitution of the General Board the Board of Directors, on which he assumed the functions of Deputy-Chairman until 2011. In all these positions, Dr. Ruy de Carvalho confirmed the exceptional professionalism that has characterised his entire career and the notable dimension of his personality.

Finally, as regards Dr. Roberto Setúbal, which served as a non-executive Director since March 1994, the Bank benefited from his advice and his enormous prestige, taking advantage of his prominent role in the articulation with Banco Itaú where he is Executive Chairman.

The Bank expresses its acknowledgement and its gratitude to all.

The Board also expresses its gratitude for the cooperation received from the Authorities within the scope of their respective jurisdictions against a particularly challenging backdrop.

Oporto, 27 March 2012

The Board of Directors

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Consolidated financial statements

**CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2011, 31 DECEMBER 2010 PROFORMA
AND 1 JANUARY 2010 PROFORMA**

(Amounts expressed in thousands of euro)

		31 Dec. 11		31 Dec. 10 Proforma	1 Jan. 10 Proforma
	Notes	Amounts before impairment, depreciation and amortisation	Impairment, depreciation and amortisation	Net	Net
ASSETS					
Cash and deposits at central banks	4.1	1 145 118		1 145 118	1 328 222
Deposits at other credit institutions	4.2	384 768		384 768	338 551
Financial assets held for trading and at fair value through profit or loss	4.3 / 4.4	937 490		937 490	1 241 651
Financial assets available for sale	4.5	6 847 875	69 750	6 778 125	8 156 321
Loans and advances to credit institutions	4.6	2 337 594	3	2 337 591	1 439 145
Loans and advances to Customers	4.7	28 994 515	676 251	28 318 264	30 055 006
Held to maturity investments	4.8	883 923	117 733	766 190	1 043 584
Hedging derivatives	4.4	279 843		279 843	250 263
Other tangible assets	4.9	724 440	499 332	225 108	252 077
Intangible assets	4.10	94 161	84 604	9 557	6 378
Investments in associated companies and jointly controlled entities	4.11	179 244		179 244	194 221
Tax assets	4.12	903 529		903 529	504 255
Other assets	4.13 / 4.26	746 134	55 044	691 090	669 532
Total assets		44 458 634	1 502 717	42 955 917	45 479 206
LIABILITIES					
Resources of central banks	4.14			2 499 197	1 245 537
Financial liabilities held for trading	4.15 / 4.4			454 238	261 493
Resources of other credit institutions	4.16			2 071 520	4 726 084
Resources of Customers and other debts	4.17			24 671 328	23 240 863
Debt securities	4.18			6 691 953	7 782 274
Financial liabilities relating to transferred assets	4.19			1 414 597	1 570 418
Hedging derivatives	4.4			661 904	499 444
Provisions	4.20			128 188	110 573
Technical provisions	4.21			2 625 181	2 991 907
Tax liabilities	4.22			32 943	38 049
Participating bonds	4.23			4 637	7 167
Subordinated debt	4.24			209 854	640 389
Other liabilities	4.25 / 4.26			667 989	581 988
Total liabilities				42 133 529	43 696 186
SHAREHOLDERS' EQUITY					
Subscribed share capital	4.27			990 000	900 000
Share premium account	4.28			128 432	441 306
Other equity instruments	4.29			8 030	9 894
Revaluation reserves	4.30			(1 251 533)	(716 874)
Other reserves and retained earnings	4.31			900 312	467 842
(Treasury shares)	4.29			(21 020)	(21 699)
Consolidated net income of the BPI Group	4.46			(284 871)	185 179
Shareholders' equity attributable to the shareholders of BPI				469 350	1 265 648
Minority interests	4.32			353 038	517 372
Total shareholders' equity				822 388	1 783 020
Total liabilities and shareholders' equity				42 955 917	45 479 206
OFF BALANCE SHEET ITEMS					
Guarantees given and other contingent liabilities	4.7 / 4.33			2 540 652	3 012 038
Of which:					
[Guarantees and sureties]				[2 378 533]	[2 820 405]
[Others]				[162 119]	[191 633]
Commitments	4.33			2 716 999	3 856 696

The accompanying notes form an integral part of these balance sheets.

The Accountant

The Board of Directors

CONSOLIDATED STATEMENTS OF INCOME FOR YEARS ENDED 31 DECEMBER 2011 AND 2010 PROFORMA

(Amounts expressed in thousands of euro)

	Notes	31 Dec. 11	31 Dec. 10 Proforma
Interest and similar income		2 004 810	1 909 307
Interest and similar expenses		(1 461 486)	(1 282 916)
Financial margin (narrow sense)	4.34	543 324	626 391
Gross margin on unit links	4.35	3 800	4 136
Income from equity instruments	4.36	1 644	3 733
Net commission relating to amortised cost	4.37	28 003	30 266
Financial margin		576 771	664 526
Technical result of insurance contracts	4.38	(30 122)	16 081
Commissions received		296 113	308 147
Commissions paid		(46 903)	(46 195)
Other income, net		47 776	51 928
Net commission income	4.39	296 986	313 880
Gain and loss on operations at fair value		197 357	93 075
Gain and loss on assets available for sale		321	13 885
Interest and financial gain and loss with pensions	4.26	8 547	12 197
Net income on financial operations	4.40	206 225	119 157
Operating income		108 629	16 370
Operating expenses		(131 236)	(25 165)
Other taxes		(7 106)	(6 163)
Net operating income	4.41	(29 713)	(14 958)
Operating income from banking activity		1 020 147	1 098 686
Personnel costs	4.42	(418 013)	(430 901)
General administrative costs	4.43	(230 846)	(232 148)
Depreciation and amortisation	4.9 / 4.10	(36 846)	(45 183)
Overhead costs		(685 705)	(708 232)
Recovery of loans, interest and expenses		20 324	15 870
Impairment losses and provisions for loans and guarantees, net	4.20	(213 158)	(121 116)
Impairment losses and other provisions, net	4.20	(498 060)	(29 122)
Net income before income tax		(356 452)	256 086
Income tax	4.44	141 191	5 694
Earnings of associated companies (equity method)	4.45	28 415	29 131
Global consolidated net income		(186 846)	290 911
Income attributable to minority interests	4.32	(98 025)	(105 732)
Consolidated net income of the BPI Group	4.46	(284 871)	185 179
Earnings per share (in euro)			
Basic		(0.290)	0.189
Diluted		(0.288)	0.187

The accompanying notes form an integral part of these statements of income.

The Accountant

The Board of Directors

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR YEARS ENDED
31 DECEMBER 2011 AND 2010 PROFORMA**

	31 Dec. 11		
	Attributable to shareholders' of the BPI Group	Attributable to minority interests	Total
Consolidated net income	(284 871)	98 025	(186 846)
Foreign exchange translation differences	5 007	(1 552)	3 455
Revaluation reserves of financial assets available for sale:			
Revaluation of financial assets available for sale	(1 175 061)		(1 175 061)
Tax effect	349 149		349 149
Transfer to income resulting from sales	(79)		(79)
Tax effect	(45)		(45)
Transfer to income resulting from impairment recognized in the period	402 601		402 601
Tax effect	(116 231)		(116 231)
Actuarial deviations	(62 802)		(62 802)
Tax effect	18 210		18 210
Valuation of assets of associated companies	(8 563)		(8 563)
Tax effect	2 869		2 869
Income not included in the consolidated statements of income	(584 945)	(1 552)	(586 497)
Consolidated comprehensive income	(869 816)	96 473	(773 343)

The Accountant

(Amounts expressed in thousands of euro)

31 Dec. 10 Proforma		
Attributable to shareholders' of the BPI Group	Attributable to minority interests	Total
185 179	105 732	290 911
10 854	11 714	22 568
(743 601)		(743 601)
222 483		222 483
4 237		4 237
(1 468)		(1 468)
1 735		1 735
(486)		(486)
(48 900)		(48 900)
19 228		19 228
(14 429)		(14 429)
4 154		4 154
(546 193)	11 714	(534 479)
(361 014)	117 446	(243 568)

The accompanying notes form an integral part of these statements.

The Board of Directors

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR YEARS ENDED
31 DECEMBER 2011 AND 2010 PROFORMA**

	Subscribed share capital	Share premium account	Other equity instruments	Revaluation reserves
Balance at 31 December 2009	900 000	441 306	10 484	(210 628)
Impact of the change in accounting policy (note 2)				
Balance at 1 January 2010 Proforma	900 000	441 306	10 484	(210 628)
Dividends distributed in 2010				
Appropriation of net income for 2009 to reserves				
Dividends paid on preference shares				
Dividends paid to minority interests				
Variable Remuneration Program (RVA)			(590)	
Sale / purchase of treasury shares				
Sale / purchase of preference shares				
Redemption of preference shares				
Consolidation of BPI Alternative Fund				
Consolidation of BPI Taxa Variável Fund				
Comprehensive income for 2010				(506 246)
Other				
Balance at 31 December 2010 Proforma	900 000	441 306	9 894	(716 874)
Appropriation of net income for 2010 to reserves				
Share capital increase by incorporation of reserves	90 000			
Use of share premium account to cover negative retained earnings		(312 874)		
Dividends paid on preference shares				
Dividends paid to minority interests				
Variable Remuneration Program (RVA)			(1 864)	
Sale / purchase of treasury shares				
Sale / purchase of preference shares				
Consolidation of BPI Alternative Fund				
Consolidation of BPI Taxa Variável Fund				
Comprehensive income for 2011				(534 659)
Other				
Balance at 31 December 2011	990 000	128 432	8 030	(1 251 533)

The Accountant

(Amounts expressed in thousands of euro)

	Other reserves and retained earnings	Tresury shares	Net income	Minority interests	Shareholders' equity
	553 872	(23 036)	175 034	455 658	2 302 690
	(151 639)				(151 639)
	402 233	(23 036)	175 034	455 658	2 151 051
			(69 700)		(69 700)
	105 334		(105 334)		
				(5 836)	(5 836)
				(56 455)	(56 455)
		1 160			570
		177			177
				(8 706)	(8 706)
				(17 233)	(17 233)
				17 180	17 180
				15 318	15 318
	(39 947)		185 179	117 446	(243 568)
	222				222
	467 842	(21 699)	185 179	517 372	1 783 020
	185 179		(185 179)		
	(90 000)				
	312 874				
				(7 237)	(7 237)
				(57 287)	(57 287)
		679			(1 185)
	867				867
	73 823			(183 630)	(109 807)
				(7 083)	(7 083)
				(5 570)	(5 570)
	(50 286)		(284 871)	96 473	(773 343)
	13				13
	900 312	(21 020)	(284 871)	353 038	822 388

The accompanying notes form an integral part of these statements.

The Board of Directors

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR YEARS ENDED
31 DECEMBER 2011 AND 2010 PROFORMA**

	31 Dec. 11	31 Dec. 10 Proforma
Operating activities		
Interest, commissions and similar income received	2 995 410	3 636 506
Interest, commissions and similar expenses paid	(1 754 708)	(2 386 520)
Recovery of loans and interest in arrears	20 324	15 870
Payments to personnel and suppliers	(664 267)	(632 967)
Net cash flow from income and expenses	596 759	632 889
Decrease (increase) in:		
Financial assets held for trading, available for sale and held to maturity	1 088 694	481 775
Loans and advances to credit institutions	(889 872)	896 685
Loans and advances to Customers	1 474 372	(170 566)
Other assets	(246 792)	41 210
Net cash flow from operating assets	1 426 402	1 249 104
Increase (decrease) in:		
Resources of central banks and other credit institutions	(1 403 017)	(1 495 042)
Resources of Customers	991 746	1 466 927
Financial liabilities held for trading	192 746	(57 359)
Other liabilities	201 097	152 024
Net cash flow from operating liabilities	(17 428)	66 550
Contributions to the Pension Funds	(1 375)	(3 026)
Income tax paid	(12 122)	(14 550)
	1 992 236	1 930 967
Investing activities		
Acquisition of participation in subsidiary and associated companies		
Unicre – Instituição Financeira de Crédito, S.A.		(4 428)
Inter-Risco – Sociedade de Capital de Risco, S.A.		(368)
Purchase of other tangible assets and intangible assets	(40 005)	(38 378)
Sale of other tangible assets	183	269
Dividends received and other income	25 156	14 429
	(14 666)	(28 476)

The accompanying notes form an integral part of these statements.

(Amounts expressed in thousands of euro)

	31 Dec. 11	31 Dec. 10 Proforma
Financing activities		
Liability for assets not derecognised	(155 644)	(194 297)
Issuance of debt securities and subordinated debt	1 999 448	4 037 215
Redemption of debt securities	(2 646 737)	(4 741 799)
Purchase and sale of own debt securities and subordinated debt	(914 121)	(671 798)
Redemption of preference shares		(17 233)
Purchase and sale of preference shares	(109 807)	(8 706)
Interest on debt securities and subordinated debt	(222 667)	(248 305)
Dividends paid on preference shares	(7 237)	(5 836)
Dividends distributed		(69 700)
Dividends distributed to minority interests	(57 287)	(56 455)
Purchase and sale of treasury shares	(318)	970
	(2 114 370)	(1 975 944)
Net increase (decrease) in cash and equivalents	(136 800)	(73 453)
Cash and equivalents at the beginning of the year	1 666 269	1 739 722
Cash and equivalents at the end of the year	1 529 469	1 666 269

The accompanying notes form an integral part of these statements.

The Accountant

Alberto Pitôrra

The Board of Directors

Chairman Artur Santos Silva

Deputy-Chairmen Carlos da Camara Pestana
Fernando Ulrich

Members Alfredo Rezende de Almeida
António Domingues
António Farinha Morais
António Lobo Xavier
Armando Leite de Pinho
Carlos Moreira da Silva
Edgar Alves Ferreira
Henri Penchas
Herbert Walter
Ignacio Alvarez-Rendueles
Isidro Fainé Casas
José Pena do Amaral
Juan Maria Nin
Klaus Dührkop
Manuel Ferreira da Silva
Marcelino Armenter Vidal
Maria Celeste Hagatong
Mário Leite da Silva
Pedro Barreto
Ricardo Villela Marino
Tomaz Jervell

Notes to the consolidated financial statements as of 31 December 2011 and 2010

(Unless otherwise indicated, all amounts are expressed in thousands of euro – th. euro)

1. THE FINANCIAL GROUP

Banco BPI is the central entity of a multi-specialised financial group dedicated to banking, which provides a broad range of banking services and products to companies, institutional investors and private individuals. Banco BPI has been listed on the Stock Exchange since 1986.

The BPI Group started operating in 1981 with the foundation of SPI – Sociedade Portuguesa de Investimentos, S.A.R.L. By public deed dated December 1984, SPI – Sociedade Portuguesa de Investimentos, S.A.R.L. changed its corporate name to BPI – Banco Português de Investimento, S.A., which was the first private investment bank created after the re-opening, in 1984, of the Portuguese banking sector to private investment. On 30 November 1995 BPI – Banco Português de Investimento, S.A. (BPI Investimentos) was transformed into BPI – SGPS, S.A., which operated exclusively as the BPI Group's holding company, and BPI Investimentos was founded to act as the BPI Group's investment banking company. On 20 December 2002, BPI SGPS, S.A. incorporated, by merger, the net assets and operations of Banco BPI and changed its corporate name to Banco BPI, S.A.

At 31 December 2011 the Group's banking operations were carried out principally through Banco BPI in the commercial banking area and through BPI Investimentos in the investment banking area. The BPI Group is also the holder of a 50.1% participation in Banco de Fomento, S.A. which operates as a commercial bank in Angola.

In January 2010, the BPI Alternative Fund was established. On 31 December 2011 the BPI Group held 85.5% of the fund's participating units through BPI Investimentos, the financial statements of the fund being fully consolidated in the financial statements of the BPI Group.

At 31 December 2011 the BPI Group held 65.6% of the participating units of BPI Taxa Variável Fundo de Investimento Aberto de Obrigações de Taxa Variável (BPI Taxa Variável Fund), which is managed by BPI Gestão de Activos. As from 30 June 2010 the BPI Group has fully consolidated the financial statements of BPI Taxa Variável Fund.

In June 2010 the BPI Group acquired 3.4% of the share capital of Unicre – Instituição Financeira de Crédito, S.A., and now holds a 21.01% participation in that company. The participation of the BPI Group in Unicre is now recorded in accordance with the equity method of accounting.

In 2010 the BPI Group dissolved and liquidated Simofer, a fully owned subsidiary of Banco BPI.

In 2010 the corporate name of Inter-Risco – Sociedade de Capital de Risco, S.A., was changed to BPI Private Equity – Sociedade de Capital de Risco, S.A. Subsequently, a new company called Inter-Risco – Sociedade de Capital de Risco, S.A. was founded, 49% of its capital being held by BPI Private Equity, and is recorded in accordance with the equity method of accounting.

As from December 2010 a company incorporated in South Africa, named BPI Capital Africa (Proprietary), Limited, became part of the BPI Group. Having already been admitted as a member of the Johannesburg Stock Exchange (JSE), this company operates in the areas of brokerage and investment consultancy (research) of, among others, companies listed on the JSE. This company, which is wholly owned by the BPI Group, is consolidated by the full consolidation method.

In the first half of 2011 BPI Pensões – Sociedade Gestora de Fundos de Pensões, S.A. was merged into BPI Vida – Companhia de Seguros de Vida, S.A. both fully owned by Banco BPI, and BPI Vida change its name to BPI Vida e Pensões – Companhia de Seguros, S.A.

In 2011 Banco BPI changed its participation in Viacer – Sociedade Gestora de Participações Sociais, Lda. from 25% to 14% through contribution in kind to the Banco BPI pension fund of 11% of the participation in that company. The participation currently held by the BPI Group is no longer recorded in accordance with the equity method of accounting, as it no longer has significant influence over that company's management and financial policy. At 31 December 2011 this participation was recorded in the financial assets available for sale portfolio as provided for in IAS 28 – Investments in associates (note 4.5).

The vehicles through which the Bank's loan securitisation is carried out are recorded in the consolidated financial statements in accordance with the BPI Group's continuing involvement in these operations, based on the percentage held of the equity piece of the corresponding vehicles.

At 31 December 2011 the BPI Group was made up of the following companies:

	Head Office	Share-holders' equity	Total assets	Net income (loss) for the period	Direct participation	Effective participation	Consolidation / Recognition method
Banks							
Banco BPI, S.A.	Portugal	41 648	43 147 766	(216 770)			
Banco Português de Investimento, S.A.	Portugal	62 112	3 007 338	(69)	100.00%	100.00%	Full consolid.
Banco Comercial e de Investimentos, S.A.R.L.	Mozambique	116 519	1 466 673	26 352	29.70%	30.00%	Equity Method
Banco de Fomento Angola, S.A.	Angola	558 150	5 456 353	192 547	50.08%	50.10%	Full consolid.
Banco BPI Cayman, Ltd.	Cayman Islands	154 785	348 799	3 433		100.00%	Full consolid.
Specialised loan companies							
BPI Locação de Equipamentos, Lda.	Portugal	4 467	4 892	1 044	100.00%	100.00%	Full consolid.
Asset management companies and dealers							
BPI Dealer – Sociedade Financeira de Corretagem (Moçambique), S.A.R.L.	Mozambique	78	120	6	13.50%	92.65%	Full consolid.
BPI Gestão de Activos – Gestão de Fundos de Investimento Mobiliários, S.A.	Portugal	24 167	41 848	10 903	100.00%	100.00%	Full consolid.
BPI – Global Investment Fund Management Company, S.A.	Luxembourg	789	1 545	324	100.00%	100.00%	Full consolid.
BPI (Suisse), S.A.	Switzerland	2 924	6 287	1 402		99.90%	Full consolid.
BPI Alternative Fund: Iberian Equities Long / Short Fund	Portugal	72 497	98 948	1 831		85.45%	Full consolid.
Fundo BPI Taxa Variável	Portugal	31 029	31 271	583		65.62%	Full consolid.
Venture capital companies							
BPI Private Equity – Sociedade de Capital de Risco, S.A.	Portugal	28 248	32 116	(1 132)	100.00%	100.00%	Full consolid.
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	725	2 166	486		49.00%	Equity Method
TC Turismo Capital – SCR, S.A. ¹	Portugal	6 118	6 383	556	25.00%	25.00%	Equity Method
Insurance companies							
BPI Vida e Pensões – Companhia de Seguros, S.A.	Portugal	140 226	3 413 479	(51 067)	100.00%	100.00%	Full consolid.
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	45 656	108 083	5 802	50.00%	50.00%	Equity Method
Companhia de Seguros Allianz Portugal, S.A.	Portugal	182 678	1 121 635	34 828	35.00%	35.00%	Equity Method
Others							
BPI Capital Finance Ltd. ²	Cayman Islands	53 608	53 615	(90 749)	100.00%	100.00%	Full consolid.
BPI Capital Africa (Proprietary) Limited	South Africa	7	1 062	(1 114)		100.00%	Full consolid.
BPI, Inc. ³	U.S.A.	1 191	1 957	6	100.00%	100.00%	Full consolid.
BPI Madeira, SGPS, Unipessoal, S.A.	Portugal	152 870	152 886	32	100.00%	100.00%	Full consolid.
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	Portugal	81 927	89 103	2 297	32.80%	32.80%	Equity Method
Ulisipair ACE	Portugal	62	73	45		50.00%	Prop. method
Unicre – Instituição Financeira de Crédito, S.A.	Portugal	73 375	307 856	8 745	20.65%	21.01%	Equity Method

Note: Unless otherwise indicated, all amounts are as of 31 December 2011 (accounting balances before consolidation adjustments).

The financial statements of subsidiaries, associates and jointly controlled entities are pending approval by the respective governing bodies. However, the Board of Directors of Banco BPI believes that there will be no changes with significant impact on the consolidated income of the Bank.

1) Amounts as of 30 November 2011.

2) Share capital is made up of 5 000 ordinary shares of 1 euro each, and 53 427 000 non-voting preference shares of 1 euro each. The BPI Group's effective participation corresponds to 0.009% considering the preference shares.

3) Amounts as of 30 June 2011 translated using the US dollar exchange rate as of 31 December 2011.

2. BASIS OF PRESENTATION AND MAIN ACCOUNTING POLICIES

A) BASES OF PRESENTATION

The consolidated financial statements were prepared from the accounting records of Banco BPI and its subsidiary and associated companies in conformity with International Accounting Standards / International Financial Reporting Standards (IAS / IFRS), as endorsed by the European Union in accordance with Regulation (EC) 1606 / 2002 of 19 July of the European Parliament and Council, incorporated into Portuguese legislation through Bank of Portugal Notice 1 / 2005 of 21 February.

Adoption of standards (new or revised) issued by the "International Accounting Standards Board" (IASB) and interpretations issued by the "International Financial Reporting Interpretation Committee" (IFRIC), as endorsed by the European Union.

The standards (new or revised) and interpretations applicable to the operations of the BPI Group and reflected in the financial statements as of 31 December 2011, were as follows:

- IAS 24 – Related entities: the changes made in November 2009 are intended to clarify the definition of related entity and introduce simplifications to the disclosure requirements for government entities. The revised standard is mandatory for years beginning on or after 1 January 2011. Implementation of these changes did not have a significant impact on the financial statements presented.
- IAS 32 – Financial Instruments: Presentation: this standard was amended to clarify under what conditions rights issues are classified as equity instruments. These amendments are mandatory for years beginning on or after 1 February 2010. Implementation of these changes did not have a significant impact on the financial statements presented.
- IFRIC 14 – Early payments under minimum funding requirements: the changes to this interpretation made in November 2009 permit an entity to recognize early payments under minimum funding requirements, as an asset. This change is mandatory for years beginning on or after 1 January 2011. Implementation of these changes did not have significant impact on the financial statements presented.
- IFRIC 19 – Extinguishing Financial Liabilities through Equity Instruments: this standard established the accounting treatment to be given by an entity that issues equity instruments for the purpose of settling a financial liability in full or in part. It is of mandatory application for years beginning on or after 1 July 2010. Implementation of these changes did not have a significant impact on the financial statements presented.
- Improvements to international financial reporting standards – 2010: this process involved a review of 6 accounting standards and 1 interpretation, 2 of which with mandatory application for years beginning on or after 1 July 2010 and 5 with mandatory application for years beginning on or after 1 January 2011. Implementation of these changes did not have a significant impact on the financial statements presented.

At 31 December 2011 the following standards (new and revised) and interpretations, already endorsed by the European Union, were available for early adoption:

- IFRS 7 – Financial Instruments: Disclosures – Transfer of financial assets: this standard was amended to include improvements to the disclosure requirements on transactions involving the transfer of financial assets, in order to enable better assessment to be made of the underlying risks of the transfer and its impact on the entity's financial position. The amendment also requires additional disclosures to be made if a significant transfer of financial assets is made at the end of the reporting period. These amendments are mandatory for years beginning on or after 1 July 2011.

This standard, although endorsed by the European Union, was not adopted by the BPI Group at 31 December 2011 because its application is not yet mandatory. Significant impact is not expected on the financial statements as a result of adopting this standard.

B) MAIN ACCOUNTING POLICIES

The following accounting policies are applicable to the consolidated financial statements of the BPI Group.

2.1. Comparability of information

As mentioned in note 2.7, until 30 June 2011, inclusive, the BPI Group used the corridor method to recognize actuarial and financial deviations relating to pension plans and other post-employment benefits under defined benefit plans, in accordance with paragraph 92 of IAS 19. In accordance with this method, actuarial gains and losses arising from changes in the actuarial and financial assumptions and differences between the actuarial and financial assumptions used and the actual amounts were recognized on the balance sheet caption OTHER ASSETS or OTHER LIABILITIES and a corridor was established to absorb accumulated actuarial and financial gains and losses of up to 10% of the higher of the present value of the past service liability or the amount of the pension fund. Amounts that exceed the corridor were amortised to the statement of income over the average period up to the expected retirement age of the Employees covered by the plan. At 31 December 2011 Banco BPI changed its accounting policy for the recognition of actuarial and financial deviations relating to pension plans and other post-employment benefits under defined benefit plans, ceasing to use the corridor method and recording actuarial and financial gains and losses directly in the equity caption OTHER RESERVES – ACTUARIAL DEVIATIONS (Statement of Comprehensive Income) in the period in which they occur, also in accordance with paragraph 93A of IAS 19. This voluntary change of accounting policy represents early adoption of the new version of IAS 19, which is in the process of approval by the European Union, and is expected to become mandatory for annual periods beginning on or after 1 January 2013.

The tax rules relating to this change are included in Law 64-B / 2011 of 30 December relating to the State Budget for 2012, which establishes that negative changes in equity recorded in the 2011 tax period resulting from changes in the accounting policy for the recognition of actuarial and financial deviations on pension plans

and other post-employment benefits under defined benefit plans, do not count for the annual limits referred to in the Article 43 of the Corporate Income Tax Code (“Código do Imposto sobre o Rendimento de Pessoas Colectivas”), being deductible for tax purposes, in equal amounts, in the tax periods beginning on or after 1 January 2012 and in the following nine tax years, and so the corresponding deferred tax assets relating to the actuarial and financial deviations were recorded in Shareholders' equity.

Bank of Portugal Notice 2 / 2012, of 10 January establishes that the accumulated actuarial and financial deviations used in the regulatory

own funds calculation should not depend on the accounting policy adopted as a result of the options included in IAS 19. For this reason, the notice establishes that the corridor limit should be maintained, in order to exclude from the base own funds, the accumulated actuarial losses that would not be recognized as a cost, within the limits mentioned above.

Retrospective application of the accounting policy for recognizing actuarial and financial deviations relating to pension plans and other post-employment benefits under defined benefit plans, in accordance with IAS 8, had the following impact:

	Consolidated shareholders' equity at 31 Dec. 2009 (including net income for the year)	Net income for 2010	Consolidated shareholders' equity at 31 Dec. 2010 (including net income for the year)
Balances as reported (before retrospective application of the change in accounting policy)	2 302 690	184 796	1 963 948
Impact of the retrospective application of the accounting policy			
Accumulated actuarial and financial deviations as of 1 January 2010	(205 891)		(205 891)
Actuarial and financial deviations arising in 2010			(48 900)
Reversal of the amortization of the excess of the corridor recorded in 2010		539	539
Tax effect	54 252	(156)	73 324
	(151 639)	383	(180 928)
Balances (proforma)	2 151 051	185 179	1 783 020

2.2. Consolidation of subsidiaries and jointly controlled entities and recognition of associated companies (IAS 27, IAS 28, IAS 31 and IFRS 3)

Banco BPI has direct and indirect participations in subsidiary and associated companies. Subsidiary companies are entities over which the Bank has control or power to manage their financial and operating policies. Associated companies are entities over which Banco BPI has direct or indirect significant influence over their management and financial policies but over which it does not have control. As a general rule, it is presumed that significant influence exists when the participation exceeds 20%.

The financial statements of subsidiary companies are consolidated using the full consolidation method. Significant inter-group transactions and account balances were eliminated in the consolidation process. The amount of share capital, reserves and net results corresponding to third party participation in these subsidiaries is reflected in the caption MINORITY INTEREST. When necessary, adjustments are made to the subsidiary companies' financial statements to ensure their consistency with the BPI Group's accounting policies.

Goodwill arising from the difference between the cost of acquisitions (including expenses) and the fair value of the identifiable assets, liabilities and contingent liabilities of subsidiary companies as of the date of the first consolidation are recorded as assets and are subject to impairment tests. When a subsidiary company is sold, net goodwill is included in determining the gain or loss on the sale.

The financial statements of companies under joint control of the BPI Group and other entities are consolidated using the proportional method, under which the assets, liabilities, costs and income of the entities are included in the consolidated financial statements in proportion to the BPI Group's participation in their share capital.

Associated companies are recorded in accordance with the equity method of accounting. In accordance with this method, the amount of the investment, which is initially recognised at cost, is adjusted by post-acquisition changes in the net asset value of the associated companies, in proportion to the BPI Group's participation.

Goodwill relating to associated companies is included in the book value of the investment. The book value of associated companies (including goodwill) is subject to impairment tests in accordance with IAS 36 and IAS 39.

In the case of associated companies acquired in stages, goodwill is calculated at the time that the acquired company becomes an associate, being determined by the difference between the total acquisition cost of the investment and the proportion held of the fair value of the identifiable assets and liabilities of the associate as of that date. As provided for in IAS 28, total acquisition cost corresponds to the fair value of the original investment on the date that significant influence is achieved, plus the amount paid for the additional participation. In accordance with the policy established by the BPI Group, gains or losses on the revaluation to fair value of the original investment are recognized in the statement of income on the date the acquired company becomes an associate.

Following the loss of significant influence over an associated company (it is presumed that participation is less than 20%) and in accordance with IAS 28, the participation held is reclassified from the Investments in Associated Companies portfolio to the Financial Assets Available for Sale portfolio, being recorded at its fair value as of the date of the loss of significant influence. The difference between the fair value of the participation held and the cost of investment at that date is recognized in the statement of income.

In accordance with IFRS 1 and the BPI Group's accounting policies up to the date of transition to IAS / IFRS, goodwill on investments acquired up to 1 January 2004 was deducted in full from shareholders' equity.

Negative goodwill arising from the difference between the cost of acquisitions (including expenses) and the fair value of the identifiable assets, liabilities and contingent liabilities of subsidiary and associated companies as of the date of the first consolidation or the date the equity method is first applied is immediately recognised in the statement of income.

The financial statements of subsidiary or associated companies which are inactive or in liquidation were excluded from the consolidation and from application of the equity method. These participations are classified as financial assets available for sale.

Consolidated net income is the sum of the individual net result of Banco BPI and the percentage of the net results of subsidiary and associated companies, equivalent to Banco BPI's effective participation in them, considering the period the participations are held for, after elimination of income and expenses resulting from inter-group transactions.

Foreign currency subsidiary and associated companies (IAS 21 and IAS 29)

The foreign currency financial statements of subsidiary and associated companies were included in the consolidation after being translated to Euro at the exchange rates published by the Bank of Portugal:

- assets and liabilities expressed in foreign currencies are translated to Euro using the exchange rates in force at the balance sheet date;
- income and expenses expressed in foreign currencies are translated to Euro using the exchange rates in force in the months in which they are recognized;
- exchange differences resulting from the translation to Euro are recognised directly in the shareholders' equity caption REVALUATION RESERVES, since the Bank does not have participations in subsidiaries and associated companies whose functional currency is that of a hyperinflationary economy.

2.3. Financial assets and liabilities (IAS 32 and IAS 39)

Financial assets and liabilities are recognised in the BPI Group's balance sheet on the trade or contracting date, unless there is an express contractual stipulation or applicable legal or regulation regime under which the transactions' inherent rights and obligations are transferred at a different date, in which case the latter date is applicable.

Financial assets and liabilities are initially recorded at fair value plus direct transaction costs, except for assets and liabilities that have been recognised at fair value through profit or loss, in which case the transaction costs are immediately recorded in the statement of income.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between equally knowledgeable, willing parties. On the date of contracting or starting an operation, fair value is generally the amount of the transaction.

Fair value is determined based on:

- the price in an active market, or
- valuation methods and techniques (when there is not an active market) supported by:

- mathematical calculations based on recognised financial theories; or,
- prices calculated based on similar assets or liabilities traded on active markets or based on statistical estimates or other quantitative methods.

Financial assets are initially recognized, at the time of their acquisition or inception, under one of the four categories defined in IAS 39:

- financial assets held for trading and at fair value through profit or loss;
- held-to-maturity financial assets;
- available-for-sale financial assets;
- loans and other receivables.

Following the amendment to IAS 39 in October 2008 entitled "Reclassification of financial assets", it became possible to reclassify financial assets between financial asset categories, as follows: (i) in specific circumstances, non-derivative financial assets (other than those initially designated as financial assets at fair value through profit or loss under the "fair value option") can be reclassified out of the fair value through profit and loss category, and (ii) financial assets which meet the definition of loans and receivables can be reclassified from the available-for-sale financial assets category to the loans and receivables category, provided that the entity has the intention and ability to hold the asset for the foreseeable future or until maturity. For reclassifications made up to 1 November 2008, the reference date of the changes made by the BPI Group was 1 July 2008. The reclassifications made on or after 1 November 2008 are effective only as from the reclassification date.

In note 4.48 the valuation methods of assets and liabilities recorded at fair value (Financial assets held for trading and at fair value through profit or loss, Financial liabilities held for trading and Financial assets available for sale) are presented in detail.

2.3.1. Financial assets held for trading and at fair value through profit or loss and financial liabilities held for trading

These captions include:

- fixed income securities and variable-yield securities traded on active markets, which the Bank has opted, on the recognition date, to record and value at fair value through profit or loss, can be classified as held for trading or at fair value through profit or loss;
- securities related to capitalisation insurance portfolios;
- derivatives (including embedded derivatives on financial assets and liabilities), except for those designated as hedging instruments under hedge accounting (note 2.3.7).

Such assets and liabilities are valued daily at fair value. The book value of bonds and other fixed income securities includes accrued interest.

Gains and losses resulting from changes in fair value are recognised in the statement of income.

In the case of default, derivatives are settled in advance and recorded at their replacement value. Derivative operations are subject to credit risk analysis, their value being adjusted with a corresponding entry to loss on financial operations.

2.3.2. Held to maturity investments

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

These investments are measured at amortized cost, using the effective interest rate method and subject to impairment tests. The impairment losses on financial investments held to maturity are recorded in the income statement. If, in a subsequent period, the amount of an impairment loss decreases and that decrease can be related objectively to an event occurring after the date on which the impairment loss was recognized, the previously recognized impairment loss is reversed through the statement of income for the year.

2.3.3. Financial assets available for sale

This caption includes:

- fixed income securities which have not been classified in the trading, held to maturity or loan portfolios;
- variable yield securities available for sale;
- shareholders' loans and supplementary capital contributions in financial assets available for sale.

Assets classified as available for sale are valued at fair value, except for equity instruments that are not traded on active markets and for which their fair value cannot be reliably measured or estimated. In this case they remain recorded at cost.

Gains and losses resulting from changes in the fair value of financial assets available for sale are recognised directly in the shareholders' equity caption FAIR VALUE REVALUATION RESERVE, except for impairment losses and exchange gains and losses on monetary assets, until the asset is sold. At this time, the gain or loss previously recognized in shareholders' equity is transferred to the statement of income.

Interest accrued on bonds and other fixed income securities and differences between their cost and nominal value (premium or discount) are recorded in the statement of income using the effective interest rate method.

Income from variable-yield securities (dividends in the case of shares) is recorded as income when it is attributed or received. In accordance with this procedure, interim dividends are recorded as income in the period in which they are declared.

With reference to the date of preparation of the financial statements, the Bank assesses the existence of objective evidence that financial assets available for sale are impaired, considering the market situation and the available information about the issuers.

In accordance with IAS 39, a financial asset available for sale is impaired and impairment losses are incurred if, and only if: (i) there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and (ii) that (those) loss event (s) has (have) an impact on the estimated future cash flows of the financial asset, that can be reliably estimated.

In accordance with IAS 39, objective evidence that a financial asset available for sale is impaired includes observable data regarding the following loss events:

- significant financial difficulty of the issuer;
- a breach of contract by the issuer in terms of the repayment of principal or payment of interest;
- probability of bankruptcy of the issuer;
- the disappearance of an active market for the financial asset because of financial difficulties of the issuer.

In addition to the events relating to debt instruments referred to above, the existence of objective evidence of impairment on equity instruments also takes into consideration information about the following loss events:

- significant changes with adverse impact on the technological, market, economic or legal environment in which the issuer operates indicating that the cost of the investment may not be fully recovered;
- a significant or prolonged decrease in the market value of the financial asset below its cost.

When there is objective evidence that a financial asset available for sale is impaired, the accumulated loss in the fair value revaluation reserve is removed from equity and recognized in the statement of income.

Impairment losses recorded on fixed income securities are reversed through the statement of income if there is a positive change in the fair value of the security resulting from an event which has occurred after determination of the impairment. Impairment losses on variable-yield securities cannot be reversed. In the case of securities for which impairment losses have been recognised, subsequent negative changes in fair value are always recognised in the statement of income.

Exchange differences on non monetary assets (equity instruments) classified in the available-for-sale portfolio are recognised in the exchange difference revaluation reserve. Exchange differences on other securities are recorded in the statement of income.

Financial assets available for sale, designated as hedged assets, are valued as explained in note 2.3.7. Hedge Accounting – derivatives and hedged instruments.

2.3.4. Loans and other receivables

Loans and other receivables include loans and advances made by the Bank to Customers and to credit institutions, including finance lease operations, factoring operations, participation in syndicated loans and securitised loans (commercial paper and bonds issued by companies) that are not traded on an active market and which are not intended to be sold.

Loans and securitised loans traded on active markets are included in the caption **FINANCIAL ASSETS AVAILABLE FOR SALE**.

At the inception date, loans and other receivables are recognised at fair value. In general, fair value at the inception date corresponds to the amount of the transaction and includes commission, taxes and other costs and income relating to credit operations. Loans and other receivables are subsequently valued at amortised cost, using the effective interest rate method and are subject to impairment tests.

Interest income, commission, fees and other costs and income on credit operations are recognised on an accruals basis over the period of the operations, regardless of when they are received or paid. Commission received relating to credit commitments is deferred and recognised on a straight-line basis over the period of the commitment.

The Bank classifies as overdue credit, instalments of principal and interest overdue for more than 30 days. Credits under legal collection procedures include the full amount of the principal (both overdue and not yet due). Mortgage loans are considered to be under legal collection procedures when the petition to execute is delivered to the court, which is usually 180 days after the first default.

The BPI Group writes off loans on operations considered to be unrecoverable, for which provisions (in accordance with the Adjusted Accounting Standards (Normas de Contabilidade Ajustadas – NCA) established by Bank of Portugal Notice 1 / 2005) and impairment losses have been recorded for their full amount in the month preceding the write-off.

Loans designated as hedged assets are valued as explained in note 2.3.7. Hedge Accounting – derivatives and hedged instruments.

Finance leasing (IAS 17)

Lease operations in which the Bank transfers substantially all the risks and rewards of ownership of an asset to a Customer or to a third party, are reflected on the balance sheet, at the inception date, as loans granted, at the net amount paid to acquire the leased asset. Lease instalments are composed of an interest income component and a principal repayment component. The interest income component for each period reflects an effective interest rate of return on the outstanding amount of principal.

Factoring

Assets resulting from factoring operations with recourse are recorded on the balance sheet as loans granted, by the amount advanced on account under the terms of the corresponding contracts.

Assets resulting from factoring operations without recourse are recorded on the balance sheet as loans granted, by the amount of the credit taken, with a corresponding entry to the liability caption **CREDITORS FOR FACTORING OPERATIONS**. Amounts advanced under the contracts are debited to the caption **CREDITORS FOR FACTORING OPERATIONS**.

Invoices received under factoring contracts with recourse, in which amounts are not advanced, are recorded in the off-balance sheet caption, **CONTRACTS WITH RECOURSE – INVOICES NOT FINANCED**, by the amount of the invoices received. The balance of this caption is reduced as the invoices are settled.

Commitments resulting from unused credit lines negotiated with Customers are recorded as off-balance sheet items.

Securitized credit not derecognized

The Bank does not derecognize credits sold in securitisation operations when:

- it retains control over the operations;
- it continues to receive a substantial part of the remuneration;
- it retains a substantial part of the risk on the credits transferred.

Credits sold that have not been derecognized are recorded in the caption **LOANS AND ADVANCES TO CUSTOMERS** and are subject to the accounting principles used for other credit operations. Interest, commission and fees relating to the securitized loan portfolio are accrued over the period of the credit operation.

Amounts received relating to securitization operations are recorded under the caption **FINANCIAL LIABILITIES RELATING TO TRANSFERRED ASSETS**. The respective interest, commission and fees are accrued based on the remuneration ceded by the Bank, in accordance with the expected average life of the securitisation operation at the launching date.

The risks and / or benefits maintained are represented by the bonds with the highest degree of risk, issued by the securitization vehicle. The amount recorded in assets and liabilities represents the proportion of risk / benefit held by the Bank (continuing involvement).

Bonds issued by securitisation vehicles and held by the BPI Group entities are eliminated in the consolidation process.

Securities under repurchase and resale agreements

Securities purchased with resale agreements are not recorded in the securities portfolio. Funds paid are recorded as loans at the settlement date, while interest is accrued.

Securities sold with repurchase agreements are maintained in their original securities portfolio. Funds received are recorded in the corresponding liability caption at the settlement date, while interest is accrued.

Guarantees given and irrevocable commitments

Guarantees given and irrevocable commitments are recorded in off-balance sheet accounts by the amount at risk, while interest, commission, fees and other income are recorded in the statement of income over the period of the operations. These operations are subject to impairment tests.

Impairment

Loans, other receivables and guarantees given are subject to monthly impairment tests. Impairment losses identified are recorded by corresponding charge to the statement of income for the year. If, in subsequent periods, there is a decrease in the estimated impairment loss, the impairment loss initially recorded is reversed by credit to the statement of income.

In accordance with IAS 39 a financial asset is considered to be impaired when there is evidence that one or more loss events have occurred after initial recognition of an asset, and such events have an impact on the estimated recoverable value of the future cash flows of the financial asset considered.

IAS 39 defines some events that may be considered as objective evidence of impairment (breach of contract, such as delay in the payment of principal or interest; probability that the borrower will become bankrupt, etc.). However, in certain circumstances determination of impairment loss requires professional judgement.

Objective evidence of impairment situations is assessed as of the date of the financial statements.

Impairment assessment is made based on individual credits where they are significant in amount and on an individual or collective basis where the credits are not significant in amount.

BPI's loan portfolio is segmented as follows for purposes of determining impairment:

- Corporate Banking;
- Private individuals and small businesses;
- Specialised credit: housing loans, equipment leasing, real estate leasing, vehicle financing, consumer credit and credit cards;
- Commercial portfolio: discounts, credit with a plan, credit without a plan and overdrafts;
- Project Finance;
- Institutional Banking and the State Business Sector;
- Others.

Impairment losses relating to the Corporate Banking, Project Finance, Institutional Banking and the State Business Sector segments are determined on an individual basis whenever the credits show signs of impairment or are in default. Credit operations in these segments that do not show signs of impairment, as well as operations of the other segments are subject to collective assessment to determine the amount of the related impairment.

Individual assessment

In the case of assets for which there is objective evidence of impairment on an individual basis, impairment is calculated operation by operation, based on the information included in the Bank's credit risk analysis models which consider, among others, the following factors:

- overall exposure of the Customer and nature of the liabilities contracted with the Bank: financial or non financial operations (namely, liabilities of a commercial nature or performance guarantees);
- notation of client risk determined based on a calculation system implemented by the BPI Group. Risk notation includes, among others, the following characteristics:
 - financial situation of the Customer;
 - risk of the business sector in which the Customer operates;

- quality of management of the Customer, measured by the experience in the relationship with the BPI Group and the existence of incidents;
- quality of the accounting information presented;
- nature and amount of the guarantees relating to the liabilities contracted with the Bank;
- non-performing loans for a period exceeding 30 days.

In such situations the amount of the loss is calculated based on the estimated recoverable amount of the credit, after recovery costs, discounted at the effective rate of interest during the period from the date the impairment to the expected date of recovery.

The expected recoverable amount of the credit reflects the cash flows that can result from execution of the guarantees or collateral relating to the credit granted, less costs of the recovery process.

Assets evaluated individually, for which there are no objective signs of impairment, are included in a group of assets with similar credit risks, and impairment losses are assessed collectively.

Impairment for these groups of assets is assessed as explained in the following section – Collective assessment.

Assets assessed individually, for which an impairment loss is recognised, are excluded from the collective assessment.

Collective assessment

Future cash flows of groups of credit subject to collective impairment assessment are estimated based on the past experience of losses on assets with similar credit risk characteristics.

Collective assessment involves estimating the following risk factors:

- the possibility of a performing operation or Customer coming to show signs of impairment through delays arising during the emergence period (period between the occurrence of a loss event and identification of that event by the Bank).
- In accordance with IAS 39 these situations correspond to losses incurred but not reported, that is cases in which, for part of the credit portfolio, the loss event has already occurred, but the Bank has not yet identified it;
- the possibility of an operation or Customer that has already had delays, going into default (situations of legal collection) during the remaining period of the operation;
- financial loss on operations in default.

For purposes of determining the percentage of estimated loss on operations or Customers in default, the Bank considers payments by Customers after default, less direct costs of the recovery process. The flows considered are discounted at the interest rate of the operations and compared to the exposure at the time of default.

The inputs used for calculating collective impairment are determined based on statistical models for credit groups and revised regularly to approximate the estimated amounts to the actual amounts.

For exposures with objective evidence of impairment, the amount of the loss results from a comparison of the book value with the present value of the estimated future cash flows. The interest rate of the operations at the date of each assessment is used to calculate the present value of the future cash flows.

2.3.5. Deposits and other resources

After initial recognition, deposits and other financial resources of Customers and credit institutions are valued at amortised cost, using the effective interest rate.

This category includes life capitalisation insurance without a discretionary participation feature.

Deposits designated as hedged liabilities are valued as explained in note 2.3.7 Hedge Accounting – derivatives and hedged instruments.

2.3.6. Debt securities issued by the Bank

Debt securities issued by the Bank are recorded under the captions SUBORDINATED DEBT and DEBT SECURITIES.

At the date of issue, debt securities are recorded at fair value (issue value), including transaction expenses, commission and fees, and subsequently valued at amortised cost using the effective interest rate method.

Derivatives embedded in bonds are recorded separately and revalued at fair value through the statement of income.

Bonds designated as hedged liabilities are valued as explained in note 2.3.7. Hedge Accounting – derivatives and hedged instruments.

Bonds issued by the Bank can be listed, or not, on the Stock Exchange.

Secondary market transactions

The Bank repurchases bonds issued in secondary market. Purchases and sales of own debt securities are included proportionately in the respective captions of debt issued (PRINCIPAL, INTEREST, COMMISSION, FEES and DERIVATIVES), and the differences between the amount liquidated and the decrease or increase in the amount of the liability are immediately recognised in the statement of income.

2.3.7. Hedge accounting – derivatives and hedged instruments

The BPI Group designates as hedging instruments, derivatives contracted to hedge interest rate and foreign exchange rate risk (fair value hedge operations) on financial assets and liabilities identified individually (bond portfolio, issuance of own debt securities and loans), and on groups of operations (term deposits and fixed rate loans).

The BPI Group has formal documentation of the hedge relationship identifying, at the inception of the transaction, the instrument (or part of the instrument, or part of the risk) that is being hedged, the strategy and type of risk being hedged and the methods used to demonstrate the effectiveness of the hedge.

Monthly, the Bank tests the effectiveness of the hedge by comparing changes in the fair value of the hedged instrument, attributable to the hedged risk, with changes in the fair value of the hedging derivative, the relationship between them being within the range of 80% to 125%.

Hedging derivative instruments are recorded at fair value and the gains and losses resulting from their revaluation are recognised in the statement of income. Gains and losses resulting from changes in the fair value of hedged financial assets or liabilities, attributable to the hedged risk, are also recognised in the statement of income, by corresponding entry to the book value of the hedged asset or liability in the case of operations at amortised cost (loans, deposits and debt issued) or to the fair value revaluation reserve in case of financial assets available for sale (bonds portfolio).

A hedged asset or liability may have only one part or one component of its fair value hedged (interest rate risk, foreign exchange rate risk or credit risk), provided that the effectiveness of the hedge can be measured separately.

When using hedge accounting, the Bank does not value the commercial spreads of the hedged assets or liabilities.

If the hedging relationship ceases to exist as a result of the relationship between the fair value changes of the derivatives and the hedged instruments being outside the 80% to 125% range, the derivatives are reclassified to trading instruments and the amount of the revaluation of the hedged instrument is recognised in the statement of income for the remaining period of the operation.

Hedging effectiveness tests are duly documented on a monthly basis, thus ensuring the existence of evidence during the period of the operation.

2.3.8. Foreign currency financial assets and liabilities

Foreign currency financial assets and liabilities are recorded in conformity with the multi-currency system that is in their original currencies.

Foreign currency assets and liabilities are translated to Euro at the official market rates published by the Bank of Portugal.

Foreign currency income and expenses are translated to Euro at the exchange rates in force on the dates they are recognised.

2.4. Tangible assets (IAS 16)

Tangible assets used by the Bank in its operations are stated at cost (including directly attributable costs) less accumulated depreciation and impairment losses.

Depreciation of tangible assets is recorded on a straight-line basis over their estimated useful lives, which corresponds to the period the assets are expected to be available for use:

	Useful life (years)
Property	20 to 50
Improvements in owned property	10 to 50
Non-recoverable expenditure capitalized on leasehold buildings	3 to 10
Equipment	3 to 12
Other tangible assets	3 to 10

Non-recoverable expenditure on improvements in leasehold buildings is depreciated in accordance with its estimated useful life or the remaining period of the lease contract.

As established in IFRS 1, tangible assets acquired by the BPI Group up to 1 January 2004 have been recorded at their book value at the date of transition to IAS / IFRS, which corresponds to cost adjusted for revaluations recorded in accordance with legislation, based on price level indices. In accordance with current tax legislation, 40% of the additional depreciation charge resulting from such revaluations is not deductible for income tax purposes, the resulting deferred tax liability being recognised.

Tangible assets acquired under finance lease

Tangible assets acquired under finance lease operations, in which the Bank has all the risks and rewards of ownership, are depreciated in accordance with the procedures explained in the preceding section.

Lease instalments comprise an interest charge and a principal repayment component. The liability is reduced by the amount corresponding to the principal repayment component of each of the instalments and the interest is reflected in the statement of income over the term of the lease.

2.5. Tangible assets available for sale

Assets (property, equipment and other assets) received as settlement of loan operations are recorded in the caption OTHER ASSETS as they are not always in condition to be sold immediately and may be held for periods in excess of one year. Such assets are recorded at the amount stated in the settlement agreement, which is the lower of the amount of the outstanding debt or the appraised value as of the date of the agreement. Such property is subject to periodic appraisals, with impairment losses being recorded whenever the appraised value (net of costs to sell) is lower than its book value.

The caption OTHER ASSETS also includes the Bank's tangible assets retired from use (unused property and equipment) which are in the process of sale. Such assets are transferred from tangible assets at their book value in accordance with IAS 16 (cost less accumulated depreciation and impairment losses) when they become available for sale, and are subject to periodic appraisals with impairment losses being recorded whenever the appraised value (net of selling costs) is lower than their book value.

Unrealised gains on other assets are not recognised on the balance sheet.

2.6. Intangible assets (IAS 38)

The Bank recognises, in this caption, expenses relating to the development stage of projects implemented and to be implemented, as well as the cost of acquiring software, in both cases where the impact extends beyond the financial year in which the cost is incurred.

Intangible assets are amortised on a straight-line monthly basis over the estimated period of useful life of the assets which, in general, corresponds to a period of three years.

To date the Bank has not recognised any intangible assets generated internally.

2.7. Retirement and survivor pensions (IAS 19)

The BPI Group companies that have adhered to the Collective Vertical Labour Agreement for the Portuguese Banking Sector (Acordo Colectivo de Trabalho Vertical para o Sector Bancário Português) for the Portuguese Banking Sector have assumed the commitment to pay their Employees or their families, pensions for retirement due to age or incapacity, pensions for early retirement or survivor pensions (defined benefit plan). The pensions consist of a percentage, which increases with the number of years of service of the Employees, applied to their salaries. Up to 31 December 2010 the majority of Employees of the BPI Group was not covered by the Portuguese Social Security system.

With the publication of Decree-Law 1-A / 2011 of 3 January all the bank Employees that benefit from CAFEB – Caixa de Abono de Família dos Empregados Bancários were incorporated into the General Social Security Regime, as from 1 January 2011, becoming covered by this regime as regards old age pensions and possible maternity, paternity and adoption, the cost of which the Bank no longer covers. Given the complementary nature of the rules of the Collective Labour Agreement for the Portuguese Banking Sector, the Bank will continue to cover the difference between the amount of the benefits paid under the General Social Security Regime for the items covered and the benefits established in the Collective Labour Agreement.

Incapacity and survivor pensions and sickness subsidy of these Employees will continue to be the Bank's responsibility.

Following the Three Party Agreement between the Government, the Credit Institutions and the Labour Unions for the Banking Sector, Decree-Law 127 / 2011 of 31 December was published, which establishes transfer to the Social Security of the liability for retirement and survivor pensions of retirees and pensioners which at 31 December 2011 were in that situation and were covered by the substitute social security regime included in a collective labour regulations in force for the banking sector (Pilar 1), as well as transfer to the Portuguese State of the part of the pension fund assets covering these liabilities.

Through its pension fund, Banco BPI retains the liability for payment of (i) the amount of updates of the pensions mentioned above, according to the criteria set out in the Collective Labour Agreement (Acordo Colectivo de Trabalho); (ii) the complementary benefits to the retirement and survivor pensions assumed by the Collective Labour Agreement for the Banking Sector; (iii) the contribution on retirement and survivor pensions for the Social Medical Support Services (Serviços de Apoio Médico-Social); (iv) death subsidy; (v) survivor pensions to children and surviving spouse related to the same Employee and (vi) survivor pension due to the family of a retired Employee, in which the conditions for being granted occurred as from 1 January 2012.

The value of the pension fund assets transferred to the Portuguese State must be equal to the amount of the liabilities undertaken by the Social Security and was determined taking into account the following assumptions: (i) discount rate of 4%; (ii) mortality tables in accordance with the regulations defined by the Portuguese Insurance Institute (Instituto de Seguros de Portugal): male population: TV 73 / 77 less 1 year; female population: TV 88 / 90.

Transfer of the pension fund assets can be made in cash and, up to 50% of the assets to be transferred, in Portuguese public debt securities, valued at their market value.

The transfer of ownership of the assets will be made by the Bank under the following conditions: (i) up to 31 December 2011, the amount equivalent to at least 55% of the provisional present value of the liabilities; (ii) by 30 June 2012, the remaining amount to complete the current definitive amount of the liabilities, as a result of the final determination of the liabilities transferred, made by an expert independent entity hired for the purpose by the Ministry of Finance.

Since the transfer to the Social Security corresponds to settlement, with extinction of the corresponding liability of Banco BPI, the difference between the amount of the pension fund assets transferred to the Portuguese State and the amount of the liabilities transferred based on the actuarial assumptions used by Banco BPI was recorded in the statement of income caption OPERATING GAINS AND LOSSES (note 4.41), as provided for in paragraph 61 of IAS 19.

In accordance with the Decree-Law 127 / 2011 of 31 December the cost incurred as a result of the transfer of the liability for retirement and survivor pensions of retired personnel and pensioners to the Social Security is tax deductible, in equal amounts, in the tax years beginning on or after 1 January 2012 based on the estimated average number of years of life expectancy of the pensioners whose liabilities were transferred, which is estimated at 18 years, and so the corresponding deferred tax asset relating to the amount settled was recognized in the statement of income (note 4.44).

Annually, the BPI Group determines the amount of its past service liability by actuarial calculation using the "Projected Unit Credit" method in the case of retirement due to age, and the "Single Successive Premiums" method in the case of retirement due to incapacity and survivor benefits. The actuarial assumptions used (financial and demographic) are based on the expectations, as of the balance sheet date, regarding salary and pension increases, using mortality tables adapted to the Bank's population. The discount rate is determined based on market rates for high quality corporate bonds with similar terms to those of the related pension liability. An analysis of actuarial assumptions and, if applicable, their corresponding change, is carried out by the BPI Group as of 30 June and 31 December of each year. In 2011 the BPI Group changed the actuarial assumptions as of 30 June and 31 December. The adjustment of these assumptions is reflected prospectively in pension costs and in the determination of actuarial deviations. The amount of the liability includes, in addition to the retirement pension benefits, post-employment healthcare benefits (SAMS) and death subsidy during retirement.

Up to 30 June 2011 the BPI Group recognised, under the caption OTHER ASSETS OR OTHER LIABILITIES – ACTUARIAL DEVIATIONS, the net accumulated amount (after 1 January 2004) of actuarial gains and losses resulting from changes in the actuarial and financial assumptions, as well as differences between the actuarial and financial assumptions used and the actual amounts. A corridor has been established to absorb accumulated actuarial gains and losses of up to 10% of the higher of the present value of the past service liability or the amount of the pension fund. Amounts that exceed the corridor were amortised to the statement of income over the average period up to the expected retirement age of the Employees covered by the plan. As from 31 December 2011, as mentioned in note 2.1. Comparability of information, the BPI Group changed its accounting policy for the recognition of actuarial deviations relating to the pension plans and other post-employment benefits under the defined benefit plans, ceasing to use the corridor method and recording the actuarial gains and losses directly in equity, in the Statement of comprehensive income, in the period in which they occur, in accordance to the paragraph 93A of IAS 19.

The increase in the past service liability resulting from early retirements is fully recognised as cost in the statement of income for the year.

Increases in the past service liability resulting from changes in the conditions of the Pension Plans are recognised in full as costs in the case of vested benefits, or amortised over the period up to the time the benefits become vested. The amount of the liabilities not yet recognised as cost is reflected in the caption OTHER ASSETS.

The past service liability (post employment benefits) is covered by Pension Funds. The value of the Pension Funds corresponds to the fair value of their assets at the balance sheet date.

The funding requirements of the Pension Fund are defined in Bank of Portugal Notice 4 / 2005, which establishes:

- the requirement to fully fund pensions under payment and a minimum of 95% of the past service liability for current personnel;
- the establishment of a transitory period to fund the increase in the liability resulting from application of IAS 19 at 31 December 2004. This increase in the liability can be financed through the application of an amortization plan of uniform installments up to 31 December, 2009, except for the part concerning the liability for post-employment medical care and changes in actuarial assumptions relating to the mortality table for which the funding plan can go up to 31 December 2011;
- at 31 December 2005 the Bank opted to fund the full amount of the liability for retirement pensions of its Employees and so is not applying the uniform amortisation plan allowed by the Bank of Portugal.

The past service liability for retirement pensions net of the amount of the pension fund is recorded in the BPI Group's financial statements under the caption OTHER LIABILITIES (insufficient coverage) or OTHER ASSETS (excess coverage).

The following costs relating to retirement and survivor pensions are included in the consolidated statement of income of the BPI Group:

- current service cost (cost for the year);
- interest cost on the total liability;
- expected income of the Pension Funds;
- cost relating to the increase in the past service liability due to early retirements;
- cost (or amortisation) resulting from changes in the conditions of the Pension Plan.

At the transition date, the BPI Group adopted the option, allowed under IFRS 1, of not recalculating actuarial gains and losses deferred since the inception of the pension plans (reset option). Consequently, deferred actuarial gains and losses reflected in the BPI Group's financial statements as of 31 December 2003 were reversed by corresponding entry to retained earnings at the transition date (1 January 2004).

2.8. Long service premiums (IAS 19)

The BPI Group companies that have adhered to the Collective Vertical Labour Agreement (Acordo Colectivo de Trabalho Vertical) for the Portuguese Banking Sector have assumed the commitment to pay current Employees that have fifteen, twenty five or thirty years of good service to the Group companies, a long service premium corresponding, respectively, to one, two or three months of their effective monthly remuneration (in the year the premium is attributed).

Annually, the BPI Group determines the present value of the liability for long service premiums by actuarial calculation using the "Projected Unit Credit" method. The actuarial assumptions used (financial and demographic) are based on the expectations, as of the balance sheet date, regarding salary increases, using mortality tables adapted to the Bank's population. The discount rate used is determined based on market rates for high quality corporate bonds with similar terms to those of payment of the liability. The assumptions are mutually compatible.

The liability for long service premiums is reflected under the caption OTHER LIABILITIES.

The following costs relating to the liability for long service premiums are included in the consolidated statement of income of the BPI Group:

- current service cost (cost for the year);
- interest cost;
- gain and loss resulting from changes in the conditions of the benefits.

2.9. Treasury shares (IAS 32)

Treasury shares are recorded at cost in equity captions and are not subject to revaluation. Realised gains and losses, as well as the resulting taxes, are recorded directly in shareholders' equity, not affecting net income for the year.

2.10. Share-based payments (Remuneração variável em ações – RVA) (IFRS 2)

The share-based payment program (Remuneração Variável em Ações – RVA) is a remuneration plan under which, whenever it is decided to grant variable remuneration to Executive Directors and Employees of the BPI Group (in the latter case provided that it exceeds 2 500 euro), it is partly made up of BPI shares and BPI share options. The individual remuneration under the RVA program varies between 10% and 50%, the percentage increasing with the responsibility level of the beneficiary.

The shares granted to Employees under the RVA program are transferred in full at the grant date, but 75% of the transfer is subject to a resolutive condition (relating to termination of the employment relationship, unless made by just cause of the Employee), which terminates on a gradual basis over the three years following the grant date (25% each year). The share purchase options may be exercised between the 90th day and the fifth year as

from the grant date. Termination of the employment relationship between the Employee and BPI Group also affects the options granted, in accordance with RVA Regulations.

The conditions for granting shares and share options to the Executive Directors up to RVA 2009 were similar to those previously referred for Employees. As from RVA 2010, the shares and share options granted to Executive Directors under the RVA program are subject to the following suspensive condition: Banco BPI's consolidated shareholders' equity, based on the consolidated accounts for the third year following that to which the variable remuneration relates, must be greater than Banco BPI's consolidated shareholders' equity for the year to which the variable remuneration relates, taking into account the assumptions established in the RVA Regulations. The granting of shares is also subject to the suspensive condition of non termination of the management or employment relationship established in the RVA Regulations. In addition to these conditions, the granting of the shares is also subject to a suspensive term of three years as from the grant date and the strike period for the share options begins after that period.

Costs relating to the share-based payment program (RVA program) are accrued under the caption PERSONNEL COSTS with a corresponding entry to OTHER EQUITY INSTRUMENTS, as established by IFRS 2 for share-based payments. The cost of the shares and option premiums, as of the date they are granted, is accrued on a straight-line basis from the beginning of the year of the program (1 January) to the moment they become available to the Employees.

For the purpose of share-based payments, the Bank has created a portfolio of BPI shares transferring ownership of the shares to Employees on the grant date (in the case of Executive Directors, after verifying the suspensive terms and conditions). However, for accounting purposes, the shares remain in the Bank's treasury share portfolio until the date they are made available. The shares are then derecognised by corresponding entry to the amounts accumulated under the caption OTHER EQUITY INSTRUMENTS.

For purposes of the share-based payment in options, the BPI Group has created a portfolio of BPI shares in order to hedge the liability resulting from issuing call options over the BPI shares, following a delta hedging strategy (determined using a model to evaluate the BPI share options, developed in-house based on Black-Scholes methodology).

This strategy corresponds to the creation of a portfolio with delta shares for each option granted, delta corresponding to the relationship between evolution of the price of an option and evolution of the price of the underlying shares. The treasury shares held to hedge the risk of variation in the value of the options sold are recorded under the caption TREASURY SHARES HEDGING THE SHARE-BASED PAYMENT PROGRAM, where they remain while they are held for that purpose.

When the options are exercised, the treasury shares are derecognised together with transfer of their ownership to the Employees. At that time the Bank recognises a gain or loss resulting from the difference between the exercise price and the average cost of the treasury share portfolio hedging each program, less the cost of the option premiums accumulated in the caption OTHER EQUITY INSTRUMENTS.

Realised gains and losses on treasury shares in the coverage and exercise of the options of the share-based payment program, as well as the related taxes, are recorded directly in shareholders' equity, not affecting net income for the year.

2.11. Technical provisions (IFRS 4)

The BPI Group sells capitalisation life insurance products through its subsidiary BPI Vida. Capitalisation insurance products without discretionary participation features are recorded in accordance with IAS 39 and included in the caption RESOURCES OF CUSTOMERS AND OTHER DEBTS. Capitalisation insurance products with discretionary participation features are recorded in accordance with IFRS 4, in the caption TECHNICAL PROVISIONS.

The technical provisions recorded for life insurance contracts represent, collectively, the liability to the insured Customers and include:

- mathematical provisions determined using prospective actuarial methods in accordance with the technical bases of each product.

They also include a provision for rate commitments, which is recorded when the effective profitability rate of the assets which represent the mathematical provisions of a certain product is lower than the technical interest rate used to calculate the mathematical provisions.

- provision for participation in profits to be attributed to the contracts in force at the end of each year. The amount is calculated in accordance with the technical bases of each contract, duly approved by the Portuguese Insurance Institute (Instituto de Seguros de Portugal), using the profitability rates for investments covering the respective mathematical provisions.
- provision for claims to cover indemnities payable relating to claims incurred but not yet settled. Since the BPI Group does not commercialise risk insurance, no provision has been recorded for claims incurred but not yet reported (IBNR).

2.12. Provisions for other risks and charges (IAS 37)

This caption includes provisions to cover other specific risks, namely tax contingencies, legal processes and other losses arising from the operations of the BPI Group.

2.13. Income taxes (IAS 12)

All the Group companies are taxed individually.

Banco BPI and its subsidiary and associated companies with head offices in Portugal are subject to the tax regimes established in the Corporate Income Tax Code (Portuguese initials – CIRC) and in the Statute of Tax Benefits.

The Madeira and Santa Maria Off-shore Financial Branches of Banco BPI are exempt from corporate income tax up to 31 December 2011, in accordance with article 31 of the Statute of Tax Benefits. Under the provisions of Ministerial Order 555 / 2002 of 4 June for the purpose of applying this exemption, at least 80% of the taxable income from Banco BPI's global operations is considered to result from activities outside the institutional scope of the Madeira and Santa Maria Free Trade Zones. This regime came into force on 1 January 2003.

Current taxes are calculated based on the legal tax rates in force in the countries in which the Bank operates during the reporting period.

Deferred tax assets and liabilities correspond to the tax recoverable and payable in future periods resulting from temporary differences between the carrying value of assets and liabilities and their respective tax bases. Tax losses carried forward and tax credits also give rise to the recognition of deferred tax assets.

Deferred tax assets are recognised only to the extent of the probable existence of sufficient expected future taxable income to absorb the deductible temporary differences.

Deferred tax assets and liabilities have been calculated using the tax rates decreed for the period in which the respective assets or liabilities are expected to be realised.

Current and deferred taxes are recognised in the statement of income, except for those relating to amounts recorded directly in shareholders' equity (namely gains and losses on treasury shares and securities available for sale and actuarial deviations in retirement and survivor pension liabilities).

The BPI Group does not record deferred tax assets and liabilities on temporary deductible or taxable differences relating to investments in subsidiary and associated companies, as these differences are not expected to revert in the foreseeable future, except for the following:

- deferred tax liabilities relating to the estimated dividends that Banco de Fomento Angola is expected to pay to the BPI Group companies in the next year out of net income for the year, are recognized;
- deferred tax liabilities relating to all distributable net income of Banco Comercial e de Investimentos are recognized.

Net income distributed to Banco BPI by subsidiary and associated companies in Portugal are not taxed in Banco BPI as a result of application of the regime established in article 51 of the Corporate Income Tax Code, which provides for the elimination of double taxation of net income distributed.

2.14. Preference shares (IAS 32 and IAS 39)

Preference shares are classified as equity instruments when:

- there is no contractual obligation for the BPI Group to redeem the preference shares acquired by a holder (in cash or in another financial asset);
- remission or early redemption of the preference shares can only be made at the option of the BPI Group;
- dividends distributed by the BPI Group to the preference shareholders are discretionary.

The BPI Group classified the preference shares issued by BPI Capital Finance Ltd. as equity instruments. The payment of dividends and redemption of the shares are guaranteed by Banco BPI.

The preference shares classified as equity instruments, held by third parties, are presented in the consolidated financial statements in the caption MINORITY INTERESTS.

Realized gain and loss on the repurchase and sale of preference shares classified as equity instruments, as well as the corresponding tax effect, are recorded directly in shareholders' equity, not affecting net result for the year.

2.15. Insurance and reinsurance brokerage services

Banco BPI is duly authorized by the Portuguese Insurance Institute (Instituto de Seguros de Portugal) to provide insurance brokerage services, in the Insurance Brokerage Services area, in accordance with the article 8, paragraph a), subparagraph i) of Decree-Law 144 / 2006 of 31 July and operates in the life and non life insurance brokerage areas.

In the insurance brokerage services area, Banco BPI sells insurance contracts. As remuneration for the insurance brokerage services rendered, Banco BPI receives commission for brokering insurance contracts, which is defined in agreements / protocols established between Banco BPI and the Insurance Companies.

Commission received for insurance brokerage services refer to:

- commission that includes a fixed and a variable component. The fixed component is calculated by applying a predetermined rate over the amounts of subscriptions made through Banco BPI and a variable component calculated based on predetermined criteria, total annual fees being the sum of the fees calculated monthly;
- commission for participation in the results of insurance, which is calculated annually and paid by the Insurance Company in the beginning of the year following that to which it refers (up to 31 January).

Commission received for insurance brokerage services is recognized on an accruals basis. Fees paid in a different period from that to which they relate are recorded as receivables in the caption OTHER ASSETS by corresponding entry to COMMISSIONS RECEIVED – FOR INSURANCE BROKERAGE SERVICES.

Banco BPI does not collect insurance premiums on behalf of Insurance Companies, or receive or pay funds relating to insurance contracts. Thus, there are no other assets, liabilities, income or expenses to be recognized relating to the insurance brokerage services rendered by Banco BPI, from those already disclosed.

2.16. Main estimates and uncertainties regarding the application of the accounting standards

The BPI Group's financial statements have been prepared using estimates and expected future amounts in the following areas:

Retirement and survivor pensions

Retirement and survivor pension liabilities and Pension Fund income have been estimated based on actuarial tables and assumptions of the increase in pensions and salaries and future income of the Pension Funds. These assumptions are based on the BPI Group's expectations for the period during which the liabilities will be settled.

Loan impairment

Loan impairment has been determined based on expected future cash flows and estimated recoverable amounts. The estimates are made using assumptions based on the available historical information and assessment of the situation of the Customers. Possible differences between the assumptions used and the actual future behaviour of the loans and changes in the assumptions used by the BPI Group have an impact on the estimates.

Fair value of derivatives and unlisted financial assets

The fair value of derivatives and unlisted financial assets was estimated based on valuation methods and financial theories, the results of which depend on the assumptions used.

The environment of the financial markets, particularly in terms of liquidity, can influence the realisable value of these financial instruments in some specific situations, including their sale prior to maturity.

Income taxes

Current and deferred taxes have been recognised based on the tax legislation currently in force for the BPI Group companies or on legislation already published for future application. Different interpretations of tax legislation can influence the amount of income taxes. Additionally, deferred tax assets are recognised based on the assumption of the existence of future taxable income.

3. SEGMENT REPORTING

The BPI Group's segment reporting is made up as follows:

- **Domestic operations:** consist of banking services provided to domestic Customers, including members of emigrant communities and subsidiaries of Portuguese companies, and include:
 - Commercial Banking
 - Investment Banking
 - Equity investments and others
- **International operations:** consist of the operations in Angola carried out by Banco de Fomento Angola, S.A, in Mozambique by Banco Comercial de Investimentos, S.A.R.L. and BPI Dealer – Sociedade Financeira de Corretagem, S.A.R.L. and in South Africa by BPI Capital Africa (Proprietary) Limited.

Commercial banking

The BPI Group's operations are focused mainly on commercial banking. Commercial banking includes:

- **Retail banking** – retail banking includes commercial operations with private clients, businesses and sole traders with turnover of up to 2.5 million euro through a multi-channel distribution network made up of commercial branches, investment centres, home banking services (BPI Net), telephone banking (BPI Directo), specialised branches and a network of external promoters.
- **Corporate banking** – corporate banking includes commercial operations with private, public and municipal companies and public sector organisations (including the Central and Local Administration), as well as Foundations and Associations. Corporate banking also includes Project Finance and Public-Private Partnership operations in the commercial promotion area, structuring and organising financial operations and consultancy services relating to this area.

Investment banking

Investment banking covers the following business areas:

- **Brokerage** – includes brokerage (purchase and sale of securities) on account of Customers;
- **Private Banking** – Private Banking is responsible for implementing strategies and investment proposals presented to Customers and managing all or part of their financial assets under management mandates given to the Bank. In addition, Private Banking provides asset management, tax information and business consulting services.
- **Corporate Finance** – this includes rendering consultancy services relating to the analysis of investment projects and decisions, market privatisation operations and the structuring of merger and acquisition processes.

Equity investments and others

This segment includes essentially Financial Investments and Private Equity activities. The BPI Group Private Equity area invests essentially in unlisted companies with the following objectives: the development of new products and technologies, financing of investments in working capital, acquisitions and the strengthening of financial autonomy.

This segment also includes the Bank's residual activity, such segments representing individually less than 10% of total income, net profit and the Group's assets.

Inter-segment operations are presented based on the effective conditions of the operations and application of the accounting policies used to prepare the BPI Group's consolidated financial statements.

The reports used by Management consist essentially of accounting information based on IFRS.

The BPI Group's balance sheet as of 31 December 2011 and investments made in tangible and intangible assets during the period, by segment, are as follows:

	Domestic operations			International operations			Inter segment operations	BPI Group
	Commercial banking	Investment banking	Equity investments and others	Angola	Others	Total		
ASSETS								
Cash and deposits at central banks	223 705	199		921 214		223 904	921 214	1 145 118
Loans and advances to other credit institutions repayable on demand	659 825	92 082	4 417	66 773	50	340 673	66 823	384 768
Financial assets held for trading and at fair value through profit or loss	831 832	143 252		11 437	68	925 985	11 505	937 490
Financial assets available for sale	4 514 534	29 203	41 532	2 191 644		4 586 481	2 191 644	6 778 125
Loans and advances to credit institutions	3 438 111	2 730 212	2 892	1 075 209	626	2 081 202	1 075 835	2 337 591
Loans and advances to Customers	27 190 928	126 583		1 020 611		27 297 653	1 020 611	28 318 264
Held to maturity investments	840 079	55 212				766 190		766 190
Hedging derivatives	282 355	259				279 843		279 843
Other tangible assets	95 363	2 027	1	127 393	324	97 391	127 717	225 108
Intangible assets	7 752	69		1 730	6	7 821	1 736	9 557
Investment in associated companies and jointly controlled entities	65 468		78 822		34 954	144 290	34 954	179 244
Tax assets	900 523	3 158	(240)	6	82	903 441	88	903 529
Other assets	771 970	34 295	739	20 681	25	670 384	20 706	691 090
Total assets	39 822 445	3 216 551	128 163	5 436 698	36 135	38 325 258	5 472 833	42 955 917
LIABILITIES								
Resources of central banks	2 499 197					2 499 197		2 499 197
Financial liabilities held for trading	465 536	24 182				454 238		454 238
Resources of other credit institutions	5 807 482	27 559	(43 287)	39		2 913 655	39	2 071 520
Resources of Customers and other debts	18 683 548	2 845 976		4 799 981		19 871 347	4 799 981	24 671 328
Debt securities	6 841 269	36				6 691 953		6 691 953
Financial liabilities relating to transferred assets	1 418 177					1 414 597		1 414 597
Hedging derivatives	662 811	18				661 904		661 904
Provisions	92 825	103		35 260		92 928	35 260	128 188
Technical provisions	2 463 289	161 892				2 625 181		2 625 181
Tax liabilities	23 100	3 275	(1 857)	8 425		24 518	8 425	32 943
Participating bonds	4 637					4 637		4 637
Subordinated debt	271 976	6 297				209 854		209 854
Other liabilities	611 485	56 147	3 868	43 268	1 090	623 631	44 358	667 989
Total liabilities	39 845 332	3 125 485	(41 276)	4 886 973	1 090	38 087 640	4 888 063	42 133 529
SHAREHOLDERS' EQUITY								
Shareholders' equity attributable to the shareholders of BPI	(76 183)	69 848	169 439	271 207	35 039	163 104	306 246	469 350
Minority interest	53 296	21 218		278 518	6	74 514	278 524	353 038
Total shareholders' equity	(22 887)	91 066	169 439	549 725	35 045	237 618	584 770	822 388
Total liabilities and shareholders' equity	39 822 445	3 216 551	128 163	5 436 698	36 135	38 325 258	5 472 833	42 955 917
Investments made in:								
Property	65			7 859		65	7 859	7 924
Equipment and other tangible assets	8 125	285		17 270	404	8 410	17 674	26 084
Intangible assets	4 319	51		1 619	9	4 370	1 628	5 998

The BPI Group's income statement for the period ended 31 December 2011, by segment, is as follows:

	Domestic operations			International operations			Inter segment operations	BPI Group
	Commercial banking	Investment banking	Equity investment and others	Inter segment operations	Total	Angola	Others	Total
Financial margin (narrow sense)	341 728	6 208	(2 588)		345 348	197 971	5	197 976
Gross margin on unit links	1 152	2 648			3 800			3 800
Income from equity instruments	1 251	102	291		1 644			1 644
Net commission relating to amortised cost	28 003				28 003			28 003
Financial margin	372 134	8 958	(2 297)		378 795	197 971	5	197 976
Technical result of insurance contracts	(29 714)	(408)			(30 122)			(30 122)
Commission received	266 304	38 152		(29 803)	274 653	22 976	10	22 986
Commission paid	(60 907)	(11 987)	(3)	29 803	(43 094)	(5 335)		(5 335)
Other income, net	21 928	82			22 010	25 766		25 766
Net commission income	227 325	26 247	(3)		253 569	43 407	10	43 417
Gain and loss on operations at fair value	127 937	6 018			133 955	63 402		63 402
Gain and loss on assets available for sale	310				310	11		11
Interest and financial gain and loss with pensions	8 490	56	1		8 547			
Net income on financial operations	136 737	6 074	1		142 812	63 413		63 413
Operating income	41 306	243	65 470		107 019	1 610		1 610
Operating expenses	(128 699)	(1 809)	(1)		(130 509)	(725)	(2)	(727)
Other taxes	(4 340)	(1 840)	(1)		(6 181)	(925)		(925)
Net operating expenses	(91 733)	(3 406)	65 468		(29 671)	(40)	(2)	(42)
Operating income from banking activity	614 749	37 465	63 169		715 383	304 751	13	304 764
Personnel costs	(342 826)	(22 108)	(169)		(365 103)	(52 159)	(751)	(52 910)
General administrative costs	(171 022)	(11 481)	(93)		(182 596)	(47 826)	(424)	(48 250)
Depreciation and amortisation	(24 314)	(1 332)	(1)		(25 647)	(11 139)	(60)	(11 199)
Overhead costs	(538 162)	(34 921)	(263)		(573 346)	(111 124)	(1 235)	(112 359)
Recovery of loans, interest and expenses	17 471	3			17 474	2 850		2 850
Impairment losses and provisions for loans and guarantees, net	(204 191)	400			(203 791)	(9 367)		(9 367)
Impairment losses and other provisions, net	(486 293)	(2 813)	(2 920)		(492 026)	(6 034)		(6 034)
Net income before income tax	(596 426)	134	59 986		(536 306)	181 076	(1 222)	179 854
Income tax	153 004	(1 035)	(4 368)		147 601	(5 897)	(513)	(6 410)
Earnings of associated companies (equity method)	12 294		9 211		21 505		6 910	6 910
Global consolidated net income	(431 128)	(901)	64 829		(367 200)	175 179	5 175	180 354
Income attributable to minority interest	(7 202)	(466)			(7 668)	(90 357)		(90 357)
Consolidated net income of the BPI Group	(438 330)	(1 367)	64 829		(374 868)	84 822	5 175	89 997
Cash flow after taxes	276 468	2 378	67 750		346 596	111 362	5 235	116 597
Overheads as a % of operating income from banking activity	88%	93%	0%		80%	36%		37%
								67%

The BPI Group's balance sheet as of 31 December 2010 (proforma) and investments made in tangible and intangible assets during the year, by segment, are as follows:

	Domestic operations			International operations			Inter segment operations	BPI Group
	Commercial banking	Investment banking	Equity investments and others	Angola	Others	Total		
ASSETS								
Cash and deposits at central banks	475 516	268		852 028	410	852 438		1 328 222
Loans and advances to other credit institutions repayable on demand	539 341	94 821	4 534	98 788	9	98 797	(21 015)	338 551
Financial assets held for trading and at fair value through profit or loss	1 041 226	246 306		72 896	55	72 951		1 241 651
Financial assets available for sale	6 039 361	36 539	38 062	2 042 359		2 042 359		8 156 321
Loans and advances to credit institutions	3 167 783	3 522 812	2 883	470 922	2	470 924	(468 854)	1 439 145
Loans and advances to Customers	28 741 641	146 374		1 189 225		1 189 225		30 055 006
Held to maturity investments	1 022 077	146 918		1 043 584				1 043 584
Hedging derivatives	305 089	161				250 263		250 263
Other tangible assets	133 837	2 243	1	115 996		115 996		252 077
Intangible assets	5 711	45		622		622		6 378
Investment in associated companies and jointly controlled entities	76 195		95 457		22 569	22 569		194 221
Tax assets	501 115	3 327	(194)		7	7		504 255
Other assets	732 067	57 841	1 165	15 263	3	15 266		669 532
Total assets	42 780 959	4 257 655	141 908	4 858 099	23 055	4 881 154	(489 869)	45 479 206
LIABILITIES								
Resources of central banks	1 245 537					1 245 537		1 245 537
Financial liabilities held for trading	332 195	73 498				261 493		261 493
Resources of other credit institutions	8 616 782	23 274	6 682	73 469		73 469	(489 869)	4 726 084
Resources of Customers and other debts	17 364 900	3 630 833		4 214 752		4 214 752		23 240 863
Debt securities	7 934 078	100				7 782 274		7 782 274
Financial liabilities relating to transferred assets	1 570 774		(356)	1 570 418				1 570 418
Hedging derivatives	503 423	245	(4 224)	31 519		31 519		499 444
Provisions	78 608	446						110 573
Technical provisions	2 615 888	376 019				2 991 907		2 991 907
Tax liabilities	27 952	4 381	(2 267)	7 983		7 983		38 049
Participating bonds	7 167					7 167		7 167
Subordinated debt	898 314	10 089				640 389		640 389
Other liabilities	513 512	64 849	4 603	49 038	13	49 051		581 988
Total liabilities	41 709 130	4 183 734	9 018	4 376 761	13	4 376 774	(489 869)	43 696 186
SHAREHOLDERS' EQUITY								
Shareholders' equity attributable to the shareholders of BPI	818 827	56 556	132 890	234 338	23 037	257 375		1 265 648
Minority interest	253 002	17 365		247 000	5	247 005		517 372
Total shareholders' equity	1 071 829	73 921	132 890	481 338	23 042	504 380		1 783 020
Total liabilities and shareholders' equity	42 780 959	4 257 655	141 908	4 858 099	23 055	4 881 154	(489 869)	45 479 206
Investments made in:								
Property	65			3 632		3 632		3 697
Equipment and other tangible assets	11 792	159		19 794		19 794		31 745
Intangible assets	1 768	18		177		177		1 963

The BPI Group's income statement for the period ended 31 December 2010 (proforma), by segment, is as follows:

	Domestic operations				International operations			Inter segment operations	BPI Group
	Commercial banking	Investment banking	Equity invest-ments and others	Inter segment operations	Total	Angola	Others	Total	
Financial margin (narrow sense)	416 188	2 852	(1 820)		417 220	209 166	5	209 171	626 391
Gross margin on unit links	1 195	2 941			4 136				4 136
Income from equity instruments	3 227	137	369		3 733				3 733
Net commission relating to amortised cost	30 266				30 266				30 266
Financial margin	450 876	5 930	(1 451)		455 355	209 166	5	209 171	664 526
Technical result of insurance contracts	15 955	126			16 081				16 081
Commission received	276 448	42 493	389	(33 663)	285 667	23 979		23 979	308 147
Commission paid	(63 982)	(12 506)	(4)	33 663	(42 829)	(4 865)		(4 865)	(46 195)
Other income, net	24 489	57			24 546	27 382		27 382	51 928
Net commission income	236 955	30 044	385		267 384	46 496		46 496	313 880
Gain and loss on operations at fair value	19 324	5 508			24 832	68 243		68 243	93 075
Gain and loss on assets available for sale	(8 143)	19	21 999		13 875	10		10	13 885
Interest and financial gain and loss with pensions	12 201	(4)			12 197				12 197
Net income on financial operations	23 382	5 523	21 999		50 904	68 253		68 253	119 157
Operating income	14 104	546	992		15 642	726	2	728	16 370
Operating expenses	(23 029)	(865)	(7)		(23 901)	(1 263)	(1)	(1 264)	(25 165)
Other taxes	(4 792)	(787)	(7)		(5 586)	(577)		(577)	(6 163)
Net operating expenses	(13 717)	(1 106)	978		(13 845)	(1 114)	1	(1 113)	(14 958)
Operating income from banking activity	713 451	40 517	21 911		775 879	322 801	6	322 807	1 098 686
Personnel costs	(360 714)	(20 322)	(195)		(381 231)	(49 659)	(11)	(49 670)	(430 901)
General administrative costs	(174 812)	(11 269)	(253)		(186 334)	(45 814)		(45 814)	(232 148)
Depreciation and amortisation	(32 582)	(1 391)	(1)		(33 974)	(11 209)		(11 209)	(45 183)
Overhead costs	(568 108)	(32 982)	(449)		(601 539)	(106 682)	(11)	(106 693)	(708 232)
Recovery of loans, interest and expenses	13 751				13 751	2 119		2 119	15 870
Impairment losses and provisions for loans and guarantees, net	(100 482)	536			(99 946)	(21 170)		(21 170)	(121 116)
Impairment losses and other provisions, net	(22 076)	(274)	(37)		(22 387)	(6 735)		(6 735)	(29 122)
Net income before income tax	36 536	7 797	21 425		65 758	190 333	(5)	190 328	256 086
Income tax	5 550	(810)	421		5 161	1 053	(520)	533	5 694
Earnings of associated companies (equity method)	16 203		6 815		23 018	6 113		6 113	29 131
Global consolidated net income	58 289	6 987	28 661		93 937	191 386	5 588	196 974	290 911
Income attributable to minority interest	(6 831)	(185)			(7 016)	(98 716)		(98 716)	(105 732)
Consolidated net income of the BPI Group	51 458	6 802	28 661		86 921	92 670	5 588	98 258	185 179
Cash flow after taxes	206 598	7 931	28 699		243 228	131 784	5 588	137 372	380 600
Overheads as a % of operating income from banking activity	80%	81%	2%		78%	33%		33%	64%

4. NOTES

4.1. Cash and deposits at central banks

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Cash	319 814	264 655
Demand deposits at the Bank of Portugal	36 496	290 803
Demand deposits at foreign central banks	788 490	772 494
Accrued interest	318	270
	1 145 118	1 328 222

The caption DEMAND DEPOSITS AT THE BANK OF PORTUGAL includes deposits made to comply with the minimum cash reserve requirements of the European Central Bank System (ECBS). These deposits bear interest and correspond to 2% of the amount of Customers' deposits and debt securities maturing in up to 2 years, excluding deposits and debt securities of entities subject to the ECBS minimum cash reserves regime.

4.2. Deposits at other credit institutions

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Domestic credit institutions		
Demand deposits	2 877	11 453
Cheques for collection	97 799	100 513
Other	1 800	888
Foreign credit institutions		
Demand deposits	277 871	209 190
Cheques for collection	4 322	16 273
Accrued interest	99	234
	384 768	338 551

Cheques for collection from domestic credit institutions correspond to cheques drawn by third parties against domestic credit institutions, which in general do not remain in this account for more than one business day.

4.3. Financial assets held for trading and at fair value through profit or loss

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
FINANCIAL ASSETS HELD FOR TRADING		
Debt instruments		
Bonds issued by Portuguese government entities	3 387	89 989
Bonds issued by foreign government entities	23 031	140 388
Bonds issued by other Portuguese entities		
Non-subordinated debt	1 960	51 069
Subordinated debt		1 962
Bonds issued by foreign financial entities		77
Bonds issued by other foreign entities		
Non-subordinated debt	14 760	100 336
Subordinated debt	3 524	20 155
	46 662	403 976
Equity instruments		
Shares issued by Portuguese entities	96 063	118 728
Shares issued by foreign entities	51 600	195 545
	147 663	314 273
Other securities		
Participating units issued by Portuguese entities		26 897
Participating units issued by foreign entities	92	131 511
	92	158 408
	194 417	876 657
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Debt instruments		
Bonds issued by Portuguese government entities	72 805	
Bonds issued by foreign government entities	81 648	
Bonds issued by other Portuguese entities		
Non-subordinated debt	21 241	
Bonds issued by foreign financial entities	730	
Bonds issued by other foreign entities		
Non-subordinated debt	60 294	
Subordinated debt	2 082	
	238 800	
Equity instruments		
Shares issued by Portuguese entities	403	
Shares issued by foreign entities	21 973	51 421
	22 376	51 421
Other securities		
Participating units issued by Portuguese entities	11 936	
Participating units issued by foreign entities	127 387	
	139 323	
	400 499	51 421
DERIVATIVE INSTRUMENTS WITH POSITIVE FAIR VALUE (NOTE 4.4)		
	342 574	313 573
	937 490	1 241 651

This caption includes the following assets hedging capitalisation insurance products issued by BPI Vida:

	31 Dec. 11	31 Dec. 10 Proforma
Debt instruments		
Of public entities	154 453	136 291
Other entities	84 362	147 912
Equity instruments	5 919	73 384
Other securities	139 323	158 408
Derivative instruments with positive fair value	747	
	384 804	515 995

In 2011, in compliance with indications received from the Portuguese Insurance Institute (Instituto de Seguros de Portugal), BPI Vida reclassified the securities included in the capitalization insurance portfolios from the caption FINANCIAL ASSETS HELD FOR TRADING to the caption FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS. This reclassification has no impact on the measurement criteria applicable to these securities.

In 2008 and 2009 the BPI Group reclassified bonds from Financial assets held for trading to Financial assets available for sale (note

4.5), Loans and advances to Customers (note 4.7) and Held to maturity investments (note 4.8), under the amendments to IAS 39 and IFRS 7 (notes 2 and 4.48). The reclassifications made up to 31 October 2008 were based on prices at 1 July 2008 and the reclassifications made after that date were made based on prices at the reclassification date.

4.4. Derivatives

The caption DERIVATIVE INSTRUMENTS HELD FOR TRADING (notes 4.3 and 4.15) is made up as follows:

	31 Dec. 11			31 Dec. 10 Proforma		
	Notional value ¹	Book value		Notional value ¹	Book value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts						
Futures	239 448			239 824	1	1
Options	1 087	6				
Exchange forwards and swaps	1 266 768	1 329	487	966 898	506	253
Interest rate contracts						
Futures	92 568	1 172	6	82 308	1	9
Options	965 982	7 992	7 578	1 012 999	13 784	12 843
Swaps	8 561 116	228 439	221 283	11 170 352	171 573	122 948
Contracts over shares						
Futures	38 378	5	239	101 382	690	16
Swaps	235 541	6 663	2 724	260 880	5 277	4 758
Options	219 316	1 934	429	156 659	2 349	1 009
Contracts over other underlying items						
Futures	165 204			11 269		
Others						
Options ²	1 566 524	94 412	94 562	2 622 795	118 940	119 626
Others ³	2 346 662		590	4 106 984	66	30
Overdue derivatives		622			386	
	15 698 594	342 574	327 898	20 732 350	313 573	261 493

1) In the case of swaps and forwards only the asset amounts were considered.

2) Parts of operations that are autonomous for accounting purposes, commonly referred to as "embedded derivatives".

3) Corresponds to derivatives associated to FINANCIAL LIABILITIES RELATING TO TRANSFERRED ASSETS (note 4.19).

The caption DERIVATIVE INSTRUMENTS HELD FOR HEDGING is made up as follows:

	31 Dec. 11			31 Dec. 10 Proforma		
	Notional value ¹	Book value		Notional value ¹	Book value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts						
Exchange forwards and swaps	45 835	20	2	23 659		9
Interest rate contracts						
Futures	1 981 482	450	5 727	9 916 926	245	35 844
Swaps	17 073 707	234 657	604 522	16 060 867	212 021	406 054
Contracts over shares						
Swaps	366 449	46	9 546	632 038	425	19 808
Contracts over credit events						
Swaps	48 730	272	588	49 163	556	1 292
Contracts over other underlying items						
Swaps	72 976	4 212	1 333	204 202	4 033	3 457
Others						
Options ²	716 726	40 186	40 186	903 516	32 983	32 980
	20 305 905	279 843	661 904	27 790 371	250 263	499 444

1) In the case of swaps and forwards only the asset amounts were considered.

2) Parts of operations that are autonomous for accounting purposes, commonly referred to as "embedded derivatives".

The BPI Group's operations include carrying out derivative transactions to manage its own positions based on expectations regarding market evolution (trading), meet the needs of its Customers or hedge positions of a structural nature (hedging).

The BPI Group carries out financial derivative transactions in the form of contracts over exchange rates, interest rates, goods and metals futures price, shares or share indices (relating to inflation, shares, among others) or a combination of these. These transactions are realised in over-the-counter (OTC) markets and in organised markets (especially stock exchanges).

Derivatives traded on organised markets follow the standards and rules of these markets.

Derivatives traded on the over-the-counter (OTC) markets are normally based on a standard bilateral contract that covers the group of operations over derivatives between the parties. In the case of inter-professional relationships, there is an ISDA – International Swaps and Derivatives Association Master Agreement. In the case of relations with Customers there is a BPI contract.

These types of contract include offsetting responsibilities in the event of non compliance (the scope of the offsetting is established in the contract itself and is regulated by Portuguese legislation and, in the case of contracts with foreign counterparties or subject to foreign legislation, by the appropriate legislation).

Derivative contracts can also include an agreement to collateralise the credit risk generated by the transactions covered by them. Derivative contracts between two parties normally include all the derivative OTC transactions carried out between the two parties, irrespective of whether they are for hedging purposes or not.

In accordance with IAS 39, the parts of operations normally known as "embedded derivatives" are also considered separately and recorded as derivatives, in order to recognise, in net income, the fair value of these operations.

All derivatives (embedded or autonomous) are recorded at market value.

Derivatives are also recorded as off balance sheet items by their theoretical value (notional value). Notional value is the reference value for purposes of calculating the flow of payments and receipts resulting from the operation.

Market value (fair value) corresponds to the value of the derivatives if they were traded on the market on the reference date. Changes in the market value of derivatives are recognised in the appropriate balance sheet accounts and have an immediate effect on net income.

Note 4.48 includes detailed valuation methods to determine the fair value of derivative financial instruments.

The amount of the exposure corresponds to the present value of the estimated loss, in the case of counterparty default. In the case of a derivative contract that establishes the compensation of responsibilities in the event of non-compliance, the amount of the exposure is the sum of the market values of the operations covered by the contract, when positive. In the case of operations for which the contract does not establish the compensation of responsibilities, the amount of the exposure is equal to the sum of the market values of each individual transaction, if positive. The scope of the compensation clauses, in the case of default, is considered by the BPI Group on a conservative perspective, considering that, in the case of doubt, compensation does not exist.

The potential loss in a group of derivative operations on a given date corresponds to the amount of the exposure on that date. In futures contracts, the stock markets being the counterparties for the BPI Group's operations, the credit risk is eliminated daily through financial settlement. For medium and long term derivatives, contracts usually provide for the netting of outstanding balances with the same counterparty, which eliminates or reduces credit risk. Additionally, in order to control credit risk in OTC derivatives, some agreements have also been signed under which the Bank receives from, or transfers to, the counterparty, assets (in cash or in securities) to guarantee fulfilment of the obligations.

At 31 December 2011 the notional value, by term remaining to maturity, was as follows:

	<= 3 months	> 3 months <= 6 months	> 6 months <= 1 year	> 1 year <= 5 years	> 5 years	Total
Over-the-counter market						
Exchange rate contracts	1 260 152	7 892	44 559			1 312 603
Forwards	164 522	7 892	10 027			182 441
Swaps	1 095 630		34 532			1 130 162
Interest rate contracts	1 850 033	1 613 953	5 755 934	10 637 967	6 655 593	26 513 480
Swaps	1 827 551	1 599 669	5 728 574	9 849 428	6 629 601	25 634 823
Options	22 482	14 284	27 360	788 539	25 992	878 657
Contracts over indexes and shares	252 276	36 875	37 334	466 511	5 980	798 976
Swaps	245 093	36 875	37 334	277 458	5 230	601 990
Options	7 183			189 053	750	196 986
Contracts over credit events			33 500	15 230		48 730
Swaps			33 500	15 230		48 730
Contracts over other underlying items			42 725	30 251		72 976
Swaps			42 725	30 251		72 976
Others	41 921	101 745	289 014	3 670 404	526 828	4 629 912
Options	41 921	101 745	289 014	1 323 742	526 828	2 283 250
Others				2 346 662		2 346 662
	3 404 382	1 760 465	6 203 066	14 820 363	7 188 401	33 376 677
Organized markets						
Exchange rate contracts	240 535					240 535
Futures	239 448					239 448
Options	1 087					1 087
Interest rate contracts	1 905 375	118 000	36 000	102 000		2 161 375
Futures	1 818 050	118 000	36 000	102 000		2 074 050
Options	87 325					87 325
Contracts over indexes and shares	60 708					60 708
Futures	38 378					38 378
Options	22 330					22 330
Contracts over other underlying items	25 520	23 735	57 658	58 291		165 204
Futures	25 520	23 735	57 658	58 291		165 204
	2 232 138	141 735	93 658	160 291		2 627 822
	5 636 520	1 902 200	6 296 724	14 980 654	7 188 401	36 004 499

At 31 December 2010 the notional value, by term remaining to maturity was as follows:

	<= 3 months	> 3 months <= 6 months	> 6 months <= 1 year	> 1 year <= 5 years	> 5 years	Total
Over-the-counter market						
Exchange rate contracts	841 371	80 373	68 813			990 557
Forwards	174 842	12 564	58 872			246 278
Swaps	666 529	67 809	9 941			744 279
Interest rate contracts	1 222 055	1 333 873	4 536 484	12 114 111	9 037 695	28 244 218
Swaps	1 142 969	1 309 282	4 431 950	11 337 636	9 009 382	27 231 219
Options	79 086	24 591	104 534	776 475	28 313	1 012 999
Contracts over indexes and shares	325 298	39 107	149 419	520 123	15 630	1 049 577
Swaps	325 298	39 107	147 669	365 964	14 880	892 918
Options			1 750	154 159	750	156 659
Contracts over credit events				49 163		49 163
Swaps				49 163		49 163
Contracts over other underlying items	44 258	74 318		75 551	10 075	204 202
Swaps	44 258	74 318		75 551	10 075	204 202
Others	299 560	316 791	602 547	3 109 647	3 304 750	7 633 295
Options	299 560	316 791	448 257	1 756 531	705 172	3 526 311
Others			154 290	1 353 116	2 599 578	4 106 984
	2 732 542	1 844 462	5 357 263	15 868 595	12 368 150	38 171 012
Organized markets						
Exchange rate contracts	239 824					239 824
Futures	239 824					239 824
Interest rate contracts	2 098 036	1 944 198	4 030 000	1 927 000		9 999 234
Futures	2 098 036	1 944 198	4 030 000	1 927 000		9 999 234
Options						
Contracts over indexes and shares	101 382					101 382
Futures	101 382					101 382
Contracts over other underlying items	1 712	1 506	2 498	5 553		11 269
Futures	1 712	1 506	2 498	5 553		11 269
	2 440 954	1 945 704	4 032 498	1 932 553		10 351 709
	5 173 496	3 790 166	9 389 761	17 801 148	12 368 150	48 522 721

At 31 December 2011 the distribution of derivative operations, by counterparty, was as follows:

31 Dec. 11	Notional value ¹	Net exposure ²	% of notional value
Over-the-counter market	28 746 765	242 245	91.6%
OTC with Financial Institutions	24 050 321	19 163	76.7%
OTC with other Financial Intermediaries	1 775 159	3 798	5.7%
OTC with Local and Administrative Public Sector	6 323	397	0.0%
OTC with Investment / Pension funds	113 851	10	0.4%
OTC with Companies	2 735 772	214 460	8.7%
OTC with Individuals	65 339	4 417	0.2%
Regulated markets	2 627 822		8.4%
Stock exchange	2 627 822		8.4%
	31 374 587	242 245	100.0%

1) Does not include embedded derivatives and other options in the amount of 4 629 912 th. euro. ➤

2) Amount of exposure considering netting agreements and collaterals.

At 31 December 2010 the distribution of derivative operations, by counterparty, was as follows:

31 Dec. 10 Proforma	Notional value ¹	Net exposure ²	% of notional value
Over-the-counter market	30 537 717	175 870	74.7%
OTC with Financial Institutions	24 868 294	24 961	60.8%
OTC with other Financial Intermediaries	1 935 739	125	4.7%
OTC with Local and Administrative Public Sector	6 784	344	0.0%
OTC with Investment / Pension funds	130 549	1 034	0.3%
OTC with Companies	3 535 702	145 732	8.6%
OTC with Individuals	60 649	3 674	0.1%
Regulated markets	10 351 709		25.3%
Stock exchange	10 351 709		25.3%
	40 889 426	175 870	100.0%

1) Does not include embedded derivatives and other options in the amount of 7 633 295 th. euro.

2) Amount of exposure considering netting agreements and collaterals.

At 31 December 2011 the distribution of derivative operations, by counterparty external rating, was as follows:

31 Dec. 11	Notional value ¹	Gross exposure ²	Exposure considering netting ³	Net exposure ⁴
Over-the-counter market (OTC)				
AA-	1 195 123	19 633	3 301	1 264
A+	7 513 449	81 326	29 555	6 966
A	9 351 712	155 023	42 542	6 945
A-	527 555	11 679	8 573	1 892
BBB+	242 064	3 363	517	517
BBB-	4 729 751	26 778		
BB+	76 395	8 121	5 246	156
BB	28 391	991	991	
BB-	7 500	405	405	405
N.R.	5 074 825	231 732	228 124	224 100
	28 746 765	539 051	319 254	242 245
Traded on the stock exchange				
Futures ⁵	2 517 081			
Options	110 741	6	6	6
	2 627 822			
	31 374 587	539 051	319 254	242 245

Note: The amounts were accumulated by rating levels of the counterparties, considering the senior medium and long term debt ratings attributed by the Moody's, Standard & Poor's and Fitch agencies as of the reference date. The selection of a rating for a given counterparty follows the rules recommended by the Basel Committee in force on the reference date (where there are diverging ratings the second best was selected). The operations with entities without ratings (N.R.) correspond essentially to Customers subject to internal ratings.

- 1) Does not include embedded derivatives and other options in the amount of 4 629 912 th. euro.
- 2) Amount of exposure without considering netting agreements and collateral.
- 3) Amount of exposure without considering collateral.
- 4) Amount of exposure considering netting agreements and collateral.
- 5) The exposure of the futures is nil, because they are traded on organised stock exchanges and there is daily financial settlement.

At 31 December 2010 the distribution of derivative operations, by counterparty external rating, was as follows:

31 Dec. 10 Proforma	Notional value ¹	Gross exposure ²	Exposure considering netting ³	Net exposure ⁴
Over-the-counter market (OTC)				
AA+	5 250			
AA	1 380 293	16 088	389	389
AA-	5 469 688	125 322	79 125	4 832
A+	10 895 674	78 420	15 101	3 872
A	6 593 047	98 969	26 879	9 892
A-	201 723	4 032	2 345	225
BBB+	15 146	891	891	891
N.R.	5 976 896	164 187	162 356	155 769
	30 537 717	487 909	287 086	175 870
Traded on the stock exchange				
Futures ⁵	10 351 709			
	10 351 709			
	40 889 426	487 909	287 086	175 870

Note: The amounts were accumulated by rating levels of the counterparties, considering the senior medium and long term debt ratings attributed by the Moody's, Standard & Poor's and Fitch agencies as of the reference date. The selection of a rating for a given counterparty follows the rules recommended by the Basel Committee in force on the reference date (where there are diverging ratings the second best was selected). The operations with entities without ratings (N.R.) correspond essentially to Customers subject to internal ratings.

- 1) Does not include embedded derivatives and other options in the amount of 7 633 295 th. euro.
- 2) Amount of exposure without considering netting agreements and collateral.
- 3) Amount of exposure without considering collateral.
- 4) Amount of exposure considering netting agreements and collateral.
- 5) The exposure of the futures is nil, because they are traded on organised stock exchanges and there is daily financial settlement.

4.5. Financial assets available for sale

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Debt instruments		
Bonds issued by Portuguese government entities	2 068 275	2 614 116
Bonds issued by foreign government entities	3 354 008	3 880 253
Bonds issued by other Portuguese entities		
Non-subordinated debt	152 001	151 411
Bonds issued by other foreign entities		
Non-subordinated debt	295 366	643 306
Subordinated debt	628 200	688 653
Impairment	(1 530)	(1 968)
	6 496 320	7 975 771
Equity instruments		
Shares issued by Portuguese entities	75 708	66 949
Impairment	(26 968)	(25 294)
Quotas	48 161	1
Shares issued by foreign entities	31 884	31 424
Impairment	(18 221)	(16 864)
	110 564	56 216
Other securities		
Participating units issued by Portuguese entities	170 130	123 385
Impairment	(3 571)	(3 221)
Participating units issued by foreign entities	960	1 166
	167 519	121 330
Loans and other receivables		
Overdue bonds	22 105	8 287
Impairment	(18 383)	(5 283)
	3 722	3 004
Overdue bonds	1 077	590
Impairment on overdue bonds	(1 077)	(590)
	6 778 125	8 156 321

Banco BPI holds a portfolio of fixed rate bonds, issued by national and international entities, in which the interest rate risk is hedged by derivative instruments.

The caption LOANS AND OTHER RECEIVABLES corresponds to shareholders' loans to, and supplementary capital contributions in, companies classified as financial assets available for sale.

In the review made by the Bank, no impaired securities were identified, other than the amounts already recognised.

The BPI Group recognised impairment for debt securities issued by the Greek Government classified in the Financial assets available for sale portfolio based on the market price (36.25%) at the reclassification date (31 October 2011). Therefore, the total amount of the accumulated losses recorded in Fair value reserve, including the hedge accounting effect, was transferred to the statement of income, in the amount of 400 549 th. euro.

Subsequently, as permitted by paragraph 50E of IAS 39, the BPI Group reclassified the debt securities issued by the Greek Government recorded in the Financial assets available for sale portfolio to the Loans to Customers portfolio (note 4.7. and 4.48), based on the market prices at the reclassification date (31 October 2011), having used the previously recognized impairment. This reclassification was made due to the reduced volume of transactions with public debt securities issued by the Greek Government, which corresponds to the non-existence of an active market for these securities.

The changes in impairment losses and provisions in 2011 and 2010 are shown in note 4.20.

At 31 December 2011 this caption was made up as follows:

Nature and type of security	Quantity	Amounts per unit						Impairment
		Nominal	Listing / Price	Cost	Book value / Fair value ¹	Net gain / (loss) on securities ²	Hedge accounting effect ²	
SECURITIES								
Debt instruments								
Issued by Portuguese entities								
Portuguese public debt								
Treasury bills								
BILHETES DO TESOIRO-CZ-17.02.2012	59 000 000	1.00	0.99	58 177	58 566	(54)		
BILHETES DO TESOIRO-CZ-20.01.2012	27 800 000	1.00	1.00	27 543	27 693	(36)		
BILHETES DO TESOIRO-CZ-23.03.2012	2 000 000	1.00	0.99	1 971	1 973	(5)		
				87 691	88 232	(95)		
Treasury bonds								
OT – 5% – JUNHO – 2002 / 2012	1 030 185 000	0.01	0.01	1 078 992	1 027 286	(38 886)	(8 571)	
OT – 5.45% – SETEMBRO – 1998 / 2013	150 000	0.01	0.01	150	130	(23)		
OT – 3.6% – 15.10.2014	1 441 000	0.01	0.01	1 348	1 041	(327)		
OT – 4.75% – 14.06.2019	1 700 000 000	0.01	0.01	1 804 908	951 586	(877 104)	(186 491)	
				2 885 398	1 980 043	(916 340)	(195 062)	
Other residents								
Non-subordinated debt								
Asset Backed Securities (ABS's)								
SAGRES STC / DOURO MT S1 C.A 21.06.2056	5 023 627	17 189.49	10 020.05	3 014	2 931	(142)		
SAGRES STC / DOURO MT S1 C.C-21.06.2056	73 759	21 074.08	8 906.90	60	31	(34)		
SAGRES STC / DOURO MT S2 C.A1 21.04.2059	361	20.64	12.59					
SAGRES STC / DOURO MT S2 C.A2 21.04.2059	28 150 727	584.10	320.55	22 560	15 545	(7 446)		
SAGRES STC / DOURO MT S3 C.A-21.11.2060	5 588 008	657.03	353.28	3 353	3 015	(385)		
SAGRES STC / DOURO MT S3 C.B 21.11.2060	8 498 887	875.05	875.05	8 499	8 514			
SAGRES STC / DOURO MT S3 C.C 21.11.2060	5 053 392	875.05	875.05	5 053	5 063			
				42 539	35 099	(8 007)		
Other bonds								
ANA – AEROP.PORTUGAL-TV-28.08.2013	50 000 000	50 000.00	50 778.00	50 000	51 475	778	(1 000)	
BANCO ESPIRITO SANTO-3.75%-19.01.2012	35 000 000	50 000.00	49 148.50	35 896	35 648	(639)		
GALP-ENERGIA SGPS – TV – 20.05.2013	3 600 000	50 000.00	49 130.00	3 555	3 559	(30)		
JMR-GESTAO EMPRESAS RETALHO-2007 / 2012	3 550 000	50 000.00	50 000.00	3 550	3 571			
PARPUBLICA – 3.5% – 08.07.2013	20 000 000	50 000.00	35 910.00	19 948	14 701	(5 683)	(588)	
PORTUCEL-EMP.CELU.PAPEL-TV.(27.10.2012)	3 700 000	1 000.00	1 000.30	3 700	3 720	1		
SEMAPA – 2006 / 2016	500 000	50 000.00	49 850.00	495	502	1		
SONAE DISTRIBUIÇÃO SETEMBRO – 2007 / 2015	3 700 000	10.00	10.00	3 700	3 726			
				120 844	116 902	(5 572)	(1 588)	
Issued by non-residents								
By foreign government entities								
Bonds								
Bilhetes do Tesouro (Angola)	38 234 299			280 327	299 748			
BUONI POLIENNALI DEL T-4.25%-01.09.2019	800 000 000	1 000.00	868.90	818 068	706 359	(119 995)	(94 622)	
BUONI POLIENNALI DEL T-4.5%-01.03.2019	175 000 000	1 000.00	889.95	185 458	158 344	(27 773)	(21 422)	
IRISH TREASURY-4%-15.01.2014	20 000 000	0.01	0.01	20 124	19 295	(1 571)	(766)	
IRISH TREASURY-4.4%-18.06.2019	235 000 000	0.01	0.01	229 115	191 681	(44 343)	(21 118)	
IRISH TREASURY-5.9%-18.10.2019	100 000 000	0.01	0.01	108 108	87 073	(20 330)	(9 191)	
Obrigações do Tesouro (Angola) – Akz	755 125	810.85		709 303	729 992			
Obrigações do Tesouro (Angola) – Usd	79 189	162.17		329 038	333 379			
Outros títulos de dívida IPC (Angola)	38 140	810.85		43 070	43 865			
Títulos do Banco Central (Angola)	97 380 816	8.11		779 920	784 272			
				3 502 531	3 354 008	(214 012)	(147 119)	
By other non resident issuers								
Non-subordinated debt								
Bonds								
ALEUTIAN INV LLC-TV-25.10.2012	4 637 144	100 000.00	70 832.37	4 219	4 262	(315)		
ALPHA CREDIT GROUP-TV-17.01.2012	1 450 000	1 000.00	981.77	1 437	1 429	(26)		
ALROSA FINANCE SA-8.875%-17.11.2014	10 047 144	1 000.00	835.65	11 596	10 970	263	(1 195)	
ALTADIS EMIS.FINANCE – 4% (11.12.2015)	35 000 000	1 000.00	1 038.57	33 026	36 426	2 201	(3 381)	
ATLANTES MORTGAGE –SR.1-CL.A (17.1.2036)	1 440 235	28 804.69	20 114.32	1 256	1 011	(434)		
AVOCA CLO BV-SR-II.X-CL-A1-15.01.2020	560 185	700.23	671.59	546	543	(17)		
BANCA POPOLARE DI MILANO-TV-31.01.2014	500 000	1 000.00	833.35	494	418	(81)		
BARCLAYS BANK PLC-TV-25.05.2017	3 500 000	50 000.00	32 800.00	2 528	2 296	(233)		

1) Net of impairment.

2) Amount recorded in revaluation reserves (note 4.30).

Nature and type of security	Quantity	Amounts per unit						
	Nominal	Listing / Price	Cost	Book value / Fair value ¹	Net gain / (loss) on securities ²	Hedge accounting effect ²	Impairment	
Bonds (cont.)								
CAIXA ECO MONTEPIO GERAL-TV-03.05.2012	300 000	1 000.00	920.00	294	277	(24)		
CELF LOAN PART.BV-SR.2005-1X CL.A 2021	744 885	931.11	857.64	720	693	(59)		
CM BANCAJA FTA-SR.1 CL.A TV.(22.12.2036)	163 711	8 185.57	7 671.79	140	154	11		
CORSAIR FIN IRE-TV-20.06.2012	6 500 000	50 000.00	35 555.00	6 500	4 627	(1 878)		
COSAN FINANCE LTD-7%-01.02.2017	15 457 145	1 000.00	833.72	15 104	17 122	1 405	(3 946)	
COSIPA COMMERCIAL – 8.25% (14.06.2016)	8 115 001	1 000.00	888.21	9 101	9 356	751	(1 392)	
DOLLAR DIVERS R.I.F-6.55%(16.12.2013)-REG	1 288 576	333.46	257.72	1 403	1 292	(27)		
DUCHESS-SR.V-X CL.B-TV.25.05.2021	800 000	1 000.00	705.00	742	565	(196)		
EIRLES TWO LIMITED-TV. PERP.	800 000	100 000.00	80 000.00	794	647	(160)		
EURO-VIP / 1990	4 637 144	1 000.00	533.27	4 637	3 207	93		1 530
FTA SANTANDER EMP-SR.1-CL.A2(04.11.38)	288 215	7 205.37	7 061.26	275	283	6		
GAZ CAPITAL(GAZPROM)-6.212% (22.11.2016)	25 117 861	1 000.00	802.84	25 031	26 257	1 018	(4 881)	
HARVEST CLO-SR.II-X CL.A (21.05.2020)	515 474	9 725.93	8 831.15	499	469	(47)		
HSBC FINANCE CORP-TV. (05.04.2013)	500 000	1 000.00	965.90	494	485	(16)		
ING BANK NV-TX.VR (16.5.2012)	800 000	10 000.00	9 603.70	788	770	(31)		
KION MORTGAGE FIN SR.06-1 CL.A-15.07.51	160 372	2 505.81	1 378.20	159	89	(71)		
LAFARGE-4.25% (23.03.2016)	30 000 000	1 000.00	961.25	28 721	29 823	(606)	(3 779)	
LAFARGE-6.5%-15.07.2016	6 955 715	1 000.00	771.29	7 152	7 149	(104)	(1 291)	
MADISON AVENUE C.LTD(24.3.14)-O.HIP-CL.A	378 425	48 964.37	36 934.25	346	370	1		
MAGRITTE FINANCE NV-SR.2004-CL.A(1.6.32)	559 630	55 962.97	53 477.03	535	536	(25)		
ORION FINANCE PLC- T.V. (15.08.2040)	150 001	5 000.02	4 709.52	142	142	(2)		
OTE PLC-4.625%-20.05.2016	25 000 000	50 000.00	28 885.00	24 910	15 153	(10 506)	(2 436)	
PEMEX PROJ.FDG MAST.TR – 6.375%- 2016	28 000 000	1 000.00	1 066.50	30 514	30 584	516	(3 110)	
PORTUGAL TELCM INT FIN-4.375%(24.3.2017)	24 000 000	1 000.00	715.25	22 013	17 975	(5 714)	(3 492)	
TELECOM ITALIA SPA -4.75% (19.05.2014)	62 500 000	50 000.00	49 461.50	62 005	63 661	(524)	(3 975)	
TELECOM ITALIA SPA-TV.(06.12.2012)	5 000 000	50 000.00	47 880.50	5 000	4 795	(212)		
				303 121	293 836	(15 043)	(32 878)	1 530
Subordinated debt								
Bonds								
ALLIANZ FINANCE BV-4.375% PERP.	135 000 000	1 000.00	751.25	128 393	106 549	(30 134)	(16 254)	
ALLIANZ FRANCE-4.625%-PERP	20 000 000	1 000.00	753.33	19 489	15 582	(4 673)	(1 901)	
AVOCA CLO SR.IV-X CL.B-TV.(18.02.2022)	800 000	100 000.00	64 600.00	746	523	(255)		
AXA SA – 5.777% PERP / SUB	100 000 000	1 000.00	702.50	104 579	73 060	(31 938)	(10 873)	
BANCO SABADELL-5.234%-PERPETUA	50 000	50 000.00	25 700.00	49	26	(24)		
BAYER AG – 5% (29.07.2105)	75 000 000	1 000.00	987.55	71 258	75 654	753	(6 953)	
C8 CAPITAL SPV – 6.64% – PERPETUA	50 235 721	1 000.00	414.27	50 025	26 928	(23 226)	(6 251)	
CAJA AHORROS DE GALICIA-TV-PERPETUA	50 000	50 000.00	27 452.50	50	27	(22)		
CIBELES FTYPME-SR.III-CL.BSA(26.11.2030)	62 724	15 681.05	14 975.40	62	60	(2)		
CLARIS MILLESIME CDO-SR.1-CL.2(10.06.24)	500 000	500 000.00	352 500.00	450	354	(110)		
CLOVERIE 2004-72-TX.VR.(17.11.2024)	500 000	500 000.00	25 190.00	475	26	(456)		
DONG A/S – 5.5% (29.06.3005)	65 000 000	1.00	0.99	65 110	66 160	(708)	(7 780)	
ELM BV (SWISS REIN CO) – TV – PERPETUA	48 000 000	50 000.00	39 250.00	48 364	37 928	(10 486)	(5 375)	
GENERALI FINANCE BV – 5.479% – PERPETUAS	75 000 000	50 000.00	34 006.50	76 049	54 680	(24 528)	(9 167)	
GRANITE MASTER-SR.2006-1A-CL.A5-20.12.54	1 078 235	253.66	187.12	1 065	1 029	(49)		
GRANITE MORTG.-TV(20.3.2044)-SR.04-1 / 2C	500 000	100 000.00	57 341.70	499	287	(213)		
GRANITE MORTG.-TV(20.3.2044)-SR.04-1 / 2M	500 000	100 000.00	79 500.00	499	398	(102)		
GRANITE MORTG.-TV(20.9.2044)-SR.04-3 / 2C	153 488	383.72	217.92	152	87	(66)		
HARBOURMASTER CLO-S.4X-CL.A3(11.10.2019)	500 000	1.00	0.65	491	328	(169)		
HARVEST CLO SA-SR.IX-CL.B2 (29.3.2017)	750 000	250 000.00	195 875.00	745	593	(162)		
HENKEL KGAA – T.V. (25.11.2104)	5 000 000	1 000.00	991.00	4 913	4 981	(6)	(503)	
LUSITANO MTGE-SR.1-CL.D-TV (15.12.2035)	200 000	100 000.00	29 400.00	198	59	(141)		
MADRID RMBS FTA-SR.06-1 CL.A2-22.06.2049	263 590	65 897.43	46 987.55	259	188	(71)		
MARLIN BV-SR.1-CL.B (23.12.2012)	10 946	10 945.91	10 398.61	11	10	(1)		
OLD MUTUAL PLC-OB.PERPETUA	25 000 000	1 000.00	796.25	24 324	20 101	(4 816)	(2 392)	
OPERA FINANCE(DE)-SR.GER3 CL.B-25.1.2022	1 000 000	50 000.00	36 500.00	937	733	(225)		
PELICAN MORTGAGES-2 / B (15.9.2036)	290 000	10 000.00	3 599.00	286	105	(186)		
RHODIUM BV – SR.1X- CL.C (27.5.2084)	800 000	100 000.00	25 000.00	785	202	(599)		
SIEMENS FINANCIERINGSMAT-5.25% 14.9.2066	50 000 000	1 000.00	1 010.05	50 901	51 277	27	(5 743)	
VATTENFALL AB-TV. PERP.	65 000 000	1 000.00	1 000.03	64 219	66 728	354	(7 758)	
VINCI – 6.25% PERPETUAS	25 000 000	50 000.00	46 665.00	25 100	23 537	(1 725)	(2 456)	
				740 483	628 200	(133 959)	(83 406)	

1) Net of impairment.

2) Amount recorded in revaluation reserves (note 4.30).

Nature and type of security	Quantity	Amounts per unit						
	Nominal	Listing / Price	Cost	Book value / Fair value ¹	Net gain / (loss) on securities ²	Hedge accounting effect ²	Impairment	
Equity Instruments								
Issued by residents								
Shares								
AGROGARANTE SA	213 980	1.00	1.00	214	214			
ALAR – EMP. IBERICA MATERIAL AERONAUTICO	2 200	4.99		20	20			
Alberto Gaspar, SA	60 000	5.00		141			141	
APIS-SOC.IND.PARQUETES AZARUJENSE (C)	65 000	4.99						
APOR-AG.P/ MODERNIZAÇÃO PORTO – CL.B	5 665	5.00		26	26			
BOAVISTA FUTEBOL CLUBE, FUTEBOL,SAD	21 900	5.00		110			110	
BOMBARDIER TRANSPORTATION PORTUGAL SA	31	5.00						
BRISA	6 027 062	1.00	2.55	15 484	15 338	(145)		
BUCIQUEIRA SGPS	8	5.00		1	1			
C.ª AG.FONTE SANTA MONFORTINHO-D.SUB / E.98	10	5.00						
CADERNO VERDE – COMUNICAÇÃO (C)	134 230	1.00		967			967	
Caravela Gest, SGPS, SA	272 775	5.00		1 895	199		1 696	
CARMO & BRAZ (C)	65 000	4.99						
CIMPOR – CIM.DE PORTUGAL-SGPS	3 565	1.00	5.32	7	19	12		
COIMBRAVITA – AGENCIA DESENV.REGIONAL	15 000	4.99		75	75			
COMP.ª AURIFICIA – N	1 186	7.00	1 111.30	25	1 318	1 293		
COMP.ª PRESTAMISTA PORTUGUEZA	10	1.00						
COMP.ª FIAÇÃO E TECIDOS DE FAFE – P	240	4.99						
COMPANHIA DIAMANTES ANGOLA – P (I)-510	166 716	2.49						
COMPANHIA DIAMANTES ANGOLA – P (II)	1 000	2.49						
COMUNDO-CONSORCIO MUNDIAL IMP.EXP.	3 269	0.50		6	2		4	
Conduril, SA	184 262	5.00		806	10 036	9 232		
CORTICEIRA AMORIM – SGPS	127 419	1.00	1.35	315	172	98	241	
DIGITMARKET-SIST.INF.-N	4 950	1.00		743			743	
EIA-ENSINO INVESTIGAÇÃO E ADMINIST.	10 000	4.99		50	34		16	
EMP.CINEMATOGRAFICA S.PEDRO	100	4.99						
EMPRESA O COMERCIO DO PORTO	50	2.49		1	1			
ESENCE – SOC.NAC.CORTICEIRA – N	54 545	4.99						
ESTAMPARIA IMPERIO-EMP.IND.IMOBILIARIOS	170	4.99		1	1			
EURODEL-IND.METALURGICAS E PARTICIPAÇÕES	23	5.00						
EUROFIL – IND.PLAST.E FILAM.	11 280	4.99		25	25			
F.I.T.-FOM.IND.TOMATE – P	148	4.99		3	3			
FAB. VASCO DA GAMA – IND.TRANSF.	33	4.99		1	1			
FUTEBOL CLUBE DO PORTO	105 000	5.00	0.48	539	50		489	
GAP – SGPS	548	4.99		3	3			
GARVAL – SOCIEDADE DE GARANTIA MUTUA	3 394 910	1.00	1.00	3 395	3 395			
GEIE – GESTÃO ESPAÇOS INC.EMPRESARIAL(C)	12 500	1.00		13			13	
GESTINSUA – AQ.AL.PATRIMONIOS IMOB.MOB.	430	5.00		2			2	
GREGORIO & CA.	1 510	4.99		4	4			
IMPRESA SGPS	6 200 000	0.50	0.47	22 791	2 914	186	20 062	
INCAL-IND.E COM.DE ALIMENTAÇÃO	2 514	1.13		2	2			
INOVCAPITAL-SOC.DE CAPITAL DE RISCO.SA	241 527	5.00	5.80	1 205	1 401	197		
INTERSIS AUTOMAÇÃO, ENG.DE SISTEMAS	42 147	4.99		1 307			1 307	
J.SOARES CORREIA-ARMAZENS DE FERRO	84	5.00		2	2			
JOTOCAR – JOÃO TOMAS CARDOSO – P	3 020	4.99		8	8			
LISGARANTE – SOC.DE GARANTIA MUTUA	870 250	1.00	1.00	870	870			
LISNAVE – EST.NAVAIS	180	5.00		1	1			
MARGUEIRA-SOC.GEST.DE FUNDOS INV.IMOB.-N	3 511	5.00		18	18			
MATUR-SOC.EMPREEND.TURISTICOS DA MADEIRA	13 435	5.00		146			146	
MATUR-SOC.EMPREEND.TURISTICOS MADEIRA-N	4	5.00						
MAXSTOR – SUP.E MATRIZES INFORMATICOS-C	8 190	4.99		41			41	
METALURGIA CASAL – P	128	4.99		1	1			
Mimalha, SA	40 557	4.99		336			336	
MORETEXTILE,SGPS,SA	711	1.00		1	1			
NET – NOVAS EMPRESAS E TECNOLOGIAS – N	10 539	5.00	3.19	25	34	8		
NEWPLASTICS	1 445	1.00		1	1			
NORGARANTE – SOC.DE GARANTIA MUTUA	594 640	1.00	1.00	595	595			
NUTROTON SGPS – C	11 395	5.00	4.38	50	50			

1) Net of impairment.

2) Amount recorded in revaluation reserves (note 4.30).

Nature and type of security	Quantity	Amounts per unit					
	Nominal	Listing / Price	Cost	Book value / Fair value ¹	Net gain / (loss) on securities ²	Hedge accounting effect ²	Impairment
Shares (cont.)							
OFICINA DA INOVACAO	10 000	5.00	7.13	50	71	31	10
PORTO DE CAVALEIROS, SGPS	2	4.99					
PRIMUS – PROM.DESENVOLVIMENTO REGIONAL	8 000	4.99		40	16		24
S.P.G.M.- SOCIEDADE DE INVESTIMENTO – N	665 150	1.00	1.00	664	665	1	
SALVOR – SOC.INV.HOTELEIRO – P	10	5.00					
SANJIMO – SOCIEDADE IMOBILIARIA	1 620	4.99		8			
SAPHETY LEVEL – TRUSTED SERVICES	5 069	1.00		98			98
SDM -SOC.DE DESENV.EMPR.MADEIRA,SGPS-N	937 500	1.00	1.08	938	1 011	329	255
SENAL-SOC.NAC.DE PROMOÇÃO DE EMPRESAS-P	450	0.50					
SIBS-FORWARD PAYMENT SOLUTIONS,SA	738 455	5.00		3 115	3 115		
SOC.CONSTRUÇÕES ERG	50	4.99					
SOC.CONSTRUÇÕES ERG (EM.93) – IR (C)	6	4.99					
SOC.INDUSTRIAL ALIANÇA (VN 500.\$00)	1	2.49					
SODIMUL-SOC.DE COMERCIO E TURISMO	25	14.96		2	2		
SOFID-SOC.P / FIN.DES.-INST.FIN.CREDITO SA	1 000 000	1.00	1.11	1 250	1 109		141
SOMOTEL-SOC.PORTUGUESA DE MOTEIS	1 420	2.50					
SONAE – SGPS	36 868	1.00	0.46	69	17	3	55
SOPEAL-SOC.PROM.EDUC.ALCACERENSE	100	4.99					
SPIDOURO-SOC.PROM.EMP.INV.DOURO E T.M.	15 000	4.99		75	21		54
SPI-SOC PORTUGUESA DE INOVACAO	1 500	5.00		7	7		
STAR – SOC. TURISMO E AGENCIAS RIBAMAR	533	4.99		3	3		
TAEM – PROCESSAMENTO ALIMENTAR,SGPS, SA	125	1.00					
TAGUSPARQUE – N	436 407	5.00		2 177	2 177		
TELECINE MORO – SOC.PRODUTORA DE FILMES	170	4.99		1			1
TEROLOGOS-TECNOLOGIAS DE MANUTENÇÃO – P	7 960	4.99		40	40		
TEXTIL LOPES DA COSTA	4 900	4.99		8			8
TUOPA-OPERADORES TURISTICOS	5	4.99					
UNICER – BEBIDAS DE PORTUGAL	1 002	1.00	8.07	8	8		
VIALITORAL – CONC. RODOVIARIA MADEIRA	4 750	161.25	766.95	792	3 643	2 851	
VNCORK SGPS	151	1.00					
XELB-CORK – COM.E INDUSTRIA DE CORTIÇA	87	4.99					
				61 617	48 740	14 096	26 968
Quotas							
PROPAÇO – SOC.IMOB.DE PAÇO D'ARCOS		1.00		1	1		
VIACER – SOC.GEST.PART.SOCIAIS, SA		1.00		48 160	48 160		
				48 161	48 161		
Issued by non residents							
Shares							
Altitude Software B.V.	6 386 243	0.04		13 810			13 810
AMSCO -USD	1 807	1 000.00		773			773
ARCO Bodegas Unidas				4 399	1 089		3 311
Bolsa de Valores e Derivados de Angola				232	232		
CLUB FINANCIERO VIGO	1	15 626.31		18	12		6
CREDIT LOGEMEN DEVELOPMENT	100	15.25	15.25	2	2		
Emis-Empresa Interbancária de Serviços (capital)				138	91		47
EUROPEAN INVESTMENT FUND	9	1 000 000.00	1 134 599.67	9 410	10 210	802	
GROWELA CABO VERDE	19 000	1 000.00		172			172
IMC-Instituto do Mercado de Capitais				3	3		
Interbancos							
NASDAQ EUROPE SA / VN	100	49.96		25	4		21
OSEO – SOFARIS	13	107.89	107.89	2	2		
PARQUE INDUSTRIAL DA MATOLA – MZN	1 920 000	1.00		54			54
S.W.I.F.T.	63	125.00		91	91		
Sopha – Sociedade de Fomento Habitacional (Angola)				3	3		
THARWA FINANCE – MAD	20 895	100.00		188	188		
UNIRISCO GALICIA	80	1 202.02	1 103.65	96	88	19	27
VISA EUROPE LIMITED	1	10.00					
VISA INC-CLASS C	32 134	1.00	51.00		1 648	1 648	
				29 416	13 663	2 469	18 221

1) Net of impairment.

2) Amount recorded in revaluation reserves (note 4.30).

Nature and type of security	Quantity		Amounts per unit					Impairment
	Nominal	Listing / Price	Cost	Book value / Fair value ¹	Net gain / (loss) on securities ²	Hedge accounting effect ²		
Others								
Issued by residents								
Participating units								
CITEVE – CENT.TEC.IND.TEX.VEST.PORTUGAL	20	498.80		10	10			
EGP-UNIVERSITY OF PORTO BUS.SCHOOL ASS.	2	4.99		70	70			
FCR – FUNDO RECUPERACAO	95 000	1 000.00	998.02	95 000	94 811	(189)		
FCR – INOVCAPITAL ACTEC	50		8 711.08	500	436	(64)		
FCR F-HITEC (ES VENTURES)	10	50 000.00	45 901.90	500	459	(41)		
FCR INOVCAPITAL	115	24 939.89	9 737.28	2 868	1 120			1 748
FCR INOVCAPITAL VALOR	40	24 939.89	10 681.40	998	427	1		571
FCR-TURISMO CAPITAL (TC TUR.CAP.SCR)	164	24 939.89	14 174.16	3 568	2 325	2		1 245
FUN.CAP.RISCO AICEP CAPITAL GLOBAL II	40	4 987.98	5 929.20	200	237	45		7
FUN.CAP.RISCO AICEP CAPITAL GLOBAL-FIEP	3 978	1 000.00	1 037.64	3 978	4 128	150		
FUNDO CAP. RISCO TURISMO INOVAÇÃO-FCR	40	50 000.00		2 000	2 000			
FUNDO CARAVELA	3 088	3 738.80	6 575.04	11 614	20 304	8 690		
FUNDO INTER-RISCO II – F.C.R.- CL.A	7 500	5 000.00	4 959.39	37 500	37 195	(305)		
INEGI INSTITUTO DE ENGENHARIA MECANICA	5 000			25	25			
UNICAMPUS-FEIIF	3 000	1 000.00	1 003.88	3 000	3 012	12		
				161 831	166 559	8 301		3 571
Issued by non residents								
Participating units								
FUNDO BPI-EUROPA	23 405	0.01	9.15	171	214	43		
PORTUGAL VENTURE CAPITAL INITIATIVE-PVCI	1 199 115	1.00	0.62	1 199	746	(454)		
				1 370	960	(411)		
Loans and other receivables								
Loans and shareholder's loans								
Emis – Empresa Interbancária de Serviços (suprimentos)					60			31
GEIE								23
INTERSIS								50
MAXSTOR								973
MORETEXTILE SGPS, SA					1 264			9 364
Newplastic					751			738
Petrocer SGPS, Lda.					200			
PROPACO-IMOBILIARIA DE PACO D'ARCOS					1 393			3 787
SAPHETY Level – Trusted Services SA								154
TAEM-PROCESSAMENTO ALIMENTAR					23			3 150
VnCork-SGPS,SA					31			113
					3 722			18 383
Overdue bonds								
GLITNIR BANKI HF-TV-24.05.2011	500 000	1 000.00		487				487
KAUPTHING BANK HF-TX.VAR. (25.05.2010)	600 000	1 000.00		590				590
				1 077				1 077
				7 986 079	6 778 125	(1 268 573)	(460 053)	69 750

1) Net of impairment.

2) Amount recorded in revaluation reserves (note 4.30).

At 31 December 2011 this caption included the following securities reclassified from the caption FINANCIAL ASSETS HELD FOR TRADING, in 2008, under the amendments to IAS 39 and IFRS 7 (notes 2 and 4.48).

Nature and type of security	Quantity	Book value / Fair value
Debt Instruments		
By other non resident issuers		
Non-subordinated debt		
<i>Bonds</i>		
MADISON AVENUE C.LTD(24.3.14)-O.HIP-CL.A	378 425	370
DOLLAR DIVERS RI.F-6.55%(16.12.2013)-REG	1 288 576	1 292
		1 662

4.6. Loans and advances to credit institutions

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Loans and advances to Bank of Portugal	500 000	
Loans and advances to other Portuguese credit institutions		
Very short term loans and advances	141 850	169 743
Deposits	3 000	74 604
Securities	107 846	108 850
Other loans	30 017	23 497
Securities purchased with resale agreements	15 412	
Other advances	3 828	13 573
Accrued interest	3 193	2 994
	305 146	393 261
Loans and advances to other foreign central banks	247 246	
Loans and advances to international financial organisations	64 430	
Loans and advances to other foreign credit institutions		
Very short term loans and advances	350 981	442 932
Deposits	35 347	42 017
Loans	11 230	7 053
Securities purchased with resale agreements	122 967	
Other loans and advances	691 535	552 562
Accrued interest	8 666	275
	1 532 402	1 044 839
Correction of the amount of hedged assets	83	1 448
Commission relating to amortised cost (net)	(37)	(21)
	46	1 427
	2 337 594	1 439 527
Impairment	(3)	(382)
	2 337 591	1 439 145

The changes in impairment losses and provisions in 2011 and 2010 are presented in note 4.20.

4.7. Loans and advances to Customers

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Loans		
Domestic loans		
Loans to companies		
Discount	160 850	188 131
Loans	5 490 768	5 873 366
Commercial lines of credit	1 233 680	1 357 218
Demand deposits – overdrafts	415 704	331 444
Invoices received – factoring	777 982	832 218
Finance leasing	349 498	457 164
Real estate leasing	517 850	599 470
Other loans	22 519	25 680
Loans to individuals		
Housing	11 459 966	11 682 269
Consumer	919 141	1 025 935
Other loans	571 571	630 916
Foreign loans		
Loans to companies		
Discount	1 564	7 026
Loans	2 498 083	3 171 491
Commercial lines of credit	332 740	392 823
Demand deposits – overdrafts	26 607	33 180
Invoices received – factoring	2 555	2 277
Finance leasing	1 363	
Real estate leasing	1 081	
Other loans	296 315	301 996
Loans to individuals		
Housing	162 516	242 903
Consumer	283 484	242 009
Other loans	75 710	48 893
Accrued interest	62 998	72 878
	25 664 545	27 519 287

(continues) ▸

(continuation)

	31 Dec. 11	31 Dec. 10 Proforma
Securities		
Issued by Portuguese government entities	199 785	99 807
Issued by other Portuguese entities		
Non subordinated debt securities		
Bonds	694 672	668 814
Commercial paper	1 227 081	1 333 289
Issued by foreign government entities	185 427	
Issued by other foreign entities		
Non subordinated debt securities		
Bonds	225 849	337 205
Subordinated debt securities	4 500	4 500
Accrued interest	31 666	9 338
Deferred interest	(3 629)	(2 251)
	2 565 351	2 450 702
Correction of the amount of hedged assets	35 888	25 524
Commission relating to amortised cost (net)	295	(6 917)
	28 266 079	29 988 596
Overdue loans and interest	728 436	620 342
Loan impairment	(676 251)	(553 932)
	28 318 264	30 055 006

The caption LOANS TO CUSTOMERS includes the following non-derecognised securitised assets:

	31 Dec. 11	31 Dec. 10 Proforma
Non-derecognised securitised assets¹		
Loans		
Housing	5 047 434	5 222 092
Loans to SME's	3 291 880	140 837
Ceded risk / benefit	(762 157)	(820 949)
Accrued interest	21 732	4 054
	7 598 889	4 546 034

1) Excludes overdue loans and interest.

The loans subject to securitisation operations carried out by Banco BPI were not derecognised from the Bank's balance sheet and are recorded under the caption LOANS. The amounts received by Banco BPI from these operations are recorded under the caption LIABILITIES RELATING TO ASSETS NOT DERECOGNISED IN SECURITISATION OPERATIONS (notes 2.3.4 and 4.19). In December 2007 the Bank sold to the Banco BPI Pension Fund a portion of the risk / benefit relating to the housing loan securitisation operations. The assets and liabilities relating to these operations were derecognised in the percentage sold, and the difference to the product of the sale was recognised in the statement of income.

In 2011 Banco BPI made a loan securitization operation for SME's totalling of 3 472 400 th. euro.

At 31 December 2011 and 2010 the caption LOANS TO CUSTOMERS also included operations allocated to the Cover Pool given as collateral for Covered Bonds issued by Banco BPI (note 4.18), namely:

- 5 423 645 th. euro and 4 080 757 th. euro, respectively, allocated as collateral to mortgage bonds;
- 530 848 th. euro and 392 870 th. euro, respectively, allocated as collateral to public sector bonds.

The securities portfolio includes the following assets to cover capitalization insurance contracts issued by BPI Vida:

	31 Dec. 11	31 Dec. 10 Proforma
Debt instruments		
Issued by Portuguese government entities	199 785	99 807
Issued by other Portuguese entities	67 565	51 227
Issued by other foreign entities	185 167	261 509
	452 517	412 543

The changes in impairment losses and provisions in 2011 and 2010 are presented in note 4.20.

The BPI Group's portfolio of loans and advances to Customers and guarantees given at 31 December 2011, by business sector, is made up as follows:

	Loans ¹		Guarantees given ²	
	Amount	%	Amount	%
Residents:				
Agriculture, animal production and hunting	222 770	0.8	6 495	0.3
Forestry and forest operations	11 273		704	
Fishing	37 239	0.1	1 989	0.1
Mining	39 577	0.1	12 692	0.5
Manufacturing industries				
Beverage, tobacco and food	461 969	1.6	26 811	1.1
Textiles and clothing	103 642	0.4	12 839	0.5
Leather and related products	22 606	0.1	482	
Wood and cork	79 656	0.3	7 563	0.3
Pulp, paper and cardboard and graphic arts	246 917	0.9	8 028	0.3
Coke, oil products and nuclear fuel	317		4 773	0.2
Chemical and synthetic or artificial fibres	139 421	0.5	8 798	0.3
Rubber and plastic materials	56 923	0.2	10 718	0.4
Other mineral non-metallic products	158 531	0.6	27 782	1.1
Metalworking industries	211 973	0.8	38 858	1.5
Manufacturing of machinery and equipment	73 805	0.3	41 358	1.6
Manufacturing of electrical and optical equipment	34 644	0.1	9 750	0.4
Manufacturing of transport material	37 938	0.1	29 543	1.2
Other manufacturing industries	192 946	0.7	23 060	0.9
Electricity, gas and water	502 974	1.8	150 479	5.9
Construction	724 492	2.6	647 310	25.5
Wholesale and retail trading	1 499 622	5.3	223 852	8.8
Restaurants and hotels	342 463	1.2	53 602	2.1
Transport, warehousing and communications	1 222 801	4.3	359 535	14.2
Banks			2 694	0.1
Other credit institutions	12 951		15 501	0.6
Other financial institutions and insurance companies	139 441	0.5	3 863	0.2
Investment holding companies	1 176 686	4.2	161 781	6.4
Real estate, rental and services provided to companies	1 259 320	4.5	152 643	6.0
Public administration, defence and mandatory social security	1 630 701	5.8	34 856	1.4
Education	42 007	0.1	5 955	0.2
Healthcare and welfare	224 900	0.8	8 786	0.3
Leisure, cultural and sports activities	111 995	0.4	42 246	1.7
Other service companies	23 159	0.1	2 284	0.1
Individuals				
Housing loans	11 459 966	40.7		
Others	1 490 712	5.3	58 836	2.3
Multinational financial institutions	24 268	0.1	25	
Other sectors	20 462	0.1	584	
Non-residents:				
Financial and credit institutions	188 224	0.7	39 041	1.5
Multinational Financial Institutions	32 694	0.1		
Administrative public sector	300 638	1.1		
Non-financial companies	3 054 528	10.8	303 920	12.0
Individuals	521 710	1.9	616	
	28 138 861	100.0	2 540 652	100.0

1) Excluding overdue loans, securities and interest, accrued interest, correction of the amount of hedged assets and commission relating to amortized cost.

2) Includes guarantees and sureties, stand-by letters of credit, open documentary credits and surety bonds and indemnities.

The BPI Group's portfolio of loans and advances to Customers and guarantees given at 31 December 2010, by business sector, is made up as follows:

	Loans ¹		Guarantees given ²	
	Amount	%	Amount	%
Residents:				
Agriculture, animal production and hunting	224 504	0.8	10 440	0.3
Forestry and forest operations	13 010		1 634	0.1
Fishing	22 909	0.1	1 266	
Mining	30 428	0.1	14 309	0.5
Manufacturing industries				
Beverage, tobacco and food	425 937	1.4	20 519	0.7
Textiles and clothing	130 059	0.4	15 539	0.5
Leather and related products	23 821	0.1	590	
Wood and cork	129 262	0.4	8 455	0.3
Pulp, paper and cardboard and graphic arts	261 785	0.9	6 279	0.2
Coke, oil products and nuclear fuel	454		6 367	0.2
Chemical and synthetic or artificial fibres	132 830	0.4	8 306	0.3
Rubber and plastic materials	55 775	0.2	11 720	0.4
Other mineral non-metallic products	234 199	0.8	32 036	1.1
Metalworking industries	232 452	0.8	69 206	2.3
Manufacturing of machinery and equipment	71 317	0.2	30 408	1.0
Manufacturing of electrical and optical equipment	36 986	0.1	23 490	0.8
Manufacturing of transport material	55 226	0.2	31 984	1.1
Other manufacturing industries	190 137	0.6	25 882	0.9
Electricity, gas and water	563 888	1.9	269 372	8.9
Construction	796 184	2.7	750 533	25.0
Wholesale and retail trading	1 802 866	6.0	272 564	9.0
Restaurants and hotels	396 929	1.3	50 197	1.7
Transport, warehousing and communications	1 235 127	4.1	377 812	12.6
Banks	12 923		55 377	1.8
Other credit institutions			18 366	0.6
Other financial institutions and insurance companies	138 257	2.0	4 695	0.2
Investment holding companies	861 282	1.3	160 244	5.3
Real estate, rental and services provided to companies	1 339 685	4.5	139 857	4.6
Public administration, defence and mandatory social security	1 753 646	5.9	37 298	1.2
Education	42 571	0.1	6 543	0.2
Healthcare and welfare	234 334	0.8	13 265	0.4
Leisure, cultural and sports activities	229 029	0.8	37 627	1.2
Other service companies	32 226	0.1	6 674	0.2
Individuals				
Housing loans	11 682 269	39.1		
Others	1 656 851	5.6	59 779	2.0
Multinational financial institutions	56 340	0.2	633	
Other sectors	223			
Non-residents:				
Financial and credit institutions	265 152	0.9	68 953	2.3
Multinational Financial Institutions	142 545	0.5	24 613	0.8
Administrative public sector	81 358	0.3	6 941	0.2
Non-financial companies	3 761 443	12.6	331 578	11.1
Individuals	533 805	1.8	687	
	29 890 024	100.0	3 012 038	100.0

1) Excluding overdue loans, securities and interest, accrued interest, correction of the amount of hedged assets and commission relating to amortized cost.

2) Includes guarantees and sureties, stand-by letters of credit, open documentary credits and surety bonds and indemnities.

The caption SECURITIES at 31 December 2011 is made up as follows:

Nature and type of security	Quantity	Cost	Gross book value	Impairment ¹
SECURITIES				
Debt instruments				
Issued by Portuguese entities				
Portuguese public debt				
OT-TV-05.01.2021	50 000 000	49 952	49 952	
REPUBLIC OF PORTUGAL – TV-23.02.19	50 000 000	50 000	50 000	
REPUBLIC OF PORTUGAL – TV-14.01.2021	50 000 000	49 910	49 910	
REPUBLICA PORTUGUESA – TV – 03.11.2015	50 000 000	49 923	49 923	
		199 785	199 785	
Other residents				
Non-subordinated debt				
Bonds				
Asset Backed Securities (ABS's)				
TAGUS-SOC.TIT.CREDITO-CL.A-12.02.2025	99 060 100	99 060	99 060	
TAGUS-SOC.TIT.CREDITO-CL.B-12.02.2025	50 000	50	50	
		99 110	99 110	
Other bonds				
ADP-AGUAS DE PORTUGAL,SGPS-TV-20.06.2022	43 000 000	43 000	43 020	
BA GLASS I-SERV.GEST.INV.-TV-22.12.15	20 000 000	20 000	20 000	
BANIF – TAX.VAR. (30.12.2015) ²	11 800 000	11 800	11 800	
CELBI CELULOSE BEIRA IND.-TV(08.02.2015)	75 000 000	75 000	75 000	
EDIA SA-TV-30.01.2027	16 180 000	16 180	16 180	
EDIA-EMP.DES.DO ALQUEVA – TV-11.08.2030	19 250 000	19 250	19 250	
GALP-ENERGIA SGPS – TV – 20.05.2013	61 400 000	61 247	61 327	
GRUPO VISABEIRA SGPS-TV-13.07.2014	5 000 000	5 000	5 000	
JERONIMO MARTINS-JM2012-TV-28.09.2012	17 500 000	17 500	17 500	
JMR-GESTAO EMPRESAS RETALHO-2007 / 2012	46 450 000	46 450	46 450	
MOTA-ENGIL SGPS-TV-30.12.2016	25 000 000	25 000	25 000	
POLIMAIA / 1989 – SR.C (AC.CRED.)	7			
PORTUCEL-EMP.CELU.PAPEL-TV.(27.10.2012) ²	4 904 000	4 903	4 903	
PORTUCEL-EMP.CELU.PAPEL-TV.(27.10.2012)	14 300 000	14 315	14 302	
SEMAPA – 2006 / 2016 2. ^a	50 000 000	50 000	50 000	
SONAE CAPITAL SGPS – TV – 17.01.2016	10 000 000	10 000	10 000	
SONAE DISTRIBUIÇÃO SETEMBRO – 2007 / 2015	30 300 000	30 300	30 300	
ZON MULTIMEDIA 2009-2012	32 530 000	32 530	32 530	
ZON MULTIMEDIA 2010-2014	100 000 000	100 000	100 000	
ADP-AGUAS DE PORTUGAL,SGPS-TV-20.06.2022	7 000 000	7 000	7 000	
SONAE DISTRIBUIÇÃO SETEMBRO – 2007 / 2015	6 000 000	6 000	6 000	
		595 475	595 562	
Commercial paper		1 227 081	1 227 081	1 696
		2 121 451	2 121 538	1 696
Debt instruments				
Issued by non residents				
By foreign government entities				
REP GRECIA-6%-19.07.2019 ³	480 000 000	185 427	185 427	61 397
		185 427	185 427	61 397
Issued by non residents				
Non-subordinated debt				
Bonds				
Structured Investment Vehicles (SIV's)				
LINKS FINANCE CORP-TV-15.06.2017	3 091 429	3 091	3 091	3 091
NIGHTINGALE FIN LTD-TV-06.06.2017	3 864 286	3 864	3 864	3 864
		6 955	6 955	6 955
Asset Backed Securities (ABS's)				
ARTS-SR.2005-AA-CL.A-15.06.2012	1 999 768	1 921	1 991	
BOSPHORUS FINANCIAL SERV-TV.(15.02.2012)	241 518	242	242	
GARANTI DIVERSIFIED-SR.2005-A-CL.1-2013	1 738 929	1 678	1 724	
HSBC BRAZIL-SR.2006-A-15.04.2016	10 723 393	10 077	10 380	
KAZAKH MORTGAGE-S.07-1-C.A-15.02.2029	407 180	407	407	
RED & BLACK PRIME RUS-S07-1 CA-01.19.35	1 221 741	1 222	1 222	
SARATOGA CLO I LTD-SR.2006-1X-CL-A2-2019	7 728 573	7 729	7 729	

1) Additionally, the Bank recorded collective impairment of 3 558 th. euro.

2) Securities reclassified from the caption FINANCIAL ASSETS HELD FOR TRADING, in 2008, under the amendments to IAS 39 and IFRS 7 (notes 2 and 4.48).

3) Securities reclassified from the caption FINANCIAL ASSETS AVAILABLE FOR SALE, in 2011 (notes 2 and 4.48).

4) Securities reclassified from the caption FINANCIAL ASSETS HELD FOR TRADING, in 2009, under the amendments to IAS 39 and IFRS 7 (notes 2 and 4.48).

Nature and type of security	Quantity	Cost	Gross book value	Impairment ¹
<i>Asset Backed Securities (ABS's) (cont.)</i>				
SARATOGA CLO I LTD-SR.2006-1X-CL-B-2019	2 318 572	2 319	2 319	
TIB DIVERSIFIED-SR.05-DX CL.D-15.08.2012	483 036	483	483	
TIB DIVERSIFIED-SR.05-DX CL.D-15.08.2012	483 036	484	483	
VB DPR FIN CO-SR.2010-1A-CL.A-15.06.2014	2 521 711	2 427	2 459	
VB DPR FIN CO-SR.2010-1A-CL.B-15.06.2014	3 778 784	3 665	3 703	
VB DPR FIN.COMP.- SR.2006-1X – CL.E-2013	1 576 069	1 576	1 576	
YAPI KREDIT FIN-SR.2010-CL.C-21.11.2014	3 600 000	3 467	3 509	
		37 697	38 227	
<i>Other bonds</i>				
B.FINANTIA INTL LTD-CAY-TV.(04.05.2015) ²	3 500 000	3 500	3 500	
BANCO FINANTIA INTL LTD-TV-26.07.2017 ²	8 500 000	8 500	8 500	
BANCO FINANTIA INTL-TV. (28.07.2016) ²	4 000 000	4 000	4 000	
BANIF FINANCE(CAY)-TV-29.12.2014 ²	4 220 000	4 220	4 220	
BIE BANK & TRUST LTD-4.20%-13.02.2013	75 000 000	75 000	75 000	
BIE BANK & TRUST LTD-TV-13.02.2013	10 000 000	10 000	10 000	
CA VALENCIA & ALICANTE-TV-18.03.2012	15 000 000	15 015	15 015	
CAIXA D'ESTALVIS CATALUNA-TV.05.06.2012	15 000 000	15 034	15 034	
CAJA DE AHORROS DE AVILA TV 30.04.2012	15 000 000	15 023	15 023	
CAJA GENERAL CANARIAS TV 16.03.2012	30 000 000	30 038	30 038	
EDDYSTONE FIN.SR.2006-1 CLA1B 19.04.2021 ⁴	499 142	337	337	
		180 667	180 667	
<i>Subordinated debt</i>				
<i>Bonds</i>				
ESPIRITO SANTO INVST PLC-TV.(20.12.2015) ²	4 500 000	4 500	4 500	
		415 246	415 776	68 352
Accrued interest			31 666	
Deferred interest			(3 629)	
		2 536 697	2 565 351	70 048

1) Additionally, the Bank recorded collective impairment of 3 558 th. euro.

2) Securities reclassified from the caption FINANCIAL ASSETS HELD FOR TRADING, in 2008, under the amendments to IAS 39 and IFRS 7 (notes 2 and 4.48).

3) Securities reclassified from the caption FINANCIAL ASSETS AVAILABLE FOR SALE, in 2011 (notes 2 and 4.48).

4) Securities reclassified from the caption FINANCIAL ASSETS HELD FOR TRADING, in 2009, under the amendments to IAS 39 and IFRS 7 (notes 2 and 4.48).

As mentioned in note 4.5., on 31 October 2011 Banco BPI reclassified the debt securities issued by the Greek Government recorded in the Financial assets available for sale portfolio to the Loans to Customers portfolio, by their book value on that date of 182 184 th. euro, based on the market prices at the reclassification date. The effective interest rate on the reclassification date was established based on the available information at that date and considering an expected recoverable amount of 50% of the principal and interest of these securities. As provided for in IAS 39, this interest rate became the rate used to calculate the amortized cost of these securities in the Loans to Customers portfolio, after the reclassification.

On 21 February 2012 the terms of the agreement on the private sector involvement in the restructuring of the Greek public debt were announced. The BPI Group decided to accept the Exchange Offer terms and the transaction was carried out on 12 March 2012. The terms of the Exchange Offer represented a loss of approximately 77% in terms of present value of the new securities received in the Exchange Offer in relation to the nominal value of the Greek Government public debt securities owned by the BPI Group at 31 December 2011. Considering that these terms were clarified after the balance sheet date but before the date of authorization for its issuance, this event corresponds to a post balance sheet adjusting event in accordance with IAS 10 – Post balance sheet events. Therefore, the BPI Group recorded additional impairment losses on Greek Government public debt securities recorded in the Loans to Customers portfolio in the amount of 68 349 th. euro, including 6 952 th. euro relating to the hedge accounting effect, as explained in note 4.48. These impairment losses were recorded in the

statement of income caption IMPAIRMENT LOSSES AND OTHER PROVISIONS, NET (note 4.20).

The impairment losses recorded in the Structured Investment Vehicles (SIVs) portfolio mentioned above were calculated based on a nil Net Asset Value.

Evidence of impairment of the Asset Backed Securities (ABS's) portfolio is determined through regular monitoring of the performance indicators of the underlying transactions. At 31 December 2011 this analysis did not show impairment situations in other securities, other than those already recorded. A significant part of the securities in this portfolio does not have reference market values. However, the losses identified for the securities for which indicative prices could be obtained do not show evidence of impairment.

4.8 Held to maturity investments

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Debt Instruments		
Bonds issued by Portuguese government entities		
Bonds issued by other Portuguese entities		
Non-subordinated debt	278 946	363 343
Subordinated debt	5 450	5 450
Bonds issued by foreign government entities	213 181	212 170
Bonds issued by other foreign entities		
Non-subordinated debt	365 742	442 332
Subordinated debt	10 977	10 353
Impairment	(117 733)	
Accrued interest	9 627	9 936
	766 190	1 043 584

The portfolio of held to maturity investments includes assets to cover capitalization insurance contracts issued by BPI Vida.

In 2011 and 2010, a sale of securities prior to their maturity was made, following a significant deterioration in the credit risk of the issuer of the bonds. These transactions fall within the situations provided for in IAS 39 that do not put in doubt the BPI Group's intention to hold the remaining investments to maturity.

At 31 December 2011 this caption was made up as follows:

Nature and type of security	Quantity	Cost	Book Value	Impairment
SECURITIES				
Debt instruments				
Other residents				
Non-subordinated debt				
<i>Bonds</i>				
Banco Comercial Português-TV-09.05.2014	13 500 000	11 993	12 025	
Banco Espírito Santo-3.75%-19.01.2012	25 000 000	25 007	25 896	
Banco Intl Funchal-3.25%-08.05.2012	71 220 000	71 213	72 711	
BCP-TV-28.02.2013	27 300 000	26 874	26 934	
BES-Floating Rate Notes Due 2012	1 700 000	1 697	1 698	
BES-TV-08.05.2013	3 500 000	3 458	3 466	
BES-TV-25.02.2013	6 000 000	5 967	5 982	
Caixa Eco Montepio Geral-3.25%-27.7.2012	4 850 000	4 906	16 983	
Caixa Eco Montepio Geral-3.25%-27.7.2012 ¹	11 900 000	11 844		
Caixa Eco Montepio Geral-TV-29.05.2013	8 150 000	8 012	8 024	
CGD-5.125%-19.02.2014	10 000 000	10 266	10 708	
Modelo Continente, SGPS-TV. (02.08.2012) ²	4 767 000	4 767	4 820	
Parpublica – 3.5% – 08.07.2013	91 950 000	91 786	93 335	
Semapa – TV (20.04.2016) ²	1 200 000	1 156	1 163	
		278 946	283 745	
Subordinated debt				
Banco Itau Europa – Tx.Vr. (22.12.2015) ²	5 450 000	5 450	5 453	
		5 450	5 453	
Issued by non residents				
Issued by foreign government entities				
<i>Bonds</i>				
Bonos Y Oblig Del Estado-Tv-17.03.2015	60 000 000	59 906	59 942	
Rep Grecia-4.3%-20.03.2012	45 000 000	44 905	46 417	34 511
Rep Grecia-Tv-20.02.2013	109 000 000	108 370	109 853	83 222
		213 181	216 212	117 733
Issued by other non resident entities				
Non-subordinated debt				
<i>Bonds</i>				
Alfa Div Pymt Rights Fin-Tv.15.03.2012 ¹	162 500	162	162	
Ayt Cedula Cajas Global-Tv-14.12.2012	1 900 000	1 882	1 883	
Baa Funding Ltd – 3.975% – 15.02.2014 ²	442 000	435	450	
Banca Carige Spa-Tv-07.06.2016 ²	1 000 000	1 000	1 002	
Banca Intesa Spa – Tv. (11.05.2012) ²	4 000 000	3 981	3 990	
Banco Sabadell Sa-Tv-20.02.2012	27 500 000	27 495	27 564	
Banesto Financial Plc-Tv-11.01.2013	27 000 000	26 849	26 975	
Banif Finance(Cay)-Tv-05.22.2012	1 100 000	1 095	6 076	
Banif Finance(Cay)-Tv-05.22.2012 ²	5 000 000	4 970		
Bankinter Sa-Tx.Vr.-15-01-2013	22 500 000	22 494	22 612	
Bankinter-Tv-21.06.2012	4 000 000	3 983	3 985	
Bat Intl Finance Plc-3.625% (29.06.2012) ²	4 688 000	4 681	4 767	
Bcp Finance Bank-Tv-06.02.2012	14 615 000	14 576	26 905	
Bcp Finance Bank-Tv-06.02.2012 ²	12 300 000	12 260		
Bcp Finance Bank-Tv-17.06.2013	2 000 000	1 953	1 954	
Bear Stearns Co-Tx.Var. (27.07.2012) ²	3 500 000	3 429	3 441	
Bpe Financiaciones-Tx.Vr.-08.02.2012	11 600 000	11 590	11 617	
Caixa D'estalvis Catalunya-Tv.06.07.2012 ²	1 500 000	1 456	1 462	
Caixa Eco Montepio Geral-Tv.(03.05.2012)	19 304 000	19 217	19 274	
Caixanova – Tv – 02-03-2012 ¹	10 000 000	9 980	9 994	
Caja Valencia Cast.-Tx.Var.(06.06.2012) ²	2 000 000	1 904	1 906	
Cam Global Finance – Tx.Var.(29.06.2012) ²	2 500 000	2 386	2 386	
Credito Emiliano – Tv. (04.05.2012) ¹	1 545 000	1 542	1 547	
Criteria Caixa Corp.-4.125%-20.11.2014	14 800 000	14 759	14 828	
Dexia Credit Local – Tv – 06.02.2012	5 000 000	5 000	5 018	
Dresdner Bank Ag – Tv. (01.08.2012) 2	200 000	198	199	
Goldman Sachs Group Inc.-Tv.(04.02.2013) ¹	1 600 000	1 581	1 586	
Hbos Treasury Svcs Plc-Tv. (14.06.2012)	1 750 000	1 737	1 738	

1) Securities reclassified from the caption FINANCIAL ASSETS HELD FOR TRADING under the amendments to IAS 39 and IFRS 7, in 2008 (notes 2 and 4.48).

2) Securities reclassified from the caption FINANCIAL ASSETS HELD FOR TRADING under the amendments to IAS 39 and IFRS 7, in 2009 (notes 2 and 4.48).

Nature and type of security	Quantity	Cost	Book Value	Impairment
<i>Bonds (cont.)</i>				
Hsbc Finance Corp-Tv. (05.04.2013) ¹	3 400 000	3 346	3 360	
Ibercaja(Ca.Zaragoza A.R.)Tv-20.04.2018 ¹	6 000 000	5 859	5 883	
Ibercaja(Ca.Zaragoza A.R.)Tv-25.04.2019 ¹	8 400 000	8 400	8 430	
Iberdrola Finanzas Sau-Tv-08.02.2013	31 000 000	31 000	31 092	
Ing Groep Nv-Tv. (11.04.2016) ¹	3 900 000	3 741	3 757	
Ing Verzekeringen Nv – Tv (18.09.2013) ¹	4 000 000	3 939	3 941	
Kraft Foods Inc-5.75%-20.03.2012 ²	6 100 000	6 116	6 390	
Morgan Stanley-Tv-29.11.2013 ¹	2 500 000	2 399	2 403	
Port.Telecom Int.Fin.-3.75%(26.03.2012) ¹	10 767 000	10 698	11 007	
Rci Banque Sa-Tv-24.01.2012 ²	2 600 000	2 588	2 597	
Repsol Intl Finance-Tv-16.02.2012	2 500 000	2 499	2 504	
Royal Bank Of Scotland-Tv-08.06.2015 ¹	5 500 000	5 500	6 009	
Royal Bank Of Scotland-Tv-08.06.2015 ²	500 000	500		
Santander Intl Debt Sa-Tv-18.01.2013	35 000 000	34 940	35 085	
Santander Intl Debt-Tv. (05.04.2013)	2 500 000	2 489	2 499	
Santander Intl Debt-Tx.Vr.-25.04.2012	5 100 000	5 091	5 108	
Santander Intl Debt-Tx.Vr.-30.01.2012	700 000	700	702	
Tdc As – 6.5% (19.04.2012) ¹	1 000 000	997	1 042	
Telecom Italia Spa – Tv – 19.07.2013	2 500 000	2 468	2 479	
Telecom Italia Spa-Tv.(06.12.2012) ¹	2 400 000	2 400	2 704	
Telecom Italia Spa-Tv.(06.12.2012) ²	300 000	300		
Vodafone Group Plc-Tv-06.06.2014	10 000 000	9 876	9 889	
Vodafone Group Plc-Tv. (05.09.2013)	17 383 000	17 301	17 325	
		365 742	367 527	
Subordinated debt				
<i>Bonds</i>				
Cam International-Tv-26.04.2017 ²	1 900 000	1 742	1 749	
Fortis Bank Nederland Nv-Tv.(22.06.2015) ²	1 000 000	1 000	1 001	
Standard Chartered Bank-Tv-28.03.2018 ¹	8 500 000	8 235	8 236	
		10 977	10 986	
		874 296	883 923	117 733

1) Securities reclassified from the caption FINANCIAL ASSETS HELD FOR TRADING under the amendments to IAS 39 and IFRS 7, in 2008 (notes 2 and 4.48).

2) Securities reclassified from the caption FINANCIAL ASSETS HELD FOR TRADING under the amendments to IAS 39 and IFRS 7, in 2009 (notes 2 and 4.48).

BPI Vida e Pensões recognized impairment losses of 78 135 th. euro as of 31 October 2011 on Greek Government debt securities recorded in the held to maturity investments portfolio considering an expected recoverable amount of 50% of the principal and interest of these securities, based on the available information at that date, of which 72 999 th. euro was recorded in the caption TECHNICAL RESULT ON INSURANCE CONTRACTS (note 4.38) and 5 136 th. euro was recorded in the caption IMPAIRMENT LOSSES AND OTHER PROVISIONS, NET (note 4.20).

On 21 February 2012 the terms of the agreement regarding the private sector involvement in the restructuring of the Greek public debt were announced. The BPI Group decided to accept the terms of the Exchange Offer and the transaction was carried out on 12 March 2012. The terms of the Exchange Offer represented a loss of approximately 77% in terms of the present value of the new securities

received in the Exchange Offer in relation to the nominal amount of Greek Government public debt securities owned by the BPI Group at 31 December 2011. Considering that the terms were clarified after the balance sheet date but before the date of authorization for its publication, this event corresponds to a post balance sheet date adjusting event in accordance to IAS 10 – Post balance sheet date events. Therefore, the BPI Group recorded additional impairment losses on Greek Government public debt securities recorded in the Held to maturity investments portfolio in the amount of 39 598 th. euro, as explained in note 4.48. These impairment losses were recorded in the statement of income caption IMPAIRMENT LOSSES AND OTHER PROVISIONS, NET (note 4.20).

4.9. Other tangible assets

The changes in other tangible assets in 2011 were as follows:

	Gross					Depreciation				Net	
	Balance at 31 Dec.10 Proforma	Purchases	Sales and write-offs	Transfers and others	Foreign exchange differences 11	Balance at 31 Dec.10 Proforma	Depreciation for the year	Sales and write-offs	Transfers and others	Foreign exchange differences 11	Balance at 31 Dec.10 Proforma
Property											
Property for own use	155 281	7 163	(31 353)	(526)	88	130 653	2 196	(14 797)	(2 176)	63	24 318
Other property	455		(141)		314	200	3	(44)		159	155
Leasehold improvements	118 612	761	(5 075)	363	(139)	114 522	4 196	(5 059)	(1)	35	99 142
	274 348	7 924	(36 569)	(163)	(51)	245 489	6 395	(19 900)	(2 177)	98	123 619
Equipment											
Furniture and fixtures	50 674	1 428	(347)	300	31	52 086	2 043	(345)	2	56	42 795
Machinery and tools	14 011	346	(559)	17	6	13 821	785	(555)	(1)	9	12 020
Computer hardware	181 569	6 761	(2 529)	1 396	114	187 311	10 974	(2 444)	(3)	180	173 131
Interior installations	162 572	1 629	(7 454)	4 448	60	161 255	10 784	(4 877)	(81)	23	109 023
Vehicles	8 567	2 053	(1 198)	85	35	9 542	1 433	(933)	(77)	30	6 490
Security equipment	26 769	573	(517)	462	1	27 288	1 291	(497)	(26)	23	21 806
Other equipment	748	1			(3)	746	7		(1)		244
	444 910	12 791	(12 604)	6 708	244	452 049	27 317	(9 651)	(187)	321	365 509
Tangible assets in progress	16 250	13 284		(16 166)	165	13 533					13 533
Other tangible assets	13 800	9	(469)	29		13 369	302	(413)	(4)		10 204
	30 050	13 293	(469)	(16 137)	165	26 902	302	(413)	(4)		10 204
	749 308	34 008	(49 642)	(9 592)	358	724 440	34 014	(29 964)	(2 368)	419	499 332
						497 231					225 108
											135 145
											9 635
											1 801
											14 180
											52 232
											59 398
											3 052
											2 530
											5 482
											502
											86 540
											13 533
											3 165
											10 204
											16 698
											19 731
											225 108
											252 077

The net amounts of the captions SALES AND WRITE-OFFS OF PROPERTY FOR OWN USE AND SALES AND WRITE-OFFS OF INTERIOR INSTALLATIONS include 16 513 th. euro and 1 365 th. euro, respectively, relating to the contribution in kind to the BPI Pension Fund. The contribution amounted to 27 661 th. euro (notes 4.26 and 4.41).

The net amount of the caption TRANSFERS AND OTHERS includes 3 904 th. euro relating to property for own use transferred to the caption OTHER ASSETS – TANGIBLE ASSETS AVAILABLE FOR SALE (note 4.13) due to the Bank's intention to sell these assets.

The changes in other tangible assets in 2010 were as follows:

	Gross				Depreciation			Net					
	Balance at 31 Dec.09 Proforma	Purchases	Sales and write-offs	Transfers and others	Foreign exchange differences	Balance at 31 Dec.10 Proforma	Balance at 31 Dec.09 Proforma	Balance at 31 Dec.10 Proforma					
Property													
Property for own use	143 655	2 045		6 716 (293)	2 865	155 281	35 996	2 807	39	190	39 032	116 249	107 659
Other property	944		(202)		6	455	330	6	(101)	(36)	1	200	255 614
Leasehold improvements	113 703	1 652	(420)	2 140	1 537	118 612	92 972	6 443	(412)	77	891	99 971	20 731
	258 302	3 697	(622)	8 563	4 408	274 348	129 298	9 256	(513)	80	1 082	139 203	135 145 129 004
Equipment													
Furniture and fixtures	49 076	1 250	(258)	231	375	50 674	39 125	2 051	(255)	(12)	130	41 039	9 635 9 951
Machinery and tools	13 769	514	(394)	22	100	14 011	11 225	878	(387)	3	63	11 782	2 229 2 544
Computer hardware	173 424	9 362	(2 954)	1 145	592	181 569	153 564	13 328	(2 867)	399	164 424	17 145	19 860
Interior instalations	161 382	1 330	(1 751)	1 423	188	162 572	93 357	11 303	(1 609)	123	103 174	59 398	68 025
Vehicles	6 655	2 008	(474)	160	218	8 567	5 101	1 205	(444)	9	166	6 037	1 554
Security equipment	26 042	752	(343)	153	165	26 769	19 978	1 348	(338)		27	21 015	5 754 6 064
Other equipment	263	27		438	20	748	230	6		2		238	33
	430 611	15 243	(6 174)	3 572	1 658	444 910	322 580	30 119	(5 900)	2	908	347 709	97 201 108 031
Tangible assets in progress	11 970	16 494		(12 450)	236	16 250						16 250	11 970
Other tangible assets	14 695	8	(11)	(892)		13 800	10 097	319	(10)	(87)		10 319	3 481 4 598
	26 665	16 502	(11)	(13 342)	236	30 050	10 097	319	(10)	(87)	10 319	19 731	16 568
	715 578	35 442	(6 807)	(1 207)	6 302	749 308	461 975	39 694	(6 423)	(5)	1 990	497 231	252 077 253 603

4.10. Intangible assets

The changes in intangible assets in 2011 were as follows:

	Gross			Depreciation			Net	
	Balance at 31 Dec. 10 Proforma	Purchases	Sales and write-offs	Transfers and others	Foreign exchange differences	Balance at 31 Dec. 10 Proforma	Balance at 31 Dec. 10 Proforma	Balance at 31 Dec. 10 Proforma
Software	57 659	1 728	(99)	1 022	61	60 371	54 671	2 113
Other intangible assets	31 152	1 736	(2 327)		(8)	30 553	29 446	719
	88 811	3 464	(2 426)	1 022	53	90 924	84 117	2 832
Intangible assets in progress	1 684	2 534		(981)		3 237		
	90 495	5 998	(2 426)	41	53	94 161	84 117	2 832
							12	84 604
								6 320
								4 694
								3 237
								1 684
								6 378

The changes in intangible assets in 2010 were as follows:

	Gross			Depreciation			Net	
	Balance at 31 Dec. 09 Proforma	Purchases	Sales and write-offs	Transfers and others	Foreign exchange differences	Balance at 31 Dec. 09 Proforma	Balance at 31 Dec. 09 Proforma	Balance at 31 Dec. 09 Proforma
Software	56 617	582	(1 018)	1 417	61	57 659	53 596	2 052
Other intangible assets	31 501	3	(434)		82	31 152	26 373	3 437
	88 118	585	(1 452)	1 417	143	88 811	79 969	5 489
Intangible assets in progress	1 565	1 378		(1 259)		1 684		
	89 683	1 963	(1 452)	158	143	90 495	79 969	5 489
							111	84 117
								2 988
								1 706
								5 128
								4 694
								1 684
								6 378

The caption OTHER INTANGIBLE ASSETS at 31 December 2010 includes 801 th. euro relating to the net amount of lease rights to areas for the establishment of branches.

4.11. Investments in associated companies and jointly controlled entities

Investments in associated companies and jointly controlled entities, recorded in accordance with the equity method, are as follows:

	Effective participation (%)		Book value	
	31 Dec. 11	31 Dec. 10	31 Dec. 11	31 Dec. 10 Proforma
Banco Comercial e de Investimentos, S.A.R.L.	30.0	30.0	34 954	22 569
Companhia de Seguros Allianz Portugal, S.A.	35.0	35.0	63 937	74 749
Cosec – Companhia de Seguros de Crédito, S.A.	50.0	50.0	22 828	22 383
F. Turismo – Capital de Risco, S.A.	25.0	25.0	1 530	1 446
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	32.8	32.8	26 858	24 323
InterRisco – Sociedade de Capital de Risco, S.A.	49.0	49.0	527	296
Unicre – Instituição Financeira de Crédito, S.A.	21.0	21.0	28 610	28 552
Viacer – Sociedade Gestora de Participações Sociais, Lda.	25.0	25.0	19 903	
			179 244	194 221

In June 2010 the BPI Group acquired 3.4% of the share capital of Unicre – Instituição Financeira de Crédito, S.A., and now holds a 21.01% participation in that company. The participation of the BPI Group in Unicre is now recorded in accordance with the equity method of accounting (note 4.40).

In 2010 a new company, Inter-Risco – Sociedade de Capital de Risco, S.A., was founded, in which BPI Private Equity – Sociedade de Capital de Risco, S.A. has a 49% participation (note 1).

In 2011 Banco BPI changed its participation in Viacer – Sociedade Gestora de Participações Sociais, Lda. from 25% to 14% through contribution in kind to the Banco BPI pension fund of 11% of the participation in that company. The participation currently held by the BPI Group is no longer recorded in accordance with the equity method of accounting, as it no longer has significant influence over the company's management and financial policy. At 31 December 2011 this participation was recorded in the financial assets available for sale portfolio as provided for in IAS 28 – Investments in associates (note 4.5). In compliance with IAS 28 – Investments in Associates, Banco BPI recognized a gain in the statement of income as a result of this contribution, corresponding to the difference between: (i) the fair value of the participation of 14% maintained, plus the fair value of the participation of 11% transferred to the pension fund; and (ii) the book value of the investment of 25% in Viacer on the date Banco BPI ceased to have significant influence (note 4.41).

4.12. Tax assets

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Current tax assets		
Corporate income tax recoverable	6 312	1 231
Others	2 463	2 433
	8 775	3 664
Deferred tax assets		
Due to temporary differences	784 846	490 364
Due to tax losses carried forward	109 908	10 227
	894 754	500 591
	903 529	504 255

Details of deferred tax assets are presented in note 4.44.

4.13. Other assets

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Debtors, other applications and other assets		
Debtors for future operations	15 461	28 662
Collateral accounts	3 411	3 318
Other applications	8 334	16 328
VAT recoverable	5 332	9
Debtors for loan interest subsidy receivable	7 688	12 216
Other debtors	156 805	172 435
Overdue debtors and other applications	337	966
Impairment	(381)	(970)
Other assets		
Gold	61	51
Other available funds and other assets	814	823
	197 862	233 838
Tangible assets available for sale	145 725	117 288
Impairment	(54 663)	(40 958)
	91 062	76 330
Accrued income		
For irrevocable commitments assumed in relation to third parties	255	315
For banking services rendered to third parties	2 944	4 384
Other accrued income	27 114	25 112
	30 313	29 811
Deferred expenses		
Insurance	20	19
Rent	2 106	2 457
Other deferred expenses	7 374	7 234
	9 500	9 710
Liability for pensions and other benefits (note 4.26)		
Pension Fund Asset Value		
Pensioners and Employees		2 409 393
Directors		29 477
Past Service Liabilities		
Pensioners and Employees		(2 306 127)
Directors		(29 402)
Others		(712)
Changes in the Pension Plan conditions to be amortised		
Employees		69
Directors	69	162
	69	102 860
Other accounts		
Foreign exchange transactions pending settlement	43 194	48 511
Stock exchange transactions pending settlement	1 963	31 564
Non stock exchange transactions pending settlement	1 057	
Operations on assets pending settlement	316 070	136 908
	362 284	216 983
	691 090	669 532

The caption OTHER APPLICATIONS at 31 December 2011 and 31 December 2010 includes 7 456 th. euro and 15 904 th. euro, respectively, relating to collateral pledged in guarantee under derivative transactions relating to bonds issued through Sagres – Sociedade de Titularização de Créditos, S.A.

The caption OTHER DEBTORS at 31 December 2011 and 31 December 2010 includes 131 407 th. euro and 153 420 th. euro, respectively, relating to instalments receivable from the sale in 2008 of 49.9% of the share capital of Banco de Fomento (Angola). The selling price was 365 671 th. euro, part of the proceeds from the sale being paid in eight annual instalments, from 2009 to 2016, plus compensation due to monetary correction.

The changes in tangible assets available for sale in 2011 were as follows:

	Balance at 31 Dec. 10 Proforma			Aquisitions and transfers	Sales and write-offs		Increase / Reversals of impairment	Balance at 31 Dec. 11		
	Gross	Impairment	Net		Gross	Impairment		Gross	Impairment	Net
Assets received in settlement of defaulting loans										
Real estate	114 396	(39 985)	74 411	50 678	(25 876)	3 502	(17 078)	139 198	(53 561)	85 637
Equipment	2 423	(818)	1 605	4 855	(5 127)	279	(299)	2 151	(838)	1 313
Others	61	(61)						61	(61)	
Other tangible assets										
Real estate	408	(94)	314	3 907			(109)	4 315	(203)	4 112
	117 288	(40 958)	76 330	59 440	(31 003)	3 781	(17 486)	145 725	(54 663)	91 062

The net amount of the caption AQUISITIONS AND TRANSFERS includes 3 904 th. euro relating to tangible assets transferred from the caption PROPERTY FOR OWN USE (note 4.9).

The changes in tangible assets available for sale in 2010 were as follows:

	Balance at 31 Dec. 09 Proforma			Aquisitions	Sales and write-offs		Increase / Reversals of impairment	Balance at 31 Dec. 10 Proforma		
	Gross	Impairment	Net		Gross	Impairment		Gross	Impairment	Net
Assets received in settlement of defaulting loans										
Real estate	94 583	(31 474)	63 109	42 011	(22 198)	3 836	(12 347)	114 396	(39 985)	74 411
Equipment	5 695	(4 249)	1 446	6 260	(9 532)	3 719	(288)	2 423	(818)	1 605
Others	61	(61)						61	(61)	
Other tangible assets										
Real estate	408	(94)	314					408	(94)	314
Others	1 780	(729)	1 051		(1 780)	729				
	102 527	(36 607)	65 920	48 271	(33 510)	8 284	(12 635)	117 288	(40 958)	76 330

The caption OTHER ACCRUED INCOME at 31 December 2011 and 2010 includes 18 575 th. euro and 16 609 th. euro, respectively, relating to the accrued commission from participation on the results of insurance products (notes 2.15 and 4.39).

The caption PAST SERVICE LIABILITIES – OTHERS corresponds to the liability of Banco de Fomento Angola in accordance with Law 18 / 90 of Angola, regarding the Angola Social Security system, which defines that retirement pensions must be granted to all Angolan Employees enrolled in the Social Security.

The caption STOCK EXCHANGE TRANSACTIONS PENDING SETTLEMENT at 31 December 2011 and 2010 refers to the sale of securities only settled in the following month.

The caption NON STOCK EXCHANGE TRANSACTIONS PENDING SETTLEMENT at 31 December 2011 refers to the sale of securities only settled in the following month.

The caption OPERATIONS ON ASSETS PENDING SETTLEMENT at 31 December 2011 and 2010 includes 15 960 th. euro and 16 209 th. euro, respectively, relating to taxes to be settled, of which 11 977 th. euro, relates to taxes under litigation which were paid under the provisions of Decree-Law 248-A / 02 of 14 November.

In addition, at 31 December 2011 and 2010 this caption also includes:

- 202 787 th. euro and 81 144 th. euro, respectively, relating to securitisation operations carried out by the BPI Group (notes 4.7 and 4.19), resulting from temporary differences between settlement of the securitised loans and settlement of the liability for assets not derecognized;
- 12 419 th. euro and 11 090 th. euro, respectively, relating to mortgage loans pending settlement.
- 13 311 th. euro and 9 358 th. euro, respectively, relating to transfers under SEPA (Single Euro Payments Área).

The changes in impairment losses and provisions in 2011 and 2010 are presented in note 4.20.

4.14. Resources of central banks

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Resources of the Bank of Portugal		
Deposits	2 300 000	1 051 639
Accrued interest	879	251
Resources of other central banks		
Deposits	196 817	193 034
Accrued interest	1 501	613
	2 499 197	1 245 537

In 2011 and 2010, Banco BPI took funds from the EuroSystem, using part of its portfolio of eligible assets for this purpose (note 4.33).

4.15. Financial liabilities held for trading

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Short selling		
Debt instruments		
Bonds issued by foreign government entities	126 340	
Derivative instruments with negative fair value (note 4.4)	327 898	261 493
	454 238	261 493

4.16. Resources of other credit institutions

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Resources of Portuguese credit institutions		
Very short term resources		2 500
Deposits	52 251	238 980
Loans	36	
Debt securities sold with repurchase agreements	15 469	
Other resources	6 211	1 330
Accrued interest	237	180
	74 204	242 990
Resources of foreign credit institutions		
Deposits of international financial organisations	404 688	327 281
Very short term resources	7 878	928
Deposits	406 209	696 525
Debt securities sold with repurchase agreements	1 072 632	3 321 747
Other resources	98 767	134 516
Accrued interest	2 106	3 798
	1 992 280	4 484 795
Correction of the amount of hedged liabilities	8 793	4 289
Commission relating to amortised cost	(3 757)	(5 990)
	2 071 520	4 726 084

The balance of the caption DEBT SECURITIES SOLD WITH REPURCHASE AGREEMENTS is made up essentially of money market repurchase operations, used for liquidity management purposes.

4.17. Resources of Customers and other debts

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Demand deposits	7 535 773	7 673 321
Term deposits	15 913 407	14 138 443
Savings deposits	313 498	377 629
Compulsory deposits	9 785	13 818
Cheques and orders payable	49 365	42 763
Other resources of Customers	55 613	48 959
Capitalisation insurance products – Unit links	373 264	560 346
Capitalisation insurance products – guaranteed rate	206 543	250 369
Accrued interest	186 726	114 733
	24 643 974	23 220 381
Correction of the amount of hedged liabilities	27 354	20 482
	24 671 328	23 240 863

The caption RESOURCES OF CUSTOMERS at 31 December 2011 included 205 545 th. euro and 275 092 th. euro, respectively, relating to deposits of investment funds and pension funds managed by the BPI Group (462 726 th. euro and 424 516 th. euro, respectively, at 31 December 2010).

4.18. Debt securities

This caption is made up as follows::

	31 Dec. 11				31 Dec. 10 Proforma			
	Issued	Repurchased	Balance	Average interest rate	Issued	Repurchased	Balance	Average interest rate
Deposit certificates								
EUR	27		27	3.5%	76		76	3.5%
	27		27		76		76	
Commercial paper								
EUR	29 716		29 716	2.8%	990		990	1.1%
	29 716		29 716		990		990	
Covered bonds								
EUR	4 525 000	(1 909 500)	2 615 500	2.7%	3 725 000	(1 259 750)	2 465 250	2.5%
	4 525 000	(1 909 500)	2 615 500		3 725 000	(1 259 750)	2 465 250	
Fixed rate cash bonds								
EUR	3 004 862	(470 019)	2 534 843	3.5%	3 284 233	(285 721)	2 998 512	3.3%
CZK					19 951		19 951	3.7%
CHF	819	(58)	761	2.3%	796		796	1.3%
USD	150 487	(20 315)	130 172	2.8%	150 617	(4 648)	145 969	2.1%
CAD	22 910	(3 000)	19 910	3.3%	22 726	(435)	22 291	2.2%
JPY	39 920		39 920	2.5%	36 815		36 815	2.5%
	3 218 998	(493 392)	2 725 606		3 515 138	(290 804)	3 224 334	
Variable rate cash bonds								
EUR	1 087 217	(487 633)	599 584	2.5%	1 716 572	(590 523)	1 126 049	1.7%
USD	7 729		7 729	3.0%				
	1 094 946	(487 633)	607 313		1 716 572	(590 523)	1 126 049	
Variable income cash bonds								
EUR	828 209	(304 529)	523 680		1 350 829	(550 566)	800 263	
USD	93 284	(74 854)	18 430		88 460	(57 141)	31 319	
	921 493	(379 383)	542 110		1 439 289	(607 707)	831 582	
	9 790 180	(3 269 908)	6 520 272		10 397 065	(2 748 784)	7 648 281	
Accrued interest			80 076				82 133	
Correction of the amount of hedged liabilities			111 119				88 546	
Premiums and commission (net)			(19 514)				(36 686)	
			171 681				133 993	
			6 691 953				7 782 274	

The average interest rates mentioned in the preceding table were calculated based on the interest rate of each issue in relation to the nominal value of the bonds. It is not possible to calculate the rate for the Variable Income Bonds as the income is only known when it is due.

As part of its medium and long term funding plan, the BPI Group issues cash bonds. Some of the bonds are issued under the Euro Medium Term Notes (EMTN) program.

The maximum amount for emissions under the EMTN program is 10 000 000 000 euro.

Cash bonds can only be issued by institutions under the Bank of Portugal's supervision. They are an instrument currently used by the BPI Group to provide investment solutions for its Customers, as an alternative to term deposits.

Bonds issued, being cash bonds or bonds issued under the EMTN program, can be issued in different currencies.

In 2008 the BPI Group set up two collateralized bond issue programs (mortgage bonds and bonds over the public sector), under Decree-Law 59 / 2006. Under these programs the BPI Group made

three issues of mortgage bonds in 2009, four issues of mortgage bonds and one issue of bonds over the public sector in 2010 and two issues of mortgage bonds in 2011.

In accordance with this law, the holders of the mortgage bonds benefit from a special credit privilege over the autonomous assets, which consists of a guarantee of the debt to which the bondholders have access in the event of the issuer's insolvency.

The mortgage bonds program was set up for up to a maximum of 7 000 000 000 euro.

The mortgage bonds are secured by a portfolio of mortgage loans and other assets that together constitute an autonomous cover pool.

Assets allocated to the cover pool include mortgage loans for housing or commercial purposes located in a EU Member State and other eligible assets, such as deposits at the Bank of Portugal, deposits with financial institutions with ratings equal to or greater than "A-" and other low risk and highly liquid assets. The total value of the other assets cannot exceed 20% of the cover pool. The amount of the allocated mortgage loans cannot exceed 80% of the value of the mortgaged property in the case of residential property, or 60% of the value of the mortgaged property, in the case of commercial property.

The legislation applicable to mortgage bonds imposes prudential limits, which must be met during the period of the bonds:

- the total nominal amount of the outstanding mortgage bonds cannot exceed 95% of the total amount of mortgage loans and other assets assigned to the bonds;
- the average maturity of the outstanding mortgage bonds cannot exceed, at any time, the average maturity of the mortgage loans and other assets assigned to the bonds;
- the total amount of interest payable to the holders of mortgage bonds cannot exceed, at any time, the amount of interest receivable related to the mortgage loans and other assets assigned to the bonds;



- the net present value of the liabilities arising from the outstanding mortgage bonds cannot exceed, at any time, the net present value of the cover pool given as collateral of these bonds, after consideration of any financial derivative instruments. This ratio must be maintained when considering a 200 basis points parallel up or down shift of the yield curve;
- the credit institutions' risk exposure, except for positions with residual maturity less than or equal to 100 days, cannot exceed 15% of the total nominal amount of the outstanding mortgage bonds.

At 31 December 2011 the amount of mortgage bonds issued by the BPI Group was 4 125 000 000 euro, split into 8 issues as follows:

	OH – Serie 5	OH – Serie 6	OH – Serie 7	OH – Serie 8
Issue date	28-05-2009	17-07-2009	15-01-2010	12-02-2010
Nominal amount	EUR 175 000 000	EUR 1 000 000 000	EUR 1 000 000 000	EUR 200 000 000
ISIN	PTBB1X0E0006	PTBB240E0000	PTBB5J0E0000	PTBB5W0E0003
Maturity date	28-05-2016	17-07-2012	15-01-2015	12-02-2017
Rating (Moody's / S&P / Fitch)	Aaa / - / -	Aaa / AAA / AAA	Aaa / AAA / AAA	Aaa / - / -
Reimbursement	At maturity	At maturity	At maturity	At maturity
Interest payment frequency	Quarterly	Annual	Annual	Quarterly
Coupon	Euribor 3 m + 1.20%	3.00%	3.25%	Euribor 3 m + 0.84%
Repurchases	-	EUR 62 950 000	EUR 46 550 000	-

	OH – Serie 9	OH – Serie 10	OH – Serie 11	OH – Serie 12
Issue date	21-05-2010	05-08-2010	25-01-2011	25-08-2011
Nominal amount	EUR 350 000 000	EUR 600 000 000	EUR 200 000 000	EUR 600 000 000
ISIN	PTBBP60E0023	PTBBQQ0E0024	PTBBPM0E0029	PTBBWA0E0024
Maturity date	21-05-2025	05-08-2020	25-01-2018	25-08-2018
Rating (Moody's / S&P / Fitch)	Aaa / - / -	- / - / AAA	Aa1 / AA / AA+	A3 / A+ / A-
Reimbursement	At maturity	At maturity	At maturity	At maturity
Interest payment frequency	Quarterly	Quarterly	Quarterly	Quarterly
Coupon	Euribor 3 m + 0.65%	Euribor 3 m + 0.65%	Euribor 3 m + 4.60%	Euribor 3 m + 0.65%
Repurchases	EUR 350 000 000	EUR 600 000 000	-	EUR 600 000 000

At 31 December 2011 and 2010, the cover pool allocated to the mortgage bonds amounted to 5 798 469 th. euro and 4 292 188 th. euro, respectively, of which 5 423 645 th. euro and 4 080 757 th. euro corresponded to mortgage loans (note 4.7).

The bond program over the public sector was constituted for up to a maximum of 2 000 000 000 euro.

The bonds over the public sector are secured by a portfolio of public sector loans and other assets that together constitute the cover pool.

Loans granted to central public administrations, regional or local authorities of any EU Member State as well as loans with a specific guarantee from these entities may be allocated to the cover pool.

The prudential limits applicable to public sector bonds are similar to those applicable to the mortgage bonds, except for the limit on the maximum nominal amount of outstanding bonds in relation to the loans and other assets allocated to the cover pool, which in the case of bonds over the public sector is 100%.

At 31 December 2011 Banco BPI held two issues of outstanding bonds over the public sector amounting to 400 000 000 euro, as follows:

	OSP – Serie 1	OSP – Serie 2
Issue date	17-07-2008	30-09-2010
Nominal amount	EUR 150 000 000	EUR 250 000 000
ISIN	PTBP14OE0006	PTBBRH0E0024
Maturity date	15-06-2016	30-09-2017
Rating (Moody's / S&P / Fitch)	- / AAA / -	- / A / -
Reimbursement	At maturity	At maturity
Interest payment frequency	Quarterly	Quarterly
Coupon	Euribor 3 m - 0.004%	Euribor 3 m + 0.4%
Repurchases	-	EUR 250 000 000

At 31 December 2011 and 2010 the cover pool allocated to bonds over the public sector amounted to 672 298 th. euro and 503 245 th. euro, of which 530 848 th. euro and 392 870 th. euro corresponded to loans (note 4.7).

The BPI Group issues bonds on a regular basis, with different remuneration conditions:

- fixed rate – bonds issued on which the BPI Group is committed to pay a previously defined rate of income, calculated based on a fixed interest rate from the time of issue to maturity;
- variable rate – bonds issued on which the BPI Group is committed to pay income calculated based on a specified interest rate index published by an outside source (market);
- variable income – bonds issued for which the remuneration is not known, or certain, at the issue date, and can be subject to changes depending on the evolution of certain underlying assets (indices or indexing rates) announced at the date of issue. Such bonds have embedded derivatives which are recorded in specific accounts as required by IAS 39 (note 4.4.). In addition, the BPI Group has options to hedge the risks of change in the cost incurred with these bonds.

The changes in the bonds issued by the BPI Group in 2011 were as follows:

	Deposit certificates	Commercial paper	Covered bonds	Fixed rate bonds	Variable rate bonds	Variable income bonds	Total
Balance at 31 December 2010 Proforma	76	990	2 465 250	3 224 334	1 126 049	831 582	7 648 281
Bonds issued during the year		29 716	800 000	1 020 174	27 729	121 829	1 999 448
Bonds redeemed	(49)	(990)		(1 324 008)	(649 355)	(642 333)	(2 616 735)
Repurchases (net of resales)			(649 750)	(202 445)	102 890	230 075	(519 230)
Exchange difference				7 551		957	8 508
Balance at 31 December 2011	27	29 716	2 615 500	2 725 606	607 313	542 110	6 520 272

The changes in the bonds issued by the BPI Group in 2010 were as follows:

	Deposit certificates	Commercial paper	Covered bonds	Fixed rate bonds	Variable rate bonds	Variable income bonds	Total
Balance at 31 December 2009	110	848 915	2 255 900	2 686 000	2 123 725	1 060 254	8 974 904
Bonds issued during the year		990	2 400 000	783 668	590 001	262 556	4 037 215
Bonds redeemed	(34)	(848 915)	(1 900 000)	(62 107)	(1 325 418)	(605 325)	(4 741 799)
Repurchases (net of resales)			(290 650)	(192 253)	(262 259)	112 526	(632 636)
Exchange difference				9 026		1 571	10 597
Balance at 31 December 2010 Proforma	76	990	2 465 250	3 224 334	1 126 049	831 582	7 648 281

Bonds issued by the BPI Group at 31 December 2011, by maturity date, are as follows:

	Maturity					Total
	2012	2013	2014	2015-2018	> 2018	
Deposit certificates						
EUR	18	9				27
	18	9				27
Commercial paper						
EUR	29 716					29 716
	29 716					29 716
Covered bonds						
EUR	937 050			1 678 450		2 615 500
	937 050			1 678 450		2 615 500
Fixed rate bonds						
EUR	1 125 790	813 319	352 597	198 094	45 043	2 534 843
CHF		761				761
USD		119 120	11 052			130 172
CAD		19 910				19 910
JPY					39 920	39 920
	1 125 790	953 110	363 649	198 094	84 963	2 725 606
Variable rate bonds						
EUR	486 796	12 788	100 000			599 584
USD		7 729				7 729
	486 796	20 517	100 000			607 313
Variable income bonds						
EUR	99 574	278 878	126 251	18 977		523 680
USD	11 904	4 656	1 870			18 430
	111 478	283 534	128 121	18 977		542 110
Total	2 690 848	1 257 170	591 770	1 895 521	84 963	6 520 272

Bonds issued by the BPI Group at 31 December 2010, by maturity date, are as follows:

	Maturity					Total
	2011	2012	2013	2014-2017	> 2017	
Deposit certificates						
EUR	31	30	15			76
	31	30	15			76
Commercial paper						
EUR	990					990
	990					990
Covered bonds						
EUR		951 000		1 514 250		2 465 250
		951 000		1 514 250		2 465 250
Fixed rate bonds						
EUR	1 172 613	1 274 547	222 673	270 568	58 111	2 998 512
CZK	19 951					19 951
CHF			796			796
USD	16 206		129 763			145 969
CAD			22 291			22 291
JPY					36 815	36 815
	1 208 770	1 274 547	375 523	270 568	94 926	3 224 334
Variable rate bonds						
EUR	524 515	501 534		100 000		1 126 049
	524 515	501 534		100 000		1 126 049
Variable income bonds						
EUR	296 320	113 663	264 565	125 715		800 263
USD	2 021	17 851	11 447			31 319
	298 341	131 514	276 012	125 715		831 582
Total	2 032 647	2 858 625	651 550	2 010 533	94 926	7 648 281

4.19. Financial liabilities relating to transferred assets

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Liabilities relating to assets not derecognised in securitisation operations (note 4.7)		
Loans		
Housing loans	5 169 563	5 350 568
Loans to SME's	3 509 032	154 290
Liabilities held by the BPI Group	(6 492 311)	(3 099 873)
Risk / benefit on housing loans ceded	(772 593)	(835 615)
Accrued costs	4 141	2 877
Commission relating to amortised cost (net)	(3 235)	(1 829)
	1 414 597	1 570 418

Banco BPI launched securitisation operations, the main features of which are summarised in the tables below. These were issued through Sagres – Sociedade de Titularização de Créditos S.A.

The bonds issued by securitisation vehicles and held by BPI Group entities were eliminated in the consolidation process.

In December 2007 the Bank sold part of the highest risk bonds issued under the housing loan securitisation operations, usually referred to as equity pieces, having thus ceded part of the benefits and risks of these transactions. The impact of this operation on liabilities is shown in the table above. The assets and liabilities relating to these operations were derecognised by the percentage ceded, and the difference to the product of the sale was recognised in the statement of income.

On 6 April 2005 Banco BPI launched its first small and medium companies securitisation operation, in the amount of 500 000 th. euro, under the name of Douro SME Series 1. The operation was issued in 4 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Guarantee	Spread
■ Class A Notes	44 322	0.59	Baa1 / AA- / A	Without guarantee	0.10%
■ Class B Notes	26 000	1.27	Aaa / AAA / AAA	European Investment Fund	0.08%
■ Class C Notes	24 000	1.64	nr	Credit Securitisation Guarantee Fund	1.00%
■ Class D Notes	5 010	1.64	nr	Without guarantee	2.00%
Total of the issues	99 332				
Liabilities held by BPI Group	(29 808)				
Total	69 524				

On 11 February 2011 Banco BPI launched its second small and medium companies securitisation operation, in the amount of 3 472 400 th. euro, under the name of Douro SME Series 2. The operation was issued through Sagres – Sociedade de Titularização de Créditos S.A. The operation was issued in 4 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Fitch / DBRS)	Guarantee	Spread ¹
■ Class A Notes	1 819 400	3.43	A / AA	Without guarantee	0.15%
■ Class B Notes	1 317 500	7.69	nr	Without guarantee	0.10%
■ Class C Notes	52 500	0.71	nr	Without guarantee	0.10%
■ Class D Notes	220 300	7.69	nr	Without guarantee	Residual interest
Total of the issues	3 409 700				
Liabilities held by BPI Group	(3 409 700)				
Total					

This issue was made in order to be eligible for possible funding from the European Central Bank.

On 24 November 2005 Banco BPI launched its first housing loan securitisation operation, in the amount of 1 500 000 th. euro, under the name of DOURO Mortgages No. 1. The operation was issued in 5 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread ¹
■ Class A Notes	492 994	3.26	A1 / AA- / A+	0.14%
■ Class B Notes	10 432	3.26	A1 / AA- / A+	0.17%
■ Class C Notes	9 483	3.26	A1 / A / A+	0.27%
■ Class D Notes	7 903	3.26	Baa1 / BBB / A-	0.47%
■ Class E Notes	8 333	3.26	nr / nr / nr	Residual interest
Total of the issues	529 145			
Reserve fund	(2 916)			
Other funds	3			
Liabilities held by BPI Group	(15 213)			
Risk / benefit ceded	(182 285)			
Total	328 734			

1) Until the date of the call option (September 2014); after this date, if the option is not exercised, the spread doubles.

On 28 September 2006 Banco BPI launched its second housing loan securitisation operation in the amount of 1 500 000 th. euro under the name of DOURO Mortgages No. 2. The operation was issued in 6 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread ¹
■ Class A1 Notes	6 501	8.11	Baa1 / AA- / A	0.05%
■ Class A2 Notes	657 113	8.11	Baa1 / AA- / A	0.14%
■ Class B Notes	16 209	8.11	Ba3 / A- / BBB	0.17%
■ Class C Notes	10 514	8.11	B2 / BB+ / BB	0.23%
■ Class D Notes	8 323	8.11	B3 / BB / B	0.48%
■ Class E Notes	8 384	8.11	nr / nr / nr	Residual interest
Total of the issues	707 044			
Reserve fund	(2 933)			
Liabilities held by BPI Group	(57 731)			
Risk / benefit ceded	(244 531)			
Total	401 849			

1) Until the date of the call option (April 2015); after this date, if the option is not exercised, the spread doubles.

On 31 July 2007 Banco BPI launched its third housing loan securitisation operation in the amount of 1 500 000 th. euro under the name of DOURO Mortgages No. 3. The operation was issued in 6 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread ¹
■ Class A Notes	947 103	9.05	Baa1 / AA- / A	0.16%
■ Class B Notes	24 283	9.05	nr / BBB- / BBB	0.17%
■ Class C Notes	14 438	9.05	nr / BB+ / BB	0.23%
■ Class D Notes	12 469	9.05	nr / BB- / B	0.48%
■ Class E Notes	370	0.39	nr / A- / BBB-	0.50%
■ Class F Notes	1 251	9.05	nr / nr / nr	Residual interest
Total of the issues	999 914			
Reserve fund	(4 193)			
Other funds	(1)			
Liabilities held by BPI Group	(36 359)			
Risk / benefit ceded	(345 777)			
Total	613 584			

1) Until the date of the call option (August 2016); after this date, if the option is not exercised, the spread is multiplied by 1.5.

In December 2008 Banco BPI launched a new series of housing loan securitisation operations in the amount of 1 522 500 th. euro under the name of DOURO Mortgages No. 4, which were settled financially in January, 2009. The operation was issued in 4 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (S&P, DBRS)	Spread
■ Class A Notes	1 275 000	8.70	AA- / AA	0.15%
■ Class B Notes	180 000	22.84	nr / nr	0.20%
■ Class C Notes	45 000	26.48	nr / nr	0.25%
■ Class D Notes	22 500	26.48	nr / nr	Residual interest
Total of the issues	1 522 500			
Liabilities held by BPI Group	(1 522 500)			
Total				

This issue was made in order to be eligible for possible funding from the European Central Bank.

On 6 August 2010 Banco BPI launched its fifth housing loan securitisation operation in the amount of 1 421 000 th. euro under the name of DOURO Mortgages No. 5. The operation was issued in 3 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (S&P, DBRS)	Spread
■ Class A Notes	1 099 000	8.75	AA- / AA	0.20%
■ Class B Notes	301 000	21.73	nr / nr	
■ Class C Notes	21 000	21.73	nr / nr	Residual interest
Total of the issues	1 421 000			
Liabilities held by BPI Group	(1 421 000)			
Total				

This issue was made in order to be eligible for possible funding from the European Central Bank.

4.20. Provisions and impairment losses

The changes in provisions and impairment losses of the Group in 2011 were as follows:

	Balance at 31 Dec. 10 Proforma	Increases	Decreases and reversals	Utilisation	Exchange differences and others	Balance at 31 Dec. 11
Impairment losses on loans and advances to credit institutions (note 4.6)	382			(371)	(8)	3
Impairment losses on loans and advances to Customers (note 4.7)	553 932	261 041	(47 987)	(93 220)	2 485	676 251
Impairment losses on financial assets available for sale (note 4.5)						
Debt instruments	2 558	401 085	(487)	(400 549)		2 607
Equity instruments	42 158	3 007			24	45 189
Other securities	3 221	350				3 571
Loans and other receivables	5 283	13 100				18 383
Impairment losses on financial assets held to maturity (note 4.8)						
Debt instruments		117 733				117 733
Impairment losses on other assets (note 4.13)						
Tangible assets held for sale	40 958	23 654	(6 168)	(3 781)		54 663
Debtors, other applications and other assets	970	51	(21)	(619)		381
Impairment losses and provisions for guarantees and commitments	35 018	1 735	(1 631)		(113)	35 009
Other provisions	75 555	19 831	(1 076)	(1 935)	804	93 179
	760 035	841 587	(57 370)	(500 475)	3 192	1 046 969

isation of impairment losses on loans and advances to Customers recorded in 2011 corresponds to write-offs and loans sold, in the amounts of 81 274 th. euro and 4 993 th. euro, respectively.

In 2011 the caption IMPAIRMENT LOSSES ON FINANCIAL ASSETS AVAILABLE FOR SALE – DEBT INSTRUMENTS includes the recording and subsequent utilization of impairment for Greek Government debt securities in the amount of 400 549 th. euro (note 4.5). Additionally, the caption IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS includes the recording of impairment for Greek Government public debt securities in the amount of 68 349 th. euro (notes 4.7 and 4.48).

The increase in impairment losses on securities held to maturity in 2011 refers to impairment of Greek Government debt securities in the BPI Vida e Pensões portfolio, of which 72 999 th. euro was included in the caption TECHNICAL RESULT ON INSURANCE CONTRACTS, as most of these securities are included in portfolio of assets allocated to capitalization insurance products with guaranteed capital and discretionary participation in profits (notes 4.8, 4.38 and 4.48).

The caption OTHER PROVISIONS at 31 December 2011 includes provisions for tax contingencies and litigation in progress.

The changes in provisions and impairment losses of the Group in 2010 were as follows:

	Balance at 31 Dec. 09 Proforma	Increases	Decreases and reversals	Utilisation	Exchange differences and others	Balance at 31 Dec. 10 Proforma
Impairment losses on loans and advances to credit institutions	1 779	360	(360)	(1 616)	219	382
Impairment losses on loans and advances to Customers	530 365	134 072	(19 262)	(97 819)	6 576	553 932
Impairment losses on financial assets available for sale						
Debt instruments	2 284	864	(590)			2 558
Equity instruments	41 729	334		(5)	100	42 158
Other securities	4 627	1 127		(2 533)		3 221
Loans and other receivables	6 833	264		(1 845)	31	5 283
Impairment losses on financial assets held to maturity						
Debt instruments	4 830			(4 830)		
Impairment losses on other assets						
Tangible assets held for sale	36 607	18 181	(5 546)	(8 284)		40 958
Debtors, other applications and other assets	1 196	143	(20)	(275)	(74)	970
Impairment losses and provisions for guarantees and commitments	28 556	8 390	(2 084)		156	35 018
Other provisions	61 120	14 940	(575)	(1 122)	1 192	75 555
	719 926	178 675	(28 437)	(118 329)	8 200	760 035

Utilisation of impairment losses on loans and advances to Customers recorded in 2010 corresponds to write-offs and loans sold, in the amounts of 89 272 th. euro and 8 547 th. euro, respectively.

The caption OTHER PROVISIONS at 31 December 2010 includes provisions for tax contingencies and litigation in progress.

4.21. Technical provisions

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Immediate Life Annuity / Individual	5	6
Immediate Life Annuity / Group	42	45
Family Savings	43	218
BPI New Family Savings	1 454 899	1 813 154
BPI Retirement Guaranteed	105 954	103 595
BPI Retirement Savings	943 852	929 348
BPI Non Resident Savings	110 651	134 445
Planor	4 860	5 579
PPR BBI Life	3 662	4 148
Savings Investment Plan / Youths	1 123	1 279
South PPR	90	90
	2 625 181	2 991 907

The technical provisions were computed on a prospective actuarial basis, contract by contract, in accordance with the technical bases of the products.

Immediate income			
Individual	Interest rate		6%
	Mortality table		PF 60 / 64
Group	Interest rate		6%
	Mortality table		PF 60 / 64
Deferred capital with counterinsurance with participation in results			
Group	Interest rate		4% and 0%
	Mortality table		PF 60 / 64, TV 73-77 and GRF 80

The technical provisions also include a provision for rate commitments, which is recorded when the effective profitability of the assets that represent the mathematical provisions of a determined product is lower than the technical interest rate used to calculate the mathematical provisions.

The BPI New Family Savings, BPI Retirement Savings PPR and BPI Non Resident Savings are capitalisation products with guaranteed capital and participation in the results.

4.22. Tax liabilities

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Current tax liability		
Corporate income tax payable	4 337	6 274
Other	767	341
	5 104	6 615
Deferred tax liability		
On temporary differences	27 839	31 434
	27 839	31 434
	32 943	38 049

Details of the deferred tax liability are presented in note 4. 44.

4.23. Participating bonds

This caption is made up as follows:

	31 Dec. 11				31 Dec. 10 Proforma			
	Issued	Repurchased	Balance	Average interest rate	Issued	Repurchased	Balance	Average interest rate
Participating bonds								
EUR	28 081	(23 486)	4 595	2.4%	28 081	(20 959)	7 122	1.6%
	28 081	(23 486)	4 595		28 081	(20 959)	7 122	
Accrued interest			42				45	
			4 637				7 167	

The changes in debt issued by the BPI Group in 2011 were as follows:

	Participating bonds
Balance at 31 December 2010 Proforma	7 122
Repurchases (net of resales)	(2 527)
Balance at 31 December 2011	4 595

▷

The changes in debt issued by the BPI Group during 2010 were as follows:

	Participating bonds
Balance at 31 December 2009	11 719
Repurchases (net of resales)	(4 597)
Balance at 31 December 2010 Proforma	7 122

The participating bonds can be redeemed at par at the request of the participants with the approval of the Bank or at the initiative of the Bank with six months' notice.

4.24. Subordinated debt

This caption is made up as follows:

	31 Dec. 11				31 Dec. 10 Proforma			
	Issued	Repurchased	Balance	Average interest rate	Issued	Repurchased	Balance	Average interest rate
Perpetual bonds								
EUR	420 000	(360 000)	60 000	2.9%	420 000	(360 000)	60 000	2.4%
JPY	74 850	(74 850)		0.3%	69 029		69 029	4.0%
	494 850	(434 850)	60 000		489 029	(360 000)	129 029	
Other bonds								
EUR	404 200	(254 733)	149 467	2.5%	434 200	(111 869)	322 331	2.4%
JPY	174 651	(174 651)		2.8%	161 068		161 068	2.8%
	578 851	(429 384)	149 467		595 268	(111 869)	483 399	
	1 073 701	(864 234)	209 467		1 084 297	(471 869)	612 428	
Accrued interest			296				3 031	
Correction of the amount of hedged liabilities			99				25 175	
Premiums (net)			(8)				(245)	
			387				27 961	
			209 854				640 389	

In 2011, Banco BPI repurchased all the BPI CAYMAN 13/03/2036 2.76% JPY and BPI OBRIGAÇÕES PERPÉTUAS SUBORDINADA / 96 – JPY – CAYMAN subordinated issuances (note 4.40).

The changes in debt issued by the BPI Group during 2011 were as follows:

	Perpetual bonds	Other bonds	Total
Balance at 31 December 2010 Proforma	129 029	483 399	612 428
Bonds redeemed		(30 000)	(30 000)
Repurchases (net of resales)	(74 850)	(317 515)	(392 365)
Exchange difference	5 821	13 583	19 404
Balance at 31 December 2011	60 000	149 467	209 467

The changes in debt issued by the BPI Group during 2010 were as follows:

	Perpetual bonds	Other bonds	Total
Balance at 31 December 2009	116 323	518 318	634 641
Repurchases (net of resales)		(34 566)	(34 566)
Exchange difference	12 706	(353)	12 353
Balance at 31 December 2010 Proforma	129 029	483 399	612 428

Debt issued by the BPI Group at 31 December 2011 is made up as follows, by residual term to maturity:

	Maturity					Total
	2012	2013	2014	2015-2018	> 2018	
Perpetual bonds						
EUR ¹	60 000					60 000
	60 000					60 000
Other bonds						
EUR		2 369		147 098		149 467
		2 369		147 098		149 467
Total	60 000	2 369		147 098		209 467

1) Date of the call option (September 2012); after that date, if the option is not exercised, the remuneration is stepped up.

Debt issued by the BPI Group at 31 December 2010 is made up as follows, by residual term to maturity:

	Maturity					Total
	2011	2012	2013	2014-2017	> 2017	
Perpetual bonds						
EUR ¹		60 000				60 000
JPY ²	69 029					69 029
	69 029	60 000				129 029
Other bonds						
EUR	28 499		2 369	291 463		322 331
JPY					161 068	161 068
	28 499		2 369	291 463	161 068	483 399
Total	97 528	60 000	2 369	291 463	161 068	612 428

1) Date of the call option (September 2012); after that date, if the option is not exercised, the remuneration is stepped up.

2) Date of the call option (November 2011); after that date, if the option is not exercised, the remuneration is stepped up.

4.25. Other liabilities

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Creditors and other resources		
Creditors for futures operations	6 510	8 789
Consigned resources	13 543	15 630
Captive account resources	6 798	5 036
Subscription account resources		1
Guarantee account resources	15 090	16 200
State administrative sector		
Value Added Tax (VAT) payable	5 482	6 672
Tax withheld at source	17 852	24 181
Social Security contributions	4 584	2 644
Other	282	480
Contributions to other health systems	1 432	1 450
Creditors for factoring contracts	14 177	10 682
Creditors for the supply of assets	7 623	8 404
Contributions owed to the Pension Fund (note 4.26)		
Pensioners and Employees	37 888	
Directors	2 806	
Other creditors	119 078	125 553
Deferred costs	(85)	(69)
	253 060	225 653
Liability for pensions and other benefits (note 4.26)		
Value of Pension Fund Assets		
Pensioners and Employees	(801 250)	
Directors	(28 335)	
Past Service Liabilities		
Pensioners and Employees	835 767	
Directors	31 141	
Others	955	
	38 278	
Accrued costs		
Creditors and other resources	303	295
Personnel costs	105 278	120 864
General administrative costs	32 041	31 864
Contributions to the Investors Indemnity System	6 914	
Others	2 123	1 308
	146 659	154 331
Deferred income		
On guarantees given and other contingent liabilities	5 324	5 636
Others	4 589	4 064
	9 913	9 700
Other accounts		
Securities operations pending settlement – non stock exchange operations		46 992
Liabilities pending settlement	188 151	104 472
Other operations pending settlement	31 928	40 840
	220 079	192 304
	667 989	581 988

At 31 December 2011 the caption PAST SERVICE LIABILITIES – OTHERS corresponds to the liability of Banco Fomento Angola in accordance with Law 18 / 90 of Angola, regarding the Angola Social Security system, which defines that retirement pensions must be granted to all Angolan Employees enrolled in the Social Security.

The caption ACCRUED COSTS – PERSONNEL COSTS at 31 December 2010 included 13 000 th. euro relating to the increased liability resulting from an early retirements program that was expected to cover 65 Employees of the Group (note 4.26) which was achieved in 2011.

The caption ACCRUED COSTS – CONTRIBUTIONS TO THE INVESTOR INDEMNITY SYSTEM at 31 December 2011 refers to the contribution payable by the BPI Group, in accordance with the regulations of the Securities Market Commission (Comissão do Mercado de Valores Mobiliários – CMVM) relating to the Banco Privado Português process (note 4.41).

The amounts recorded under the caption SECURITY OPERATIONS PENDING – NON STOCK EXCHANGE OPERATIONS at 31 December 2010 corresponds to securities purchased which were only settled in the following month.

The caption LIABILITIES PENDING SETTLEMENT at 31 December 2011 and 31 December 2010 includes:

- 75 429 th. euro and 49 425 th. euro, respectively, relating to electronic interbank transfer transactions;
- 31 292 th. euro and 10 860 th. euro, respectively, relating to loan securitisation fund transactions;
- 13 993 th. euro and 10 178 th. euro, respectively, relating to ATM / POS transactions to be settled with SIBS;
- 26 362 t euro and 1 213 th. euro, respectively, relating to transfers made through the “SPGT”.

The caption OTHER OPERATIONS PENDING SETTLEMENT, at 31 December 2011 and 31 December 2010 includes:

- 26 202 th. euro and 14 405 th. euro, respectively, relating to transfers under SEPA (Single Euro Payment Area);
- 4 212 th. euro and 5 662 th. euro, respectively, relating to the settlement of payments and receipts of Leasing / ALD / Factoring operations.

4.26. Liability for pensions and other benefits

The past service liability relating to pensioners and personnel that are, or have been, Employees of BPI Group companies¹, and are covered by pension Funds, is calculated in accordance with IAS 19.

With the publication of Decree-Law 1-A / 2011 of 3 January all the bank Employees that benefit from CAFEB – Caixa de Abono de Família dos Empregados Bancários were incorporated into the General Social Security Regime, as from 1 January 2011, being covered by this regime as regards old age pensions and in the case of maternity, paternity and adoption leave, the cost of which the Bank will no longer cover. Given the complementary nature of the rules under the Collective Labour Agreement for the Portuguese Banking Sector (Acordo Colectivo de Trabalho do Sector Bancário), the Bank will continue to guarantee the difference between the amount of the benefits that will be paid under the General Social Security Regime for the eventualities covered and the benefits established in the Collective Labour Agreement.

Following the instructions of the National Council of Financial Supervisors (Conselho Nacional dos Supervisores Financeiros), the amount of the past service liability remained unchanged at 31 December 2010. Current service cost decreased as from 2011 and the Bank became subject to the Single Social Tax (Taxa Social Única) of 23.6%.

Incapacity and survivor pensions and sickness subsidy of these Employees will continue to be the Bank's responsibility.

1) Companies consolidated by the full consolidation method (Banco BPI, BPI Investimentos, BPI Gestão de Activos, BPI Private Equity and BPI Vida e Pensões).

Decree-Law 127 / 2011 of 31 December establishes the transfer to the Social Security of the liability for costs with the retirement and survivor pension liabilities of retired personnel and pensioners that were in that situation at 31 December 2011 and were covered by the substitute social security regime included in the collective labour regulations instrument in force for the banking sector (Pilar 1), as well as transfer to the Portuguese State of the corresponding pension fund assets covering those liabilities.

Through its pension fund, Banco BPI maintains the liability for payment of (i) the amount of the updates of the pensions mentioned above, in accordance with the criteria set out in the Collective Labour Agreement (Acordo Colectivo de Trabalho); (ii) the benefits complementary to the retirement and survivor pensions assumed by the Collective Labour Agreement for the Banking Sector; (iii) the contribution on the retirement and survivor pensions for the Social Medical Support Services (Serviços de Apoio Médico-Social); (iv) death subsidy; (v) survivor pensions to children and surviving spouse related to the same Employee and (vi) survivor pensions due to the family of current retired Employees, in which the conditions for granting the pensions occurred as from 1 January 2012.

The value of the pension fund assets transferred to the Portuguese State must be equal to the value of the liabilities undertaken by Social Security and was determined taking into account the following assumptions: (i) discount rate of 4%; (ii) mortality tables under the regulations defined by the Portuguese Insurance Institute (Instituto de Seguros de Portugal): male population: TV 73 / 77 less 1 year; female population: TV 88 / 90.

Transfer of the pension fund assets can be made in cash and, up to 50% of the amount of the assets to be transferred, in Portuguese public debt securities, valued at their market value.

Transfer of ownership of the assets will be carried out by the Bank under the following conditions: (i) up to 31 December 2011, the amount equivalent to at least 55% of the preliminary present value of the liability; (ii) by 31 June 2012, the remaining amount to complete the definitive present value of the liability, as a result of calculation of the definitive amount of the liability transferred, made by an independent expert entity hired for the purpose by the Ministry of Finance.

Since the transfer to the Social Security corresponds to settlement, extinguishing the corresponding liability for Banco BPI, the difference between the amount of the pension fund assets transferred to the Portuguese State and the amount of the liability transferred based on actuarial assumptions used by Banco BPI in the amount of 99 652 th. euro was recorded in the statement of income caption OPERATING GAINS AND LOSSES (note 4.41), as established in paragraph 61 of IAS 19.

BPI Vida e Pensões is the entity responsible for the actuarial calculations used to determine the amounts of the retirement and survivor pension liability, as well as for managing the respective Pension Funds.

The "Projected Unit Credit" method was used to calculate the normal cost and past service liability due to age, and the "Single Successive Premiums" method was used to calculate the cost of the incapacity and survivor benefits.

The main actuarial and financial assumptions used to calculate the pension liability are as follows:

	Assumptions		Actual	
	31 Dec.11	31 Dec.10 Proforma	31 Dec.11	31 Dec.10 Proforma
Demographic assumptions:				
Mortality table ¹	TV 73 / 77 M – 1 year TV 88 / 90 W – 1 year	TV 73 / 77 M – 1 year TV 88 / 90 W – 1 year	-	-
Incapacity table	EKV 80	EKV 80	-	-
Personnel turnover	0%	0%	-	-
Decreases	By mortality	By mortality	-	-
Financial assumptions:				
Discount rate ²			-	-
Discount rate for current Employees	5.83%	5.25%		
Discount rate for pensioners	5.00%	5.25%		
Discount rate of the other companies	5.50%	5.25%		
Pensionable salary increase rate	2.00%	3.00%	1.72% ³	3.13% ³
Pension increase rate	1.25%	1.75%	0.00% ⁴	1.00% ⁴
Pension fund income rate				
Banco BPI	5.50%	5.50%	(7.25%)	2.85%
Other companies	5.50%	5.50%	(1.19%)	2.26%

1) The life expectancy considered was one year greater than the mortality table used.

2) The amount of pensions liabilities resulting from the use of the discount rates shown in the table for the current Employees and pensioners at 31 December 2011 is similar to that would be obtained if it was used a single discount rate of 5.5% for the entire population.

3) Calculated based on the changes in the pensionable wages of the Employees working for the Group companies in the beginning and end of the year (includes changes in remuneration levels and does not reflect new entrants and exits).

4) Corresponds to the ACTV table update rate.

The following assumptions were used in order to calculate the amount of the social security pension which, under the provisions of the Collective Labour Agreement (ACT) for the banking sector, should be deducted to the pension established in the referred ACT:

Salary increase rate for purposes of calculation of the pension of the Social Security	3.00%
Salary revaluation rate for purposes of calculation of the pension of the Social Security	2.00%
Social Security pension increase rate	1.25%
Sustainability factor	average increase of the life expectancy of 0.1 years per year

At 31 December 2011 and 2010 the number of pensioners and Employees covered by the pension plans funded by the pension funds was as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Retired pensioners	6 870	6 458
Survivor pensioners	1 184	1 126
Current Employees	6 387	6 847
Former Employees (clauses 137 A and 140 of the ACTV)	3 075	3 000
	17 516	17 431

The past service liability for pensioners and Employees of the BPI Group and respective coverage by the Pension Fund at 31 December 2011 and 2010 are as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Total past service liability		
Liability for pensions under payment	478 757	1 746 955
Of which: [increase in the liability resulting from early retirements during the period]	[46 178]	[19 809]
Past service liability of current and former Employees	357 010	559 172
	835 767	2 306 127
Net assets of the pension funds	801 250	2 409 393
Contributions to be transferred to the Pension Fund	37 888	1 375
Excess / (Insufficient) cover	3 371	104 641
Degree of coverage	100%	105%

At 31 December 2011 the Bank recorded in the caption OTHER LIABILITIES – CONTRIBUTIONS TO THE PENSION FUND (4.25) the amount of 37 888 th. euro relating to the contribution for 2011 to be made in 2012, after which the degree of coverage of the liabilities will be 100%.

Evolution of the degree of coverage of the liabilities in the last five years was as follows:

	2011	2010 Proforma	2009	2008	2007
Total past service liability	835 767	2 306 127	2 274 641	2 298 177	2 445 429
Net assets of the Pension Fund	801 250	2 409 393	2 463 809	2 150 110	2 798 494
Contributions to be transferred to the Pension Fund	37 888	1 375	18	119 296	
Excess / (insufficient) cover	3 371	104 641	189 186	(28 771)	353 065
Degree of coverage	100%	105%	108%	99%	114%

The changes in the present value of the past service liability in 2011 and 2010 were as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Liability at the beginning of the year	2 306 127	2 274 641
Current cost:		
Of the BPI Group	5 497	29 736
Of the Employees	3 534	3 536
Interest cost	118 711	117 636
Actuarial (gain) and loss in the liability	(239 825)	(10 533)
Early retirements	46 178	19 809
Pensions payable (estimate)	(130 860)	(128 698)
Partial transfer of retired and pensioners pension liabilities to the Social Security	(1 273 595)	
Liability at the end of the year	835 767	2 306 127

The decrease in current service cost in 2011 results from the transfer of liabilities to the General Social Security Regime, under Decree-Law 1-A / 2011, of 3 January.

The changes in the pension funds in 2011 and 2010 were as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Net assets of the Pension Fund at the beginning of the year	2 409 393	2 463 809
Contributions made:		
By the BPI Group	66 876	18
By the Employees	3 534	3 536
Pension Fund income (net)	(173 348)	70 015
Pensions paid by the Pension Funds	(131 957)	(127 985)
Partial transfer of retired and pensioners pension liabilities to the Social Security	(1 373 248)	
Net assets of the Pension Fund at the end of the year	801 250	2 409 393

At 31 December 2011 and 2010 the net assets of the Banco BPI Employees' Pension Fund were as follows¹:

	31 Dec. 11	31 Dec. 10 Proforma
Liquidity	15.9%	13.8%
Fixed rate bonds	20.3%	34.6%
Indexed rate bonds	7.2%	8.5%
Shares issued by portuguese entities	27.3%	19.9%
Shares issued by foreign entities		6.5%
Real estate	26.2%	14.2%
Others	3.2%	2.6%
	100.0%	100.0%

The contributions made by the BPI Group to the Pension Funds in 2011 were as follows: (i) real estate in the amount of 27 661 th. euro (notes 4.9 and 4.41); (ii) cash of 1 375 th. euro; and (iii) by the transfer of 11% of the participation in Viacer – Sociedade Gestora de Participações Sociais, Lda., in the amount of 37 840 th. euro (notes 4.11 and 4.41). In 2010 the contributions to the Pension Funds were paid in cash.

1) Includes the total assets of the fund at 31 December 2011, including 606 052 th. euro to be transferred to the Portuguese State by 30 June 2012, in accordance with Decree-Law 127 / 2011 of 31 December.

The changes in the fair value of the pension fund assets used by entities of the BPI Group or representing securities issued by these entities in 2011 were as follows:

	31 Dec. 10 Proforma	Purchases	Changes in fair value	Sales	31 Dec. 11
Fair value of the plan assets:					
Financial instruments issued by the BPI Group					
Shares	7 117		(4 398)		2 719
Bonds	79 242		143	19 297	60 088
	86 359		(4 255)	19 297	62 807
Premises used by the BPI Group	202 364	27 660	(4 988)	1 180	223 856
	288 723	27 660	(9 243)	20 477	286 663

The changes in the fair value of the pension fund assets used by entities of the BPI Group or representing securities issued by these entities in 2010 were as follows:

	31 Dec. 09 Proforma	Purchases	Changes in fair value	Sales	31 Dec. 10 Proforma
Fair value of the plan assets:					
Financial instruments issued by the BPI Group					
Shares	10 894		(3 777)		7 117
Bonds	164 411		(5 169)	80 000	79 242
	175 305		(8 946)	80 000	86 359
Premises used by the BPI Group	199 243	1 605	1 516		202 364
	374 548	1 605	(7 430)	80 000	288 723

As mentioned in note 2.1 Comparability of Information and note 2.7, in 2011 the Bank changed its accounting policy for the recognition of actuarial deviations relating to the pension plans and other post-employment benefits under defined benefit plans, ceasing to use the corridor method and recording actuarial gains and losses directly in equity, in the Statement of comprehensive income, in the period in which they occur, in accordance to the paragraph 93A of IAS 19.

The changes in actuarial deviations¹ from 2007 to 2011 were as follows:

Amount at 31 December 2006	(42 561)
Amortisation of deviations outside the corridor	44
Adjustment in the ACTV Table above the estimate	(16 805)
Change in the actuarial and financial assumptions	(166 341)
Deviation in pension fund income	266 018
Deviation in pensions paid	(993)
Amount at 31 December 2007	39 362
Amortisation of deviations outside the corridor	34
Adjustment in the ACTV Table above the estimate	(2 468)
Change in the actuarial and financial assumptions	203 809
Deviation in pension fund income	(733 832)
Deviation in pensions paid	(191)
Deviation in mortality	(8 000)
Others	(560)
Amount at 31 December 2008	(501 846)
Amortisation of deviations outside the corridor	10 743
Adjustment in the ACTV Table below the estimate	17 385
Change in the actuarial and financial assumptions	84 083
Deviation in pension fund income	194 897
Deviation in pensions paid	(1 601)
Deviation in mortality	(5 545)
Others	(4 794)
Amount at 31 December 2009	(206 678)
Amortisation of deviations outside the corridor	568
Adjustment in the ACTV Table below the estimate	17 144
Deviation in pension fund income	(59 904)
Deviation in pensions paid	714
Deviation in mortality	(6 621)
Others	10
Amount at 31 December 2010 Proforma (note 4.31)	(254 767)

(continues) ▷

(continuation)

Adjustment in the ACTV Table below the estimate	39 559
Change in the actuarial and financial assumptions	181 228
Deviation in pension CGA ²	16 370
Deviation in pension fund income	(300 665)
Deviation in pensions paid	(1 098)
Others	2 668
Amount at 31 December 2011 (note 4.31)	(316 705)
Which:	
Deviation associated with the transferred liabilities	(193 721)
Deviation associated with liabilities that remain in the Bank	(122 984)

- 1) Actuarial gains and losses due to differences between the actuarial and financial assumptions and the amounts effectively realised and changes in the actuarial and financial assumptions.
- 2) Change in the calculation and payment rules of CGA – Caixa Geral de Aposentações pensions, which had the effect of reducing the amount of pensions payable by the Bank relating to the Employees for which years of service in the Public Sector were recognized.

The consolidated financial statements as of 31 December 2011 and 2010 include the following amounts relating to coverage of the pension liability, in the captions INTEREST, FINANCIAL GAIN AND LOSS WITH PENSIONS (note 4.40), OPERATING LOSSES (4.41) and PERSONNEL COSTS (note 4.42):

	31 Dec. 11	31 Dec. 10 Proforma
Interest and financial gain and loss with pensions		
Interest cost	118 711	117 636
Expected Fund income	(127 317)	(129 919)
	(8 606)	(12 283)
Personnel costs		
Current service cost	5 497	29 736
Increase in liability for early retirements ¹	35 395	31 059
Compensation due to early retirements ²	4 513	5 018
Change in the conditions of the pension plan	69	69
	45 474	65 882
Operating losses	99 652	

- 1) Includes 11 250 th. euro at 31 December 2010 relating to the 65 early retirements program approved in December 2010, the personnel having left the Group in the beginning of 2011 (note 4.25).
- 2) Includes 1 750 th. euro at 31 December 2010 relating to the program referred to in the preceding footnote, the personnel having left the Group in the beginning of 2011 (note 4.25).

The Members of the Executive Board of Banco BPI, S.A. and the remaining Board Members of BPI Investments benefit from a supplementary retirement and survivor pension plan. At 31 December 2006 a pension fund was started to cover these liabilities.

The main actuarial and financial assumptions used to calculate the pension liability were as follows:

	Assumptions		Actual	
	31 Dec. 11	31 Dec. 10 Proforma	31 Dec. 11	31 Dec. 10 Proforma
Demographic assumptions:				
Mortality table ¹	TV 73 / 77 M – 1 year	TV 73 / 77 M – 1 year		
	TV 88 / 90 W – 1 year	TV 88 / 90 W – 1 year		
Incapacity table	EKV 80	EKV 80		
Personnel turnover	0%	0%		
Decreases	By mortality	By mortality		
Financial assumptions:				
Discount rate	5.50%	5.25%		
Pensionable salary increase rate	1.25%	2.00%	1.2% ²	1.00% ²
Pension increase rate ³	1.75%	1.75%	1.40%	0.00%
Pension fund income rate	5.50%	5.50%	(1.14%)	2.45%

1) The life expectancy considered was one year greater than the mortality table used.

2) Calculated based on the changes in the pensionable wages of Directors serving in the Group companies in the beginning and end of the year.

3) Increase equal to the variation of the Consumer Index Prices rate in accordance with the rules of the pension plan.



At 31 December 2011 and 2010 the past service liability of this plan and respective coverage by the Pension Fund were as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Present value of the past service liability		
Liability for pensions under payment	15 962	10 709
Past service liability relating to the current and former Directors	15 179	18 693
	31 141	29 402
Net assets of the pension fund	28 335	29 477
Contributions to be transferred to the Pension Fund	2 806	
Excess / (Insufficient) cover		75
Degree of coverage	100%	100%

At 31 December 2011 the Bank recorded in the caption OTHER LIABILITIES – CONTRIBUTIONS TO THE PENSION FUND (note 4.25) the amount of 2 806 th. euro relating to the contribution for 2011 to be made in 2012, after which the degree of coverage of liabilities will be 100%.

The changes in the degree of coverage of the liabilities in the last five years were as follows:

	2011	2010 Proforma	2009	2008	2007
Total past service liability	31 141	29 402	27 664	26 120	23 388
Net assets of the Pension Fund	28 335	29 477	26 564	23 871	23 372
Contributions to be transferred to the Pension Fund	2 806		1 308	1 511	
Excess / (insufficient) cover		75	208	(738)	(16)
Degree of coverage	100%	100%	101%	97%	100%

The changes in the present value of the past service liability of the plan in 2011 and 2010 were as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Liability at the beginning of the year	29 402	27 664
Current service cost	1 582	1 504
Interest cost	1 649	1 538
Actuarial (gain) / loss in the liability	(994)	(424)
Pensions payable (estimate)	(875)	(880)
Others	377	
Liability at the end of the year	31 141	29 402

The changes in the pension fund in 2011 and 2010 were as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Net assets of the Pension fund at the beginning of the year	29 477	26 564
Contributions made		3 008
Pension fund income (net)	(337)	651
Pensions paid by the pension fund	(805)	(746)
Net assets of the pension fund at the end of the year	28 335	29 477

At 31 December 2011 and 2010 the net assets of the Banco BPI Directors' pension fund were as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Liquidity	15.8%	15.7%
Fixed rate bonds	37.5%	37.6%
Indexed rate bonds	6.5%	6.5%
Shares	33.7%	33.7%
Real Estate	2.2%	2.2%
Others	4.3%	4.3%
	100.0%	100.0%

Contributions to the pension funds in 2010 were paid in cash.

As mentioned in note 2.1 Comparability of information and note 2.7, in 2011 the Bank changed its accounting policy for the recognition of actuarial deviations relating to the pension plans and other post-employment benefits under defined benefit plans, ceasing to use the corridor method and recording the actuarial gains and losses directly in equity, in the Statement of comprehensive income, in the period in which they occur, in accordance to the paragraph 93A of IAS 19.

The changes in actuarial deviations from 2007 to 2011 were as follows:

Amount at 31 December 2006	1 126
Amortisation of deviations outside the corridor	(9)
Deviation in pension fund income	(390)
Change in actuarial and financial assumptions	1 373
Deviation in pensions paid	2
Others	529
Amount at 31 December 2007	2 631
Amortisation of deviations outside the corridor	(51)
Deviation in pension fund income	(3 148)
Change in actuarial and financial assumptions	1 315
Deviation in pensions paid	(39)
Others	(1 138)
Amount at 31 December 2008	(430)
Deviation in pension fund income	588
Change in actuarial and financial assumptions	1 020
Deviation in pensions paid	97
Others	(488)
Amount at 31 December 2009	787
Amortisation of deviations outside the corridor	(29)
Actuarial gains and (losses)	424
Deviation in pension fund income	(801)
Deviation in pensions paid	134
Amount at 31 December 2010 Proforma (note 4.31)	515
Deviation in pension fund income	(1 927)
Change in actuarial and financial assumptions	994
Deviation in pensions paid	69
Amount at 31 December 2011 (note 4.31)	(349)

The consolidated financial statements as of 31 December 2011 and 2010 include the following amounts relating to coverage of the pension liability for Directors, in the captions INTEREST AND FINANCIAL GAIN AND LOSS WITH PENSIONS (note 4.40) and PERSONNEL COSTS (note 4.42):

	31 Dec. 11	31 Dec. 10 Proforma
Interest and financial gain and loss with pensions		
Interest cost	1 649	1 538
Expected fund income	(1 590)	(1 452)
	59	86
Personnel costs		
Current service cost	1 582	1 504
Past service cost	377	
Change in the pension plan conditions	94	120
	2 053	1 624

4.27. Capital

On 27 April 2011, the Shareholders' General Meeting approved a subscribed share capital increase of Banco BPI from 900 000 th. euro to 990 000 th. euro through the issuance of 90 000 000 ordinary shares of 1 euro by incorporation of reserves.

The Shareholders' General Meeting held on 27 April 2011 empowered Banco BPI's Board of Directors to do the following during a period of eighteen months:

- a) to purchase treasury shares of up to 10% of Banco BPI's share capital, provided that:
 - i) the treasury shares are purchased on a market registered by the Securities Market Commission (Comissão do Mercado de Valores Mobiliários – CMVM), at a price not exceeding 110% of the weighted average of the weighted daily average prices of Banco BPI shares on the 10 official price market sessions managed by Euronext Lisboa – Sociedade Gestora de Mercados Regulamentados, S.A. (Euronext) preceding the date of purchase, and a minimum of 1 euro; or
 - ii) the purchases result from assets received in payment agreements, to settle obligations emerging from contracts entered into by Banco BPI, provided that the value attributed, for that purpose, to the shares does not exceed the value determined by application of the criteria defined in (i) above, with reference to the settlement agreement date;
- b) to sell Banco BPI shares provided that:
 - i) the shares and options to purchase shares of Banco BPI are sold to Employees and Directors of Banco BPI and subsidiaries, as share-based payments under the terms and conditions established in the Variable Remuneration Program (RVA) regulations; or
 - ii) the shares are sold to third parties under the following conditions:
 1. the shares are sold in a market registered at the Securities Market Commission (CMVM);
 2. the shares are sold at a price not less than 90% of the weighted average of the daily weighted average prices of Banco BPI shares on the 10 official price market sessions managed by Euronext preceding the date of sale;
- c) carry out repurchase or resale agreements or the loan of shares of Banco BPI, provided that such operations are conducted with qualified investors that meet the requirements to be eligible counterparties of Banco BPI, in accordance with articles 30 and 317-D of the Securities Code (Código dos Valores Mobiliários).

4.28. Share Premium account

The changes in the share premium account in 2011 were as follows:

Balance at 31 December 2010 Proforma	441 306
Use of share premiums to cover negative retained earnings	(312 874)
Balance at 31 December 2011	128 432

The Shareholders' General Meeting held on 27 April 2011, approved the use of 312 874 th. euro of share premiums to cover negative retained earnings.

In 2010 there were no changes on this caption.

In accordance with Ministerial Order 408 / 99 of 4 June published in Diário da República – 1^a B Series, n.º 129, the share premium account may not be used to pay dividends or to acquire treasury shares.

4.29. Other equity instruments and treasury shares

These captions are made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Other equity instruments		
Cost of shares to be made available to Group Employees		
RVA 2007		664
RVA 2008	49	78
RVA 2009	12	15
RVA 2010	65	13
RVA 2011	3	
Costs of options not exercised (premiums)		
RVA 2005		1 230
RVA 2007	5 725	5 729
RVA 2008	828	830
RVA 2009	814	814
RVA 2010	401	521
RVA 2011	133	
	8 030	9 894
Treasury shares		
Shares to be made available to Group Employees		
RVA 2007		613
RVA 2008	43	85
RVA 2009	14	22
RVA 2010	6	
Shares hedging RVA options		
RVA 2005		1 806
RVA 2007	14 619	12 813
RVA 2008	3 045	3 045
RVA 2009	3 147	3 315
RVA 2010	146	
	21 020	21 699

The caption OTHER EQUITY INSTRUMENTS includes accrued share-based payment program (RVA) costs relating to shares to be made available and options not yet exercised.

Details of the share-based Variable Remuneration Program (RVA) are included in note 4.49.

The financial statements of the BPI Group as 31 December 2011 and 2010 reflect 7 071 117 and 6 647 837 treasury shares, respectively, including 46 737 and 255 553 treasury shares to be made available under the RVA program for which ownership was transferred to the Employees on the grant date.

In 2011, the Bank recorded directly in shareholders' equity, a gain of 867 th. euro on the sale of treasury shares hedging the variable remuneration (RVA) program. In 2010 the Bank recorded directly in shareholders' equity, a gain of 348 th. euro on the sale of treasury shares hedging the variable remuneration (RVA) program and a gain of 110 th. euro on the sale of other treasury shares.

4.30. Revaluation reserves

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Revaluation reserves		
Reserves resulting from valuation to fair value of financial assets available for sale (note 4.5)		
Debt Instruments		
Securities	(1 293 028)	(686 770)
Hedging derivatives	(460 053)	(296 424)
Equity Instruments	16 565	20 249
Other	7 890	6 858
Reserve for foreign exchange difference on investments in foreign entities		
Subsidiary or associated companies	(27 176)	(32 171)
Equity instruments available for sale	(100)	(112)
Legal revaluation reserve	703	703
	(1 755 199)	(987 667)
Deferred tax reserve		
Resulting from valuation to fair value of financial assets available for sale		
Tax assets	506 770	275 105
Tax liabilities	(3 104)	(4 312)
	503 666	270 793
	(1 251 533)	(716 874)

Deferred taxes have been calculated in accordance with current legislation and correspond to the best estimate of the impact of recognising the unrealized gains and losses included in the caption REVALUATION RESERVES.

4.31. Other reserves and retained earnings

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Legal reserve	68 377	149 463
Merger reserve	(2 463)	(2 463)
Consolidation reserves and retained earnings	494 077	304 539
Other reserves	569 688	201 945
Actuarial deviations	(317 054)	(254 252)
Taxes related to actuarial deviations	91 534	73 324
Loss on treasury shares	(5 165)	(6 384)
Taxes relating to gain on treasury shares	1 318	1 670
	900 312	467 842

In accordance with Article 97 of the General Regime for Credit Institutions and Financial Companies, approved by Decree-Law 298 / 91 of 31 December and amended by Decree-Law 201 / 2002 of 25 September, Banco BPI must appropriate at least 10% of its net income each year to a legal reserve until the amount of the reserve equals the greater of the amount of share capital or the sum of the free reserves plus retained earnings.

The Shareholders' General Meeting held on 27 April 2011 approved the incorporation of 90 000 th. euro of the legal reserve into share capital (note 4.27).

On 31 December 2011 and 2010 the share premium account and legal reserve of the companies included in the consolidation of the BPI Group which, under the applicable regulations, may not be distributed, amounted to 169 248 th. euro and 206 567 th. euro, respectively, which, adjusted by Banco BPI's effective participation percentage in these companies, amounted to 85 326 th. euro and 93 578 th. euro, respectively. These reserves are included in the captions CONSOLIDATION RESERVES AND RETAINED EARNINGS and REVALUATION RESERVES.

In 2011, share premiums were used to cover negative retained earnings in the amount of 312 874 th. euro (note 4.28).

The caption CONSOLIDATION RESERVES at 31 December 2011 and 2010 includes (13 807) th. euro and (8 187) th. euro, respectively, relating to the amount of the revaluation reserves of the companies recorded in accordance with the equity method, weighted by the BPI Group's (effective) participation in them.

At 31 December 2011 the caption CONSOLIDATION RESERVES AND RETAINED EARNINGS includes 73 823 th. euro relating to gains, net of taxes, realized on the repurchase of preference shares (note 4.32).

In 2011 the Bank changed its accounting policy for the recognition of actuarial deviations relating to the pension plans and other post-employment benefits under defined benefit plans, ceasing to use the corridor method and recording actuarial gains and losses directly in equity (note 2.1, 2.7 and 4.26). The tax rules relating to this change, included in Law 64-B / 2011 of 30 December State Budget for 2012, establishes that negative changes in equity recorded in the 2011 tax year, resulting from changes in the accounting policy for recognition of actuarial deviations will be tax deductible, in equal amounts, in the tax period beginning on or after 1 January 2012 and in the subsequent nine tax years, and so the corresponding deferred tax asset was recognized (note 4.44.).

4.32. Minority interests

This caption is made up as follows:

	Balance sheet		Statement of income	
	31 Dec. 11	31 Dec. 10 Proforma	31 Dec. 11	31 Dec. 10 Proforma
Minority shareholders in:				
Banco de Fomento Angola, S.A.	278 517	247 000	90 357	98 716
BPI Capital Finance Ltd.	53 296	236 963	7 201	6 110
BPI Alternative Fund	10 548	17 364	267	184
Fundo BPI Taxa Variável	10 668	16 039	198	721
BPI Dealer – Sociedade financeira de Corretagem (Mozambique), S.A.R.L.	6	5	1	
BPI (Suisse), S.A.	3	1	1	1
	353 038	517 372	98 025	105 732

Minority interests in BPI Capital Finance at 31 December 2011 and 31 December 2010 includes 53 122 th. euro and 236 527 th. euro, respectively, relating to preference shares:

	31 Dec. 11			31 Dec. 10 Proforma		
	Issued	Repurchased	Balance	Issued	Repurchased	Balance
"C" Series Shares	250 000	(196 878)	53 122	250 000	(13 473)	236 527

The C, D and E series correspond to preference shares with a nominal value of 1 000 euro each, issued in August 2003 (C series) and June 2005 (D and E series), respectively. The payment of dividends and redemption of the preference shares are guaranteed by Banco BPI.

The C Series preference shares entitle the holders to a non-cumulative preference dividend, if and when declared by the Directors of BPI Capital Finance, Ltd., at an annual rate equal to the three month Euribor rate plus a spread of 1.55 percentage points up to 12 August 2013 and thereafter to a non-cumulative preference dividend at a rate equal to the three month Euribor rate plus a spread of 2.55 percentage points. The dividends are payable quarterly on 12 February, 12 May, 12 August and 12 November of each year.

The D Series preference shares entitled the holders to a non-cumulative preference dividend, if and when declared by the Directors of BPI Capital Finance, Ltd., at an annual rate equal to the three month Euribor rate plus a spread of 0.075 percentage points over their nominal value. The dividends were payable quarterly on 30 March, 30 June, 30 September and 30 December of each year.

The E Series preference shares entitled the holders to a non-cumulative preference dividend, if and when declared by the Directors of BPI Capital Finance, Ltd., at an annual rate equal to the three month Euribor rate over their nominal value. The dividends were payable quarterly on 30 March, 30 June, 30 September and 30 December of each year.

BPI Capital Finance, Ltd. will not pay any dividend on the preference shares if, during the year or quarter in progress, such dividend plus amounts already paid exceed Banco BPI's distributable funds.

The C Series preference shares are redeemable in whole or in part at their nominal value, at the option of BPI Capital Finance, Ltd. on any dividend payment date as from August 2013, subject to prior consent of the Bank of Portugal and Banco BPI. The C series preference shares are also redeemable in whole, but not in part, at the option of BPI Capital Finance, Ltd., with prior approval of the Bank of Portugal and Banco BPI, if a disqualifying capital event or tax event occurs.

The D and E Series preference shares were redeemed on 30 June 2010 at the option of BPI Capital Finance, Ltd., with prior approval of the Bank of Portugal and Banco BPI.

In 2011 BPI Capital Finance repurchased 196 573 000 C Series preference shares with prior approval of the Bank of Portugal and Banco BPI, the gain on which, net of taxes, was recorded directly in the shareholders' equity caption CONSOLIDATION RESERVES AND RETAINED EARNINGS (note 4.31).

These shares are subordinated to all liabilities of Banco BPI and "pari passu" with any other preference shares that might be issued by the Group in the future.

4.33. Off balance sheet items

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Guarantees given and other contingent liabilities		
Guarantees and sureties	2 378 533	2 820 405
Transactions with recourse	17 500	17 500
Stand-by letters of credit	26 349	27 216
Documentary credits	118 195	146 836
Sureties and indemnities	75	81
	2 540 652	3 012 038
Assets given as collateral	7 830 857	5 710 853
Commitments to third parties		
Irrevocable commitments		
Options on assets	54 780	66 087
Irrevocable credit lines	1 934	39 296
Securities subscription	179 400	419 191
Term commitment to make annual contributions to the deposit Guarantee Fund	38 714	38 326
Commitment to the Investor Indemnity System	11 587	11 622
Other irrevocable commitments	707	1 591
Revocable commitments	2 429 877	3 280 583
	2 716 999	3 856 696
Responsibility for services provided		
Deposit and safeguard of assets	23 562 945	28 772 225
Amounts for collection	150 374	198 662
Assets managed by the institution	5 182 981	7 709 454
	28 896 300	36 680 341

The caption ASSETS GIVEN AS COLLATERAL at 31 December 2011 and 2010 includes:

- 549 450 th. euro and 786 544 th. euro, respectively, relating to captive credit and 6 901 640 th. euro and 4 878 875 th. euro relating to securities eligible for funding from the European Central Bank (ECB).
- 5 195 th. euro and 5 613 th. euro relating to securities given in guarantee to the Securities Market Commission (Comissão do Mercado de Valores Mobiliários – CMVM) under the Investor Indemnity System (Sistema de Indemnização aos Investidores);
- 46 285 th. euro and 39 820 th. euro relating to securities given in guarantee to the Deposit Guarantee Fund.

Additionally, at 31 December 2011 the caption ASSETS GIVEN AS COLLATERAL includes securities given as collateral to the European Investment Bank in the amount of 328 287 th. euro.

The OPTIONS ON ASSETS caption at 31 December 2011 and 2010 corresponds to share options issued by the BPI Group under the share-based payments program (RVA).

The COMMITMENTS TO THIRD PARTIES – SECURITIES SUBSCRIPTION caption at 31 December 2011 and 2010 corresponds to Banco BPI's commitment to subscribe for commercial paper if the securities issued are not totally or partially subscribed for by the market.

The TERM COMMITMENT TO MAKE ANNUAL CONTRIBUTIONS TO THE DEPOSIT GUARANTEE FUND caption at 31 December 2011 and 2010 corresponds to BPI's legally required irrevocable commitment, to pay to the Fund, upon request by it, the amount of the annual contributions not yet paid.

The COMMITMENT TO THE INVESTOR INDEMNITY SYSTEM caption at 31 December 2011 and 2010 corresponds to BPI's irrevocable commitment, legally required under the applicable legislation, to pay the System, if required to do so, its share of the amounts necessary to indemnify investors.

At 31 December 2011 the BPI Group managed the following third party assets:

Investment funds and PPR	1 912 565
Pension funds ¹	1 582 950

1) Includes the Group companies' pension funds.

4.34. Financial margin (narrow sense)

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Interest and similar income		
Interest on deposits with banks	5 936	4 511
Interest on placements with credit institutions	29 510	21 065
Interest on loans to Customers	749 280	736 408
Interest on credit in arrears	13 124	12 222
Interest on securities held for trading and available for sale	403 072	473 437
Interest on securitised assets not derecognised	220 341	69 445
Interest on derivatives	566 228	575 573
Interest on securities held to maturity	1 460	1 273
Interest on debtors and other applications	4 192	5 263
Other interest and similar income	11 667	10 110
	2 004 810	1 909 307
Interest and similar expense		
Interest on resources		
Of central banks	21 202	24 493
Of other credit institutions	52 539	42 857
Deposits and other resources of Customers	527 105	368 331
Debt securities	221 761	250 926
Interest from short selling	1 409	219
Interest on derivatives	597 344	552 545
Interest on liabilities relating to assets not derecognised on securitised operations	27 783	26 327
Interest on subordinated debt	12 056	17 189
Other interest and similar expenses	287	29
	1 461 486	1 282 916

4.35. Gross margin on unit links

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Income from financial instruments		
Interest	6 500	9 068
Gains and losses on financial instruments	(17 240)	(2 992)
Gains and losses on capitalisation insurance – unit links	10 750	(6 119)
Management and redemption commission	3 790	4 179
	3 800	4 136

4.36. Income from equity instruments

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Conduril	276	369
SIBS	1 068	1 082
Unicre		2 024
Others	300	258
	1 644	3 733

4.37. Net commission relating to amortised cost

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Commission received relating to amortised cost		
Loans to Customers	35 431	38 153
Others	2 038	2 166
Commission paid relating to amortised cost		
Loans to Customers	(7 355)	(7 974)
Others	(2 111)	(2 079)
	28 003	30 266

4.38. Technical result of insurance contracts

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Premiums	355 410	1 066 657
Income from financial instruments	91 603	62 538
Impairment (note 4.20)	(72 999)	
Cost of claims, net of reinsurance	(800 292)	(340 071)
Changes in technical provisions, net of reinsurance	441 198	(727 815)
Participation in results	(45 042)	(45 228)
	(30 122)	16 081

This caption includes the result of capitalisation insurance with a discretionary participation feature (IFRS 4). Participation in the results of capitalisation insurance is attributed at the end of each year and is calculated in accordance with the technical bases of each product, duly approved by the Portuguese Insurance Institute (note 2.11).

In 2011, despite the impairment losses recorded on Greek Government debt securities, the BPI Group decided to attribute positive profitability to the holders of Savings products (note 4.48), greater than the amount that would result from the corresponding technical bases, supporting the respective cost.

4.39. Net commission income

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Commissions received		
On guarantees provided	25 826	26 940
On commitments to third parties	1 476	1 836
On insurance brokerage services	38 388	37 333
On banking services rendered	209 904	212 725
On operations realised on behalf of third parties	14 263	17 047
Other	6 256	12 266
	296 113	308 147
Commissions paid		
On guarantees received	101	109
On commitments to third parties	11	
On financial instrument operations	1 437	882
On banking services rendered by third parties	41 027	39 897
On operations realised by third parties	3 781	4 280
Other	546	1 027
	46 903	46 195
Other income, net		
Refund of expenses	29 175	30 898
Income from banking services	27 903	30 244
Charges similar to fees	(9 302)	(9 214)
	47 776	51 928

At 31 December 2011 and 2010, commissions received on insurance brokerage services or reinsurance is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Life insurance		
Housing	19 186	17 763
Consumer	3 631	3 345
Others	4 639	3 779
	27 456	24 887
Non-life insurance		
Housing	4 105	4 500
Consumer	2 498	4 422
Others	4 329	3 524
	10 932	12 446
	38 388	37 333

Commission received on insurance brokerage services was paid in full in cash and more than 90% thereof relates to brokerage services in insurance of Allianz.

4.40. Net income on financial operations

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Gain and loss on operations at fair value		
Foreign exchange gain, net	71 015	73 312
Gain and loss on financial assets held for trading		
Debt instruments	2 922	1 831
Equity instruments	(47 161)	(18 086)
Other securities	(4)	5
Gain and loss on trading derivative instruments	83 241	38 363
Gain and loss on other financial assets valued at fair value through profit or loss	(1 437)	2 233
Gain and loss on financial liabilities held for trading	(1 994)	609
Gain and loss on the revaluation of assets and liabilities hedged by derivatives	375 421	173 860
Gain and loss on hedging derivative instruments	(302 583)	(181 367)
Other gain and loss on financial operations	17 937	2 315
	197 357	93 075
Gain and loss on assets available for sale		
Gain and loss on the sale of loans and advances to Customers	224	(355)
Gain and loss on financial assets available for sale		
Debt instruments	(206)	(4 959)
Equity instruments	79	22 242
Others	224	(3 043)
	321	13 885
Interest and financial gain and loss with pensions (note 4.26)		
Interest cost	(120 360)	(119 174)
Expected fund income	128 907	131 371
	8 547	12 197

At 31 December 2011 and 2010, the caption GAIN AND LOSS ON TRADING DERIVATIVE INSTRUMENTS includes 42 362 th. euro and 10 293 th. euro, respectively, relating to equity swaps contracted with Customers, which are hedged with shares classified in the caption EQUITY INSTRUMENTS.

At 31 December 2011 the BPI Group recorded gains on the repurchase of debt in the amount of 108 809 th. euro, of which 92 523 th. euro relates to subordinated debt (included in the captions GAIN AND LOSS ON THE REVALUATION OF ASSETS AND LIABILITIES HEDGED BY DERIVATIVES and GAIN AND LOSS ON HEDGING DERIVATIVE INSTRUMENTS) and 16 286 th. euro relates to financial liabilities on securitisation operations (included in caption OTHER GAIN AND LOSS ON FINANCIAL OPERATIONS).

The GAIN AND LOSS ON EQUITY INSTRUMENTS AVAILABLE FOR SALE caption at 31 December 2010 includes 21 828 th. euro resulting from the revaluation of the participation in Unicre, resulting from the acquisition of 3.4% of its share capital (notes 1 and 4.11). The gain recorded corresponds to the revaluation to fair value of the original investment (recorded at historical cost in the caption FINANCIAL ASSETS AVAILABLE FOR SALE) in accordance with the fair value of Unicre underlying the increase in the participation made in June 2010 (note 2.2).

4.41. Net operating expenses

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Operating income		
Gains on disposal of investments in subsidiaries and associated companies	65 521	524
Gain on tangible assets held for sale	837	1 184
Gain on other tangible assets	21 552	9 066
Other operating income	20 719	5 596
	108 629	16 370
Operating expenses		
Subscriptions and donations	4 160	4 786
Contributions to the Deposit Guarantee Fund	3 490	3 681
Contribution to the Investor Indemnity System	7 092	
Loss on tangible assets held for sale	753	455
Loss on other tangible and intangible assets	14 185	11 972
Partial transfer of pension liabilities of retired and pensioners to the Social Security	99 652	
Other operating expenses	1 904	4 271
	131 236	25 165
Other taxes		
Indirect taxes	4 556	4 333
Direct taxes	2 550	1 830
	7 106	6 163

The caption GAIN ON THE SALE OF INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES at 31 December 2011 refers to the contributions in kind to the Banco BPI Pension Fund of 11% of the participation in Viacer and the revaluation to fair value of the participation of 14% maintained by Banco BPI, that was transferred to the financial assets available for sale portfolio (notes 2.2 and 4.11).

The caption GAIN ON OTHER TANGIBLE ASSETS at 31 December 2011 includes 9 649 th. euro relating to contributions in kind (properties) to Banco BPI's Pension Fund (note 4.9 and note 4.26).

The caption OTHER OPERATING INCOME at 31 December 2011 includes 13 331 th. euro relating to the recovery of VAT for the years 2007, 2008 and 2009.

The caption CONTRIBUTIONS TO THE INVESTOR INDEMNITY SYSTEM at 31 December 2011 refers to the contribution of the BPI Group, in accordance with regulations of the Securities Market Commission (Comissão do Mercado de Valores Mobiliários – CMVM) due to the Banco Privado Português process.

The caption PARTIAL TRANSFER OF THE PENSION LIABILITIES OF RETIRED AND PENSIONERS TO THE SOCIAL SECURITY at 31 December 2011 results from the use of different actuarial assumptions by BPI Group and by the Portuguese State in the valuation of the liability transferred (note 4.26).

4.42. Personnel costs

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Remuneration	287 080	297 691
Long service premium (note 2.7)	1 968	2 422
Pension costs (note 4.26)	9 306	34 619
Early retirements (note 4.26)	39 908	36 077
Other mandatory social charges	69 303	50 002
Other personnel costs	10 448	10 090
	418 013	430 901

The caption REMUNERATION at 31 December 2011 and 2010 includes the following costs relating to remuneration granted to the members of Banco BPI's Board of Directors:

- 4 113 th. euro and 4 887 th. euro, respectively, relating to remuneration paid in cash; and
- 135 th. euro and 113 th. euro, respectively, relating to the accrued cost of the share-based remuneration program (RVA) in accordance with IFRS 2.

The caption PENSION FUND at 31 December 2011 and 2010 includes 1 648 th. euro and 3 179 th. euro, respectively, relating to costs of the Defined Contribution Pension Plan for Employees of Banco de Fomento Angola.

4.43. Administrative costs

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Administrative costs		
Supplies		
Water, energy and fuel	11 755	11 186
Consumable material	6 500	6 582
Other	1 053	1 188
Services		
Rent and leasing	51 098	50 936
Communications and computer costs	41 866	37 755
Travel, lodging and representation	8 025	9 526
Publicity	18 806	20 226
Maintenance and repairs	17 401	18 224
Insurance	4 791	5 291
Fees	4 004	4 699
Legal expenses	2 164	1 434
Security and cleaning	11 352	10 770
Information services	4 047	4 008
Temporary labour	3 575	4 048
Studies, consultancy and auditing	7 765	6 768
SIBS	20 135	19 393
Other services	16 509	20 114
	230 846	232 148

At 31 December 2011 the remuneration paid to Deloitte and its network^{1,3}, in the amount of 1 983 th. euro is made up as follows, by nature and entity to which the services were provided:

Type of service	Banco BPI	BFA	BPI-BI	BPI GA ²	Others ³	Total	% of total
Statutory audit	616	146	121	129	218	1 230	62%
Other assurance services	201	137	51	49	78	516	26%
Tax consultancy	113	10				123	6%
Other services	108				6	115	6%
	1 038	292	172	178	303	1 983	100%

1) The "network" of BPI auditors includes Deloitte and Deloitte & Associados, SROC, S.A., and it agrees with the definition of "network" established by the European Commission in its Recommendation no. C (2002) 1873 of 16 May 2002.

2) Includes the amounts paid by securities and real estate funds managed by BPI Gestão de Activos.

3) In order of decreased importance of the amounts paid: BPI Vida e Pensões, BPI Suisse, Banco BPI Cayman, Banco BPI – Offshore de Macau, BPI Private Equity, BPI Luxemburgo, BPI Capital Africa, BPI – Locação de Equipamentos, BPI Capital Finance and BPI Madeira.

Deloitte and its network did not provide any service to the BPI Group in areas relating to financial information technologies, internal audit, valuations, litigation, recruitment, among others, that could generate conflicts of interest or a potential damage to the quality of the statutory audit work.

All the services rendered by Deloitte, including the remuneration conditions, independently of their nature, are subject to prior examination and approval by the Supervisory Board, which is an additional mechanism to ensure the independence of the External Auditor.

4.44. Income tax

At 31 December 2011 and 2010, the income tax recognised in the statements of income, as well as the tax burden, measured by the relationship between the tax charge and profit before tax, are as follows:

	31 Dec. 11	31 Dec. 10
		Proforma
Current income tax		
For the year	15 150	21 017
Correction of prior years	(129)	(7 453)
	15 021	13 564
Deferred tax		
Recognition and reversal of temporary differences	(71 675)	(6 045)
Change in tax rate	(113)	(10 130)
On tax losses carried forward	(99 681)	(3 083)
	(171 469)	(19 258)
Contribution over the banking sector	15 257	
Total tax charged to the statement of income	(141 191)	(5 694)
Net income before income tax ¹	(356 452)	256 086
Tax burden	39.6%	(2.2%)

1) Considering net income of the BPI Group plus income tax and income attributable to minority interests less the earnings of associated companies (equity method).

The caption CURRENT INCOME TAX – CORRECTION OF PRIOR YEARS for the period ended 31 December 2011, includes (7 427) th. euro relating to corrections of estimated taxes to be paid by BFA with respect to the year 2009.

As a result of the coming into force of Law No. 12 – A / 2010 of 30 June a State surcharge of 2.5% on taxable income in excess of 2 000 th. euro was introduced. The impact of this change on the BPI Group's deferred tax at 31 December 2009 is presented in the caption DEFERRED TAX – CHANGE IN TAX RATE.

The State Budget Law, law No. 55-A / 2010 of 31 December in the article 141 approved a contribution over the banking sector. On 30 March 2011, the application conditions of the new contribution were published in Decree No. 121 / 2011. Due to this legislative change, in 2011 the BPI Group recorded 15 257 th. euro relating to this contribution.

In 2011 and 2010 Banco BPI recorded, directly in shareholders' equity, income tax of 352 th. euro and 113 th. euro, respectively, on net gain / loss on treasury shares recognised in equity (note 4.31). In 2011 taxes of 91 534 th. euro relating to actuarial deviations in pensions were also recorded in shareholders' equity (note 4.31).

Reconciliation between the nominal rate of income tax and the tax burden on 2011 and 2010, as well as between the tax cost / income and the product of the accounting profit times the nominal tax rate are as follows:

	31 Dec. 11		31 Dec. 10 Proforma	
	Tax rate	Amount	Tax rate	Amount
Net income before income tax		(356 452)		256 086
Income tax computed based on the nominal tax rate	26.0%	(92 752)	33.2%	84 984
Effect of tax rates applicable to foreign branches	(0.1%)	207	2.3%	5 856
Income exempt from income tax (SFE's)	0.3%	(1 246)	(0.1%)	(144)
Capital gain and impairment of investments (net)	2.8%	(9 812)	(2.3%)	(5 911)
Capital gain of tangible assets (net)	0.7%	(2 551)	0.0%	(68)
Income on Angolan public debt ¹	13.8%	(49 047)	(21.2%)	(54 338)
Non taxable dividends	0.0%	(6)	(1.2%)	(3 145)
Tax on dividends of subsidiary and associated companies	(1.8%)	6 571	2.1%	5 471
Conversion of shareholders' equity of associated companies	0.1%	(305)	0.0%	(13)
Tax benefits	0.6%	(2 128)	(0.8%)	(1 930)
Impairment and provision for loans	0.5%	(1 619)	(0.2%)	(640)
Non tax deductible pension costs	0.0%	103	0.0%	(71)
Interest recognised on minority interests	0.5%	(1 959)	(0.7%)	(1 774)
Correction of prior year taxes	0.6%	(2 316)	(0.3%)	(832)
Differential of tax rate on tax losses ²	(4.0%)	14 379		
Tax losses	4.7%	(16 751)	(9.5%)	(24 206)
Effect of change in the rate of deferred tax	0.0%	(142)	(4.0%)	(10 130)
Contribution over the financial sector	(4.3%)	15 257		
Autonomous taxation	(0.7%)	2 345	0.4%	1 118
Other non taxable income and expenses	(0.2%)	578	0.0%	79
	39.6%	(141 191)	(2.2%)	(5 694)

1) At 31 December 2010, includes corrections of prior year taxes of 7 427 th. euro.

2) The calculation of deferred taxes relating to tax losses is based on a tax rate of 25% and not on the nominal tax rate (that includes State and Municipal surcharge).

Deferred tax assets related to tax losses and not recognized in the financial statements at 31 December 2011 and 2010 amount to 6 184 th. euro and 13 604 th. euro, respectively.

Current taxes are calculated based on the nominal tax rates legally in force in the countries in which the Bank operates:

	31 Dec. 11		31 Dec. 10 Proforma	
	Net income before income tax	Current tax rate	Net income before income tax	Current tax rate
Companies with income tax rate of 25% and Surcharge of 4%	(147 000)	29.0%	69 584	29.0%
Companies with income tax rate of 25% and Surcharge of 3.8%	(392 942)	28.8%	(6 255)	28.8%
Companies with income tax rate of 35% (Angola)	181 076	35.0%	190 333	35.0%
Investment funds ¹	2 414		2 423	
	(356 452)	26.0%	256 086	33.2%

1) Regime applicable under the provisions of article 22 of the EBF.

Deferred tax assets and liabilities correspond to the amount of tax recoverable and payable in future periods resulting from temporary differences between the amount of assets and liabilities on the balance sheet and their tax base. Deferred tax assets are also recognised on tax losses carried forward and tax credits.

Profits distributed to Banco BPI by subsidiary and associated companies in Portugal are not taxed in Banco BPI as a result of applying the regime established in article 46 of the Corporate Income Tax Code, which eliminates double taxation of profits distributed.

Deferred tax assets and liabilities are calculated using the tax rates decreed for the periods in which they are expected to reverse.

Deferred tax assets and liabilities at 31 December 2011 and 2010 are as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Deferred tax		
Assets (note 4.12)	894 754	500 591
Liabilities (note 4.22)	(27 839)	(31 434)
	866 915	469 157
Recorded by corresponding entry to:		
Retained earnings	98 991	105 783
Other reserves – Actuarial deviations	92 789	73 324
Fair value reserve (note 4.30)		
Financial instruments available for sale	503 666	270 793
Net income	171 469	19 258
	866 915	469 157

Deferred tax assets are recognised up to the amount expected to be realised through future taxable profits.

The changes in deferred taxes in 2011 are as follows:

	Balance at 31 Dec. 10 Proforma	Corresponding entry to net income		Corresponding entry to reserves and retained earnings		Balance at 31 Dec. 11
		Costs	Income	Increases	Decreases	
Deferred tax assets						
Pension liability	29 974	(6 307)	30			23 697
Early retirements	30 349	(23)	2 701			33 028
Advertising campaigns	909	(646)				263
"Taxa garantida" operations	186	(92)				94
Banco BPI Cayman net income	225					225
Taxed provisions and impairment	71 551		19 862			91 413
Long service premium	7 316	(404)	26			6 938
Tax losses	10 227		99 681			109 908
Financial instruments available for sale	275 658	(247)	204	235 869	(4 390)	507 094
Actuarial deviations ¹	73 645		249	19 144	(249)	92 789
Tax deferral of the impact of the partial transfer of liabilities with pensions to Social Security ²			28 770			28 770
Others	551	(141)	146		(21)	535
	500 591	(7 860)	151 670	255 013	(4 660)	894 754
Deferred tax liabilities						
Revaluation of tangible fixed assets	(1 896)		1 123			(773)
"Taxa garantida" operations	(185)		92			(93)
Revaluation of assets and liabilities hedged by derivatives	(1 464)	(444)	1 464			(445)
Subsidiary's equity conversion	(1 598)	305				(1 293)
Dividends to be distributed by subsidiary and associated companies	(7 869)	(6 484)	5 906	263	(84)	(8 269)
RVA's	(1)		352		(351)	0
Loan impairment	(13 424)		9 641			(3 783)
Financial instruments available for sale	(4 549)	(4 956)	39	1 496	(102)	(8 072)
Preference treasury shares		(5 049)	24 610		(24 610)	(5 049)
Actuarial deviations ¹	(321)		1 001		(680)	
Others	(127)		60	4		(63)
	(31 434)	(16 628)	44 288	1 762	(25 826)	(27 839)
	469 157	(24 489)	195 958	256 775	(30 486)	866 915

1) Fiscal framework described in note 2.1.

2) Fiscal framework described in note 2.7.

The changes in deferred taxes in 2010 are as follows:

	Balance at 31 Dec. 09 Proforma	Corresponding entry to net income		Corresponding entry to reserves and retained earnings		Balance at 31 Dec. 10 Proforma
		Costs	Income	Increases	Decreases	
Deferred tax assets						
Pension liability	33 146	(6 262)	3 090			29 974
Early retirements	26 144	(17)	4 222			30 349
Advertising campaigns	2 089	(1 180)				909
"Taxa garantida" operations	254	(92)	24			186
Banco BPI Cayman net income	206		19			225
Taxed provisions and impairment	58 930	(25)	12 646			71 551
Long service premium	6 779		537			7 316
Tax losses	7 144		3 083			10 227
Financial instruments available for sale	57 133		681	218 623	(779)	275 658
Actuarial deviations	54 612	(195)			19 228	73 645
Tax deferral of the impact of transition to NCA	467	(467)				
Others	25	(7)	529	17	(13)	551
	246 929	(8 245)	24 831	218 640	18 436	500 591
Deferred tax liabilities						
Revaluation of tangible fixed assets	(1 815)	(80)	(1)			(1 896)
"Taxa garantida" operations	(253)	(24)	92			(185)
Revaluation of assets and liabilities hedged by derivatives	(547)	(917)				(1 464)
Subsidiary's equity conversion	(1 614)	16				(1 598)
Dividends to be distributed by subsidiary and associated companies	(6 111)	(6 962)	5 782	1	(579)	(7 869)
RVA's	(3)		102		(100)	(1)
Loan impairment	(17 540)		4 116			(13 424)
Financial instruments available for sale	(7 288)	55		2 942	(258)	(4 549)
Tax deferral of the impact of transition to NCA	(113)		113			
Actuarial deviations	(360)		39			(321)
Others	(460)	(16)	357		(8)	(127)
	(36 104)	(7 928)	10 600	2 943	(945)	(31 434)
	210 825	(16 173)	35 431	221 583	17 491	469 157

The BPI Group does not recognise deferred tax assets and liabilities on temporary taxable differences relating to investments in subsidiary and associated companies as it is improbable that such differences will revert in the foreseeable future, except as follows:

- deferred tax liabilities relating to estimated dividends that Banco de Fomento Angola is expected to pay to the BPI Group companies in the following year out of profit for the year, are recognized;
- deferred tax liabilities relating to all the distributable net income (including the undistributed part) of Banco Comercial e de Investimentos are recognized.

▷

4.45. Earnings of associated companies (equity method)

This caption is made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Banco Comercial e de Investimentos, S.A.R.L.	6 910	6 113
Companhia de Seguros Allianz Portugal, S.A.	12 190	16 177
Cosec – Companhia de Seguros de Crédito, S.A.	2 901	2 201
TC Turismo Capital – SCR, S.A.	104	26
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	779	1 675
InterRisco – Sociedade de Capital de Risco, S.A.	231	(72)
Unicre – Instituição Financeira de Crédito, S.A.	1 837	1 212
Viacer – Sociedade Gestora de Participações Sociais, Lda.	3 463	1 799
	28 415	29 131

4.46. Consolidated net income of the BPI Group

The contribution of Banco BPI and subsidiary and associated companies to consolidated net income in 2011 and 2010 is as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Banks		
Banco BPI, S.A. ¹	(360 288)	3 465
Banco Português de Investimento, S.A. ¹	(1 786)	4 131
Banco de Fomento Angola, S.A. ¹	84 822	92 670
Banco Comercial e de Investimentos, S.A.R.L. ¹	6 322	5 593
Banco BPI Cayman, Ltd.	3 458	3 302
Specialised credit		
BPI Locação de Equipamentos, Lda.	105	166
Asset management and brokerage		
BPI Dealer – Sociedade Financeira de Corretagem (Moçambique), S.A.R.L.	6	(5)
BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliários, S.A. ¹	10 903	11 546
BPI – Global Investment Fund Management Company, S.A.	324	910
BPI Pensões – Sociedade Gestora de Fundos de Pensões, S.A. ²		3 286
BPI (Suisse), S.A. ¹	1 356	781
BPI Alternative Fund: Iberian Equities Long / Short Fund ¹	1 565	567
Fundo BPI Taxa Variável ¹	147	(1 425)
Venture capital / development		
TC Turismo Capital – SCR, S.A. ¹	104	26
BPI Private Equity – Sociedade de Capital de Risco, S.A.	(1 170)	1 371
Inter-Risco – Sociedade de Capital de Risco, S.A.	231	(72)
Insurance		
BPI Vida e Pensões – Companhia de Seguros, S.A. ²	(51 067)	13 860
Cosec – Companhia de Seguros de Crédito, S.A. ¹	2 901	2 201
Companhia de Seguros Allianz Portugal, S.A. ¹	12 190	16 177
Others		
BPI, Inc. ¹	35	(25)
BPI Madeira, SGPS, Unipessoal, S.A.	32	11
BPI Capital Finance	(8)	
BPI Capital Africa	(1 154)	
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A. ¹	779	1 675
Unicre – Instituição Financeira de Crédito, S.A. ³	1 837	23 039
Simofer – Sociedade de Empreendimentos Imobiliários e Construção Civil, Lda.		(176)
Ullissipair ACE	22	305
Viacer – Sociedade Gestora de Participações Sociais, Lda. ¹	3 463	1 799
	(284 871)	185 179

1) Adjusted net income.

2) In 2011 BPI Pensões – Sociedade Gestora de Fundos de Pensões, S.A. was merged into BPI Vida e Pensões – Companhia de Seguros, S.A.

3) At 31 December 2010 it includes 21 828 t euro relating to the gain resulting from the revaluation of the participation in Unicre (note 4.40).

4.47. Personnel

The average and period-end number of Employees¹ in 2011 and 2010 were as follows:

	31 Dec. 11		31 Dec. 10 Proforma	
	Average for the period	End of period	Average for the period	End of period
Executive Directors ²	10	10	11	10
Management staff	621	606	622	624
Other staff	5 649	5 532	4 598	4 705
Other Employees	3 012	2 870	4 328	4 155
	9 292	9 018	9 559	9 494

1) Personnel of the Group's entities that were consolidated by the full consolidation method. This includes the personnel of the foreign branches of Banco BPI.

2) This includes the executive Directors of Banco BPI and BPI Investimentos.

4.48. Financial risks

Fair value

Fair value is determined whenever possible based on the price in an active market. A market is considered to be active, and therefore liquid, when it is accessed by equally knowledgeable counterparties and is traded on a regular basis.

The valuation for financial instruments for which there are no prices in an active market is described in the following sections.

Financial instruments recorded in the balance sheet at fair value *Debt instruments and equity instruments*

In the case of debt instruments with no prices in active markets, due to the lack of liquidity and absence of regular transactions, alternative methods of valuing assets are used, namely:

- assets valued based on third party bid prices considered to be reliable;
- assets valued based on Net Asset Value updated and disclosed by their managers;
- assets valued based on prices disclosed by the entities involved with the structuring of the transactions; or
- assets for which impairment tests are made based on indicators of the performance of the underlying operations (degree of protection by subordination of the parts owned, rates of delinquency of the underlying assets, evolution of the ratings).

For unquoted shares, fair value is estimated based on an analysis of the issuer's financial position and results, risk profile and market valuations or transactions for companies with similar characteristics.

If a market value is not available and it is not possible to determine fair value reliably, equity instruments are recognized at historical cost and are subject to impairment tests.

Financial derivative instruments

Financial derivative transactions in the form of foreign exchange contracts, interest rate contracts, contracts on shares or share indices, inflation contracts or a combination of these, are carried out in over-the-counter (OTC) markets and in organised markets (especially stock exchanges).

The majority of over-the-counter derivatives (swaps, frs, caps, floors and standard options) are valued based on generally accepted methods:

- based on the present value of future flows (cash flows), considering the relevant interest rate curve, at the time of the calculation (mark-to-market: such as swaps); or
- through models to determine the price from statistical models (such as Black & Scholes), based on generally accepted assumptions (mark to model: such as options).

Valuation techniques use as input representative variables of market conditions at the date of the financial statements.

Market interest rates are determined based on information published in electronic trading platforms (such as Bloomberg, Reuters), and adjusted for liquidity and credit risk.

Interest rates for specific terms of cash flows are determined by suitable interpolation methods. The same interest rate curves are also used in the projection of nondeterministic cash flows such as the indexers.

For derivatives in which there has been counterparty default in the payment of contractual flows, fair value corresponds to its replacement value at the moment of early settlement, adjusted for expected of collectability.

In determining the fair value of derivatives, specific valuations provided by counterparties or by external parties are also used, ensuring in the latter case the reliability of the information provided through regular monitoring and validation of the valuations obtained, and through regular backtesting in relation to observable market transactions.

For presentation purposes in this note, the financial instruments recorded in the balance sheet at fair value are classified in accordance with the following hierarchy established in IFRS 7:

■ Level 1 – Price in an active market

This category includes, in addition to financial instruments listed on Stock Exchanges, financial instruments valued based on prices in active markets (executable bids) published in electronic trading platforms.

■ Level 2 – Valuation techniques based on market inputs

This level includes financial instruments valued by reference to valuation techniques based on market prices for instruments with similar characteristics or similar financial instruments held by the Group, including observable market prices for financial assets for which significant decreases in trading volumes have occurred, or internal models using inputs which are mainly observable in the market (such as interest rate curves or exchange rates). This level also includes financial instruments valued based on third party purchase prices (indicative bids), considering observable market data.

■ Level 3 – Valuation techniques using mainly inputs not based on observable market data

Financial assets and liabilities are classified as Level 3 if a significant proportion of their book value is the result of inputs not based on observable market data, namely:

- unlisted shares, bonds and derivative financial instruments that are valued based on in-house developed models for which there is no generally accepted market consensus as to the inputs to be used; and
- bonds valued based on third party indicative bids, based on theoretical models.

Financial instruments recorded in the balance sheet at amortized cost

The fair value of financial instruments recorded at amortized cost is determined by the BPI Group through valuation techniques. In this note, the fair value of these instruments is presented in level 3, as it is considered that its fair value depends on relevant data not observable in the market.

Fair value may not correspond to the realizable value of these financial instruments in a sale or liquidation scenario, having not been determined for that purpose.

The valuation techniques used are based on market conditions applicable to similar operations as of the date of the financial statements, such as the value of their discounted cash flows based on interest rates considered as most appropriate, namely:

- in interbank operations (Loans and advances to credit institutions and Resources of credit institutions) yield curves for interbank operations at the reference date of the financial statements are used;
- in operations with Customers (Loans to Customers and Resources of Customers) the weighted average of spreads over the reference rates used by the Bank in the previous month for similar operations is considered, taking into account the need to obtain a significant sample of operations for each class of product considered;
- in bond issuances (Debt securities and Subordinated debt) reference interest rates and spreads available in the market are applied, taking into account the residual maturity and degree of subordination. For 2011, given the lack of other market references, some points of the Portuguese public debt curve plus a spread were used in the case of senior debt and for subordinated debt the sale in December 2011 of subordinated debt issued by the BPI Group was used as a reference.

The reference rates used to calculate the discount factors at 31 December 2011 are listed in the table below. For each set of operations the above explained spreads applicable are added.

	1 month	3 months	6 months	1 year	2 years	3 years	5 years	7 years	10 years	30 years
EUR	1.02%	1.36%	1.62%	1.95%	1.31%	1.38%	1.74%	2.08%	2.39%	2.55%
GBP	0.77%	1.08%	1.38%	1.87%	1.32%	1.37%	1.56%	1.87%	2.29%	2.99%
USD	0.30%	0.58%	0.81%	1.13%	0.72%	0.82%	1.22%	1.63%	2.01%	2.57%
JPY	0.14%	0.20%	0.34%	0.55%	0.38%	0.39%	0.48%	0.65%	0.98%	1.76%

The fair value of “Held to maturity investments” is based on market prices or third party purchase prices, when available. If these do not exist, fair value is estimated based on the discounted value of the expected cash flows of principal and interest.

The fair value of spot operations (including Cash and deposits at central banks, Deposits at other credit institutions repayable on demand and Demand deposits included in Resources of Customers and other debts) corresponds to their book value.

The fair value of financial instruments at 31 December 2011 is made up as follows:

Type of financial instrument	Assets and liabilities valued at fair value						Assets valued at historical cost ¹	Total book value
	Net book value	Method used to determine fair value				Difference		
		Active market listings (Level 1)	Valuation techniques		Total fair value			
			Market data (Level 2)	Models (Level 3)				
Assets								
Cash and deposits at central banks	1 145 118			1 145 118	1 145 118			1 145 118
Deposits at other credit institutions	384 768			384 768	384 768			384 768
Financial assets held for trading and at fair value through profit or loss	594 916	505 394	49 867	39 655	594 916			594 916
Financial assets available for sale	6 766 877	4 138 318	63 054	2 565 505	6 766 877		11 248	6 778 125
Loans and advances to credit institutions	2 337 591			2 326 508	2 326 508	(11 083)		2 337 591
Loans and advances to Customers	28 318 264			25 283 131	25 283 131	(3 035 133)		28 318 264
Held to maturity investments	766 190			710 419	710 419	(55 771)		766 190
Trading derivatives ²	342 574	1 209	234 159	107 206	342 574			342 574
Hedging derivatives	279 843	451	188 069	91 323	279 843			279 843
	40 936 141	4 645 372	535 149	32 653 633	37 834 154	(3 101 987)	11 248	40 947 389
Liabilities								
Resources of central banks	2 499 197			2 499 361	2 499 361	(164)		2 499 197
Financial liabilities held for trading	126 340	126 340			126 340			126 340
Resources of other credit institutions	2 071 520			2 082 848	2 082 848	(11 328)		2 071 520
Resources of Customers and other debts	24 671 328			24 666 208	24 666 208	5 120		24 671 328
Debt securities	6 691 953			6 351 799	6 351 799	340 154		6 691 953
Financial liabilities relating to transferred assets	1 414 597			1 183 885	1 183 885	230 712		1 414 597
Trading derivatives	327 898	268	222 682	104 948	327 898			327 898
Hedging derivatives	661 904	5 727	603 729	52 448	661 904			661 904
Technical provisions	2 625 181			2 625 181	2 625 181			2 625 181
Subordinated debt	209 854			107 083	107 083	102 771		209 854
Participating bonds	4 637			2 298	2 298	2 339		4 637
	41 304 409	132 335	826 411	39 676 060	40 634 805	669 604		41 304 409
	(368 268)				(2 800 651)	(2 432 383)	11 248	(357 020)
Valuation differences in financial assets recognised in revaluation reserves						(1 728 727)		
Total						(4 161 110)		

1) Unlisted securities for which it was not possible to determine fair value on a reliable basis.

2) This caption is presented in the balance sheet as FINANCIAL ASSETS HELD FOR TRADING and at fair value through profit or loss.

The fair value of financial instruments at 31 December 2010 is made up as follows:

Type of financial instrument	Assets and liabilities valued at fair value						Assets valued at historical cost ¹	Total book value
	Net book value	Method used to determine fair value				Difference	Book value	
		Active market listings (Level 1)	Valuation techniques		Total fair value			
			Market data (Level 2)	Models (Level 3)				
Assets								
Cash and deposits at central banks	1 328 222			1 328 222	1 328 222			1 328 222
Deposits at other credit institutions	338 551			338 551	338 551			338 551
Financial assets held for trading and at fair value through profit or loss	928 078	656 161	115 997	155 920	928 078			928 078
Financial assets available for sale	8 142 290	5 615 684	222 249	2 304 357	8 142 290		14 031	8 156 321
Loans and advances to credit institutions	1 439 145			1 435 503	1 435 503	(3 642)		1 439 145
Loans and advances to Customers	30 055 006			28 509 650	28 509 650	(1 545 356)		30 055 006
Held to maturity investments	1 043 584			970 827	970 827	(72 757)		1 043 584
Trading derivatives ²	313 573	693	171 846	141 034	313 573			313 573
Hedging derivatives	250 263	245	164 677	85 341	250 263			250 263
	43 838 712	6 272 783	674 769 35	269 405 42	216 957 (1 621 755)		14 031	43 852 743
Liabilities								
Resources of central banks	1 245 537			1 245 561	1 245 561	(24)		1 245 537
Resources of other credit institutions	4 726 084			4 738 749	4 738 749	(12 665)		4 726 084
Resources of Customers and other debts	23 240 863			23 186 347	23 186 347	54 516		23 240 863
Debt securities	7 782 274			7 353 659	7 353 659	428 615		7 782 274
Financial liabilities relating to transferred assets	1 570 418			1 569 742	1 569 742	676		1 570 418
Trading derivatives	261 493	26	124 086	137 381	261 493			261 493
Hedging derivatives	499 444	35 844	404 449	59 151	499 444			499 444
Technical provisions	2 991 907			2 991 907	2 991 907			2 991 907
Subordinated debt	640 389			602 861	602 861	37 528		640 389
Participating bonds	7 167			6 759	6 759	408		7 167
	42 965 576	35 870	528 535 41	892 117 42	456 522 509 054			42 965 576
	873 136				(239 565)(1 112 701)		14 031	887 167
Valuation differences in financial assets recognised in revaluation reserves						(956 199)		
Total						(2 068 900)		

1) Unlisted securities for which it was not possible to determine fair value on a reliable basis.

2) This caption is presented in the balance sheet as FINANCIAL ASSETS HELD FOR TRADING and at fair value through profit or loss.

At 31 December 2011 and 2010 financial assets held for trading and at fair value through profit or loss included in Level 3 correspond essentially to bonds valued through indicative Bids based on theoretical models or in-house developed models.

At 31 December 2011 and 2010 financial assets available for sale included in Level 3 correspond essentially to Angolan public debt securities. They also include bonds collateralized by assets (ABS's) and private equity investments.

At 31 December 2011 and 2010 trading and hedging derivatives included in Level 3 refer mainly to:

- options or swaps negotiated with Customers with an optional component and the related hedging with the market;
- embedded options in structured bonds issued by Banco BPI, with remuneration indexed to baskets of shares / share indexes, commodities and exchange rates, and operations negotiated with the market to hedge the optional risk of these bonds.

For financial instruments recorded at fair value in the balance sheet, the changes between 31 December 2010 and 31 December 2011 on assets and liabilities classified in Level 3, is made up as follows:

Financial assets and liabilities	Held for trading and at fair value through profit or loss	Available for sale	Trading derivatives (net)	Hedging derivatives (net)	Total
Net book value at 31 December 2010	155 920	2 304 357	3 653	26 190	2 490 120
Accrued interest (amount at 31 December 2010)	(135)	(1 725)	(1 413)	25 901	22 628
Gain / (loss) recognized in net income					
In net income on financial operations	(1 641)	338	(245)	(1 373)	(2 921)
Potential gain / (loss)	(1 371)	(29)	(245)	(1 373)	(3 018)
Effective gain / (loss)	(270)	367			97
In impairment loss		(14 968)			(14 968)
Gain / (loss) recognized in revaluation reserves		(7 586)			(7 586)
Purchases	1 287	317 159			318 446
Transfers out	(116 338)	(34 205)	(7)		(150 550)
Transfers in	432	205			637
Accrued interest (amount at 31 December 2011)	130	1 930	270	(11 843)	(9 513)
Net book value at 31 December 2011	39 655	2 565 505	2 258	38 875	2 646 293

For financial instruments recorded at fair value in the balance sheet, the changes between 31 December 2009 and 31 December 2010 on assets and liabilities classified in Level 3, is made up as follows:

Financial assets and liabilities	Held for trading and at fair value through profit or loss	Available for sale	Trading derivatives (net)	Hedging derivatives (net)	Total
Net book value at 31 December 2009	596 138	1 508 229	333	(15 938)	2 088 762
Accrued interest (amount at 31 December 2009)	(287)	(2 161)	(1 383)	49 324	45 493
Gain / (loss) recognized in net income					
In net income on financial operations	4 408	259	3 093	15 435	23 195
Potential gain / (loss)	2 070		3 094	17 636	22 800
Effective gain / (loss)	2 338	259	(1)	(2 201)	395
In impairment loss		(38)			(38)
Gain / (loss) recognized in revaluation reserves		(1 702)			(1 702)
Purchases	43 090	907 739	667	(3 350)	948 146
Sales / settlements	(392 247)	(163 587)	(470)	6 620	(549 684)
Transfers out	(96 252)	(33 414)			(129 666)
Transfers in	935	87 307			88 242
Accrued interest (amount at 31 December 2010)	135	1 725	1 413	(25 901)	(22 628)
Net book value at 31 December 2010	155 920	2 304 357	3 653	26 190	2 490 120

Sales / settlements on assets held for trading and at fair value through profit or loss correspond mainly to bonds held by Banco de Fomento Angola that have matured. The acquisitions of assets available for sale relate mostly to bonds acquired by Banco de Fomento Angola.

Sales / settlements on assets available for sale correspond mainly to securities that have matured.

The continuous improvement in the databases related to fair value calculation methodologies in accordance with the hierarchy established in IFRS7, resulted in reclassifications between various levels that explain the transfers made in 2010.

Derecognition of financial instruments

During 2011 and in 2010 no financial instruments for which it was not possible to reliably determine their fair value were derecognised, therefore, there was no impact on net income of the period arising from this.

Reclassification of financial assets

The BPI Group reclassified bonds from Financial assets held for trading to Financial assets available for sale (note 4.5), Loans and advances to Customers (note 4.7) and Held to maturity investments (note 4.8) and from Financial assets available for sale (note 4.5) to Loans and advances to Customers (note 4.7), as follows:

	31 Dec. 11			31 Dec. 10 Proforma			Effective interest rate on reclassification date
	Book value on reclassification date	Book value at 31 Dec. 11	Fair value at 31 Dec. 11	Book value on reclassification date	Book value at 31 Dec. 10 Proforma	Fair value at 31 Dec. 10 Proforma	
Reclassification of bonds in 2008							
Financial assets held for trading	(121 493)			(189 787)			
Financial assets available for sale	4 406	1 662	1 662	38 076	33 057	33 057	5.81%
Loans represented by securities	40 963	41 547	28 095	41 807	42 429	33 124	6.37%
Held to maturity investments	76 124	81 138	71 754	109 904	115 076	108 473	6.29%
Reclassification of bonds in 2009							
Financial assets held for trading	(54 494)			(57 370)			
Loans represented by securities	301	339	466	339	365	537	5.34%
Held to maturity investments	54 192	60 849	57 928	57 031	61 994	60 631	5.98%
Reclassification of bonds in 2011							
Financial assets available for sale	(182 184)						
Loans represented by securities	182 184	124 030	111 792				11.14%
		309 565	271 697		252 921	235 822	

In 2009 and 2008, in the context of the lack of liquidity in the bond market, the valuation prices that can be obtained for these securities did not reflect the prices on an active market with transactions on a regular basis. Therefore, the BPI Group decided to reclassify these bonds from financial assets held for trading to financial assets available for sale, loans and advances to Customers and held to maturity investments. To determine the fair value of the financial assets available for sale, alternative valuation methods were used as described previously in this note.

For purposes of determining the effective interest rate of the reclassified assets at the reclassification date, the BPI Group estimated that it would recover all future cash flows relating to the reclassified securities except for its Greek debt position where it was estimated that half of the cash flows will be received.

In 2011, due to the significant decrease in trading volumes of Greek sovereign debt securities, the BPI Group reclassified these securities from financial assets available for sale to loans represented by securities by their fair value at the date of reclassification (31 October 2011).

After the reclassification date, gain / (loss) relating to fair value changes of these securities not recognized in the statements of income and other gain / (loss) recognized in reserves and in the statements of income for the securities reclassified from financial assets held for trading, were as follows:

	31 Dec. 11			31 Dec. 10 Proforma		
	Gain / (loss) associated with fair value changes not recognized in the statement of income	Other gain / (loss) recognized in:		Gain / (loss) associated with fair value changes not recognized in the statement of income	Other gain / (loss) recognized in:	
		Reserves	Statements of income		Reserves	Statements of income
Financial assets available for sale	975	975	1 033	(1)	(1)	1 397
Loans represented by securities	(4 263)		1 685	(3 806)		1 593
Held-to-maturity investments	(4 545)		8 026	(7 928)		11 177
	(7 833)	975	10 744	(11 735)	(1)	14 167

The amounts of gain / (loss) relating to fair value changes not recognized in the statement of income correspond to gain / (loss) that would affect net income if the bonds had remained in the "Financial assets held for trading" portfolio. A portion of these amounts would be offset by opposite results under the caption TECHNICAL PROVISIONS, namely in the case of gain / (loss) on securities allocated to insurance portfolios with profit participation.

The amounts presented in other gain / (loss) recognized in the statement of income include interest, premiums / discounts and other expenses. The amounts presented in other gain / (loss) recognized in reserves correspond to the fair value changes of financial assets available for sale after the reclassification date.

In the case of Greek sovereign debt securities reclassified from financial assets available for sale to loans represented by securities there is no gain / (loss) not recognized in the statement of income, as the corresponding impairment losses were recognized based on the present value of the new securities received in the Exchange Offer (Note of the exposure to sovereign debt).

Financial instrument risks

The BPI Group assesses and controls risk in accordance with best practices and in compliance with the prudential rules and regulations, following the precepts, definitions and valuation methods recommended by the Basel Banking Supervision Committee in its three pillars.

The Directors' Report, presented together with the notes to Banco BPI's financial statements, also includes a section relating to "Risk management", which contains additional information about the nature and extent of the BPI Group's financial risks.

Exposure to sovereign debt

The BPI Group's exposure to the debt of countries that have requested financial support from the European Union, the European Central Bank and the International Monetary Fund at 31 December 2011 was as follows:

BPI Group excluding BPI Vida e Pensões	Nominal value	Net book value	Net gain / (loss) on securities	Hedge accounting effect	Impairment recognized ¹
Held for trading and at fair value through profit or loss	3 423	3 387	2		
Portugal	3 423	3 387	2		
Available for sale	3 165 576	2 356 362	(982 664)	(226 138)	
Portugal	2 810 576	2 058 313	(916 420)	(195 063)	
Ireland	355 000	298 049	(66 244)	(31 075)	
Loans and other receivables	480 000	124 030			468 898
Greece	480 000	124 030			468 898
Total exposure	3 648 999	2 483 779	(982 662)	(226 138)	468 898

1) Includes 61 298 th. euro relating to the interest rate risk hedge accounting effect.

The fair value of the exposures to Portugal and Ireland was determined based on prices in international markets, the unrealized gains / (losses) and hedge accounting effect being reflected in specific reserve captions or in the statement of income, depending on whether the securities are classified in the available for sale securities portfolio or in the held for trading securities portfolio, respectively.

Banco BPI recorded impairment losses of 468 898 th. euro in 2011 for exposure to Greek debt securities. The determination of these losses was made as follows:

- On 31 October 2011 Banco BPI recognized impairment losses on Greek debt securities included in the financial assets available for sale portfolio (nominal value of 480 000 th. euro). The impairment losses recorded in the statement of income in the amount of 400 549 th. euro, were based on the market price at that date (36.25%) and included 54 346 th. euro of unrealized losses arising from the interest rate risk hedge accounting effect (note 4.5). These impairment losses were recorded in the caption IMPAIRMENT LOSSES AND OTHER PROVISIONS, NET (note 4.20).

Due to the significant decrease in trading volumes of Greek public debt securities, after recognition of the impairment losses, Banco BPI reclassified these securities from Financial assets available for sale portfolio to the Loans to Customers portfolio at 31 October 2011, by their fair value as of the reclassification date (182 184 th. euro). The effective interest rate on the reclassification date was established based on the available information at that date, considering an expected recoverable amount of 50% of the principal and interest of the securities. As established in IAS 39, this interest rate was used in the calculation of amortized cost of these securities in the Loans to Customers portfolio, after the reclassification.

- On 21 February 2012 the terms of the agreement regarding the private sector involvement in the restructuring of Greek public debt were announced, several documents relating to this matter having been issued: "Announcement of the Eurogroup", "Announcement of the Ministry of Finance of the Hellenic Republic" and "Invitation Memorandum of the Hellenic Republic". The main terms of the announced agreement are as follows:

- debt forgiveness of 53.5% of the nominal value of debt securities issued by the Greek Government held by private entities;
- exchange of 46.5% of the previous debt securities issued by the Greek Government for:
 - (i) new debt securities issued by the Greek Government with a nominal value equal to 31.5% of the nominal value of the previously held securities. The new securities mature in 2042, with partial repayment from 2023 onwards and the following remuneration: 2% annually up to 2015; 3% annually from 2015 to 2020; 3.65% in 2021 and 4.3% annually after 2021;
 - (ii) debt securities of the European Financial Stability Fund with maturity of one and two years, with a nominal value equal to 15% of the nominal value of the previously held debt securities issued by the Greek Government.
- issuance of Greek Republic securities ("Detachable GDP-Linked Securities"), with a nominal value equal to the nominal value of the new Greek debt securities, that may have annual remuneration of 1% from 2015 onwards if the Greek Gross Domestic Product achieves certain goals;
- exchange of the accrued interest up to 24 February 2012 relating to the previous debt securities issued by the Greek Government for debt securities of the European Financial Stability Fund with maturity of six months.

Considering that these terms were clarified after the date of the financial statements but before the date they were authorized for issuance, this event corresponds to a post balance sheet date adjusting event in accordance with IAS 10 – Events after the balance sheet date.

Banco BPI decided to accept the Exchange Offer terms and the transaction was carried out on 12 March 2012.

The terms of the Exchange Offer represent a loss of approximately 77%, in terms of the current value of the new securities received in the Exchange Offer in relation to the nominal amount of the debt securities issued by the Greek Government owned by the BPI Group at 31 December 2011. The current value of the new securities received in the Exchange Offer was determined as follows:

- (i) market prices at the date of the Exchange Offer (12 March 2012) of the new debt securities issued by the Greek Government and of the debt securities issued by the European Financial Stability Fund;

▷

- (ii) present value of the amounts referred to in paragraph (i) above to 31 December 2011 based on the original effective interest rate of the previous debt securities issued by the Greek Government;

- (iii) consideration of a zero value for the Greek Republic “Detachable GDP-Linked Securities”.

Therefore, Banco BPI recognized additional impairment losses on debt securities issued by the Greek Government, recorded in the Loans to Customers portfolio in the amount of 68 349 th. euro in the consolidated financial statements for 2011, including 6 952 th. euro relating to the hedge accounting effect. This amount was recorded in the statement of income caption IMPAIRMENT LOSSES AND PROVISIONS FOR LOANS AND GUARANTEES (note 4.20).

The BPI Group's exposure, excluding BPI Vida e Pensões, to the debt of countries that have requested financial support from the European Union, the European Central Bank and the International Monetary Fund at 31 December 2011 is as follows, by residual period to maturity:

Maturity	2012	2013	2014 to 2019	> 2020	Total
Portugal	1 108 920	136	952 627	18	2 061 700
Greece			124 030		124 030
Ireland			298 049		298 049
	1 108 920	136	1 374 706	18	2 483 779

The residual period to maturity shown in the table above with respect to the debt securities issued by the Greek Government do not incorporate the effect of the agreement regarding the private sector involvement in the restructuring of Greek public debt announced in 21 February 2012.

The ratings of Portugal, Greece and Ireland are the following:

	31 Dec. 11			31 Dec. 10		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch
Portugal	BBB-	Ba2	BB+	A-	A1	A+
Greece	CC	Ca	CCC	BB+	Ba1	BBB-
Ireland	BBB+	Ba1	BBB+	A	Baa1	BBB+

As regards exposure to Portugal and Ireland, Banco BPI believes that as of this date there is no objective evidence of impairment.

In addition, at 31 December 2011, some insurance capitalization portfolios of BPI Vida e Pensões, fully consolidated in the financial statements of the BPI Group, held Portuguese and Greek sovereign debt bonds.

BPI Vida e Pensões	Nominal value	Net book value	Market value	Impairment
Held for trading and at fair value through profit or loss	72 397	71 882	71 882	
Portugal	72 273	71 861	71 861	
Greece	124	21	21	
Loans and other receivables	200 000	202 380	182 725	
Portugal	200 000	202 380	182 725	
Held to maturity	154 000	38 537	54 208	117 733
Greece	154 000	38 537	54 208	117 733
Total exposure	426 397	312 799	308 815	117 733

At 31 December 2011 BPI Vida e Pensões recognized impairment losses of 117 733 th. euro on debt securities issued by the Greek Government. Determination of these impairment losses was made as follows:

- On 31 October 2011 impairment losses of 78 135 th. euro were recognized in the insurance capitalization portfolio on debt securities issued by the Greek Government, recorded in the held to maturity investments portfolio considering an expected recoverable amount of 50% of the principal and interest of the securities, based on the available information at that date.

The debt securities issued by the Greek Government recorded in the held to maturity investments portfolio of BPI Vida e Pensões are assigned to two types of products:

- Products with guaranteed principal and income and a discretionary participation feature (insurance contracts), namely the “Novo Aforro Familiar” and “Reforma Aforro PPR” – impairment losses of 72 999 th. euros were recorded in the caption TECHNICAL RESULT OF INSURANCE CONTRACTS (note 4.38);
- Product with guaranteed principal and interest at the maturity date (investment contracts) – impairment losses of 5 136 th. euro were recorded in the caption IMPAIRMENT LOSSES AND OTHER PROVISIONS, NET (note 4.20).

▷

- As previously mentioned, the BPI Group decided to accept the Exchange Offer terms and the transaction was carried out on 12 March 2012. The Exchange Offer terms represent a loss of approximately 77%, in terms of the current amount of the new securities received in the Exchange Offer in relation to the nominal amount of debt securities issued by the Greek Government owned by the BPI Group at 31 December 2011. Therefore, BPI Vida e Pensões recorded additional impairment losses for debt securities issued by the Greek Government of 39 598 th. euro, in the caption IMPAIRMENT LOSSES AND OTHER PROVISIONS, NET (note 4.20). The present value of the new securities received in the Exchange Offer was determined as previously explained.

The insurance capitalization products to which these bonds are assigned contain specific and differentiated rules for profit participation, so the share of potential losses attributable to Banco BPI depends on the profitability of the respective portfolios.

In 2011, despite the losses recorded for the debt securities issued by the Greek Government, Banco BPI decided to attribute a positive return to the holders of “Aforro” products. Recognition of the impairment losses on the debt securities issued by the Greek Government held by BPI Vida e Pensões had an overall impact of 90 849 th. euro on profit before tax of the BPI Group.

Exposure of the insurance capitalisation portfolios of BPI Vida e Pensões to the sovereign debt of Portugal and Greece, at 31 December 2011 is made up as follows, by residual period of maturity:

Maturity	2012	2013	2014 to 2019	> 2020	Total
Portugal	71 596		100 611	102 034	274 241
Greece	11 906	26 631		21	38 558
	83 502	26 631	100 611	102 055	312 799

The residual period to maturity shown in the table above with respect to the debt securities issued by the Greek Government do not incorporate the effect of the agreement regarding the private sector involvement in the restructuring of Greek public debt announced in 21 February 2012.

Given the above, the impairment losses recorded by the BPI Group in 2011 for exposure to debt securities issued by the Greek Government amounted to 586 631 th. euro. The overall impact of such impairment losses in profit before tax of the BPI Group in 2011 amounted to 559 747 th. euro.

Credit risk

Maximum exposure to credit risk

Credit risk is one of the most significant risks of the BPI Group's operations. More information about this risk, particularly about the management process for the various segments of credit, can be found in the section "Risk Management" in the Directors' Report.

Maximum exposure to credit risk at 31 December 2011, by type of financial instrument, is as follows:

Type of financial instrument	Gross book value	Impairment	Net book value
Balance sheet items			
Deposits at other credit institutions	384 768		384 768
Financial assets held for trading and at fair value through profit or loss	594 916		594 916
Financial assets available for sale	6 847 875	(69 750)	6 778 125
Loans and advances to credit institutions	2 337 594	(3)	2 337 591
Loans and advances to Customers	28 994 515	(676 251)	28 318 264
Held to maturity investments	883 923	(117 733)	766 190
Derivatives			
Hedging derivatives	279 843		279 843
Trading derivatives ¹	342 574		342 574
	40 666 008	(863 737)	39 802 271
Off balance sheet items			
Guarantees given	2 378 533	(34 998)	2 343 535
Irrevocable credit lines	1 934	(11)	1 923
	2 380 467	(35 009)	2 345 458
	43 046 475	(898 746)	42 147 729

1) This caption is presented in the balance sheet as FINANCIAL ASSETS HELD FOR TRADING and at fair value through profit or loss.

Maximum exposure to credit risk at 31 December 2010, by type of financial instrument, is as follows:

Type of financial instrument	Gross book value	Impairment	Net book value
Balance sheet items			
Deposits at other credit institutions	338 551		338 551
Financial assets held for trading and at fair value through profit or loss	928 078		928 078
Financial assets available for sale	8 209 541	(53 220)	8 156 321
Loans and advances to credit institutions	1 439 527	(382)	1 439 145
Loans and advances to Customers	30 608 938	(553 932)	30 055 006
Held to maturity investments	1 043 584		1 043 584
Derivatives			
Hedging derivatives	250 263		250 263
Trading derivatives ¹	313 573		313 573
	43 132 055	(607 534)	42 524 521
Off balance sheet items			
Guarantees given	2 820 405	(34 997)	2 785 408
Irrevocable credit lines	39 296	(21)	39 275
	2 859 701	(35 018)	2 824 683
	45 991 756	(642 552)	45 349 204

1) This caption is presented in the balance sheet as FINANCIAL ASSETS HELD FOR TRADING and at fair value through profit or loss.

Breakdown of overdue loans

Overdue loans and interest at 31 December 2011, by non performing classes, are as follows:

	Non performing classes					Total
	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years	
Loans and advances to Customers						
Subject to individual assessment						
Overdue loans and interest	3 350	24 703	63 439	226 987	15 946	334 425
Impairment	(1 321)	(15 976)	(27 559)	(121 962)	(10 450)	(177 269)
	2 029	8 727	35 879	105 025	5 496	157 156
Subject to collective assessment						
Overdue loans and interest	657	11 889	88 795	253 208	39 463	394 011
Impairment	(161)	(2 770)	(31 183)	(123 307)	(15 896)	(173 317)
	496	9 118	57 613	129 901	23 567	220 695

In addition, at 31 December 2011 collective impairment of 264 268 th. euro was recognised on performing loans.

Overdue loans and interest at 31 December 2010, by non performing classes, are as follows:

	Non performing classes					Total
	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years	
Loans and advances to Customers						
Subject to individual assessment						
Overdue loans and interest	566	26 221	87 146	130 914	12 090	256 937
Impairment	(511)	(7 062)	(42 224)	(68 831)	(8 290)	(126 918)
	55	19 159	44 922	62 083	3 800	130 019
Subject to collective assessment						
Overdue loans and interest	3 712	12 420	59 692	251 448	36 133	363 405
Impairment	(91)	(2 561)	(21 507)	(112 324)	(15 006)	(151 489)
	3 621	9 859	38 185	139 124	21 127	211 916

In addition, at 31 December 2010, collective impairment of 275 907 th. euro was recognised on performing loans.

Collateral

Banco BPI receives, among others, the following collateral in its loan granting business:

- housing mortgages;
- mortgage of buildings and land;
- deposit of assets;
- pledge of securities;
- guarantees provided by other credit institutions.

The fair value of collateral received is determined based on market value considering its nature. For example, property received in guarantee is valued by external appraisers or by Banco BPI's units using methods considered appropriate.

The coverage of overdue loans by collateral received at 31 December 2011 was as follows:

Coverage	Loans with default			Collateral ¹		Impairment ³
	Performing amount associated with defaulting loans	Overdue	Total	Mortgages	Other Collateral ²	
>=100%	208 556	222 071	430 627	394 247	36 380	99 885
>=75% and <100%	71 179	59 011	130 190	111 766	9 418	34 414
>=50% and <75%	1 714	10 507	12 221	6 791	1 132	4 488
>=25% and <50%	946	3 497	4 443	1 494	327	1 895
>=0 and <25%	85	2 095	2 180	129	150	1 460
Without collateral	135 951	431 255	567 206			271 237
Total	418 431	728 436	1 146 867	514 427	47 407	413 379

1) The value of collateral presented is the lower of the fair value of the collateral received and the amount owed at 31 December 2011.

2) Other collateral includes pledged deposits and securities.

3) For purposes of determining impairment, pledged property is valued at the amount in the event of execution, which is less than market value. The amount of impairment shown includes 62 793 th. euro relating to performing loans associated with overdue loans.

The coverage of performing loans on which impairment was determined on an individual basis at 31 December 2011 is as follows:

Loans with impairment		Collateral ¹		Impairment ³
Coverage	Performing loans	Mortgages	Other Collateral ²	
Loans not represented by securities				
>=100%	103 788	94 970	8 818	24 277
>=75% and <100%	6 570	4 192	1 281	1 746
>=50% and <75%	4 248	2 475	290	475
>=25% and <50%	31 945	1 286	11 732	321
>=0 and <25%	10 688	11	67	1 606
Without collateral	162 208			37 669
	319 447	102 934	22 188	66 094
Loans represented by securities				
Without collateral	25 002			8 652
Guarantees provided				
>=100%	8 747	3 375	5 372	1 686
>=75% and <100%	2 378	150	1 060	450
>=50% and <75%	105		34	23
>=0 and <25%	3 618	1	605	5
Without collateral	127 249			20 094
	142 097	3 526	7 071	22 258
	486 546	106 460	29 259	97 004

1) The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at 31 December 2011.

2) Other collateral includes pledged deposits and securities.

3) For purposes of determining impairment, pledged property is valued at the amount in the event of execution, which is less than market value.

The coverage of overdue loans by collateral received at 31 December 2010 is as follows:

Coverage	Loans with default			Collateral ²		Impairment ⁴
	Performing amount associated with defaulting loans ¹	Overdue	Total	Mortgages	Other Collateral ³	
>=100%	153 883	200 558	354 441	351 057	3 383	79 500
>=75% and <100%	55 408	43 518	98 926	84 555	8 734	22 333
>=50% and <75%	2 953	6 651	9 604	4 924	1 191	3 119
>=25% and <50%	635	3 065	3 700	786	662	1 486
>=0 and <25%	874	2 081	2 955	36	302	1 694
Without collateral	114 499	364 469	478 968			237 784
Total	328 252	620 342	948 594	441 358	14 272	345 916

1) At 31 December 2010 does not include the performing amount associated with defaulting loans from international operations.

2) The value of collateral presented is the lower of the fair value of the collateral received and the amount owed at 31 December 2010.

3) Other collateral includes pledged deposits and securities.

4) For purposes of determining impairment, pledged property is valued at the amount in the event of execution, which is less than market value. The amount of impairment shown includes 67 509 th. euro relating to performing loans associated with overdue loans.

The coverage of performing loans on which impairment was determined on an individual basis at 31 December 2010 is as follows:

	Loans with impairment	Collateral ¹		Impairment ³
Coverage	Performing loans	Mortgages	Other Collateral ²	
Loans not represented by securities				
>=100%	39 213	32 502	6 711	8 306
>=75% and <100%	74 743	3 746	60 166	1 040
>=50% and <75%				
>=25% and <50%	4 438	245	1 704	1 554
>=0 and <25%	6 222	40	886	2 464
Without collateral	120 505			33 367
	245 121	36 533	69 467	46 731
Loans represented by securities				
Without collateral	13 886			11 636
Guarantees provided				
>=100%	8 397	2 561	5 836	1 437
>=75% and <100%	2 399	150	1 087	451
>=50% and <75%	75		19	8
>=0 and <25%	180		15	
Without collateral	95 588			18 244
	106 639	2 711	6 957	20 140
	365 646	39 244	76 424	78 507

1) The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at 31 December 2010.

2) Other collateral includes pledged deposits and securities.

3) For purposes of determining impairment, pledged property is valued at the amount in the event of execution, which is less than market value.

Credit risk quality (rating)

This section presents information concerning the quality of the credit risk of the BPI Group's main financial assets, excluding derivatives which are analysed in detail in note 4.4. In the case of financial assets with ratings assigned by the international rating agencies (Moody, Standard & Poor and Fitch) the rules set in the prudential regulations issued by the Bank of Portugal were followed, selecting the second best in the case of different external ratings for the same instrument. When no specific external ratings were found, Banco BPI used external ratings assigned by the issuer of instruments with the same degree of subordination. In the case of local authorities, banks and other similar institutions, the ratings used are based on the external ratings assigned to the State where the entity has its headquarters. In the specific case of the central banks in the Euro zone the rating is AAA. External rating is an important element to consider in the management of positions, especially in security portfolios, and is also used for calculating weights used to determine prudential capital by the standard method, in accordance with the regulations issued by the Bank of Portugal.

Loan exposures without external ratings were distributed by rating classes (for company exposure), by quality levels (for project finance) or by scorings (for private Customer exposure). External and internal ratings, where they exist, are an indicator of increasing importance to the BPI Group's internal management of loans, being used by the

teams responsible for monitoring Customers in order to inform the decisions regarding new loans or the situation of existing exposure. This internal classification does not include all the Group's exposure. It excludes sovereign exposures or exposure to other banks, in which case external ratings are used, loans granted locally by Banco de Fomento de Angola which uses its own methodologies, as well as loans granted to entrepreneurs and the business segment.

Actual internal ratings and scorings include ten classes for regular operations, from E 01 / 01 (less probability of default) to E 10 / 10 (more probability of default); two classes (ED 1 / D 01 and ED 2 / D 02) for "incidents" (delays in payment of less than 60 and 90 days, respectively) and finally one class for default (ED 3 / D 03), when delay in payment of a given amount by a counterparty exceeds 90 days.

Project finance operations have a separate internal classification from other loan operations due to their specific nature, so that at any moment the quality of the credit risk can be determined (from Weak to Strong).

Deposits and loans and advances to credit institutions, by ratings, at 31 December 2011 are as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Deposits, loans and advances to credit institutions	External rating	AAA to AA-	1 463 072		1 463 072
		A+ to A-	12 618		12 618
		BBB+ to BBB-	123 023		123 023
		BB+ to BB-	1 003 369		1 003 369
		B+ to B-	2 888		2 888
	N/D	N/D	3 350	3	3 347
			2 608 320	3	2 608 317

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value and does not include cheques for collection.

Loans to Customers, by ratings, at 31 December 2011 are as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Loans to Customers	External rating	AAA to AA-	92 729		92 729
		A+ to A-	140 712	490	140 222
		BBB+ to BBB-	81 474	41	81 433
		BB+ to BB-	1 881 240	332	1 880 908
		B+ to B-	173 596		173 596
		< B-	182 695	61 397	121 298
	Project Finance rating	Strong	258 543		258 543
		Good	977 338	29	977 309
		Satisfactory	143 413		143 413
		Weak	259 609	5 304	254 305
	Internal rating	E01 to E03	1 696 416	4 789	1 691 627
		E04 to E06	2 922 291	7 364	2 914 927
		E07 to E10	1 650 124	22 082	1 628 042
		ED1 to ED3	446 395	169 644	276 751
	Scoring	01 to 03	8 012 127	8 903	8 003 224
		04 to 06	3 087 046	7 435	3 079 611
		07 to 10	1 023 528	11 567	1 011 961
		D01 to D03	569 497	132 189	437 308
	N/D	N/D	5 304 412	244 685	5 059 727
			28 903 185	676 251	28 226 934

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value.

The Securities portfolio, by ratings, at 31 December 2011 is as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Securities	External rating	AAA to AA-	174 868		174 868
		A+ to A-	1 174 245		1 174 245
		BBB+ to BBB-	1 096 190		1 096 190
		BB+ to BB-	4 800 373	221	4 800 152
		B+ to B-	24 954		24 954
		< B-	184 971	39 598	145 373
	N/D	N/D	861 486	147 664	713 822
			8 317 087	187 483	8 129 604

Deposits and loans and advances to credit institutions, by ratings, at 31 December 2010 are as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Deposits, loans and advances to credit institutions	External rating	AAA to AA-	1 203 493		1 203 493
		A+ to A-	425 474		425 474
		BBB+ to BBB-	20 056	379	19 677
		BB+ to BB-	1 054		1 054
		B+ to B-	2 801		2 801
	N/D	N/D	4 932	3	4 929
			1 657 810	382	1 657 428

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value and does not include cheques for collection.

Loans to Customers, by ratings, at 31 December 2010 are as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Loans to Customers	External rating	AAA to AA-	135 801	203	135 598
		A+ to A-	1 935 443	209	1 935 234
		BBB+ to BBB-	264 773	38	264 735
		BB+ to BB-	5 909		5 909
		B+ to B-	109 144		109 144
		< B-	3 742	3 742	
	Project Finance rating	Strong	303 995		303 995
		Good	1 438 664	676	1 437 988
		Satisfactory	171 599	133	171 466
		Weak	80 928	4 008	76 920
	Internal rating	E01 to E03	2 191 465	4 436	2 187 029
		E04 to E06	3 180 283	8 004	3 172 279
		E07 to E10	1 997 146	23 928	1 973 218
		ED1 to ED3	421 394	161 375	260 019
	Scoring	01 to 03	8 340 697	10 680	8 330 017
		04 to 06	3 015 029	7 622	3 007 407
		07 to 10	1 095 384	10 965	1 084 419
		D01 to D03	510 302	114 263	396 039
	N/D	N/D	5 334 192	203 650	5 130 542
			30 535 890	553 932	29 981 958

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value.

The Securities portfolio, by ratings, at 31 December 2010 is as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Securities	External rating	AAA to AA-	607 709		607 709
		A+ to A-	4 641 743	131	4 641 612
		BBB+ to BBB-	1 396 572	487	1 396 085
		BB+ to BB-	577 700		577 700
		B+ to B-	2 153 867	78	2 153 789
		< B-	1 343	590	753
	N/D	N/D	792 333	51 934	740 399
			10 171 267	53 220	10 118 047

Restructured loans

Operations for which the conditions were renegotiated due to credit risk deterioration (being or not in default), after increase in the guarantees or full payment of overdue interest and other expenses, for which impairment has not been recognised by individual assessment, have been considered as restructured credit operations in the consolidated financial statements of Banco BPI. Renegotiated loan operations with impairment by individual assessment are not presented in this section.

Banco BPI continues over time to endeavour to improve the information available regarding the many changes to the loan operations, particularly regarding restructuring situations. Therefore, in 2011, it was changed the way information is collected and the values are no longer comparable with the previous year so no information is presented for 2010.

The following restructured loan operations, without impairment by individual assessment, at 31 December 2011 have been identified:

	31 Dec. 11			Collective impairment
	Loans		Total	
	Performing	Overdue		
Without impairment by individual assessment				
Companies	280 312	3 854	284 166	8 208
Loans to individuals				
Housing	56 946	26 080	83 026	13 951
Other loans	28 438	3 395	31 834	4 934
	365 696	33 329	399 026	27 093

Liquidity risk

The schedules presented below were prepared based on the requirements of IFRS 7 relating to Liquidity Risk, considering the total contractual undiscounted cash flows expected to be paid or received in the periods relating to outstanding transactions on the reference dates.

The main assumptions used in preparing the tables below were:

- in the case of interest depending on market indices or other references which are only identifiable on a future date (such as interest based on the Euribor) assumptions were made regarding the future value of such references, based on the last known value;

- defaults and early repayment are not considered (except for perpetual debt instruments);
- shares and overdue loans are included (by their book value) as "undetermined";
- demand deposits (including interest) and the bills and coins on hand are considered as "on demand";
- trading portfolio operations and all derivatives are considered in these schedules by their projected or estimated cash flows, on the contractual dates, and not by the market values that would be obtained by their possible sale in the short term.

The contractual undiscounted cash flows of financial assets and liabilities at 31 December 2011 were as follows:

	on demand	up to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years	undetermined	Total
Assets							
Cash and deposits at central banks	1 144 800						1 144 800
Deposits at other credit institutions	282 548	102 121					384 669
Financial assets held for trading and at fair value through profit or loss		128 035	25 914	93 318	38 195	309 454	594 916
Financial assets available for sale		2 233 833	1 752 813	288 086	2 245 223	327 920	6 847 875
Held-to-maturity investments		178 207	157 751	532 773	5 565		874 296
Loans and advances to credit institutions		2 145 755	148 463	20 493	10 978		2 325 689
Loans and advances to Customers		4 996 975	2 728 773	7 227 098	13 186 015	728 436	28 867 297
Hedging derivatives ¹		1 534 846	5 075 563	7 477 275	3 474 179		17 561 863
Trading derivatives ¹		292 391	649 618	3 860 532	3 994 117		8 796 657
Contractual interest cash flows of derivatives		112 613	333 437	876 756	533 965		1 856 771
Contractual interest cash flows of other assets	417	370 111	808 738	2 816 264	4 244 203		8 239 733
	1 427 765	12 094 886	11 681 070	23 192 595	27 732 440	1 365 810	77 494 566
Liabilities							
Resources of central banks		496 817		2 000 000			2 496 817
Financial liabilities held for trading					126 340		126 340
Resources of other credit institutions		1 354 188	449 832	189 003	71 118		2 064 141
Resources of Customers and other debts	7 535 773	8 062 563	8 171 853	632 407	54 652		24 457 248
Debt securities		1 087 927	1 592 884	3 325 993	513 468		6 520 272
Financial liabilities relating to transferred assets				936 958	476 733		1 413 691
Hedging derivatives ¹		1 522 293	5 082 015	7 474 187	3 464 897		17 543 392
Trading derivatives ¹		346 840	644 245	3 847 734	3 980 278		8 819 097
Technical provisions		196 427	594 598	1 020 887	813 269		2 625 181
Subordinated debt			57 819	2 375	149 273		209 467
Participating bonds					4 595		4 595
Contractual interest cash flows of derivatives		122 791	382 665	1 330 794	776 360		2 612 610
Contractual interest cash flows of other liabilities		223 645	541 183	761 543	429 888		1 956 259
	7 535 773	13 413 491	17 517 095	21 521 881	10 860 871		70 849 111

1) Includes the notional amount of swap operations.

The contractual undiscounted cash flows of financial assets and liabilities at 31 December 2010 were as follows:

	on demand	up to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years	undetermined	Total
Assets							
Cash and deposits at central banks	1 327 952						1 327 952
Deposits at other credit institutions	221 531	116 786					338 317
Financial assets held for trading and at fair value through profit or loss		168 867	57 413	88 326	89 371	524 101	928 078
Financial assets available for sale		214 211	2 490 239	2 500 704	2 780 873	223 514	8 209 541
Held-to-maturity investments		42 311	123 451	853 221	14 665		1 033 648
Loans and advances to credit institutions		1 253 411	37 938	133 164	10 318		1 434 831
Loans and advances to Customers		4 296 496	3 353 733	8 616 115	13 623 680	620 342	30 510 366
Hedging derivatives ¹		826 449	4 048 753	7 187 499	4 883 570		16 946 270
Trading derivatives ¹		39 675	2 268 795	4 165 871	4 961 363		11 435 705
Contractual interest cash flows of derivatives		119 474	325 442	931 418	669 502		2 045 836
Contractual interest cash flows of other assets	504	313 644	910 521	2 913 113	3 754 619		7 892 401
	1 549 987	7 391 324	13 616 285	27 389 432	30 787 961	1 367 957	82 102 946
Liabilities							
Resources of central banks		1 244 673					1 244 673
Resources of other credit institutions		2 762 819	1 424 397	358 844	177 747		4 723 807
Resources of Customers and other debts	7 673 321	7 963 985	6 383 563	1 011 150	73 629		23 105 648
Debt securities		668 511	1 353 303	4 974 547	651 920		7 648 281
Financial liabilities relating to transferred assets		103 336	54 188	898 013	513 798		1 569 335
Hedging derivatives ¹		834 099	4 067 307	7 208 122	4 861 540		16 971 069
Trading derivatives ¹		33 303	2 270 613	4 132 232	5 002 705		11 438 852
Technical provisions		58 584	415 928	1 539 022	978 373		2 991 907
Subordinated debt			97 496	62 348	452 584		612 428
Participating bonds					7 122		7 122
Contractual interest cash flows of derivatives		108 745	377 703	1 443 358	1 035 714		2 965 519
Contractual interest cash flows of other liabilities		183 858	338 348	619 538	361 018		1 502 763
	7 673 321	13 961 913	16 782 846	22 247 174	14 116 150		74 781 404

1) Includes the notional amount of swap operations.

The Bank continuously tracks the evolution of its liquidity, monitoring incoming and outgoing funds in real time. Projections of short and medium term liquidity are carried out in order to help plan the funding strategy in the monetary and capital markets. In 2011, the BPI Group redeemed a total of 958 859 th. euro (net of repurchases) in medium and long-term debt and issued new debt totalling of 200 000 th. euro. The funding obtained from the ECB was 1 800 000 th. euro at 31 December 2011. At 31 December 2011 the Bank had a portfolio of assets eligible for obtaining funding from the ECB at any time, totalling 6 855 532 th. euro, net of ECB valuation margins. This amount includes 3 416 656 th. euro available for immediate use. The section on Liquidity Risk in the Directors' Report includes additional procedures used by the Group in its daily management of liquidity risk.

Market Risk

Market risk (interest rate, exchange rate, share price, commodity price and spread) is defined as the potential to incur losses due to unexpected changes in the price of instruments or operations ("price" includes index value, interest rate or exchange rate). Spread risk is the risk resulting from the variability of interest rates of some counterparties in relation to the interest rate used as a reference.

The Executive Board for Global Risks (EBGR) is responsible for managing the BPI Group's market risk and differentiates between the trading portfolio (trading) and the remaining businesses. In the specific case of exchange risk, the assessment is made for the activity as a whole (trading and non-trading).

More information about market risks in the BPI Group is contained in the "Risk Management" section of the Directors' Report.

Trading portfolio (trading)

Trading positions are managed autonomously by the traders, within the limits established by the Trading Department Manual for the entire BPI Group, approved by the Executive Committee of the Board of Directors. The trading portfolio is defined for financial and risk management purposes, independently of the accounting classification (although the concepts largely match) and includes all types of financial instruments traded by the Trading Rooms (derivatives, repurchases, shares and bonds) that cause various types of market risk, namely interest rate, shares, exchange, commodities and spread risks.

Market risk in trading operations is assessed and controlled daily through the calculation of VaR – Value at Risk – using a standard model (of the "variance co-variance" type), based on the activity of the Banks of the BPI Group as a whole.

Calculated VaR corresponds to the maximum potential loss, with a confidence level of 99%, resulting from an adverse evolution of risk factors within a timeframe of two weeks (risk factors are price increase rates, indexes and interest rates that affect the value of the portfolio, or that are taken as representative of those prices, indexes and rates). The model uses, as risk factor volatility, the standard deviation of historical samples of their amounts on an annual basis and uniform weight. In calculating the overall risk, the effect of the diversification of investments is included in the model through the statistical effect of the correlation between risk factors (the correlation is calculated from annual historical samples and uniform weight of relevant pairs of risk factors). A normal distribution of risk factors is assumed, with a mean of zero and standard deviation leading to the above mentioned confidence level.

In 2011 and 2010 the average VaR in the Bank's trading books was as follows:

	31 Dec. 11		31 Dec. 10 Proforma	
	VaR (average)	VaR (maximum)	VaR (average)	VaR (maximum)
Interest rate risk	660	8 323	205	780
Currency risk	273	1 418	729	2 277
Equity risk	505	2 632	475	2 993
Commodities	1	14		14

▷

In compliance with its legal obligations, the Group also produces prudential information for purposes of control by the supervisor and calculates regulatory capital relating to market risks in accordance with the standard methodology established by the Bank of Portugal.

Banking portfolio (non-trading)

The Financial Committee, chaired by the Executive Board's member responsible for the financial portfolio, monitors and manages the positions that are part of the banking portfolio, from reports produced for the purpose and within the guidelines of EBGR. When necessary an extraordinary meeting of EBGR is requested to make the more important decisions.

Interest rate risk

Following is a sensitivity analysis of the BPI Group's financial margin and shareholders' equity to a 2% increase in the reference interest rate, considering all the instruments of the banking portfolio sensitive to interest rate variations (including the securities portfolio of the international activity classified in the accounting records as of trading):

Time band	Financial margin					
	31 Dec. 11			31 Dec. 10 Proforma		
	Position	Weighting factor	Weighted position	Position	Weighting factor	Weighted position
on demand	2 212 827	2.00%	44 257	1 733 353	2.00%	34 667
on demand-1 month	(2 283 116)	1.92%	(43 836)	(1 624 546)	1.92%	(31 191)
1-2 months	680 075	1.75%	11 901	531 677	1.75%	9 304
2-3 months	3 452 074	1.58%	54 543	2 162 973	1.58%	34 175
3-4 months	372 654	1.42%	5 292	(59 026)	1.42%	(838)
4-5 months	(92 647)	1.25%	(1 158)	(119 387)	1.25%	(1 492)
5-6 months	2 473 910	1.08%	26 718	3 174 966	1.08%	34 290
6-7 months	(568 762)	0.92%	(5 233)	(112 752)	0.92%	(1 037)
7-8 months	(34 092)	0.75%	(256)	188 337	0.75%	1 413
8-9 months	(153 853)	0.58%	(892)	(59 944)	0.58%	(348)
9-10 months	(131 389)	0.42%	(552)	(154 286)	0.42%	(648)
10-11 months	(108 805)	0.25%	(272)	21 320	0.25%	53
11-12 months	39 036	0.08%	31	82 123	0.08%	66
Total			90 543			78 413

Note: The positions were distributed by the asset, liability and respective maturity class columns.

The weighted position indicates an estimate of the impact on the financial margin obtained at the end of 12 months starting on 1 January of each year resulting from a single and instantaneous change of 2% in the overall market interest rates affecting the respective positions. Thus, the impact on each date depends on the existence and time distribution of the re-pricing gaps.

In medium and long-term fixed rate operations, the BPI Group has the policy of hedging interest rate risk through derivatives. The hedging is usually carried out for the entire exposure, but certain future cash flows can also be hedged (forward start). At 31 December 2011 and 2010 the BPI Group did not have significant medium and long-term exposure to fixed interest rates during the life of the operations.

Equity risk

In accordance with the prudential requirements, the BPI Group calculates the impact of a 20% decrease in share prices and participating units classified as financial assets available for sale and financial assets at fair value through profit or loss¹. This stress test was based on the following exposures in shares and participating units:

	31 Dec. 11	31 Dec. 10 Proforma
Financial assets held for trading and at fair value through profit or loss	16 549	51 421
Financial assets available for sale – at fair value and without impairment	131 721	28 537
Financial assets available for sale – at fair value and with impairment	6 896	13 920
Financial assets available for sale at historical cost	11 248	13 864
Participating units in liquidity, bond and real estate funds	128 218	121 225
	294 632	228 967

Note: Does not include the trading portfolio which is considered in market risk.

At 31 December 2011 and 2010 a 20% decrease in the price of the above securities (except for securities recorded at cost and participating units in liquidity, bond and real estate funds and assuming that the Group does not identify impairment situations in addition to those that already existed on the date of the financial statements), would result in a decrease of 31 033 th. euro and 18 776 th. euro, respectively, in their fair value, implying the recognition of a loss of 4 689 th. euro and 13 068 th. euro, the remaining devaluation being reflected in the fair value reserve.

Currency risk

Financial assets and liabilities at 31 December 2011, by currency, were as follows:

Type of financial instrument	Assets and liabilities by currency				
	EUR	USD	AKZ	Other currencies	Total
Assets					
Cash and deposits at central banks	217 285	492 528	431 621	3 684	1 145 118
Deposits at other credit institutions	306 412	47 874	1 954	28 528	384 768
Financial assets held for trading and at fair value through profit or loss	808 205	114 682	11 165	3 438	937 490
Financial assets available for sale ¹	6 166 127	1 212 462	1 127 803	360	8 506 752
Loans and advances to credit institutions	1 535 716	538 458	255 762	7 655	2 337 591
Loans and advances to Customers	26 945 167	891 123	317 488	164 486	28 318 264
Held-to-maturity investments	766 190				766 190
Hedging derivatives	267 428	5 031		7 384	279 843
Debtors and other applications	46 141	148 748	1 913	185	196 987
	37 058 671	3 450 906	2 147 706	215 720	42 873 003
Liabilities					
Resources of central banks	2 499 197				2 499 197
Financial liabilities held for trading	401 135	52 925		178	454 238
Resources of other credit institutions	1 858 474	194 480	36	18 530	2 071 520
Resources of Customers and other debts	18 717 200	4 041 012	1 724 863	188 253	24 671 328
Debt securities	6 464 615	159 711		67 627	6 691 953
Financial liabilities relating to transferred assets	1 414 597				1 414 597
Hedging derivatives	641 241	20 198		465	661 904
Provisions	92 263	34 314	725	886	128 188
Technical provisions	2 625 181				2 625 181
Subordinated debt	209 854				209 854
Participating bonds	4 637				4 637
	34 928 394	4 502 640	1 725 624	275 939	41 432 597
Forward currency operations	(1 124 355)	1 129 923	(7 652)	45 757	43 673
		78 189	414 430	(14 462)	
Stress test		15 638	124 329	2 892	

1) Excludes the amount recorded in the Fair Value Reserve.

1) Excluding securities held by BPI Vida e Pensões.

Financial assets and liabilities at 31 December 2010, by currency, were as follows:

Type of financial instrument	Assets and liabilities by currency				
	EUR	USD	AKZ	Other currencies	Total
Assets					
Cash and deposits at central banks	471 489	420 908	432 114	3 711	1 328 222
Deposits at other credit institutions	230 525	72 487	14 471	21 068	338 551
Financial assets held for trading and at fair value through profit or loss	984 700	152 069	72 711	32 171	1 241 651
Financial assets available for sale ¹	6 767 726	1 314 297	1 019 518	10 867	9 112 408
Loans and advances to credit institutions	1 005 424	423 547		10 174	1 439 145
Loans and advances to Customers	28 417 015	1 184 928	273 463	179 600	30 055 006
Held-to-maturity investments	1 043 584				1 043 584
Hedging derivatives	192 493	5 630		52 140	250 263
Debtors and other applications	68 110	160 795	3 768	291	232 964
	39 181 066	3 734 661	1 816 045	310 022	45 041 794
Liabilities					
Resources of central banks	1 193 897	51 640			1 245 537
Financial liabilities held for trading	218 649	42 030		814	261 493
Resources of other credit institutions	4 235 048	465 306		25 730	4 726 084
Resources of Customers and other debts	18 010 142	3 633 248	1 440 150	157 323	23 240 863
Debt securities	7 517 195	178 834		86 245	7 782 274
Financial liabilities relating to transferred assets	1 570 418				1 570 418
Hedging derivatives	453 193	33 092		13 159	499 444
Provisions	78 604	30 666	282	1 021	110 573
Technical provisions	2 991 907				2 991 907
Subordinated debt	377 111			263 278	640 389
Participating bonds	7 167				7 167
	36 653 331	4 434 816	1 440 432	547 570	43 076 149
Forward currency operations	(987 884)	788 293	93	247 633	48 135
		88 138	375 706	10 085	
Stress test		17 628	112 712	2 017	

1) Excludes the amount recorded in the Fair Value Reserve.

The stress test consists of assessing the impact of a 20% variation in the exchange rate of each currency against the euro, with the exception of the Kwana (AON) in which the impact of a 30%

variation against the euro was assessed. The amounts presented above are absolute amounts, and correspond to the potential impact (before taxes) on total equity including minority interests.

Hedge accounting

The BPI Group applies fair value hedge accounting for several business lines, including hedging for:

- fixed rate deposits;
- fixed rate debt issues;
- structured debt issues;
- fixed rate securities.

The BPI Group uses “back-to-back” hedging relationships and macro-hedging.

The BPI Group hedges interest rate risk and exchange risk relating to the above items.

Interest rate swaps and forward currency operations are the main hedging instruments used.

Application of Hedge Accounting eliminates the “accounting mismatch” that would result from the recognition of the hedged items at amortised cost, while the hedging instruments (derivative financial instruments) would have to be recorded at fair value through profit or loss. The value of hedged financial instruments is its exposure (nominal value contracted).

The book value of hedged instruments and the fair value of hedging instruments at 31 December 2011 is made up as follows:

Fair value types of hedge	Hedged items					Hedging instruments			
	Nominal amount	Interest, premiums and potential gain / loss	Impairment	Value corrections	Total	Notional amount	Interest and premiums	Revaluation	Fair value
Assets									
Loans and advances to credit institutions	100 000	2 706		83	102 789	108 981	(679)	(8 147)	(8 826)
Loans to Customers	999 629	(290 663)	(62 665)	35 888	682 189	840 455	(7 375)	(58 504)	(65 879)
Fixed rate securities portfolio	5 172 500	(1 537 298)		460 053	4 095 255	6 070 818	(61 332)	(461 861)	(523 193)
	6 272 129	(1 825 255)	(62 665)	496 024	4 880 233	7 020 254	(69 386)	(528 512)	(597 898)
Liabilities									
Resources of credit institutions	65 792	812		8 793	(75 397)	65 835	658	8 778	9 436
Customer deposits	5 555 417	78 186		27 354	(5 660 957)	5 976 361	53 906	11 750	65 656
Debt issues	5 180 717	35 466		111 218	(5 327 401)	6 526 729	13 613	127 132	140 745
	10 801 926	114 464		147 365	(11 063 755)	12 568 925	68 177	147 660	215 837

Embedded options were not included.

The book value of hedged instruments and the fair value of hedging instruments at 31 December 2010 is made up as follows:

Fair value types of hedge	Hedged items					Hedging instruments			
	Nominal amount	Interest, premiums and potential gain / loss	Impairment	Value corrections	Total	Notional amount	Interest and premiums	Revaluation	Fair value
Assets									
Loans and advances to credit institutions	100 000	2 512		1 448	103 960	100 567	(363)	(4 511)	(4 874)
Loans to Customers	573 098	3 326	(1 721)	25 524	600 227	622 984	(5 484)	(25 415)	(30 899)
Fixed rate securities portfolio	6 083 637	(614 904)		296 421	5 765 154	14 739 572	(76 839)	(295 539)	(372 378)
	6 756 735	(609 066)	(1 721)	323 393	6 469 341	15 463 123	(82 686)	(325 465)	(408 151)
Liabilities									
Resources of credit institutions	43 548	815		4 289	48 652	43 659	654	4 180	4 834
Customer deposits	4 569 803	61 326		20 482	4 651 611	4 636 366	49 260	22 212	71 472
Debt issues	6 294 362	24 539		113 721	6 432 622	6 743 707	(11 807)	94 471	82 664
	10 907 713	86 680		138 492	11 132 885	11 423 732	38 107	120 863	158 970

Embedded options were not included.

The tables above include the nominal amounts of hedged items for which hedge accounting is being applied. The notional amount of hedging instruments corresponds to the sum of the notional amounts of the hedging derivatives contracts, including forward start operations (swaps and futures), and therefore the notional amount may be higher than the nominal amounts of the hedged items. For a given asset or liability (namely fixed rate securities) the Bank may have entered into several derivatives to hedge the corresponding future flows.

Net income on financial operations recognised in hedging derivative financial instruments and in hedged items in 2011 and 2010 was the following:

Fair value types of hedge	31 Dec. 11	31 Dec. 10 Proforma
Hedging derivatives	(302 583)	(181 367)
Hedged items		
Loans and advances to credit institutions	(1 365)	919
Loans to Customers	17 318	3 258
Fixed rate securities portfolio	268 573	177 760
Resources of credit institutions	(4 504)	(1 924)
Customer deposits	(6 872)	3 390
Debt issues	102 271	(9 543)
	375 421	173 860
	72 838	(7 507)

The caption GAIN ON DEBT ISSUES at 31 December 2011 includes 82 797 th. euro relating to gain on the repurchase of bond issues.

4.49. Share-based variable remuneration program

The share-based variable remuneration program (Remuneração Variável em Ações – RVA) is a remuneration plan under which, whenever it is decided to grant variable remuneration to Executive Directors and Employees of the BPI Group (in the latter case provided that it exceeds 2500 euro) it is made up of BPI shares and BPI share options. The individual remuneration under the RVA program varies between 10% and 50%, the percentage increasing with the responsibility level of the beneficiary.

The shares granted to Employees under the RVA program are transferred in full at the grant date, but 75% of the transfer is, subject to a resolutive condition (relating to termination of the employment relationship, unless made by just cause of the Employee), which expires in a gradual basis over the three years following the grant date (25% each year). The options to purchase shares may be exercised between the 90th day to the fifth year as from the grant date. In accordance with RVA Regulation, termination of the employment relationship between the Employee and the BPI Group also affects the options granted.

The conditions for granting shares and share options to the Executive Directors up to RVA 2009 were similar to those referred above for Employees. As from RVA 2010, the shares and share options granted to the Executive Directors under the RVA program are subject to the following suspensive condition: Banco BPI's consolidated shareholders' equity, based on the consolidated accounts for the third year following that to which the variable remuneration relates, must be greater than Banco BPI's consolidated shareholders' equity for the year to which the variable remuneration relates, observing the assumptions established in the RVA Regulations. The granting of shares is also subject to the suspensive condition of non termination of the management or employment relationship established in the RVA Regulations. In addition to these conditions, the granting of the shares is also subject to a suspensive term of three years as from the grant date and the strike period for the share options only begins after that period.

In the case of RVA 2007, the Employees whose variable remuneration was equal to or greater than 2 500 euro and less than or equal to 10 000 euro could choose to receive this amount fully in "cash". In the case of RVA 2008, 2009 and 2010, Executive Directors and Employees, whose variable remuneration was equal to or greater than 2 500 euro could choose to receive the variable remuneration entirely in "cash" without affecting the deferral of the availability and Conditions of Access referred to above to up to 50% of the variable remuneration paid to the Executive Directors.

In 2006, there was no RVA because Banco BPI was under a public share purchase offering. All the other RVA programs remain in force under the conditions mentioned in this note.

The price of the shares granted corresponds to the weighted average list price of the BPI shares traded in the last ten stock exchange sessions prior to the date the shares are granted. The price of the shares granted also corresponds to the strike price of the options.

The shares are made available (in the three years following the date they are attributed) subject to the beneficiaries remaining with the BPI Group. The price of the shares attributed, as well as the period in which they are made available, are summarised in the following table:

Program	Date of assignment	Strike price	Shares		
			Date of availability of tranches		
			2 nd	3 rd	4 th
RVA 2007	2008-03-21	3.33	2009-03-21	2010-03-21	2011-03-21
RVA 2008	2009-03-16	1.29	2010-03-16	2011-03-16	2012-03-16
RVA 2009	2010-03-11	1.76	2011-03-11	2012-03-11	2013-03-11
RVA 2010	2011-04-29	1.25	2012-04-29	2013-04-29	2014-04-29

The share options can be exercised between the 90th day and the end of the 5th year following the date they were attributed. The share options are made available subject to the beneficiaries remaining with the BPI Group.

The strike price of the options, as well as the period the options can be exercised, are summarised in the following table:

Program	Date of assignment	Strike price ¹	Options	
			Strike period	
			From	To
RVA 2004	2005-02-28	2.98	2006-02-28	2010-02-28
RVA 2005	2006-02-23	4.27	2006-05-24	2011-02-23
RVA 2007	2008-03-21	2.91	2008-06-23	2013-03-21
RVA 2008	2009-03-16	1.29	2009-06-17	2014-03-16
RVA 2009	2010-03-11	1.76	2010-06-12	2015-03-11
RVA 2010	2011-04-29	1.13	2011-07-30	2016-04-29

1) Strike price after considering the effect of the share capital increase made in May 2011.

By decision of the Shareholders' General Meeting of the Bank, the members of Executive Commission of the Board of Directors implemented an RVA plan (with a suspensive condition) the availability and strike periods of which are shown in the following tables:

Program	Date of assignment	Strike price	Shares	
			Date of availability	
RVA 2010	2011-04-29	1.25	2014-04-29	

Program	Date of assignment	Strike price ¹	Options	
			Strike period	
			From	To
RVA 2010	2011-04-29	1.13	2014-04-29	2017-04-29

1) Strike price after considering the effect of the share capital increase made in May 2011.

The number of Employees and Directors covered by the RVA 2010 and RVA 2009 programs was as follows:

	RVA 2010	RVA 2009
Directors	6	3
Employees	94	201
	100	204

The total cost of the RVA programs is as follows:

Program	Total cost		
	Shares	Options	Total
RVA 2001	2 478	2 478	4 956
RVA 2002	2 507	2 507	5 014
RVA 2003	3 202	2 272	5 474
RVA 2004	3 834	2 169	6 003
RVA 2005	4 006	3 075	7 081
RVA 2007	2 649	5 938	8 587
RVA 2008	115	634	749
RVA 2009	29	814	843
RVA 2010	29	738	767
RVA 2011	8	211	219
	18 857	20 836	39 693

The RVA 2011 amounts are estimated for the whole year.

MODEL FOR VALUING THE EQUITY INSTRUMENTS GRANTED TO THE EMPLOYEES AND DIRECTORS OF THE BPI GROUP

Shares

The Bank, for purposes of the share-based payment program, acquires a portfolio of BPI shares and transfers ownership of the shares to the Employees and Directors on the date the RVA remuneration is granted.

The changes in the number of shares not yet made available to the Employees and Directors of the BPI Group in 2011 and in 2010, as well as the fair value of the respective instruments, are as follows:

	RVA 2007			RVA 2008			RVA 2009			RVA 2010		
	Number of shares	Fair value		Number of shares	Fair value		Number of shares	Fair value		Number of shares	Fair value	
		On the date attributed	On the reference date		On the date attributed	On the reference date		On the date attributed	On the reference date		On the date attributed	On the reference date
Shares attributed in 2009	796 235	2 651	1 688	128 252	181	272						
Shares made available in 2009	391 545	1 304	830	32 135	45	68						
Shares made available early in 2009	17 060	57	36									
Shares refused in 2009	10 532	35	22									
Shares not made available at 31 December 2009	377 098	1 256	799	96 117	136	204						
Shares attributed in 2010							14 937	29	21			
Shares made available in 2010	186 041	620	258	30 168	43	42	3 774	7	5			
Shares made available early in 2010	6 745	22	9	5 659	8	8						
Shares refused in 2010	212	1										
Shares not made available at 31 December 2010	184 100	613	255	60 290	85	84	11 163	22	15			
Shares attributed in 2011				3 053	4	1	769	1		7 059	8	3
Shares made available in 2011	184 100	536	89	30 145	39	14	3 681	6	2	1 651	2	1
Shares made available early in 2011							120					
Shares refused in 2011												
Shares not made available at 31 December 2011	0			33 198	43	16	8 131	14	4	5 408	6	3

In the case of death, incapacity or retirement of the Employee or director, the shares not yet made available are made available early, becoming freely available to the person or to the respective heirs.

The shares refused include shares granted but not made available, to which the Employee or director has lost his / her right because he / she has left the BPI Group.

Options

The changes in the number of share options in circulation, held by Employees and Directors of the BPI Group (options that can be exercised) in 2011 and in 2010, as well as their respective fair values are as follows:

	RVA 2005			RVA 2007			RVA 2008			RVA 2009			RVA 2010		
	Number of options	Fair value	On the reference date attributed	Number of options	Fair value	On the reference date attributed	Number of options	Fair value	On the reference date attributed	Number of options	Fair value	On the reference date attributed	Number of options	Fair value	On the reference date attributed
Options attributed in 2009	6 950 436	3 128	49 15 013 916	6 156	2 898	3 339 370	1 249	2 615							
Options made available in 2009	6 950 436	3 128	49 15 013 916	6 156	2 898	3 339 370	1 249	2 615							
Options cancelled in 2009	88 125	40	1 443 517	182	86										
Options exercised in 2009	4 016 920	1 808	28 1 878	1		926 109	346	725							
Options in circulation and exercisable at 31 December 2009	2 845 391	1 280	20 14 568 521	5 973	2 812	2 413 261	903	1 890							
Options in circulation at 31 December 2009	2 845 391	1 229	14 568 521	5 740	219	2 413 261	903	603							
Options attributed in 2010									2 079 992	763	295				
Options made available in 2010									2 079 992	763	295				
Options cancelled in 2010	1 000		28 172	11		193 826	72	48							
Options exercised in 2010															
Options in circulation and exercisable at 31 December 2010	2 844 391	1 229	14 540 349	5 729	218	2 219 435	830	555	2 079 992	763	295				
Options in circulation at 31 December 2010	2 844 391	1 229	14 540 349	5 205		2 219 435	755	12	2 079 992	695	5				
Options attributed in 2011	3 705	2	1 287 177	461		209 456	71	1	207 893	69	1	837 481	210	16	
Options made available in 2011	3 705	2	1 287 177	461		209 456	71	1	207 893	69	1	837 481	210	16	
Options cancelled in 2011	2 848 096	1 230	11 946	4		4 853	2								
Options exercised in 2011															
Options in circulation and exercisable at 31 December 2011			15 815 580	5 662		2 424 038	824	13	2 287 885	764	6	837 481	210	16	

The availability and granting of Shares and Options under the RVA 2005, 2007, 2008 and 2009 programs in 2011 result from the capital increase by incorporation of reserves in May 2011.

The quantities granted under the RVA 2010 program resulting from the capital increase were 533 shares and 76 099 options.

When an Employee or director of the BPI Group leaves the Group he / she loses the right to the options attributed and not yet made available. In the case of options made available but not yet exercised, the director or Employee has a maximum period of 30 days from the date the labour relationship terminates to exercise the option, after which the option expires (options cancelled).

In the case of death, incapacity or retirement of Directors or Employees, the options attributed become immediately exercisable, having to be exercised within a period of 2 years from the date of the event, otherwise they expire. Cancelled options include options not exercised within this period.

In 2011 and in 2010 the weighted average price of the shares on the date the options were exercised was as follows:

Program	Options exercised in 2011		Options exercised in 2010	
	Number of options	Average price of the shares	Number of options	Average price of the shares
RVA 2008			193 826	1.95

In determining the number of options to be granted to Employees and Directors, the BPI Group determines the financial value of the options as of the date they are granted.

The premium of the options over Banco BPI shares was determined in accordance with an internally developed model, based on the Black-Scholes model, for the RVA 2003 to RVA 2010 programs.

The critical factors of the model used to manage the RVA programs are as follows:

- Volatility of Banco BPI shares, which was determined as follows:
 - 60% of the historical volatility of Banco BPI shares in the last 3.33 years;
 - 10% of the VIX volatility index;
 - 10% of the VDAX volatility index;
 - 20% of the implicit volatility of the listed options traded in Spain over Spanish banks which are similar to Banco BPI.
- Average expected life of the option, which depends, among others, on the following factors:
 - Responsibility level of the beneficiaries: Directors and other Employees;
 - Ratio between the market price and the strike price;
 - Volatility of the share price.

The model also enables the number of shares of Banco BPI necessary to ensure adequate coverage of the inherent risk of issuing options under the RVA program to be determined.

The parameters used to determine the financial value of the options under each RVA program, as of the date the options are attributed, are as follows:

	RVA 2005	RVA 2007	RVA 2008	RVA 2009	RVA 2010
BPI listing	4.47	3.33	1.41	1.94	1.25
Strike price	4.44	3.33	1.41	1.94	1.25
Implicit volatility	17.10%	29.34%	44.27%	32.25%	35.97%
Interest rate	3.08%	3.73%	3.10%	2.68%	5.15%
Expected dividends	0.12	0.19	0.07	0.08	0.00
Value of the option	0.45	0.41	0.37	0.37	0.28

The number of outstanding options under each RVA Program, as well as their respective fair values at 31 December 2011 was as follows:

	RVA 2007	RVA 2008	RVA 2009	RVA 2010
Number of outstanding options	15 815 580	2 424 038	2 287 885	837 481
Strike price	2.91	1.29	1.76	1.13
Value of option	0.00	0.01	0.00	0.02

The number of outstanding options under each RVA Program, as well as their respective fair values at 31 December 2010 was as follows:

	RVA 2005	RVA 2007	RVA 2008	RVA 2009
Number of outstanding options	2 844 391	14 540 349	2 219 435	2 079 992
Strike price	4.27	3.20	1.41	1.94
Value of option	0.00	0.02	0.25	0.14

ACCOUNTING IMPACT OF THE RVA PROGRAM

Shares

In order to cover the share-based payments, the Bank acquires a portfolio of treasury shares at the time the RVA remuneration is attributed. The shares remain in Banco BPI's portfolio until they are made available to the beneficiaries. At that time they are derecognised by corresponding charge to the accumulated costs caption OTHER EQUITY INSTRUMENTS.

The book value and fair value of the share component of the RVA program not yet made available to the Employees / Directors at 31 December 2011 and 2010 are as follows:

Shares	Program	31 Dec. 11			31 Dec. 10		
		Book value	Number of shares	Fair value	Book value	Number of shares	Fair value
Cost of the shares to be made available to the Group's Employees / Directors, recognized in shareholders' equity	RVA 2007				664		
	RVA 2008	49			78		
	RVA 2009	12			15		
	RVA 2010	65			13		
	RVA 2011	3					
		129			770		
Cost of the shares to be made available to the Group's Employees / Directors, not recognized in shareholders' equity	RVA 2007				28		
	RVA 2008	2			15		
	RVA 2009	2			94		
	RVA 2010	(59)			16		
	RVA 2011	5					
		(50)			153		
	Total	79	46 737	23	923	255 553	354
Treasury shares made available early to the Group's Employees / Directors	RVA 2007	0			79		
	RVA 2008	8			8		
	Total	8			87		
Treasury shares to be made available to the Group's Employees / Directors	RVA 2007		0		613	184 100	255
	RVA 2008	43	33 198	16	85	60 290	84
	RVA 2009	14	8 131	4	22	11 163	15
	RVA 2010	6	5 408	3			
	Total	63	46 737	23	720	255 553	354

Options

The BPI Group has created a portfolio of BPI shares to cover its share-based payment program responsibilities resulting from the issuance of options to purchase BPI shares in accordance with a delta strategy (determined in accordance with BPI's options evaluation model developed in-house based on the Black-Scholes model). The strategy corresponds to the creation of a portfolio with delta shares for each option issued, the delta number corresponding to the relationship between the variation in the price of an option and variation in the price of the underlying share. The treasury shares held to hedge the risk of variation in the amount of the options sold are recorded in the caption TREASURY SHARES HEDGING THE RVA, where they remain while they are held for that purpose.

When the options are exercised, the treasury shares are derecognised together with transfer of share ownership to the Employees / Directors. At that time a gain or loss is recognised, in the amount corresponding to the difference between the strike price and the average cost of acquiring the treasury share portfolio covering each of the programs, less the cost of the option premiums accumulated in the caption OTHER EQUITY INSTRUMENTS.

The book value and fair value of the outstanding option component of the RVA program attributed to the Employees / Directors at 31 December 2011 and 2010 are as follows:

Options	Program	31 Dec. 11			31 Dec. 10		
		Book value	Fair value	Unrealized gain / (loss)	Book value	Fair value	Unrealized gain / (loss)
Cost of outstanding options (premiums) recognized in shareholders' equity	RVA 2005				1 230		
	RVA 2007	5 725			5 729		
	RVA 2008	828			830		
	RVA 2009	814			814		
	RVA 2010	401			521		
	RVA 2011	133					
	Total	7 901			9 124		
Cost of outstanding options (premiums) not recognized in shareholders' equity	RVA 2010				217		
	RVA 2011	78					
		78			217		
	Total	7 979	708	7 271	9 341	1 970	7 371
Treasury shares hedging the RVA options	RVA 2005				1 806	554	(1 252)
	RVA 2007	14 619	2 149	(12 470)	12 813	5 072	(7 741)
	RVA 2008	3 045	711	(2 334)	3 045	1 861	(1 184)
	RVA 2009	3 147	495	(2 652)	3 315	1 366	(1 949)
	RVA 2010	146	23	(123)			
	Total	20 957	3 378	(17 579)	20 979	8 853	(12 126)
Unrealized gain / (loss)				(10 308)			(4 755)

The gain and loss realised on treasury shares hedging the exercise of RVA options, as well as the respective taxes, are recorded directly in shareholders' equity, not affecting net income.

The gain and loss recorded in making the shares available and in the exercise of the options, as well as in the corresponding hedge, recorded in shareholders' equity at 31 December 2011 and 2010, are as follows:

Gain / loss	Program	31 Dec. 11	31 Dec. 10
Shares In making the shares available	RVA 2009		(211)
	RVA 2010	(14)	
		(14)	(21)
Options In the exercise of options	RVA 2004		461
	RVA 2005	(7)	
	RVA 2008		(93)
		(7)	368
On the sale of hedging shares	RVA 2005	1 166	
		1 166	
Transaction costs		73	1
		1 218	348

The cost of the share-based remuneration program is accrued in personnel costs, by corresponding entry to the OTHER EQUITY INSTRUMENTS caption, as required by IFRS 2 for share-based payment programs. The cost of the shares and option premiums, when they are granted, is accrued on a straight-line basis from the beginning of the program (1 January) to the date they are made available to the Employees / Directors.

The total cost of the share-based payment program recognised in 2011 and 2010 was as follows:

Program	31 Dec. 11			31 Dec. 10		
	Shares	Options	Total	Shares	Options	Total
RVA 2007	(51)	(4)	(55)	214	(11)	203
RVA 2008	13	(2)	11	37		37
RVA 2009	5		5	(63)	(68)	(131)
RVA 2010	54	(120)	(66)	14	521	535
RVA 2011	3	133	136			
Total	24	7	31	202	442	644

4.50. Capital Management

Banco BPI's policy regarding the distribution of results is to distribute an annual dividend, by proposal of the Board of Directors to the Shareholders' General Meeting, usually of not less than 40% of net profit reflected in the consolidated accounts for the year to which it relates, unless exceptional circumstances justify the distribution of a smaller dividend.

In 2010, considering the prevailing conditions of the international financial markets and of the Portuguese economy, the Board of Directors of Banco BPI proposed to the Shareholders' General Meeting that the profit for 2010 be fully appropriated to reserves, no dividend being distributed.

The potential components of Tier I (including Core Tier I) and Tier II (including upper Tier II and lower Tier II) Own Funds are in accordance the regulations established in Bank of Portugal Notice 6 / 2010.

At the end of 2011 Banco BPI agreed with the Portuguese State to transfer part of the pension liabilities to the Social Security. As established in Bank of Portugal Notice 1 / 2012, the impact of this operation will only be reflected in core capital in 30 June 2012.

As established in Notice 6 / 2010 of the Bank of Portugal, in 2011

the Bank started considering in core capital, the amount of loan impairment losses recognized in consolidated net equity and not the full amount of the regulatory provisions on an individual basis.

In accordance with the Bank of Portugal's rules the BPI Group's Own Funds are made up as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Base own funds		
Subscribed share capital, share premium, reserves (excluding positive fair value reserves) and retained earnings	1 698 654	2 138 555
Preference shares	53 427	246 698
Other minority interests	217 591	185 597
Intangible assets	(9 557)	(6 378)
Treasury shares	(12 990)	(11 805)
Difference between impairment and provisions		(110 955)
Deduction related to deposits with high interest rates	(969)	
Partial transfer of retired and pensioners pension liabilities to the Social Security	261 813	
Actuarial deviations considered in the prudential corridor	117 677	
Contributions to the pension fund not yet recognised as cost (corridor method)	(69)	(232)
Deferred transition adjustments to IAS / IFRS	48 526	72 317
Base own funds	2 374 103	2 513 797
Complementary own funds		
Revaluation reserves of fixed assets	8 548	8 548
Perpetual subordinated debt		69 029
Positive fair value reserve	11 282	10 643
Subordinated debt and participating securities	164 841	480 019
Difference between impairment and provisions		94 862
Complementary own funds	184 671	663 101
Deductions		
Deduction of participations in insurance companies and other financial institutions	(203 251)	(269 067)
Others deductions	(6 123)	(5 589)
Deductions	(209 374)	(274 656)
Total own funds	2 349 400	2 902 242
Total requirements	2 012 179	2 082 865
Assets weighted by risk¹	25 152 243	26 035 817
Own Funds requirements ratio	9.3%	11.1%
Tier I ²	9.0%	9.1%
Core Tier I (excluding preference shares) ^{2,3}	9.2%	8.7%
Percentage of preference shares to Tier I	2.3%	9.8%

1) Total requirements x 12.5.

2) Calculated in accordance with Bank of Portugal Instruction 16 / 2004.

3) In accordance with Bank of Portugal, Core Tier I should not reflect 50% of deductions in financial institutions and insurance companies.

In May 2011, the Bank of Portugal established that banks should reach Core Tier I ratios on a consolidated basis, of 9% by the end of 2011 and 10% by the end of 2012.

In accordance with the Recommendation of the European Banking Authority (EBA) of 8 December 2011 (EBA / REC / 2011 / 1), the supervisory authorities must determine that banks constitute a temporary capital buffer to enable them to achieve a Core Tier I ratio of 9% at 30 June 2012, considering sovereign debt exposures valued at market prices. This recommendation was accepted by the Bank of Portugal through the Notice 5 / 2012. For purposes of determining the temporary capital buffer component to cover the valuation of the sovereign debt exposure at market prices, the Recommendation established that the market prices were those as of 30 September

2011. In the case of Banco BPI a temporary capital buffer of 1 389 million euro was defined as of 30 September 2011, of which 1 359 million euro relates to sovereign debt exposure.

In this respect, Law 63 – A / 2008 of 24 November, as republished by Law 4 / 2012 of 11 January sets out measures to strengthen the financial soundness of credit institutions under the initiative to reinforce financial stability and the availability of liquidity in the financial markets. On 20 January 2012, Banco BPI submitted to the authorities a “Capitalization Plan” that includes the measures to be implemented to achieve the solvency ratios mentioned above, namely utilization of the temporary and refundable public recapitalization line established in Law 63-A / 2008.

4.51. Related parties

The BPI Group's related parties at 31 December 2011 were as follows:

Name of related entity	Head Office	Effective participation	Direct participation
Associated and jointly controlled entities of Banco BPI			
Banco Comercial e de Investimentos, S.A.R.L.	Mozambique	30.0%	29.7%
Companhia de Seguros Allianz Portugal, S.A.	Portugal	35.0%	35.0%
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	50.0%	50.0%
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	49.0%	
TC Turismo Capital – SCR, S.A.	Portugal	25.0%	25.0%
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	Portugal	32.8%	32.8%
Ulissipair ACE	Portugal	50.0%	
Unicre – Instituição Financeira de Crédito, S.A.	Portugal	21.0%	20.7%
Pension fund of Employees and Directors of the BPI Group			
Fundo de Pensões Banco BPI	Portugal	100.0%	
Fundo de Pensões Aberto BPI Acções	Portugal	16.1%	
Fundo de Pensões Aberto BPI Valorização	Portugal	34.1%	
Fundo de Pensões Aberto BPI Segurança	Portugal	31.7%	
Fundo de Pensões Aberto BPI Garantia	Portugal	16.4%	
Shareholders of Banco BPI			
Grupo Itaú	Brazil	18.9%	
Grupo La Caixa	Spain	30.1%	
Members of the Board of Directors of Banco BPI			
Artur Santos Silva			
Carlos da Camara Pestana			
Fernando Ulrich			
Alfredo Rezende de Almeida			
António Domingues			
António Farinha Morais			
António Lobo Xavier			
Armando Leite de Pinho			
Carlos Moreira da Silva			
Edgar Alves Ferreira			
Henri Penchas			
Allianz Europe Ltd. – Represented by Herbert Walter			
Ignacio Alvarez-Rendueles			
Isidro Fainé Casas			
José Pena do Amaral			
Juan Nin Génova			
Klaus Dührkop			
Manuel Ferreira da Silva			
Marcelino Armenter Vidal			
Maria Celeste Hagatong			
Mário Leite da Silva			
Pedro Barreto			
Ricardo Villela Marino			
Tomaz Jervell			

In accordance with IAS 24, related parties are those in which the Bank has significant influence (direct or indirect) in decisions relating to their financial and operating policies – associated and jointly

controlled companies and pension funds – and entities which have significant influence on the management policy of the Bank – shareholders and members of Banco BPI's Board of Directors.

The total assets, liabilities, income and off-balance sheet responsibilities relating to operations with associated and jointly controlled companies and pension funds of Employees of the BPI Group at 31 December 2011 are as follows:

	Associated and jointly controlled companies	Pension funds of Employees of the BPI Group	Total
Assets			
Financial assets held for trading and at fair value through profit or loss	15		15
Loans	35 866		35 866
Other assets	17		17
	35 898		35 898
Liabilities			
Financial liabilities held for trading and derivatives	11		11
Deposits and technical provisions	26 269	251 446	277 715
Other financial resources		60 088	60 088
Other liabilities	63		63
	26 343	311 534	337 877
Net income			
Financial margin (narrow sense)	(197)	(7 520)	(7 717)
Net comission income	34	154	188
Net operating income		38 478	38 478
General administrative costs	(1 048)	(15 785)	(16 833)
	(1 211)	15 327	14 116
Off balance sheet items			
Guarantees given and other contingent liabilities			
Guarantees and sureties	11 973		11 973
Responsibilities for services rendered			
Deposit and safeguard of assets	846 396	958 134	1 804 530
Foreign exchange operations and derivatives instruments			
Purchases	13 967		13 967
Sales	(14 356)		(14 356)
	857 980	958 134	1 816 114

The total assets, liabilities, income and off balance sheet responsibilities relating to operations with shareholders, members of the Board of Directors and companies in which members of the Board of Directors have significant influence at 31 December 2011 are as follows:

	Shareholders of Banco BPI ¹	Members of the Board of Directors of Banco BPI ²	Companies in which Members of the Board of Directors of Banco BPI have significant influence	Total
Assets				
Financial applications	54 134			54 134
Financial assets held for trading and at fair value through profit or loss	1 977			1 977
Financial assets available for sale			8	8
Loans	440	11 112	259 657	271 209
Held-to-maturity investments	5 453			5 453
Derivatives	5 270			5 270
Other amounts receivable	30		67	97
	67 304	11 112	259 732	338 148
Liabilities				
Deposits and technical provisions	130 771	8 041	11 369	150 181
Derivatives	5 153			5 153
Other liabilities	222	25	122	369
	136 146	8 066	11 491	155 703
Net income				
Financial margin (narrow sense)	2 013	(47)	110	2 076
Net comission income	49	14	5	68
Net income on financial operations	(3 365)			(3 365)
	(1 303)	(33)	115	(1 221)
Off balance sheet items				
Guarantees given and other contingent liabilities				
Guarantees and sureties	94	93	69 875	70 062
Responsibilities for services rendered				
Deposit and safeguard of assets	233 204	17 982	169 904	421 090
Foreign exchange operations and derivatives instruments				
Purchases	400 000		50 241	450 241
Sales	(400 000)		(50 275)	(450 275)
	233 298	18 075	239 745	491 118

1) With significant influence on the BPI Group's management policy. It is assumed that there is significant influence when the participation in capital exceeds 20%.

2) In individual name.

The total assets, liabilities, income and off balance sheet responsibilities relating to operations with associated and jointly controlled companies and pension funds of Employees of the BPI Group at 31 December 2010 are as follows:

	Associated and jointly controlled companies	Pension funds of Employees of the BPI Group	Total
Assets			
Financial assets held for sale	8		8
Loans	110 126		110 126
	110 134		110 134
Liabilities			
Deposits and technical provisions	20 420	371 275	391 695
Other financial resources		60 070	60 070
Other liabilities	93		93
	20 513	431 345	451 858
Results			
Financial Margin	364	(1 506)	(1 142)
Net commissions	35	3	38
Administrative Costs	(1 432)	(15 112)	(16 544)
	(1 033)	(16 615)	(17 648)
Off balance sheet items			
Guarantees given and other contingent liabilities			
Guarantees and sureties	24 817		24 817
Responsibilities for services rendered			
Deposit and safeguard of assets	1 024 523	1 887 842	2 912 365
	1 049 340	1 887 842	2 937 182

The total assets, liabilities, income and off balance sheet responsibilities relating to operations with shareholders, members of the Board of Directors and companies in which members of the Board of Directors have significant influence at 31 December 2010 are as follows:

	Shareholders of Banco BPI ¹	Members of the Board of Directors of Banco BPI ²	Companies in which Members of the Board of Directors of Banco BPI have significant influence	Total
Assets				
Financial applications	98 572			98 572
Financial assets held for trading and at fair value through profit or loss	2 035			2 035
Financial assets available for sale	28 975			28 975
Loans	204	11 122	143 135	154 461
Held-to-maturity investments	5 453			5 453
Derivatives	14 697			14 697
Other amounts receivable	24			24
	149 960	11 122	143 135	304 217
Liabilities				
Deposits and technical provisions	130 289	7 270	109 619	247 178
Financial liabilities held for trading and derivatives	9 788			9 788
Other liabilities	713	25	196	934
	140 790	7 295	109 815	257 900
Results				
Financial Margin	4 334	(13)	436	4 757
Net commissions	128	14	11	153
Income on financial operations	4 001			4 001
	8 463	1	447	8 911
Off balance sheet items				
Guarantees given and other contingent liabilities				
Guarantees and sureties	94	93	41 918	42 105
Responsibilities for services rendered				
Deposit and safeguard of assets	610 446	37 669	171 570	819 685
Foreign exchange operations and derivatives instruments				
Purchases	400 000		149 956	549 956
Sales	(400 000)		(149 994)	(549 994)
	610 540	37 762	213 450	861 752

1) With significant influence on the BPI Group's management policy. It is assumed that there is significant influence when the participation in capital exceeds 20%.

2) In individual name.

Remuneration attributed to the members of the Board of Directors of the BPI Group in 2011 and 2010 was as follows:

	31 Dec. 11	31 Dec. 10 Proforma
Remuneration in cash ¹	4 113	4 887
Equity-based remuneration ¹		156
Pensions paid	1 030	970
	5 143	6 013

1) Includes accrued variable remuneration to be attributed at the end of the year. As a result of the resolution of the Shareholders' General Meeting held in April 2011, the amount of variable remuneration of members of Banco BPI's Executive Committee of the Board of Directors became limited to 1% of consolidated net income.

In accordance with the Bank's policy, the members of the Executive Committee of Banco BPI are entitled to participate in the Subsidised Housing Loan Scheme available to all the Banks' Employees. At 31 December 2011 the outstanding mortgage own housing loans granted to the members of the Executive Committee, by the Group's banks, amounted to 1 884 th. euro.

▷

Under the share-based payment program (RVA) the members of the Executive Committee of Banco BPI benefit from a loan scheme to purchase BPI shares through exercise of the options granted under the share-based payment program (RVA), available to all the Banks' Employees. At 31 December 2011 the total loans granted to members of the Executive Committee amounted to 5 619 th. euro.

A line of credit in force in the Banks was also made available to Employees for the purchase of BPI shares under the capital increase. At 31 December 2011 the balance of credit granted to the members of Executive Committee amounted to 942 th. euro.

Therefore, at 31 December 2011 the total balance of loans made by the Group's Banks to members of the Executive Committee amounted to 6 561 th. euro.

In accordance with the terms of article 477 of the Commercial Company Code (Código das Sociedades Comerciais), the shareholdings of the members of the Board of Directors at 31 December 2011 were as follows:

	Shares ¹										Loans E	Loans F
	Held at 31 Dec. 10	Pur- chases ²	Sales	Held at 31 Dec. 11	Value at 31 Dec. 11 ³	Unavaila- ble shares A	Shares pledged in guarantee B	Shares pledged in guarantee C	Shares pledged in guarantee D			
Artur Santos Silva	805 399	80 539		885 938	426							
Carlos da Camara Pestana	360 658	30 065		390 723	188							
Fernando Ulrich ⁴	1 901 983	190 197		2 092 180	1 006		1 585 040	348 510		4 033	695	
Alfredo Rezende de Almeida	1 910 000	191 000		2 101 000	1 011							
António Domingues ⁴	278 220	27 822		306 042	147	14 595	220 591			283		
António Farinha Morais ⁴	354 418	35 441		389 859	188		258 823			332		
António Lobo Xavier												
Armando Leite de Pinho												
Carlos Moreira da Silva	42 862	4 286		47 148	23							
Edgar Alves Ferreira	1 449 653	894 966	750 000	1 594 619	767							
Henri Penchas												
Herbert Walter												
Ignacio Alvarez-Rendueles												
Isidro Fainé Casas												
José Pena do Amaral ⁴	66 075	6 607		72 682	35	8 565						
Juan María Nin Génova												
Klaus Dührkop												
Manuel Ferreira da Silva ⁴	658 118	65 811		723 929	348				135 800			
Marcelino Armenter Vidal												
Maria Celeste Hagatong ⁴	804 684	80 467		885 151	426		171 110	48 815		370	97	
Mário Leite da Silva												
Pedro Barreto ⁴	430 908	43 091		473 999	228		378 399	94 600		600	150	
Ricardo Villela Marino ⁵												
Tomaz Jervell	10 132	1 013		11 145	5							

A – Shares attributed under the RVA program, the availability of which at 31 December 2011 is subject to a resolutive condition.

B – Shares which at 31 December 2011 were pledged in guarantee of loans to finance their acquisition resulting from the exercise of options granted under the RVA program.

C – Shares which at 31 December 2011 were pledged in guarantee of loans to finance their acquisition resulting from exercise of BPI share subscriptions under the capital increase.

D – Shares which at 31 December 2011 were pledged in guarantee for purposes of article 396 of the Commercial Company Code (Código das Sociedades Comerciais).

E – Amount owed at 31 December 2011 on the loan referred to in B.

F – Amount owed at 31 December 2011 on the loan referred to in C.

1) Includes securities held by their spouses.

2) Includes securities attributed under the capital increase in May 2011.

3) Fair value of the shares.

4) Member of the Executive Committee.

5) Appointed on 27 April 2011.

In accordance with the terms of article 477 of the Commercial Company Code (Código das Sociedades Comerciais), the shareholder position of the members of the Board of Directors in terms of options held at 31 December 2011 was as follows:

	Options ¹			
	Held at 31 Dec. 10	Purchases ²	Exercised ³	Held at 31 Dec. 11
Artur Santos Silva				
Carlos da Camara Pestana				
Fernando Ulrich ⁴				
Alfredo Rezende de Almeida				
António Domingues ⁴	951 702	95 170		1 046 872
António Farinha Morais ⁴	913 922	83 299	80 930	916 291
António Lobo Xavier				
Armando Leite de Pinho				
Carlos Moreira da Silva				
Edgar Alves Ferreira				
Henri Penchas				
Herbert Walter				
Ignacio Alvarez-Rendueles				
Isidro Fainé Casas				
José Pena do Amaral ⁴	860 963	67 597	184 983	743 577
Juan María Nin Génova				
Klaus Dührkop				
Manuel Ferreira da Silva ⁴	1 311 927	102 981	282 101	1 132 807
Marcelino Armenter Vidal				
Maria Celeste Hagatong ⁴	242 790		242 790	
Mário Leite da Silva				
Pedro Barreto ⁴	992 992	99 299		1 092 291
Ricardo Villela Marino ⁵				
Tomaz Jervell				

1) Includes securities held by their spouses.

2) Includes securities attributed under the capital increase in May 2011.

3) Includes shares extinguished through expiry.

4) Member of the Executive Committee.

5) Appointed on 27 April 2011.

In accordance with the terms of article 477 of the Commercial Company Code (Código das Sociedades Comerciais), the shareholding position of the other Directors of Banco BPI, members of the Board of Directors of Banco Português de Investimentos, in terms of the shares held at 31 December 2011 was as follows:

	Shares										Loans E	Loans F
	Held at 31 Dec. 10	Purcha- ses ¹	Sales	Held at 31 Dec. 11	Value at 31 Dec. 11 ²	Unavaila- ble shares A	Shares pledged in guarantee B	Shares pledged in guarantee C	Shares pledged in guarantee D			
Alexandre Lucena e Vale	99 064	9 906		108 970	52		48 064	18 964			97	37
Fernando Costa Lima ³	70 198			70 198	34							
José Miguel Morais Alves	11 351	1 135		12 486	6							
João Pedro Oliveira e Costa												

A – Shares attributed under the RVA program, the availability of which at 31 December 2011 is subject to a resolute condition.

B – Shares which at 31 December 2011 were pledged in guarantee of loans to finance their acquisition resulting from the exercise of options granted under the RVA program.

C – Shares which at 31 December 2011 were pledged in guarantee of loans to finance their acquisition resulting from exercise of BPI share subscriptions rights under the capital increase.

D – Shares which at 31 December 2011 were pledged in guarantee for purposes of article 396 of the Commercial Company Code (Código das Sociedades Comerciais).

E – Amount owed at 31 December 2011, on the loan referred to in B.

F – Amount owed at 31 December 2011, on the loan referred to in C.

1) Includes securities attributed under the capital increase in May 2011.

2) Fair value of the shares.

3) Appointed on 29 July 2011. The position at 31 December 2010 corresponds to the position on the date of appointment.

In accordance with the terms of article 477 of the Commercial Company Code (Código das Sociedades Comerciais), the shareholding position of the other Directors of Banco BPI, members of the Board of Directors of Banco Português de Investimentos, in terms of the options held at 31 December 2011 was as follows:

	Options			
	Held at 31 Dec. 10	Purchases ¹	Exercised ²	Held at 31 Dec. 11
Alexandre Lucena e Vale	372 175	31 493	57 229	346 439
Fernando Costa Lima ³	250 826			250 826
José Miguel Morais Alves	320 943	32 094		353 037
João Pedro Oliveira e Costa	206 330	17 511	31 216	192 625

1) Includes securities attributed under the capital increase in May 2011.

2) Includes shares extinguished due to expiry.

3) Appointed on 29 July 2011. The position at 31 December 2010 corresponds to the position on the date of appointment.

In accordance with the terms of article 477 of the Commercial Company Code (Código das Sociedades Comerciais), the shareholding position of the other Directors of Banco BPI, in terms of shares and options held at 31 December 2011 was as follows:

	Shares ¹					Options ¹			
	Held at 31 Dec. 10	Purchases ²	Sales	Held at 31 Dec. 11	Held at 31 Dec. 11 ³	Held at 31 Dec. 10	Purchases ²	Exercised ⁴	Held at 31 Dec. 11
Manuel Maria Meneses	94 277	9 427		103 704	50	331 398	23 427	97 117	257 708
Isabel Castelo Branco	17 725	1 771		19 496	9	104 964	6 681	38 153	73 492
Susana Trigo Cabral	19 127	1 911		21 038	10	111 668	8 565	26 014	94 219
Luis Ricardo Araújo	52 000	5 200		57 200	28	126 459	56 679		183 138
Graça Graça Moura	33 760	3 374		37 134	18	97 607	4 060	57 000	44 667
Ana Rosas Oliveira	5 898	589		6 487	3	76 281	6 471	11 563	71 189
João Avides Moreira	13 500	1 350		14 850	7	35 407	25 239		60 646

1) Includes securities held by their spouses.

2) Includes securities attributed under the capital increase in May 2011.

3) Fair value of shares.

4) Includes shares and options extinguished through expiry.

ARTUR SANTOS SILVA

On 7 June 2011 under the capital increase by incorporation of reserves 80 539 shares were attributed to him.

CARLOS DA CAMARA PESTANA

On 7 June 2011 under the capital increase by incorporation of reserves 30 065 shares were attributed to him.

On 7 June 2011 under the capital increase by incorporation of reserves 16 985 514 shares were attributed to IPI – Itaúsa Portugal Investimentos, SGPS, Lda., of which he is a member of the Management Board. At 31 December 2011 IPI – Itaúsa Portugal Investimentos, SGPS, Lda. held 186 840 662 shares.

FERNANDO ULRICH

On 7 June 2011 under the capital increase by incorporation of reserves 184 859 shares were attributed to him.

On 7 June 2011 under the capital increase by incorporation of reserves 5 338 shares were attributed to his spouse. At 31 December 2011 his spouse held 58 724 shares.

ALFREDO REZENDE DE ALMEIDA

On 7 June 2011 under the capital increase by incorporation of reserves 191 000 shares were attributed to him.

ANTÓNIO DOMINGUES

On 7 June 2011 under the capital increase by incorporation of reserves 27 822 shares were attributed to him.

As a result of the adjustment to the RVA 2007 program due to the capital increase by incorporation of reserves, on 7 June 2011 95 170 options were attributed to him. At 31 December 2011 he owned 1 046 872 Banco BPI share options, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros.

ANTÓNIO FARINHA MORAIS

On 23 February 2011, 80 930 purchase options of Banco BPI shares under RVA 2005 were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 35 441 shares were attributed to him.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves the following additional shares were attributed to him on 7 June:

- 55 833 options relating the RVA 2007 program, for which the adjusted attributable value as a result of the capital increase is 0.358 euros and the strike price is 2.909 euros;

- 27 466 options relating the RVA 2009 program, for which the adjusted attributable value as a result of the capital increase is 0.334 euros and the strike price is 1.759 euros;

owned 916 291 Banco BPI share options at 31 December 2011.

ANTÓNIO LOBO XAVIER

Does not hold and has not made any transactions with Banco BPI shares.

ARMANDO LEITE DE PINHO

Does not hold and has not made any transactions with Banco BPI shares.

On 7 June 2011 under the capital increase by incorporation of reserves 267 478 shares were attributed to the company Arsopi – Holding, SGPS, S.A., of which he is the President of the Board of Directors. At 31 December 2011 Arsopi – Holding, SGPS, S.A. owned 2 942 267 Banco BPI shares.

On 7 June 2011 under the capital increase by incorporation of reserves 403 844 shares were attributed to the company ROE, SGPS, S.A., of

which he is President of the Board of Directors. At 31 December 2011 ROE, SGPS, S.A. owned 4 442 291 Banco BPI shares.

On 7 June 2011 under the capital increase by incorporation of reserves 310 400 shares were attributed to the company Security, SGPS, S.A., of which he is President of the Board of Directors. At 31 December 2011 Security, SGPS, S.A. owned 3 414 404 Banco BPI shares.

CARLOS MOREIRA DA SILVA

On 7 June 2011 under the capital increase by incorporation of reserves 4 286 shares were attributed to him.

EDGAR ALVES FERREIRA

On 7 February 2011 he acquired 750 000 Banco BPI shares, at the price of 1.43 euro, on the stock exchange.

On 7 June 2011 under the capital increase by incorporation of reserves 47 966 shares were attributed to him.

On 7 June 2011 under the capital increase by incorporation of reserves 22 000 shares were attributed to his spouse. At 31 December 2011 his spouse held 242 000 shares.

On 15 September 2011 he acquired 825 000 Banco BPI shares, at a price of 0.707 euro, on the Stock Exchange.

On 7 June 2011 under the capital increase by incorporation of reserves 2 577 436 shares were attributed to the company HVF – SGPS, S.A., of which he is a member of the Board of Directors. At 31 December 2011 HVF – SGPS, S.A. owned 28 351 791 Banco BPI shares.

HENRI PENCHAS

Does not hold and has not made any transactions with Banco BPI shares.

HERBERT WALTER

Does not hold and has not made any transactions with Banco BPI shares.

Is the person named by Allianz Europe, Ltd. to represent it as a member of the Board of Directors for which the company was elected.

On 7 June 2011 under the capital increase by incorporation of reserves 7 789 656 shares were attributed to the company Allianz Europe Ltd., which owned 85 686 217 shares at 31 December 2011.

The entity to which the above qualified shares are allocated is the company Allianz SE, which in turn is the sole shareholder of Allianz Europe Ltd.

IGNACIO ALVAREZ RENDUELES

Does not hold and has not made any transactions with Banco BPI shares.

ISIDRO FAINÉ CASAS

Did not purchase or sell any securities. Is President of Caja de Ahorros y Pensiones de Barcelona “la Caixa”, which has full control over Criteria CaixaCorp, S.A.¹

On 7 June 2011 under the capital increase by incorporation of reserves 27 090 000 shares were attributed to the company Criteria CaixaCorp, S.A., which owned 297 990 000 Banco BPI shares at 31 December 2011.

JOSÉ PENA DO AMARAL

On 23 February 2011, 184 983 purchase options of Banco BPI shares under RVA 2005 were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 6 607 shares were attributed to him.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves the following additional shares were attributed to him on 7 June:

- 55 833 options relating the RVA 2007, for which the adjusted

assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros;

- 11 764 options relating the RVA 2008, for which the adjusted assignment value due to the capital increase is 0.340 euros and the strike price is 1.285 euros;

owned 743 577 Banco BPI share options at 31 December 2011.

JUAN MARÍA NIN GÉNOVA

Does not hold and has not made any transactions with Banco BPI shares.

KLAUS DÜHRKOP

Does not hold and has not made any transactions with Banco BPI shares.

MANUEL FERREIRA DA SILVA

On 23 February 2011, 184 984 purchase options of Banco BPI shares under RVA 2005 were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 44 579 shares were attributed to him.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves the following additional shares were attributed to him on 7 June:

- 55 833 options relating the RVA 2007 program, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros;
- 11 764 options relating the RVA 2008 program, for which the adjusted assignment value due to the capital increase is 0.340 euros and the strike price is 1.285 euros;
- 13 733 options relating the RVA 2008, for which the adjusted assignment value due to the capital increase is 0.334 euros and the strike price is 1.759 euros;

owned 894 642 Banco BPI share options at 31 December 2011.

On 23 February 2011, 97 117 purchase options of Banco BPI shares held by his spouse were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 21 232 shares were attributed to his spouse. At 30 June 2011 his spouse held 233 552 shares.

As a result of the adjustment to the RVA 2007 program due to the capital increase by incorporation of reserves, on 7 June 2011 21 651 options were attributed to his spouse, which at 30 June 2011 owned 238 165 Banco BPI share options, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros.

MARCELINO ARMENTER VIDAL

Did not purchase or sell any securities.

Is Executive Director of Caja de Ahorros y Pensiones de Barcelona “la Caixa”, which has full control over Criteria CaixaCorp, S.A.

For further information about these companies' transactions and participation in Banco BPI's capital, see the above information concerning the member Isidro Fainé Casas.

MARIA CELESTE HAGATONG

On 23 February 2011, 242 790 purchase options of Banco BPI shares under RVA 2005 were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 43 439 shares were attributed to her.

On 7 June 2011 under the capital increase by incorporation of reserves, 37 028 shares were attributed to her husband. At 31 December 2011 her husband held 407 316 shares.

1) On 1 July 2011, under the reorganization of the Group “La Caixa”, Criteria CaixaCorp – that would develop the Group's banking business – has changed its name to CaixaBank. “La Caixa” holds 81.5% of this entity.

MÁRIO LEITE DA SILVA

Does not hold and has not made any transactions with Banco BPI shares.

Is President of the Board of Directors of Santoro Financial Holdings, SGPS, S.A. and its subsidiary Santoro Finance – Prestação de Serviços, S.A., which he controls.

On 7 June 2011 under the capital increase by incorporation of reserves 8 994 999 shares were attributed to the company Santoro Finance – Prestação de Serviços, S.A. At 31 December 2011 Santoro Finance – Prestação de Serviços, S.A. owned 98 944 955 Banco BPI shares.

PEDRO BARRETO

On 7 June 2011 under the capital increase by incorporation of reserves 43 091 shares were attributed to him.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves the following additional shares were attributed to him on 7 June:

- 55 833 options relating the RVA 2007 program, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros;
- 16 000 options relating the RVA 2008 program, for which the adjusted assignment value due to the capital increase is 0.340 euros and the strike price is 1.285 euros;
- 27 466 options relating the RVA 2009 program, for which the adjusted assignment value due to the capital increase is 0.334 euros and the strike price is 1.759 euros;

owned 1 092 291 Banco BPI share options at 31 December 2011.

RICARDO VILLELA MARINO

Does not hold and has not made any transactions with Banco BPI shares.

He is Vice-President responsible for the operations in Latin America (Argentina, Chile, Uruguay and Paraguay) of Itaú Unibanco S.A. and director of Banco Itaú Unibanco S.A.

TOMAZ JERVELL

On 7 June 2011 under the capital increase by incorporation of reserves 1 013 shares were attributed to him.

On 7 June 2011 under the capital increase by incorporation of reserves 714 008 and 716 245 shares were attributed to the companies Norsócia, SGPS, S.A. and Auto Maquinaria Tea Aloya, SL, respectively, of which he is a member of the Boards of Directors, these companies having 7 854 089 and 7 878 702 shares, respectively at 31 December 2011.

ALEXANDRE LUCENA E VALE

On 23 February 2011, 57 229 purchase options of Banco BPI shares under RVA 2005 were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 9 906 shares were attributed to him.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves the following additional shares were attributed to him on 7 June:

- 19 023 options relating the RVA 2007, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros;
- 12 470 options relating the RVA 2008, for which the adjusted assignment value due to the capital increase is 0.340 euros and the strike price is 1.285 euros;

owned 346 439 Banco BPI share options at 31 December 2011.

FERNANDO COSTA LIMA

Was appointed member of the Board of Directors of Banco Português de Investimento, S.A. on 29 July 2011.

Did not purchase or sell any securities of Banco BPI between 29 July 2011 and 31 December 2011.

JOSÉ MIGUEL MORAIS ALVES

On 7 June 2011 under the capital increase by incorporation of reserves 1 135 shares were been attributed to him.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves the following additional shares were attributed to him on 7 June:

- 21 318 options relating the RVA 2007, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros;
- 10 776 options relating the RVA 2008, for which the adjusted assignment value due to the capital increase is 0.340 euros and the strike price is 1.285 euros;

owned 353 037 Banco BPI share options at 31 December 2011.

JOÃO PEDRO OLIVEIRA COSTA

Did not purchase or sell any securities.

On 23 February 2011, 31 216 purchase options of Banco BPI shares under RVA 2005 were extinguished through expiry.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves, on 7 June, 17 511 options relating the RVA 2007 program, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros, were assigned to him. At 31 December 2011, he owned 192 625 Banco BPI share options.

MANUEL MARIA MENESES

On 23 February 2011, 91 117 purchase options of Banco BPI shares under RVA 2005 were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 9 427 shares were been attributed to him.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves the following additional shares were attributed to him on 7 June:

- 12 657 options relating the RVA 2007, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros;
- 5 334 options relating the RVA 2008, for which the adjusted assignment due to the capital increase is 0.340 euros and the strike price is 1.285 euros;
- 5 436 options relating the RVA 2009, for which the adjusted assignment value due to the capital increase is 0.334 Euros and the strike price is 1.759 Euros;

owned 257 708 Banco BPI share options at 31 December 2011.

ISABEL CASTELO BRANCO

On 23 February 2011, 38 153 purchase options of Banco BPI shares under RVA 2005 were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 1 771 shares were attributed to her.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves, on 7 June, 6 681 options relating

the RVA 2007 program, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros, were assigned to her. At 31 December 2011, she owned 73 492 Banco BPI share options.

SUSANA TRIGO CABRAL

On 23 February 2011, 26 014 purchase options of Banco BPI shares under RVA 2005 were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 1 911 shares were attributed to her.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves, on 7 June, 8 565 options relating the RVA 2007 program, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros, were assigned to her. At 31 December 2011, she owned 94 219 Banco BPI share options.

LUÍS RICARDO ARAÚJO

On 7 June 2011 under the capital increase by incorporation of reserves 5 200 shares were attributed to him.

On 29 April 2011, under the RVA 2010 program, 39 784 purchase options of Banco BPI shares were attributed to him at the price of 0.251 euros (after adjustment resulting from the capital increase).

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves the following additional shares were attributed to him on 7 June:

- 6 979 options relating the RVA 2007, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros;
- 2 941 options relating the RVA 2008, for which the adjusted assignment value due to the capital increase is 0.340 euros and the strike price is 1.285 euros;
- 2 997 options relating the RVA 2009, for which the adjusted assignment value due to the capital increase is 0.334 euros and the strike price is 1.759 euros;
- 3 978 options relating the RVA 2010, for which the adjusted assignment value due to the capital increase is 0.251 euros and the strike price is 1.132 euros;

owned 183 138 Banco BPI share options at 31 December 2011.

GRAÇA GRAÇA MOURA

On 23 February 2011, 11 563 purchase options of Banco BPI shares under RVA 2005 were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 859 shares were attributed to her.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves, on 7 June, 4 060 options relating the RVA 2007 program, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros, were assigned to her. At 31 December 2011, she owned 44 667 Banco BPI share options.

On 23 February 2011, a total of 45 437 purchase options of Banco BPI shares under the RVA 2005 program held by her husband were extinguished through expiry. Therefore, at 31 December 2011 her husband did not have any purchase options of Banco BPI shares.

On 7 June 2011 under the capital increase by incorporation of reserves 2 515 shares were attributed to her husband.

ANA ROSAS OLIVEIRA

On 23 February 2011, 6 360 purchase options of Banco BPI shares under RVA 2005 were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 422 shares were attributed to her. At 30 June 2011, she held 4 648 shares.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves, on 7 June, 4 758 options relating the RVA 2007 program, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros, were assigned to her. At 31 December 2011, she owned 52 344 Banco BPI share options.

On 23 February 2011, 5 203 purchase options of Banco BPI shares held by her husband under the RVA 2005 program were extinguished through expiry.

On 7 June 2011 under the capital increase by incorporation of reserves 167 shares were attributed to her husband. At 31 December 2011 her husband held 1 839 shares.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves, on 7 June, 1 713 options relating the RVA 2007 program, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros, were assigned to her husband. At 31 December 2011, her husband owned 18 845 Banco BPI share options.

JOÃO AVIDES MOREIRA

On 29 April 2011 19 892 purchase options of Banco BPI shares under RVA 2010 were attributed to him, at the price of 0.251 euro (after adjustment resulting from the capital increase).

On 7 June 2011 under the capital increase by incorporation of reserves 1 350 shares were been attributed to him.

As a result of the adjustment to the RVA programs due to the capital increase by incorporation of reserves the following additional shares were attributed to him on 7 June:

- 841 options relating the RVA 2007, for which the adjusted assignment value due to the capital increase is 0.358 euros and the strike price is 2.909 euros;
- 1 336 options relating the RVA 2008, for which the adjusted assignment value due to the capital increase is 0.340 euros and the strike price is 1.285 euros;
- 1 362 options relating the RVA 2009, for which the adjusted assignment value due to the capital increase is 0.334 euros and the strike price is 1.759 euros;
- 1 808 options relating the RVA 2010, for which the adjusted assignment value due to the capital increase is 0.251 euros and the strike price is 1.132 euros;

owned 60 646 Banco BPI share options at 31 December 2011.

5. NOTE ADDED FOR TRANSLATION

These consolidated financial statements are a translation of financial statements originally issued in Portuguese in conformity with the International Financial Reporting Standards as endorsed by the European Union, some of which may not conform to or be required by generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version prevails.

Statement from the Board of Directors



DECLARATION REFERRED TO IN ARTICLE 245 (1) C) OF THE SECURITIES CODE

Article 245 (1) (c) of the Securities Code prescribes that each one of the persons responsible for the company issues a declaration, the content of which is defined therein.

The Members of Banco BPI's Board of Directors, identified here by name, individually subscribe to the declaration transcribed as follows¹:

"I declare in the terms and for the purposes for article 245 (1) (c) of the Securities Code that, to the best of my knowledge, the directors' report, the annual accounts, the statutory audit certification and other documents forming part of Banco BPI, S.A.'s annual report, all relating to the 2011 financial year, were prepared in conformity with the applicable accounting standards, giving a true and fair view of the assets and liabilities, the financial situation and the results of that company and of the companies included in the consolidation perimeter, and that the directors' report provides an accurate account of that company's and of the companies included in the consolidation perimeter business, performance and financial position, as well as containing a description of the principal risks and uncertainties which they confront."

BOARD OF DIRECTORS

Artur Santos Silva	(Chairman)
Carlos da Camara Pestana	(Deputy-Chairman)
Fernando Ulrich	(Deputy-Chairman)

Alfredo Rezende de Almeida	(Member)
António Domingues	(Member)
António Farinha Moraes	(Member)
António Lobo Xavier	(Member)
Armando Leite de Pinho	(Member)
Carlos Moreira da Silva	(Member)
Edgar Alves Ferreira	(Member)
Henri Penchas	(Member)
Herbert Walter	(Member)
Ignacio-Alvarez Rendueles	(Member)
Isidro Fainé Casas	(Member)
José Pena do Amaral	(Member)
Juan Nin Génova	(Member)
Klaus Dührkop	(Member)
Manuel Ferreira da Silva	(Member)
Marcelino Armenter Vidal	(Member)
Maria Celeste Hagatong	(Member)
Mário Leite da Silva	(Member)
Pedro Barreto	(Member)
Ricardo Villela Marino	(Member)
Tomaz Jervell	(Member)

Porto, 27 March 2012

Note: Translation of a declaration originally issued in Portuguese.

1) The Supervisory Board members signed statements with the same contents.
Within the scope of the documents for which they are responsible, the External Auditors have signed an equivalent declaration.

Legal certification of accounts and audit report



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Registo na CMVM nº 231

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LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of euros – th. euro)

Introduction

1. In compliance with the applicable legislation we hereby present our Legal Certification of Accounts and Audit Report on the consolidated financial information contained in the Directors' Report and the accompanying consolidated financial statements of Banco BPI, S.A. and subsidiaries ("the Bank") for the year ended 31 December 2011, which comprise the Consolidated Balance Sheet as of 31 December 2011 (that reflects total assets of 42 955 917 th. euro and total shareholders' equity of 822 388 th. euro, including a consolidated net loss of 284 871 th. euro), the Consolidated Statements of Income, Comprehensive Income, Changes in Shareholders' Equity and Cash flows for the year then ended and the corresponding notes.

Responsibilities

2. The Board of Directors of the Bank is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated income and comprehensive income from their operations, the changes in their consolidated shareholders' equity and their consolidated cash flows; (ii) the preparation of historical financial information in accordance with International Financial Reporting Standards as endorsed by the European Union that is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code (Código dos Valores Mobiliários); (iii) the adoption of adequate accounting policies and criteria and maintenance of appropriate systems of internal control; and (iv) the disclosure of any significant facts that have influenced its activity and the activity of the companies included in the consolidation, their financial position, their income or their comprehensive income.
3. Our responsibility is to examine the financial information contained in the documents of account referred to above, including verifying that, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our examination.

Scope

4. Our examination was performed in accordance with the auditing standards ("Normas Técnicas e Directrizes de Revisão / Auditoria") issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our examination included verifying, on a sample basis, evidence supporting the amounts and disclosures in the financial statements and assessing the estimates, based on judgements and criteria defined by the Board of Directors of the Bank, used in their preparation. Our examination also included verifying the consolidation procedures used, application of the equity method and verifying that the financial statements of the companies included in the consolidation have been adequately examined, assessing the adequacy of the accounting principles used, their uniform application and their disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, assessing the adequacy of the overall presentation of the consolidated financial statements, and assessing if, in all material respects, the financial information is complete, true, timely, clear, objective and licit. Our examination also included verifying that the consolidated financial information included in the Directors' Report is consistent with the other consolidated documents of account, as well as the verifications established in items 4 and 5 of article 451 of the Commercial Companies Code ("Código das Sociedades Comerciais"). We believe that our examination provides a reasonable basis for expressing our opinion.

A expressão Deloitte refere-se à Deloitte Touche Tohmatsu, uma Swiss Verein, ou a uma ou mais entidades da sua rede de firmas membro, sendo cada uma delas uma entidade legal separada e independente. Para aceder à descrição detalhada da estrutura legal da Deloitte Touche Tohmatsu e suas firmas membro consulte www.deloitte.com/about.

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Member of Deloitte Touche Tohmatsu

Opinion

5. In our opinion, the consolidated financial statements referred to in paragraph 1 above present fairly, in all material respects, the consolidated financial position of Banco BPI, S.A. and its subsidiaries as of 31 December 2011, the consolidated income and comprehensive income from their operations, the changes in their consolidated shareholders' equity and their consolidated cash flows for the year then ended in conformity with the International Financial Reporting Standards as endorsed by the European Union and the financial information included therein is, in terms of the definitions included in the standards referred to in paragraph 4 above, complete, true, timely, clear, objective and licit.

Emphasis

6. Up to 30 June 2011, inclusive, the Bank used the corridor method established in paragraph 92 of IAS 19 – Employee Benefits, to recognize actuarial and financial losses and gains relating to pension plans and other post-employment benefits under defined benefit plans. In accordance with this method, the Bank recognised the accumulated net amount (after 1 January 2004) of actuarial and financial losses and gains on the balance sheet as an asset or liability, and a corridor was established to absorb accumulated actuarial and financial losses and gains that did not exceed the higher of: (i) 10% of the present value of the past service liability; or (ii) 10% of the amount of the assets of the pension fund. The actuarial and financial deviations that exceeded the limit of the corridor were amortised to the statement of income over the average period up to the expected retirement age of the Employees covered by the plan. In December 2011 the Bank changed this accounting policy and started using the method of recognizing actuarial and financial losses and gains directly in equity (Comprehensive Income) in the period in which they occur, as permitted by paragraph 93A of IAS 19. In accordance with the requirements of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, when there is a voluntary change in an accounting policy it is necessary to apply the new policy retrospectively to the financial statements of the entity ("restatement") for the first comparative period presented in the financial statements for the year in which the change occurs, i.e., 1 January 2010. Therefore, the accompanying financial statements for 2010 are pro forma accounts, and the impact of the restatement was a decrease in the Bank's consolidated equity as of 1 January 2010 in the amount of 151 639 th. euro, an increase in consolidated net income for 2010 by 383 th. euro and a decrease in consolidated equity at 31 December 2010 by 180 928 th. euro, after considering the tax effect (note 2).

Report on other legal requirements

7. It is also our opinion that the consolidated financial information included in the Directors' Report is consistent with the consolidated financial statements for 2011 and that the report on corporate governance includes the items required to the Bank in accordance with article 245-A of the Portuguese Securities Market Code.

Oporto, 28 March 2012

Deloitte e Associados, SROC S.A.
Represented by António Marques Dias

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC, S.A. internal procedures, the report should not be signed. In the event of discrepancies, the Portuguese language version prevails.)

Report and opinion of the Supervisory Board



REPORT AND OPINION OF THE SUPERVISORY BOARD CONSOLIDATED ACCOUNTS 2011

The present report on the work carried out by the Supervisory Board during 2011 was prepared with a view to complying with the requirements of article 420(g) of the Commercial Companies Code (CCC).

1. REPORT ON THE SUPERVISORY BOARD'S ACTIVITY DURING 2011

During 2011 the Supervisory Board met thirteen times, at which all its members were present.

Besides these meetings, the Supervisory Board attended 10 meetings of the Audit and Internal Control Committee held in 2011, which enabled it:

- to analyse all the documentation distributed as support for their respective work;
- to be present to hear the explanations given by the persons responsible for each one of the areas reviewed;
- to put questions and to ask for clarifications concerning any doubts about the documents analysed;
- to monitor directly the evolution of the Bank's operations, paying special attention to compliance with the company's memorandum and articles of association, regulations and legal requirements.

The Supervisory Board was also present at the Board of Directors' meeting which approved the 2010 annual accounts and at Banco BPI's General Meeting of 27 April 2011.

In compliance with the terms of reference legally entrusted to it and which appear in its regulations, it carried out a number of oversight procedures during 2011, of which the following are highlighted:

1.1. Overseeing compliance with legal and regulatory provisions, the statutes and the rules issued by the supervisory authorities, as well as with the general policies, standards and practices instituted internally

The Board scrutinised the reports on the audits carried out by the Audit and Inspection Division and the reports on the procedural reviews conducted by the external auditor, paying special attention to the anomalies detected and the recommendations presented with a view to overcoming these, as well as to compliance with the deadlines set out in its regulations.

It also monitored the results of the work done by the external auditor in the areas related to compliance with the Group's obligations relating to income tax matters.

It also kept itself informed about the activity of the Compliance Division.

1.2. Checking that at Banco BPI and other Group companies subject to supervision on a consolidated basis, there has been adherence to the fundamental objectives laid down in the field of internal control and risk management by the Bank of Portugal and by the Securities Market Commission (CMVM) in the supervision directives applicable to credit institutions and financial companies

The Board paid particular attention to the guidelines issued by the Bank of Portugal, in particular its Notice 5 / 2008, in respect of aspects pertaining to internal control and risk control, having evaluated the operational procedures at Banco BPI, Banco Português de Investimento and the other Group companies, including branches and subsidiaries.

The opinions on the Group's, Banco BPI's and all the other group companies' internal control reports were prepared in June and submitted to the Bank of Portugal.

1.3. Verifying the appropriateness of and overseeing compliance with the accounting policies, criteria and practices adopted and the proper state of the supporting documents

Both on a quarterly basis and as regards the consolidated results reported at the end of 2011 by Banco BPI, the Supervisory Board carried out the analysis of the results and the conclusions of the financial statements' audit procedures undertaken by the external auditor, as well as the information provided at the time relating to the accounting policies and practices.

The Board followed closely the process involving the transfer to the Social Security system of the pension liabilities relating to retired employees, a matter that it was kept regularly informed about by the Board of Directors.

The accounting aspects were analysed at a meeting with the Portuguese statutory auditor.

It should be noted that the pension liabilities to be borne by the Bank are 100% covered by the pension fund.



1.4. Giving an opinion on the report, accounts and proposals presented by the Board of Directors

The Board considered and issued an opinion on Banco BPI's consolidated and individual accounts and considered the Report of the Board of Directors relating to the 2011 financial year, as well as the Company's Corporate Governance Report.

Special attention was paid to the analysis of the negative impacts which contributed to the deterioration in the results, which in the meantime are not of a recurring nature, as well as the exceptional measures that were taken in order to mitigate the effect of the negative impacts.

Notwithstanding this impact, the core tier 1 capital ratio improved from 8.7% in 2010 to 9.2% in 2011.

In terms of article 422(1)(a) of the Commercial Companies Code, the Supervisory Board was present at the Board of Directors' meeting which approved the 2011 accounts.

1.5. Monitoring the process involving the preparation and dissemination of financial information by the company

To this end, the Board monitored the preparation of the documentation during the course of the year, having met with the Accounting, Planning and Statistics Division in order to obtain more detailed information concerning the preparation and closing of the accounts.

Besides scrutinising the documents relating to the statutory certification of the consolidated and individual accounts, it met with the Portuguese statutory auditors to keep abreast of the work performed by them and to clarify any doubts they may have encountered during their examination.

1.6. Proposing to the General Meeting the appointment of the Portuguese statutory auditors (art. 3(7)(a) of the SBR and art. 420 – (2)(a) of the CCC)

The Supervisory Board submitted the proposal at the General Meeting of 27 April 2011.

1.7. Presenting to the Board of Directors the proposal relating to the external auditors to be engaged by the company, including not only the proposal concerning who should provide this service, but also the proposal relating to their fees (art. 3(8)(a) of the SBR and Point II.4.4 of the CMVM's Recommendations on the CGS – “The supervisory board must represent the company for all intents and purposes in dealings with the external auditors, being responsible in particular for proposing the provider of these services, the respective remuneration, overseeing...”

The Supervisory Board presented the proposal at the appropriate time bearing in mind the General Meeting of 27 April 2011.

1.8. Overseeing the independence of the Portuguese statutory auditors and in this context to consider and decide, after having heard the Audit and Internal Control Committee, on the provision by the Portuguese statutory auditors of additional services to the company and its group companies, as well as on the respective conditions

In terms of article 420(2) (d) of the Commercial Companies Code, the Supervisory Board supervised and evaluated the work and independence of Banco BPI's Portuguese statutory auditors (Deloitte & Associados, S.R.O.C.).

It approved the proposals for the performance of the audits and the annual plan for reviewing procedures.

It approved the fees relating to the “Statutory Audit” and “Other Assurance Services” for all the Group entities and, through specific opinions, the contracting of additional services, controlling the proportion of the fees charged referring to “Tax consultancy services” and “Other non-statutory audit services” relative to the total fees contracted.

During 2011 the following fees payable to Deloitte for services rendered were adjudicated for the Group as a whole:

■ statutory audit	1 265 400.00 euro
■ other assurance services	663 438.00 euro
■ tax advisory services	88 750.00 euro
■ other non audit-related services	32 950.00 euro

The above figures correspond to the provision of services adjudicated in 2011 and only appear in the Board of Directors' Report to the extent that they are actually rendered and billed.

The tax advisory and other non audit-related services correspond to 5.93% of Deloitte's total fees adjudicated in 2011, with the portion relating to Banco BPI and its subsidiaries was 13.5 % (29.42% in 2010).

1.9. Approving, after having heard the Audit and Internal Control Committee, the External Auditors' annual work plan (art. 3(8)(e) of the SBR)

The external auditors' work plan for 2011 was reviewed at the Audit and Internal Control Committee's meeting held on 19 April 2011, after having obtained the opinion of the Audit and Internal Control Committee.



1.10. Monitoring the inspections of the Bank of Portugal, the CMVM, the Instituto de Seguros de Portugal, the Directorate-General for Taxes and the Inspectorate-General of Finance carried out at Banco BPI and other group companies subject to supervision on a consolidated basis

The Board gathered information throughout the year on the relationship with the Bank of Portugal, the supervision authorities and the Inspectorate-General of Finance relating to all the Group companies subject to supervision on a consolidated basis, having paid special attention to the reports on the audits conducted by the Bank of Portugal.

The Supervisory Board followed closely all the guidelines emanating from the Bank of Portugal and the European Bank Authority (EBA) relating to the criteria for valuing sovereign debt, having attended a special meeting with the Chairman of the Board of Directors on 27 October in the wake of the guidelines of the EBA and the Bank of Portugal relating to the reinforcement of Portuguese banks' capital levels.

The Board accompanied the application of the measures resulting from the agreement on reducing Greek debt concluded in March 2012, before the approval of 2011 accounts by the Board of Directors, in which it is reflected.

The Supervisory Board also followed closely all the information relating to the Bank's additional capital needs, the realisation of which will only become necessary during the course of 2012, while it is worth underlining that the Bank managed to withstand all the extraordinary negative effects in 2011, maintaining the core tier 1 capital above the limit fixed by the Bank of Portugal and the EBA.

1.11. Appraising the operational procedures, with the object of certifying that there is an effective management of the respective activities through the proper management of risks and of complete, reliable and timely financial and accounting information, as well as of an adequate monitoring system

The Supervisory Board gave special attention to the guidelines laid down by the Bank of Portugal, namely its Notice 5 / 2008, complemented by the document "EBA Guidelines on Internal Governance" relating to aspects involving the risk control and operational control systems, having evaluated the operational procedures at Banco BPI, Banco Português de Investimento and the other Group companies, including the branches and subsidiaries.

The analysis was conducted based essentially on the findings of the audit examinations performed by the Audit and Inspection Division and by the Bank of Portugal's permanent inspection team, as well as the procedural reviews conducted by the external auditors, and on the activity reports of the Audit, Operational Risk Management, Compliance and Risk Control functions.

This information was complemented by the clarifications and information provided by the Divisions and Managements responsible, not only during the meetings of the Audit and Internal Control Committee but also the meetings of the Supervisory Board at which the presence of the persons in charge of the Bank's units was solicited. Special mention is made of the meetings with the Accounting, Planning and Statistics Division, the Organisation Division and with the Director and Manager responsible for the Companies Marketing Division – Company Planning and Management and Business and with the central Manager of the Corporate Centre Division.

1.11.1. Operational risk

Besides the information received via the audits and the annual report prepared by the area which controls Operational Risk, the Supervisory Board received information and all the documentation dealt with at the six meetings of the Operational Risk Control Committee, having had access to the portal where all the information relating to operational risk and to the meetings of the Operational Risk Committee is available.

1.11.2. Credit risk

The Supervisory Board participated in the systematic analysis of the trend in Customers' liabilities, as carried out by the Credit Risk Control and Corporate Loan Recovery Divisions, amongst which:

- analysis of Customers with risk exposures of more than 75 million euro;
- the largest individual and group impairment losses, where exposure exceeds 25 million euro;
- the defaults of more than 100 thousand euro by Customers with exposure of more than 500 thousand euro;
- the reports presented by the external auditors on the quantification of the economic provisions appropriate to the risk implicit in the loan portfolios.

Business dealings between the company and shareholders with qualified holdings, or with entities with whom they have any relationship as envisaged in terms of article 20 of the Securities Market Code, are always submitted for prior pronouncement by the Supervisory Board, irrespective of the amount involved.

During 2011 the Supervisory Board was called upon to issue opinions on two cases relating to shareholders with qualified holdings:

- renewal of the exposure limit under normal market conditions;
- Bank's participation in an international syndicate for the financing of an investment project.

1.11.3. Financial risks

Special attention was devoted to accompanying the evolution of the financial markets' crisis, with the aim of evaluating the strategy and initiatives followed in order to monitor the exposure to both higher-risk products and markets.

The Financial Risks Committee was set up in July 2011 with the object of monitoring the management policy for all the financial risks inherent in the Bank's activity, namely, liquidity, interest rate, exchange rate, market and credit risk, as well as keeping informed about the pension-fund management policy.

The Supervisory Board has access to all the documentation relating to the matters dealt with at this Committee's meetings, as well as to the respective minutes, and can also take part in the meetings at which, bearing in mind the matters to be dealt with, it considers its presence is warranted.

1.11.4. Reputational risk

Updated information about BPI's Service Quality Indices (SQI), in which the European Customer satisfaction index was used as the benchmark, was analysed, as were the service-quality indices relating to the competition and the Bank's quality index.

The Supervisory Board analysed the report on the Investor Relations Division's work dealing with the performance of its functions of disseminating financial information and interacting with investors, analysts and other market players.

It also reviewed and followed up all Irregularity Communications, i.e. meaning the facts which seriously violate or compromise:

- a) compliance with the legal, regulatory, ethical and deontological principles to which the Members of the Governing Bodies and the Employees of the companies forming part of the BPI Group are bound;
- b) the preservation of Customers', Shareholders' and BPI's own assets;
- c) the preservation of BPI's institutional image and reputation, as well as those situations capable of constituting abuse of authority or bad management.

During the year, 13 communications were received, all of which have since been finalised.

- in two cases, the Customers were adjudged to have grounds for their complaints, which entailed the payment of an indemnity associated with a home loan on the part of the insurer and the payment of a guarantee after having obtained all the necessary clarifications on the part of the Bank;
- in two cases, the Customers' complaints were partially justified, with the Bank having amended the tax returns and rectified a sale of securities for which no order had been issued;
- in the other nine cases, the issues presented were duly reviewed and the necessary clarifications given to the Customers.

Also subjected to analysis were the monitoring reports of the rating agencies.

1.11.5. Compliance risk

The Board monitored the Compliance Division's activity, namely with respect to the control over money laundering activities and the relationship with the authorities charged with overseeing this matter.

The Board reviewed the report on this Division's activity drawn up to June 2011.

1.11.6. Monitoring of audit work

As regards the monitoring of the audit areas, both internal and external, special mention is made of the Supervisory Board's participation:

- in the drafting of the report on and accompanying the quarterly Internal Audit work plans;
- in the approval and monitoring of the external auditors' annual procedural review plans, assessing the extent thereof, bearing in mind the coverage of the areas exposed to the greatest potential risk;
- in the appraisal of the findings of the audits realised, both internal and external, and keeping abreast of the recommendations considered important, as well as the degree of their compliance and the time frames for their implementation;
- in the analysis of the coverage schedules of the audits carried out in the past 3 years;
- in the half-yearly review of the events giving rise to losses;
- in the review of the activity report drawn up to June 2011.



The Supervisory Board received the Brief Work Monitoring Report within the scope of Special Inspections Programme carried out by the Bank of Portugal's permanent inspection team, as well as the response sent by the Bank to the recommendations presented.

1.11.7. Report to the Bank of Portugal – Notice no. 5 / 2008

The Supervisory Board issued opinions which it submitted to the Bank of Portugal, in terms of Notice 5 / 2008, on the effectiveness and coherence of Banco BPI's and the BPI Group's internal control and risk management systems.

To this end:

- it considered the annual internal control reports prepared by the Boards of Directors of all the Group companies subject to Bank of Portugal supervision;
- it analysed the opinions of the respective Portuguese statutory auditors on the internal control system underlying the preparation and dissemination of financial information;
- it reviewed the reports prepared by the Audit and Inspection Division; External Consultants; the Risk Analysis and Control Division, the Compliance Division and the Organisation Division – Operational Risk.

1.12. Giving an opinion on the report, accounts and proposals presented by the Board of Directors

In terms of article 420(g) of the Commercial Companies Code, the Supervisory Board, besides the meetings for conducting the detailed analysis of the accounts with:

- the head of the Accounting, Planning and Statistics Division;
- the Portuguese statutory auditors,

examined:

- the balance sheet at 31 December 2011, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in shareholders' equity, and the respective notes thereto;
- the Directors' report prepared by the Board of Directors for the 2011 financial year;
- the report on the Audit and Internal Control Committee's activity;
- the statutory audit certification and the audit report prepared by the Portuguese statutory auditors, with which it concurred.

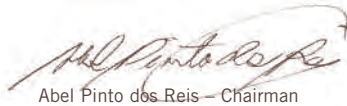
During the year, the Supervisory Board discussed a number of issues relating to the Bank's compliance with corporate governance recommendations.

In analysing the report on the corporate governance structure and practices, it was noted that the matters referred to in article 245-A of the SMC were dealt with and that this corresponds to the practices that it monitored during the course of the year.

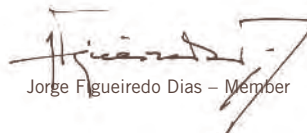
2. SUPERVISORY BOARD'S OPINION

In view of the foregoing, the Supervisory Board is of the opinion that the consolidated financial statements and the Directors' Report, as well as the proposal contained in it, are in conformity with applicable accounting, legal and statutory requirements, as a result of which it recommends that they be approved at the Shareholders General Meeting.

Porto, 28 March 2012



Abel Pinto dos Reis – Chairman



Jorge Figueiredo Dias – Member



José Neves Adelino – Member

Statement from the Supervisory Board



DECLARATION REFERRED TO IN ARTICLE 245 (1) C) OF THE SECURITIES CODE

Article 245 (1) (c) of the Securities Code prescribes that each one of the persons responsible for the company issues a declaration, the content of which is defined therein.

The Members of Banco BPI's Supervisory Board, identified here by name, individually subscribe to the declaration transcribed as follows¹:

"I declare in the terms and for the purposes for article 245 (1) (c) of the Securities Code that, to the best of my knowledge, the directors' report, the annual accounts, the statutory audit certification and other documents forming part of Banco BPI, S.A.'s annual report, all relating to the 2011 financial year, were prepared in conformity with the applicable accounting standards, giving a true and fair view of the assets and liabilities, the financial situation and the results of that company and of the companies included in the consolidation perimeter, and that the directors' report provides an accurate account of that company's and of the companies included in the consolidation perimeter business, performance and financial position, as well as containing a description of the principal risks and uncertainties which they confront."

SUPERVISORY BOARD

Abel Pinto dos Reis	(Chairman)
Jorge Figueiredo Dias	(Member)
José Neves Adelino	(Member)

Porto, 28 March 2012

Note: Translation of a declaration originally issued in Portuguese.

1) The Board of Directors members signed statements with the same contents.

Within the scope of the documents for which they are responsible, the External Auditors have signed an equivalent declaration.



BPI Group
Corporate Governance Report

0. Declaration of compliance

0.1. PLACES WHERE THE CORPORATE GOVERNANCE CODES TO WHICH BANCO BPI IS SUBJECT ARE AVAILABLE TO THE PUBLIC

BPI is subject to the binding corporate governance rules and recommendations appearing in the legislation referred to below, which can be consulted at the places also mentioned below. For purposes of article 1(1) of CMVM regulation 1/2010, BPI adopted the Corporate Governance Code disseminated by the CMVM.

Code / Regulation	CMVMTP Web site ¹	Official Journal ²
CMVM Securities Market Code	✓	Republished by Decree-Law 357-A/2007, 31 October ³
CMVM's Corporate Governance Code (2010)	✓	–
CMVM Regulation 1/2010 on Corporate Governance (in force since 2 Feb. 2010 ⁴)	✓	Official Journal no. 21, Series II of 1 February 2010
CMVM Regulation 5/2008 – Information duties	✓	Official Journal no. 200, Series II of 15 October 2008
Bank of Portugal General Regime for Credit Institutions and Financial Companies		Approved by Decree-Law 298/92, of 31 December, with the latest alteration introduced by Decree-Law 119/2011 of 26 December
Notice 10/2011		Official Journal no. 6, Part E, Series II of 9 January 2012
Law – Other Commercial Companies Code		Republished by Decree-Law 76-A/2006 of 29 March and amended by Decree-Law 8/2007, of 17 January, by Decree-Law 357-A/2007, of 31 October and by Decree-Law 33/2011 of 7 March
Law 28/2009 governing the sanctions regime in the financial sector and remuneration policy of public-interest entities		Official Journal no. 117, Series I of 19 June 2009
Decree-Law 104/2007		Official Journal no. 66, 1 st Series of 3 April 2007, as amended by Decree-Law 88/2011 of 20 July, published in the Official Journal no. 138, 1 st Series of 20 July 2011

Codes of conduct and internal regulations	Investor Relations Web site ⁵	Head office of BPI ⁶
Codes of conduct		
Internal Banco BPI's code of conduct Policies adopted by the BPI Group in the exercise of financial intermediation activities Prevention of Money Laundering and Financing Terrorism	✓	✓ ✓ ✓
External Associação Portuguesa de Bancos (Bank's Association) Code of conduct Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios (Mutual, pension funds and weather management companies) Deontological Code		✓ ✓
Regulations of Management and Supervisory Bodies		
Board of Directors	✓	✓
Executive Committee of the Board of Directors	✓	✓
Audit and Internal Control Committee	✓	✓
Financial Risks Committee	✓	✓
Corporate Governance Committee	✓	✓
Nominations, Evaluation and Remuneration Committee	✓	✓
Supervisory Board	✓	✓

1) CMVM – Comissão de Mercado de Valores Mobiliários website: www.cmvm.pt.

2) Electronic Official Journal (Diário da República) website: <http://dre.pt/>.

3) Amended by Decree-Law no. 211-A/2008, of 3 November, by Law no. 28/2009, of 19 June, by Decree-Law no. 185/2009, of 12 August, by Decree-Law no. 49/2010 of 19 May, by Decree-Law no. 52/2010 of 26 May and by Decree-Law no. 71/2010 of 18 June, Law no. 46/2011, of 24 June and Decree-Law no. 85/2011, of 29 June).

4) CMVM's regulation 1/2010 on Corporate Governance revokes regulation 1/2007.

5) BPI Investor Relations website: www.ir.bpi.pt.

6) Located at Rua Tenente Valadim, 284, 4100-476 Porto.

0.2. CMVM'S CORPORATE GOVERNANCE CODE RECOMMENDATIONS ADOPTED AND NOT ADOPTED

The following table lists the recommendations appearing in the Corporate Governance Code issued by the Portuguese Securities Market Commission (CMVM) in 2010¹, indicating which ones were adopted by BPI and which were not, even if only partially. When one of the recommendations in question is not fully adopted by BPI and is composed of two or more sub-recommendations, it shows which one(s) was (were) not adopted. Mention is also made of the points of the report where reference is made to the themes under review.

Recommendation	Adoption References in the governance report ² Point / (page no.)
I. GENERAL MEETING	
I.1 General Meeting Committee	
I.1.1 The chairman of the General Meeting Committee must have human and logistical support resources that are adequate to its requirements, after considering the company's economic situation.	Adopted 2.2.10. (p.245)
I.1.2 The Remuneration of the Chairman of the General Meeting Committee must be disclosed in the company's annual corporate governance report.	Adopted 6.2.1. (p.288)
I.3 Vote and exercise of voting right	
I.3.1 Companies should not impose any statutory restriction on postal voting and, when adopted and admissible, to voting by electronic means.	Adopted 2.2.4. (p.244); 2.2.5. (p.244)
I.3.2 The statutory advance period for the reception of the voting paper issued by correspondence cannot be more than three working days.	Adopted 2.2.4. (p.244)
I.3.3 Companies should ensure proportionality between the voting rights and shareholder participation, preferentially through the statutory provision that makes a vote correspond to each share. The companies which do not comply with proportionality are those which, namely:	Not adopted 0.4.
■ Have shares which do not confer the right to vote;	✓ 2.2.2. (p.244)
■ Prescribe that voting rights above a certain number shall not be counted, when issued by one only shareholder or by shareholders related to it.	× 2.2. (p.244)
I.4 Deliberative quorum	
Companies should not fix a deliberative quorum larger than that provided for in the law.	Not adopted ³ 0.4. (p.238)
I.5 Minutes and information about resolutions adopted	
Excerpts of the minutes of the general meeting, or documents with similar content, should be made available to the shareholders on the company's website within five days after the holding of the general meeting, even if it does not constitute privileged information. The information disclosed should cover the resolutions adopted, the capital represented and the result of voting. This information must be kept on the company's website for a period of at least three years	Adopted 2.2.11. (p.246)
I.6 Measures relating to the control of companies	
I.6.1.1 (1) Measures that are adopted with a view to impeding the success of takeover bids should respect the interests of the company and its shareholders.	Adopted 0.4. (p.238)
I.6.1.2 The company's statutes which, observing this principle, provide for the limitation of the number of votes which can be held or exercised by a single shareholder, individually or in concert with other shareholders, should also provide that, at least every five years, the alteration or the maintenance of this statutory provision should be subject to a resolution of the general meeting – without the requirement of a larger quorum vis-à-vis the legal limit – and that in the aforesaid resolution, all the votes cast should be counted without that limitation functioning.	Not adopted 0.4. (p.238)
I.6.2 Defensive measures should not be adopted which have the effect of automatically provoking a serious erosion of the company's financial situation in case of the transfer of control or change in the composition of the management body, jeopardising in this manner the free transferability of the shares and the free appraisal by the shareholders of the performance of the management body members.	Adopted 7.3. (p.296)

1) Applicable to financial years commencing on or after 1 January 2010.

2) Except when mentioned otherwise.

3) As regards the deliberative quorum.

Recommendation	Adoption References in the governance report ¹ Point / (page no.)
II. MANAGEMENT AND OVERSIGHT BODIES	
II.1 Generic themes	
II.1.1 Structure and terms of reference	
II.1.1.1 The management body must evaluate in its annual governance report the adopted model, identifying any constraints to its functioning and proposing the appropriate actions which in its opinion need to be taken to overcome them.	Adopted 1. (p.241)
II.1.1.2 Companies must create internal risk control and management systems, for the safeguarding of its value and to the benefit of the transparency of its corporate governance, for the effective risk detection and management. These systems must incorporate, at least, the following components: <ul style="list-style-type: none"> ■ Setting the company's strategic objectives on the issue of risk assumption; ■ Identification of the main risks linked to the specific activity exercised and of the events capable of originating risks; ■ Analysis and measurement of the impact and probability of the occurrence of each one of the potential risks; ■ Risk management with a view to aligning the risks actually incurred with the company's strategic option with respect to risk assumption; ■ Control mechanisms for the execution of the risk-management measures adopted and their effectiveness; ■ Adoption of internal information and communication mechanisms concerning the various components of the system and risk warnings; ■ Periodic evaluation of the system implemented and adoption of the modifications that prove to be necessary. 	Adopted 4. (p.273); p.77 Manag. Report ✓ ✓ ✓ ✓ ✓ ✓
II.1.1.3 The management body should ensure the creation and functioning of internal control and risk management systems, with the supervisory body being responsible for evaluating the functioning of these systems and proposing the respective adjustment to the company's requirements.	Adopted 2.3.1. (p.247) 2.8.1. (p.259) 2.8.2. (p.265)
II.1.1.4 Companies should in the annual Corporate Governance report identify the principal economic, financial and legal risks that the company is exposed to in the conduct of its business; describing the operation and efficacy of the risk management system.	Adopted ✓ 4. (p.273) ✓ Manag. Report (p.77)
II.1.1.5 The management and supervisory bodies should have functioning regulations which should be disclosed on the company's website.	Adopted 0.1. (p.232)
II.1.2 Disqualifications and Independence	
II.1.2.1 The Board of Directors must include a number of non-executive directors which ensures the effective ability to supervise, oversee and evaluate the activity of the executive members.	Adopted 2.6.1. a 2.6.3. (p.250 e 251)
II.1.2.2 Amongst the non-executive directors, there must be an adequate number of independent directors, taking into consideration the company's size and its shareholder structure, which under no circumstances can be less than one quarter of the total number of directors.	Not adopted ² 0.4. (p.239)
II.1.2.3 The evaluation of the independence of its non-executive members carried out by the management body should take into account the legal and regulatory rules in force concerning the independence requirements and the disqualification regime applicable to the members of the other governing bodies, ensuring systematic and time-based coherence in the application of the independence criteria to the entire company. A director who, in another governing body, could not assume that role by virtue of the applicable rules should not be considered as being independent.	Adopted 2.6.2. (p.250) 2.6.3. (p.251)
II.1.3 Eligibility and Nomination	
II.1.3.1 Depending on the adopted model, the Chairman of the Supervisory Board, the Audit Committee or the Committee for the Financial Matters must be independent and have competence commensurate with the exercise of the respective functions.	Adopted 2.3.3. (p.247); Appendix (p.307)
II.1.3.2 The process of selecting candidates for non-executive directors should be conceived in such a manner as to impede the interference of the executive directors.	Adopted 2.6.12 (p.254) 2.8.4. (p.267)
II.1.4 Policy regarding the communication of irregularities (whistle blowing)	
II.1.4.1 The company must adopt a policy for the communication of irregularities allegedly occurring inside the organisation, with the following details: <ul style="list-style-type: none"> ■ indication of the means by which the communication of irregular practices can be done internally, including the persons with legitimacy to receive the communications; ■ indication of the treatment to be given to the communications, including confidential treatment, should the whistle-blower so intend. 	Adopted 8.6. (p.301) ✓ ✓

1) Except when mentioned otherwise.

2) With regard to the quantitative requirement mentioned in the recommendation.

Recommendation	Adoption References in the governance report ¹ Point / (page no.)
II.1.4.2 This policy's general lines (for communicating irregularities) must be disclosed in the corporate governance report.	Adopted 8.6. (p.301)
II.1.5 Remuneration	
II.1.5.1 The Remuneration of the members of the management body must be structured in such a manner as to permit the alignment of their interests with the long term interest of the company, be based on performance evaluation and inhibit the excessive assumption of risks. To this effect, the remunerations must be structured, namely, in the following manner:	Adopted 6.1. (p.277)
(i) The remuneration of the directors who perform executive functions should incorporate a variable component, the amount of which depends on the evaluation of performance, undertaken by the company's relevant bodies, in accordance with predetermined measurable criteria which takes into consideration the company's real growth and the value actually created for the shareholders, its long-term sustainability and the risks assumed, as well as compliance with the rules applicable to the company's business.	Adopted 2.8.4 (p.267)
(ii) The variable component of remuneration should be globally reasonable relative to the fixed component, and maximum limits should be set for all the components.	Adopted 6.1.1. (p.277)
(iii) A significant part of the variable remuneration should be deferred over a period of not less than three years, and its payment should depend on the company's positive performance throughout that period.	Adopted 6.1.1. (p.277)
(iv) The members of the management body should not enter into contracts with the company and/or with third parties which have the effect of mitigating the risk attaching to the variability of the remuneration which is fixed for them by the company.	Adopted 6.1. (p.277)
(v) Up till the end of their term in office, the executive directors should keep the company shares that they have acquired under the variable remuneration schemes, up to the limit of twice the amount of the total annual remuneration, with the exception of those which need to be sold in order to pay the taxes resulting from the benefit of the said shares.	Adopted 6.1. (p.277)
(vi) When the variable remuneration includes the granting of options, the start of the exercise period should be deferred for a period of not less than three years.	Adopted 6.1.1. (p.277)
(vii) Proper legal instruments should be laid down so that the compensation set for any form of removal from office without just cause of a director is not paid where the dismissal or cessation by agreement is due to the deficient performance of the director.	Adopted 6.1.4. (p.283)
(viii) The remuneration of the non-executive members of the management body should not include any component whose value depends on the company's performance or value.	Adopted 6.1. (p.277)
II.1.5.2 The statement on the remuneration of the management and oversight bodies referred to article 2 of Law no. 28/2009 of 19 June, should in addition to the content referred to therein, contain sufficient information:	Adopted ²
■ about which groups of companies whose remuneration policy and practices were taken as a comparative element for the fixing of remuneration;	Adopted 6.1.1. (p.277)
■ about the payments relating to the removal from office or cessation by accord of the functions of directors.	Adopted 6.2.6. (p.291)
II.1.5.3 The statement on remuneration policy referred to in article 2. of Law no. 28/2009 should also cover the remuneration of the managers within the meaning of article 248-B(3) of the Securities Code and whose remuneration contains an important variable component. The statement should be detailed and the policy presented should take into account, namely the company's long-term performance, compliance with the rules applicable to the company's activity and containment in risk taking.	Adopted 6.1.6. (p.283)
II.1.5.4 A proposal must be presented to the General Meeting relating to the approval of the scheme for the granting of shares, and/or the acquisition of share options or based on the variations in the share price, to members of the management oversight bodies and other managers within the meaning of article 248.-B (3) of the Securities Code (CVM). The proposal must contain all the details needed for a proper evaluation of the scheme. The proposal must be accompanied of the scheme's regulations or, where these have not yet been drawn up, of the general conditions that these must comply with. In the same way, the principal characteristics of the retirement benefits system to which the members of the management and oversight bodies and other managers are entitled, within the meaning of art. 248(3)-B of the CVM. must be approved in General Meeting.	Adopted ³ 6.1.8. (p.285)
II.1.5.6 At least one representative of the Remuneration Committee must be present at the shareholders' annual general meetings.	Adopted 2.2.7. (p.245)
II.2. Board of Directors	
II.2.1 Within the limits laid down by law for each management and oversight structure, and except owing to the small size of the company, the Board of Directors must (1) delegate the day-to-day running of the company, (2) while the duties and powers delegated must be identified in the company's annual corporate governance report.	Adopted 2.7. (p.256)

1) With regard to the quantitative requirement mentioned in the recommendation.

2) Declaration presented to the AGM, with respect to the remuneration policy of the other managers, within the meaning of art. 248(3)-B of the CVM.

3) Declaration presented to the AGM, with respect to the principal characteristics of the retirement benefits system.

Recommendation	Adoption References in the governance report ¹ Point / (page no.)
II.2.2 The Board of Directors must ensure that the company acts in a manner consentaneous with its objectives, and must not delegate its responsibilities as regards: <ul style="list-style-type: none"> ■ defining the company's strategy and general policies; ■ defining the group's business structure; ■ decisions which must be considered strategic due to their amount, risk or other special characteristics. 	Adopted ✓ 2.6.4. (p.252)
II.2.4 The annual directors' report must include a description of the work done by the non-executive directors, referring in particular to any constraints ascertained.	Adopted 2.6.16. (p.255); 2.8.1. (p.260); 2.8.2. (p.265)
II.2.5 The company should describe its policy on the rotation of the areas of responsibility within the Board of Directors, namely of the person responsible for the financial area, and to inform about it in the annual report on Corporate Governance.	Adopted 2.7.5. (p.257)
II.3 Executive Committee	
II.3.1 The directors performing executive functions, when solicited by other members of the governing bodies, must provide, in good time and in keeping with the request, the information by them demanded.	Adopted 2.7.6. (p.257)
II.3.2 The Chairman of the Executive Committee must send the meeting notices and minutes of this Committee respectively to the Chairman of the Board of Directors and to the Chairman of the Supervisory Board.	Adopted 2.7.6. (p.257)
II.4 Supervisory Board	
II.4.2 The annual reports on the work carried out by the Supervisory Board must be disclosed on the company's website together with the annual report and accounts.	Adopted 2.3.10. (p.249)
II.4.3 The annual reports on the work carried out by the Supervisory Board must include a description of the supervisory activity undertaken, referring in particular to any constraints detected.	Adopted 2.3.10. (p.249)
II.4.4 The Supervisory Board must represent the company for all purposes in dealings with the External Auditor, being charged with namely proposing to the provider of these services, the respective remuneration, ensuring that the proper conditions exist within the company, as well as acting as the company's spokesman and being the first recipient of the relevant reports.	Adopted 2.3.5. (p.248)
II.4.5 The Supervisory Board must annually evaluate the External Auditor and propose to the General Meeting its removal whenever there is just cause for such action.	Adopted 2.3.1. (p.247); 2.3.11. (p.249)
II.4.6 The internal audit unit and those who oversee compliance with the rules applied to the company (compliance services) should report functionally to the Audit Committee, to the General and Supervisory Board or, in those companies which adopt the Latin model, to an independent director or to the Supervisory Board, irrespective of the hierarchical relationship that these services maintain with the company's executive committee.	Adopted 2.3.8. (p.248)
II.5 Specialised committees	
II.5.1 Except owing to the company's small size, the Board of Directors must create the committees that it deems necessary for: <ul style="list-style-type: none"> ■ ensuring a competent and independent evaluation of the executive directors' performance and for the assessment of its own overall performance, as well as of the various existing committees; ■ reflecting on the governance system adopted, verifying its efficacy and proposing to the relevant bodies the measures to be taken with a view to its improvement; ■ timely identifying potential candidates with the high profile necessary for the performance of directors' functions. 	Adopted 2.1. (p.242) 2.8.4. (p.267) 2.8.3. (p.266) 2.8.4. (p.267)
II.5.2 II.5.2.1 – The members of the Remuneration Committee or equivalent must be independent in relation to the members of the management body.	Not adopted 0.4. (p.240)
II.5.2 II.5.2.2 – The members of the remuneration or equivalent committee should include at least one member with knowledge and experience in matters relating to remuneration policy.	Adopted 2.5.1. (p.249)
II.5.3 In order to support the Remuneration Committee in the performance of its functions, no natural or legal person should be contracted who renders or has rendered in the last three years services to any structure reporting to the Board of Directors, to the company's Board of Directors itself or who has a current relationship as the institution's consultant. This recommendation is equally applicable to any natural or legal person who has an employment or service contract with them.	Adopted 2.5.1. (p.249)

1) Except when mentioned otherwise.

Recommendation	Adoption References in the governance report ¹ Point / (page no.)
II.5.4 All the committees must draw up minutes of the meetings held.	Adopted 2.8. (p.259)
III. INFORMATION AND AUDIT	
III.1 General information duties	
III.1.1 Companies must ensure the existence of a permanent contact with the market, respecting the principles of equality of shareholders and preventing asymmetries in the access to information by investors. To this end, the company must maintain an investor-support office.	Adopted 9. (p.303)
III.1.2 The following information available on the company's website must be disclosed in English: a) The name, status of a publicly-traded company, the registered office and other details stipulated in article 171 of the Commercial Companies Code; b) Statutes; c) Identity of the members of the governing bodies and of the representative for market relations; d) Investor Support Office, respective functions and means of access; e) Annual report and accounts; f) Half-yearly calendar of company events; g) Proposals submitted for discussion and voting at General Meetings; h) Notices convening General Meetings.	Adopted 9. (p.303) www.ir.bpi.pt
III.1.3 Companies should promote the rotation of the auditor at the end of two or three terms of office, depending on whether these are respectively for four or three years. Their continued tenure beyond that period should be substantiated in a specific opinion of the supervisory body which expressly appraises the auditors' independence and the advantages and costs of their replacement.	Adopted Supervisory Board Report
III.1.4 The external auditors should, within the scope of their duties, verify the application of remuneration policies and systems, the effectiveness and functioning of the internal control mechanisms and report any shortcomings to the company's supervisory body.	Adopted
III.1.5 The company should not contract from the external auditors, nor from any entities in which they have an equity interest or which form part of the same network, services other than audit services. Where there is a need to contract such services – which must be approved by the supervisory body and detailed in its annual report on Corporate Governance — these should not amount to more than 30% of the total value of the services rendered to the company.	Adopted 5.3. (p.274)
IV. CONFLICTS OF INTEREST	
IV.1 Relationship with Shareholders	
IV.1.1 The company's business dealings with shareholders having a qualified holding, or with entities with which they have a relationship within the terms of article 20 of the Securities Code, should be realised under normal market conditions.	Adopted 8.2.2. (p.298)
IV.1.2 Significant business dealings with shareholders having a qualified holding, or with entities with which they have a relationship within the terms of article 20 of the Securities Code, should be submitted for the prior opinion of the supervisory body. This body must lay down the necessary procedures and criteria for defining the relevant level of significance of those business dealings and the other terms of its involvement.	Adopted Supervisory Board Report

0.3. OVERALL EVALUATION, DULY SUBSTANTIATED, OF THE DEGREE OF ADOPTION OF GROUPS OF INTERCONNECTED RECOMMENDATIONS

Not applicable.

1) Except when mentioned otherwise.

0.4. JUSTIFICATION FOR THE NON-ADOPTION OF RECOMMENDATIONS

The following table lists those recommendations of the Corporate Governance Code which BPI did not adopt, presenting the Bank's explanations and arguments for that non adoption.

Recom.	Explanation
I.3.3.ii)	Principle of one share / one vote <p>Recommendation not adopted.</p> <p>i) According to article 12(3) of the statutes one vote corresponds to one company share.</p> <p>ii) As regards the second sub-recommendation of Recommendation I.3.3. see justification regarding Recommendation I.6.1.2.</p>
I.4.	Relating to the constitutive or deliberative quorum <p>Recommendation not adopted, as regards that part which recommends that companies should not set a deliberative quorum larger than that provided for by law.</p> <p>In effect, according to article 30(2) of Banco BPI's statutes, the alterations to numbers four and five of article 12 of the said statutes (provisions which set and regulate the limit on the number of votes capable of being issued by a shareholder and entities related to him/her), to number one of article thirty one (provision which fixes a special qualified majority for the company's winding up), as well to this number two of article 30, require the approval of seventy five per cent of the votes cast, which majority is higher than that envisaged in article 386 (3) of the Commercial Companies Code (two thirds of the votes cast).</p> <p>It will be recalled in this regard and in the first place, that the aforesaid rule laid down in the Commercial Companies Code is mandatory only as regards the minimum limit. That is, companies are free to set in their statutes higher qualified majorities.</p> <p>In second place, Banco BPI is of the opinion that there exists justification for the alteration to the statutory rules in question to be subject to a more demanding qualified majority than the qualified majority envisaged in the law. This justification stems from the conjugation of the following two aspects:</p> <ul style="list-style-type: none">■ The statutory rules in question (remember, rules governing the limitation on voting and the company's winding up) refer and represent options relating to highly important aspects relating to the company's affairs; in the first case, with a solution which as explained in relation to the recommendation I.6.2., it seeks to promote a balanced participation of the shareholders in the company's affairs; in the second case, what is at stake is the company's own subsistence;■ In the case of statutory rules which take the form of very important options for the company's affairs, their alteration should only take place when there is an unequivocal and large majority will in this regard; it is deemed for this purpose that it is appropriate to set the aforementioned seventy five per cent majority of the votes cast. <p>Finally, it will be recalled that the qualified majority of seventy five per cent in question, even though it is higher than the qualified majority laid down in the law, is, just as the latter, defined according to the votes cast and not the votes corresponding to the share capital.</p>
I.6.1.	Relating to the limit on the number of votes <p>Recommendation not adopted.</p> <p>(I.6.1.2.) In reality, article 12(4) of Banco BPI's statutes stipulates that the votes cast by a single shareholder or entities related to him/her in the terms laid down by this provision which exceed 20% of the total votes corresponding to the share capital, shall not be counted. The change to this statutory provision requires, as referred to in relation to Recommendation I 4.1., the approval of seventy five per cent of the votes cast in General Meeting (GM).</p> <p>The principal limiting the number of votes cast by a sole shareholder was proposed by the General Board with the object of promoting a framework conducive to a balanced participation of the principal shareholders in the company's affairs, from the standpoint of Shareholders' long-term interests. In its initial formulation, which was approved by the Shareholders at the GM held on 21 April 1999 by a majority of 90.01% of the votes cast, a limit was set of 12.5% of the total votes corresponding to the share capital. At the GM of 20 April 2006, that limit was raised to 17.5%, by way of a resolution approved by a majority of 77.4% of the votes cast and was finally increased to the current 20% by unanimous voting at the GM of 22 April 2009.</p>

Recom.	Explanation
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Banco BPI's statutes do not incorporate the measures defined in the Recommendation in question as regards the maintenance of those limits being the object of periodic reappraisal in General Meeting, which is explained by:

- On the one hand, it is always possible for Shareholders who wish to alter or suppress the aforesaid statutory rule to propose at any moment and after observing the requisites for this purpose envisaged in the law, to submit to the General Meeting a proposal advocating such alteration or suppression;
- On the other hand, and as already partly explained as regards Recommendation I.4., because it is considered to be a rule which constitutes a very important option in the company's affairs, its modification should only take place when there is a will that (i) is unequivocal and backed by a large majority in this regard and (ii) results from a balanced participation of the various shareholders, desirous that these are not considered attainable if it is accepted that this modification may be approved by resolution passed by a simple majority and without the voting limit functioning.

II.1.2.2. Relating to the number of independent non-executive directors

Recommendation not adopted.

At 31 December 2011 and on the date this report was concluded, the situation regarding Banco BPI's 17 non-executive directors, as concerns the circumstances envisaged in article 414(5)(a) and (b) of the Commercial Companies Code and whose verification relating to one director determines his consideration as not independent, was as follows:

- The Directors António Lobo Xavier and Carlos Moreira da Silva were, in the light of this criterion, deemed to be independent;
- As concerns the remaining 15 non-executive Directors and their situation vis-à-vis the two sets of circumstances envisaged in the abovementioned article 414(5)(a) and (b), it should be noted that:
 - Article 414(5)(a) – to be the holder or to act in the name of or for the account of the holders of a qualified majority equal to 2% or more of the company's capital
 - None of the directors concerned is the holder of a qualified majority equal to 2% or more of the company's capital;
 - There are 11 directors who occupy management positions in companies holding a qualified holding of 2% or more of the company's capital or in entities of their group¹;
 - The circumstance mentioned in the previous indent does not mean nor have as a consequence that the directors concerned must be deemed to be persons who act in the name of or for the account of the aforesaid entities owning a qualified holding of 2% or more of the company's capital;
 - If however one has a broad interpretation of the expression "act in the name or on behalf of entities owning qualified holdings of 2% or more of the company's capital" in such a way that such action is deemed to exist by the mere fact that one is a director/officer of the said entity, then there are 11 directors who fall within that situation.
 - Article 414(5)(b) – for having been re-elected for more than two consecutive or interspersed terms of office
 - 4 directors are solely covered by the provision of this sub-paragraph b).
- In summary, and considering the broad interpretation of the abovementioned article 414(5)(a), there are 15 non-executive directors who were not, in the light of the criterion resulting from the CMVM regulation, deemed to be independent;
- As a consequence, and in the terms referred to above, BPI does not objectively meet the quantitative requirement defined in CMVM recommendation II.1.2.2. according to which *"Amongst the non-executive directors, there should be a suitable number of independent directors, taking into account the size of the company and its shareholder structure, which under no circumstance can be less than one quarter of the total number of directors"*.

BPI's Board of Directors believes however that the substantive evaluation of the independence of its non-executive members is not limited to the non-verification of the circumstances envisaged in article 414(5)(a) and (b) of the CCC, nor to the verification of these circumstances in relation to one director, and therefore does not necessarily determine the loss of their impartiality of analysis or decision.

The Board of Directors has never felt that the verification, in relation to certain of its members in the terms referred to above, of the situations envisaged in article 414(5) of the CCC has affected these directors' impartial analyses or decisions.

In this regard the Board stresses that all the directors are, in terms of the CCC², bound to the fundamental duties of care and loyalty in the company's interest, paying attention to the members' long-term interests and taking cognisance of the interests of the other key parties for the company's sustainability.

1) Four of which are also covered by paragraph b).

2) Article 64 – Fundamental duties.

Recom.	Explanation
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II.1.2.2. Relating to the number of independent non-executive directors (cont.)	
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Recommendation not adopted. (cont.)

In addition, in terms of legal rules and internal regulations – the Board of Directors' Code of Conduct and Regulations –, the Directors who find themselves in any situation of conflict of interest, must inform the nature and extent of such interest and, where this is substantial, they must abstain from participating in the discussion and resolutions relating there to.

Banco BPI's Board of Directors believes that its composition, insofar as the non-executive Directors are concerned, guarantees the desirable participation of persons who perform very important functions at some of the prime international financial institutions which are shareholders of the Bank, as well as of founder shareholders and other people with vast experience in the financial sector and with in-depth knowledge of the Bank.

In this domain, the Board benefits greatly from the fact that it unites at its core the existence of a professional executive team independent of any specific interests, with the presence of a non-executive structure clearly in the majority composed, as stated before, of executives of major international financial institutions, the Portuguese founding shareholders and directors independent of any specific interests.

In terms of the foregoing, and in line with the recommendations of the European Union relating to the independence of the non-executive members of the Board of Directors, the setting of criteria for the determination of independence is vested fundamentally in the actual Board of Directors, which issues its opinion that the involvement of all and the contribution which one or other makes to the Bank's development, fruit of the importance and complementariness of their knowledge, ability of appraisal and professional experiences, ensures an independent decision-making process.

II.5.2. Relating to the independence of the members of the Remuneration Committee	
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Recommendation not adopted.

Banco BPI believes that it is justified that the members of the Remuneration Committee be independent of the members of the Executive Committee, an aspect that is guaranteed in the case of Banco BPI's Remuneration Committee.

On the other hand it is considered that there are no reasons which justify that there has to exist independence between the members of this Remuneration Committee and the non-executive members of the Board of Directors. Banco BPI. As a matter of fact, in the light of the European recommendations on this issue that the non-executive members of the Board of Directors must have an active role in the evaluation and definition of the remuneration of the members of the Executive Committee, there is even advantage where the abovementioned independence does not exist. This role of the non-executive members of the Board of Directors in fixing the remuneration of the Executive Committee members is in fact, and for credit institutions such as Banco BPI, currently imposed by the provisions of numbers 25 and 26 of point XI of annex 1 to DL 104/2007 of 3 April and of article 7 of Bank of Portugal Notice 10/2011, and is assured by the existence within the ambit of this Board, of the Nominations, Evaluation and Remuneration Committee, composed mostly of independent Directors.

It should be emphasised that the non-executive members of the Board of Directors earn exclusively fixed remuneration and, to the extent they exercise functions on specialised commissions of the Board, attendance vouchers relating to the meetings of these commissions at which they are present. The maximum amount of the fixed remuneration (excluding attendance vouchers) of the members of the Board of Directors is deliberated at the General Meeting.

1) Recommendation of the Commission of the European Communities of 15 February 2005, relating to the role of non-executive directors or of members of the supervisory boards of listed companies and to the management or audit committees.

1. Introduction

Banco BPI's Board of Directors hereby submits for the consideration of its Shareholders and the market the *BPI Group's Report on Corporate Governance BPI for 2011*¹, prepared by the Corporate Governance Committee, in compliance with its duty of informing and transparency, in conformity with the law and regulations in force.

This BPI Group's Governance report is prepared in accordance with the structure contemplated in CMVM Regulation no. 1/2010 and addresses the recommendations of the Corporate Governance Code issued by the CMVM also in 2010.



DECLARATION OF THE BOARD OF DIRECTORS ON ITS ASSESSMENT OF BPI'S GOVERNANCE MODEL (issued within the ambit of CMVM recommendation II.1.1.1)

1. The Board of Directors of Banco BPI is of the opinion that the governance structure and practices, the functioning of the management and oversight bodies, as well as BPI's communication policies and practices, ensure in a balanced manner the protection of the interests of the Shareholders and other interested parties – Customers, Employees, Suppliers, the community in general – and the provision of adequate information so that the market can form an informed opinion on the Group's strategy, activity, risk management and conflicts of interest, its financial situation and the results.
2. The BPI Group's corporate governance report relating to 2011, describes in detail the principal governance guidelines, the structure, division of the roles and responsibilities and the functioning of the management and oversight bodies, risk management, the remuneration policy, shareholder control, the ethical and deontological principles observed, the market communication policy, amongst other aspects, in terms which justify the above judgment expressed by the Board.

The report refers to the degree of compliance with the list of recommendations concerning corporate governance and remuneration policy approved by the CMVM, with, in the cases in which the aforesaid recommendations have not been adopted, the relevant justification being given. The Bank complied in 2011 with the vast majority of the regulations and recommendations of the framework applicable to this year governing remunerations – formed by Notice 1/2010 and by letter-circular 2/2010, both of the Bank of Portugal. On 9 January 2012 Bank of Portugal Notice 10/2011 was published, which revised the regulations relating to the general principles covering remuneration policies and practices, while BPI is studying if and to what extent compliance with this new legal dispensation implies adjustments to the above-mentioned remuneration policy.

3. The Board of Directors did not identify any relevant constraint on its functioning, or that of the consultative committees formed within its ambit, nor did it become aware of constraints on the functioning of Banco BPI's other governing bodies.
4. Banco BPI's Board of Directors is permanently concerned with refining the governance structure, practices and report. In this manner, it also replies to the initiatives of the Securities Market Commission (Comissão do Mercado de Valores Mobiliários - CMVM) and the Bank of Portugal, and follows closely the pronouncements and documents published by various national and European bodies, namely the European Union and the Organisation for Economic Cooperation and Development (OECD).

Oporto, 27 March 2012

The Board of Directors

GUIDING PRINCIPLES OF THE BPI GROUP'S CORPORATE GOVERNANCE POLICY

- **Creation of value:** As the primary goal of BPI's Directors and Employees.
- **Transparency in management:**
 - **Internal information** – in such a manner that the non-executive members of the Board of Directors, the members of the Supervisory Board can carry out their oversight and supervisory functions with facility and efficacy.
 - **External information** – in such a manner that the Shareholders, Authorities, Auditors, Investors and the community can broadly assess the quality and conformity of the information provided and the results attained.
- **Independence:** Of the executive management vis-à-vis any individual Shareholder or specific interests.
- **Equity:** In the relationship with Shareholders, Customers and Employees.
- **Loyalty:** Through the implementation of mechanisms which impede the occurrence of conflict of interest situations.
- **Efficiency:** In the functioning and interaction of the company's governing and supervisory bodies.
- **Rigour:** In the management of the various risks underlying the Group's operations.
- **Decision sharing:** Through the adoption of committee-type models in decision-making processes and in the fostering of team spirit.
- **Performance and merit:** As fundamental criteria governing the remuneration policy as concerns Employees and Directors.
- **Harmony:** In the alignment between the interests of the Shareholders and those of Directors and Employees.

1) The present document, structured as an annex, forms an integral part of the directors' report relating to 2011.

2. BPI Group's governing bodies

2.1. STRUCTURE, DIVISION OF DUTIES AND FUNCTIONING

BPI's governance model is structured according to one of the three models contemplated in the Commercial Companies Code – commonly referred to as the Latin model:

- the company's management is entrusted to the **Board of Directors** which includes an **Executive Committee** – formed by professionals independent from any shareholders' or specific interests – to which the Board has delegated wide management powers for conducting the day-to-day activity.

Four specialist committees function within the ambit of the Board of Directors, composed exclusively of non-executive members: (i) The Audit and Internal Control Committee (**Comissão de Auditoria e Controlo Interno CACI**), which works in close proximity to the Executive Committee; (ii) the Financial Risks Committee (**Comissão de Riscos Financeiros (CRF)**¹, which is responsible, without prejudice to the duties in this domain vested in the Supervisory Board, for following closely the management policy covering all financial risks, including credit risks, arising from the Bank's operations, as well as monitoring the management of the Bank's pension fund; (iii) the Corporate Governance Committee (**Comissão de Governo da Sociedade - CGS**), which is charged with supporting and advising the Board of Directors on streamlining the governance and oversight model and pronouncing itself on matters pertaining to social responsibility, ethics, professional deontology and protecting the environment and (iv) the Nominations, Evaluation and Remuneration Committee (**Comissão de Nomeações, Avaliação e Remunerações - CNAR**), whose duties are to give opinions on the filling of vacancies occurring on the governing bodies and on the choice of Directors to be appointed to the Executive Committee, and to

exercise the functions which on the subject of remuneration policy are envisaged in article 7 of Bank of Portugal Notice 10/2011.

- the oversight functions are attributed to the **Supervisory Board** – whose key terms of reference include, overseeing management, supervising compliance with the Law and the company's Statutes, verifying the accounts, supervising the independence of the Portuguese Statutory Auditor and the external auditor, as well as evaluating the last-mentioned's work – and to the **Portuguese Statutory Auditor (ROC)**, whose prime function is to examine and then certify the accounts.
- the **General Meeting**, composed by all Shareholders, deliberates on the issues which are specifically attributed to it by the law or by the Statutes – including the election of the governing bodies, the approval of the directors' reports, the annual accounts, the distribution of profits, and capital increases –, as well as if so solicited by the Board of Directors, on matters dealing with the company's management.
- the Remuneration Committee (**Comissão de Remunerações - CR**), composed of three shareholders, is elected by the General Meeting. The Committee sets the remuneration of the holders of positions on Banco BPI's governing bodies, based on the opinion of the CNAR, and must observe, as regards the fixed remuneration of the members of the Board of Directors and the variable remuneration of the Executive Committee, the limits laid down by the General Meeting.
- the **Company Secretary** is appointed by the Board of Directors and performs the functions contemplated in the law and others attributed by the Bank.

REQUIREMENTS OF INTEGRITY, PROFESSIONAL EXPERIENCE AND AVAILABILITY

In accordance with the General Regime for Credit Institutions and Financial Companies (RGICSF), for a specific person to be eligible for a director's or oversight position at a credit institution or financial company, it is imperative that he/she meets a number of requirements and does not fall under any of disqualification situations contemplated therein. The evaluation process is the responsibility of the Bank of Portugal, which for this purpose can exchange information with the Instituto de Seguros de Portugal, with the Comissão do Mercado de Valores Mobiliários, as well as with foreign supervisory authorities, taking into consideration three aspects: the integrity of the person concerned, their professional experience and their availability to fill the position.

The full version of the regulations of the bodies mentioned next can be consulted at the web site www.ir.bpi.pt or at BPI's head office situated at Rua Tenente Valadim, 284, 4100 476 Oporto: Board of Directors, Executive Committee, Audit and Internal Control Committee, Financial Risks Commission, Corporate Governance Committee, Nominations, Evaluation and Remuneration Committee and the Supervisory Board.

1) Created by resolution of the General Meeting of 27 April 2011.



1) Allianz Europe, Ltd. nominated, in terms of article 15(2) of Banco BPI, S.A.'s Statutes, Herbert Walter to exercise the terms in his own name.

2) Deloitte & Associados, SROC, S.A. nominated António Marques Dias to represent it in the exercise of this office.

3) Criteria CaixaCorp, S.A. designated Isidro Fainé Casas to represent it in this position. On 1 July 2011, as part of the "La Caixa" Group's reorganisation, Criteria CaixaCorp - which now carries on the Group's banking business - changed its name to CaixaBank. This entity is 81.52% owned by "La Caixa".

4) Arsopi-Holding, SGPS, S.A. nominated Armando Leite de Pinho to represent it in the exercise of this office.

5) HVF,SGPS, S.A. nominated Edgar Alves Ferreira to represent it in the exercise of this office.

6) The composition of the Nominations, Evaluation and Remuneration Committee was altered at the Board of Directors meeting of 2 February 2012, and currently has the following composition: Marcelino Armenter Vidal – Member; António Lobo Xavier – Member; Carlos Moreira da Silva – Member.

7) The composition of the Corporate Governance Committee was altered at the Board of Directors meeting of 14 March 2012, and currently has the following composition: Artur Santos Silva – Chairman; Klaus Dührkop – member; Tomaz Jervell – member; Armando Leite de Pinho – member; Herbert Walter – member.

8) The composition of the Audit and Internal Control Committee was altered at the Board of Directors meeting of 14 March 2012, and currently has the following composition: Ruy Octávio Matos de Carvalho – Chairman; Alfredo Rezende de Almeida – member; Ignacio Alvarez-Rendueles – member; Mário Leite da Silva – member; Edgar Alves Ferreira – member.

2.2. GENERAL MEETING

The General Meeting (GM) is the governing body composed of all Banco BPI's shareholders. By statutory provision, the votes cast by any one Shareholder, in his/her own name or as the representative of others, which exceed 20% of the total votes corresponding to the share capital, shall not be taken into account.

The members of the General Meeting Committee were elected at the General Meeting of 27 April 2011 for a term of three years which terminates on 31 December 2013.

2.2.1. Terms of reference

The General Meeting's terms of reference are laid down by the law and the Company's statutes.

GENERAL MEETING'S PRINCIPAL TERMS OF REFERENCE

- Election of members of the Board of Directors, the Supervisory Board, the Remuneration Committee and Chairman, Deputy-Chairman and Secretaries of the General Meeting Committee, as well as the election of the Portuguese Statutory Auditor.
- Consideration of the Board of Directors' annual report, discussion and voting on the consolidated and individual accounts, as well as on the Portuguese Statutory Auditor's opinion.
- Evaluation of the Board of Directors' and the Portuguese Statutory Auditor's performance.
- Deliberation on the appropriation of the annual results.
- Definition of a maximum limit for the annual fixed remuneration of the members of the Board of Directors and of the maximum percentage of consolidated profit which, not exceeding 5%, the variable remuneration of the members of the Executive Committee may represent each year.
- Review of the strategic orientation and policies adopted.
- Deliberation on a long-term dividend policy proposed by the Board of Directors.
- Deliberate on the acquisition and sale of treasury stock.
- Deliberation on the capital increases and the issue of bonds convertible into shares or that confer the right to subscribe for shares.
- Deliberation on changes to the statutes.

2.2.2. Attribution of the right to vote

A shareholder is entitled to vote if he/she/it owns at least one Banco BPI share on the fifth trading day prior to the holding of the General Meeting (registration date), in accordance with the principle of "one share/one vote".

2.2.3. Procedures relating to representation

BPI adopts at its own initiative the policy of sending to Shareholders¹ the meeting notices, as well as the specific proxy forms, accompanied by a self-addressed stamped envelope.

The proxies are communicated by a signed written document addressed to the Chairman of the General Meeting Committee, at the latest by the end of the day prior to the above-mentioned registration date.

2.2.4. Procedures relating to postal voting

Postal voting is envisaged in the statutes. BPI sends as an annex to the General Meeting notice, self-addressed ballot papers to the Chairman of the General Meeting, by means of which the Shareholder can clearly cast his/her/its vote. The ballot paper must be signed and the authentication of the signature (by a notary, lawyer or solicitor) must be recorded on it. The ballot papers must be received at Banco BPI's head Office by 6.00 pm

of the third business day before the date scheduled for the General Meeting.

The description of the manner how the scrutiny of postal votes takes place in General Meeting appears in the notice of meeting.

The confidentiality of the postal votes is assured by the Bank up till the moment of the opening of the respective ballot papers by the Chairman of the General Meeting Committee. On this date, the safeguarding of such confidentiality is now guaranteed by the Chairman of the General Meeting Committee up until the moment of voting.

The Chairman of the General Meeting is responsible for checking the authenticity of the voting papers, as well as the conformity with the rules and the absence of vote duplication stemming from the presence at the General Meeting of the shareholders whose vote arrived by post. The postal vote is deemed to be revoked in the case of the presence of the Shareholder or the respective proxy at the General Meeting.

The Chairman of the General Meeting Committee informs those present of the number and the results of the postal votes received.

1) Shareholders holding more than a specified number of shares (5 000, at the last GM's held).

2.2.5. Procedures relating to voting by electronic means

BPI offers its Shareholders the possibility of casting votes by means of electronic mail. The procedures required for voting by electronic mail are in part similar to those required for postal voting: BPI sends beforehand to its Shareholders, as an annex to the General Meeting preparatory documents, a draft – available in Portuguese and English – that allows them to opt for the system of electronic voting. This draft can also be obtained from the website www.ir.bpi.pt or upon request to the Investor Relations Division. The draft must be signed and the signature must be authenticated by a notary, lawyer or legal clerk.

In the draft, which must be addressed to the Bank, the Shareholder is asked, amongst other details, to provide a password and indicate the email address. BPI sends the Shareholder an email indicating his counter password which, jointly with the initial password, will give him access to an electronic ballot paper on a page at the site www.ir.bpi.pt. The Shareholder can exercise his voting right until 6 p.m. of the third business day before that set for the Meeting.

2.2.6. Representative of the external auditor

The external auditor, through the partner responsible for the audit of Banco BPI's consolidated financial statements, is present at the Annual General Meetings, and is available to clarify any query related to the opinions issued on Banco BPI's individual or consolidated accounts.

2.2.7. Representative of the Remuneration Committee

The presence of at least one member of the Remuneration Committee at the General Meetings is always assured.

2.2.8. Functioning rules

According to the law, the Annual General Meeting must meet by the end of May¹. In addition, the Committee Chairman must convene extraordinarily the General Meeting whenever this is requested by the Board of Directors, the Supervisory Board or by shareholders owning shares corresponding to the minimum number by imperative law and who so request by means of a signed written document which indicates in precise terms the matters that should appear on the agenda and which justify the need for the General Meeting, and must be accompanied by the relevant draft resolutions.

Constituent Quorum and required majority

The General Meeting can deliberate at its first convocation irrespective of the number of shareholders present or represented, except if it deliberates on altering the Bank's statutes, merger, demerger, transformation, dissolution of the Company or other matters for which the law requires a qualified majority without specifying it. In these cases, it is necessary that shareholders who own at least shares corresponding to a third of the share capital must be present or represented.

At the second convocation, the Meeting can deliberate irrespective of the number of Shareholders present or represented and the capital represented by them.

The relating to issues for which the law requires a constituent quorum of at least a third of the share capital must be approved by two thirds of the votes cast, with the exception of resolutions to amend the Statutes regarding the limitation of voting rights issued by a single shareholder (article 12(5)(4) and article 30(2)), and to wind up the Company, both of which require the approval of 75% of the votes cast.

Right to information

During the course of General Meetings, any Shareholder can request that information be supplied so that he/she can form a substantiated opinion about the matters being deliberated.

The shareholders' principal rights are embodied in the Commercial Companies Code (CCC) and in the Securities Code (SC).

Right:

- to information (CCC, Title IV, Chapter II, Section III – arts. 288 to 292);
- to profits (CCC, Title IV, Chapter II, Section IV – art. 294);
- to participate in the company's deliberations (CCC, Title I, Chapter III, Section II – art. 21);
- to request the convening of a meeting and to include matters in the order of business (SC, Title I, Chapter IV, Section III – art. 23-A);
- to present proposed resolutions (SC, Title I, Chapter IV, Section III – art. 23-B).

2.2.9. Procedure in case of suspension of the GM

In accordance with the Statutes (article 12(2)), where the General Meeting is suspended, and whenever the interval between the initial session and a new session is more than 20 days, the only shareholders who may attend and vote at the new session are those who, as regards the date of the latter, meet the requirements laid down for their participation.

2.2.10. Human and logistical resources placed at the disposal of the Chairman of the GM Committee

The Chairman of the General Meeting Committee has the proper human and logistical back-up resources for the programming, preparation and conduct of the General Meeting to the extent that it is supported in the whole process by a multi-disciplinary team made up of the heads and support staff of the Legal, Investor Relations, Securities, Information Systems, Public Relations, Procurement, Outsourcing and Fixed Assets Divisions, and even by the Company Secretary and the Representative for Relations with the Market and the CMVM.

1) In terms of article 376 of the Commercial Companies Code, the Shareholders General Meeting must meet within three months after the close of the financial year, or within five months in the case of companies required to present consolidated accounts or which apply the equity accounting method.

2.2.11. Information on GM results

In compliance with article 23-C of the Securities Code and CMVM's recommendation I 5.1, Banco BPI discloses immediately after the General Meeting, information containing the company's identification, the location, day and time of the Meeting, the name of the Chairman of the Shareholders General Meeting and of the Meeting's secretaries, the notice of meeting's agenda, the percentage of share capital attending, reference to the documents and reports there submitted, the content of the deliberations and results of votes taken, through the publication of an announcement on CMVM's information system (www.cmvm.pt) and on BPI's Investor Relations web site (www.ir.bpi.pt).

We believe that the disclosure of this information meets the objective advocated by CMVM Recommendation I.5.

Finally, it should be noted that the order of business at the GM meetings appear in the meeting notices publicised on the Bank's website. The motions presented in General Meeting have consistently been approved by all or almost all of the shareholders present or represented.

2.2.12. General Meeting held on 27 April 2011

In 2011 only one Shareholders' General Meeting was held, which took place on 27 April at 11:00 am at Fundação de Serralves in the city of Oporto. 162 shareholders were present or represented, holding 724 888 703 shares with voting rights corresponding to 80.54% of the share capital. A further 11 shareholders voted by post (0.05 %), holding 465 809 shares, with the result that the capital entitled to vote totalled 80.59%.

Presences at the General Meeting of 27 April 2011

	No. shareholders	No. shares (million)	% share capital
Present or represented	162	724 888 703	80.54
Postal votes	11	465 809	0.05
Total	173	725 354 512	80.59

By virtue of the rules contained in article 12(4) of the Bank's statutes, the shareholder Criteria CaixaCorp, S.A., holder of 270 900 000 shares which corresponded to 541 800 votes, saw its votes reduced to 360 thousand.

Results of the voting at the GM of 27 April 2011

	Percentage of the votes cast ¹	
	For	Against
Banco BPI's directors report and individual and consolidated accounts relating to the 2010 financial year	100%	–
Appropriation of net profit for 2010	99.99%	0.01%
General consideration of the management and supervision (vote of confidence and praise to the Board of Directors and Supervisory Board)	99.91%	0.09%
Amendments to articles 10, 11, 12, 14, 21, 28 and 29 of the company's statutes	99.99%	0.01%
Share capital increase from € 900 000 000 to € 990 000 000, through the incorporation of reserves in the amount of € 90 000 000, and consequent amendment to article 4 of the company's statutes	100%	–
Approval of the election of the members of the Shareholders General Meeting Committee, the Board of Directors and the Supervisory Board for the term 2011/2013	97.23%	2.77%
Approval of the election of the Portuguese Statutory Auditor for the term 2011/2013	98.82%	1.18%
Approval of the election of the members of the Remuneration Committee for the term 2011/2013	99.94%	0.06%
Approval of the declarations on the remuneration policy of the members of the management and supervisory bodies and of the managers, presented, respectively by the Remuneration Committee and by the Board of Directors	99.85% and 99.95%	0.15% e 0.01%
Acquisition and disposal of treasury shares	99.99%	0.01%

1) Abstentions do not count as votes cast.

2.3. SUPERVISORY BOARD

2.3.1. Terms of reference

The Supervisory Board's core terms of reference are supervising the company's management, overseeing compliance with the Law and the Statutes, verifying that the annual report and accounts present a true and fair view, overseeing the Portuguese statutory auditors' annual audit and independence, as well as evaluating their work. The complete spectrum of this body's functions is set out in the statutes and respective regulations. Both these regulatory documents are available on the Investors' Relations website, under the section "BPI Group's Corporate Governance".

2.3.2. Composition

The Supervisory Board's composition is governed by the provisions of the law, the statutes and its internal regulations. The Supervisory Board is composed of a chairman, and two members in office, as well as two alternate members.

The members of the Supervisory Board possess technical qualifications – namely in the areas of law, accounting, auditing and financial management – and professional experience, including operational knowledge of the banking business, which enable them to discharge properly the responsibilities attributed to them.

Composition of Banco BPI's Supervisory Board

At 31 December 2011

	Independence (according to art.414(5) CCC)	Disqualification (according to art.414- A(1) CCC)	Date of first appointment	End of the current term ¹	Nationality
Chairman					
Abel António Pinto dos Reis	Complies	Complies	23 Apr. 08	31 Dec. 2013	Portuguese
Members					
Jorge de Figueiredo Dias	— ¹	Complies	21 Apr. 99	31 Dec. 2013	Portuguese
José Neves Adelino	Complies	Complies	23 Apr. 08	31 Dec. 2013	Portuguese
Alternates					
Rui Guimarães	-	-	22 Apr. 09	31 Dec. 2013	Portuguese
Francisco Olazabal	-	-	22 Apr. 09	31 Dec. 2013	Spanish

2.3.3. Independence requirements and rules relating to disqualification

Portuguese law, in articles 414 and 414-A of the Commercial Companies Code (CCC), lays down a number of independence requirements and disqualification situations applicable to the Supervisory Board members.

The situation of each one of the members of the Supervisory Board as regards the aforesaid provisions is presented in the above table, underlining the compliance by all members with all the criteria relating to disqualification and independence, with the exception of one of the members as regards the independence criterion of article 414(c) of the CCC for having been re-elected for more than two terms on BPI's governing bodies.

The Chairman of the Supervisory Board complies with all the above-mentioned criteria relating to the above-mentioned disqualification and independence and possesses the appropriate technical expertise to carry out his functions, as borne out by his curriculum vitae presented as an appendix to this report (page 308).

2.3.4. Functioning

Meetings and resolutions

The Supervisory Board meets in ordinary session at least once every two months, and also whenever its Chairman deems this necessary or any of the members so requests.

In the case of urgency, the Supervisory Board can meet without observing prior formalities, providing that its members manifest the wish to meet and discuss any specific matter.

Besides the Supervisory Board members, the Portuguese statutory auditor, Directors, company officers or even third parties can be present at the respective meetings, provided that they are invited by the Chairman or by whoever substitutes him at that meeting, depending on the necessity vis-à-vis the matter under review.

The Supervisory Board's resolutions are passed by a majority, while those members dissenting must demand that the minutes of the meeting state the reasons for their disagreement.

Minutes

Minutes must be kept of each meeting in the respective book or loose sheets, which must be signed by all those who were present thereat.

Support services

The Supervisory Board, in addition to the advisors who may be allocated to it, may request the Board of Directors whenever it deems necessary, the collaboration of one or more persons with expertise in areas of their specialisation in order to provide information and to undertake work aimed at substantiating the respective analyses and conclusions.

1) Is covered by article 414(c) of the CCC by virtue of having been re-elected for more than two terms of office on BPI's governing bodies.

2.3.5. Representation of the company by the Supervisory Board in dealings with the external auditor

Banco BPI's Supervisory Board represents the company for all purposes in dealings with the external auditor in the terms laid down in the law, the Statutes and CMVM regulation II.4.4. relating to this issue. In particular, it is responsible for proposing the provider of those services and the respective remuneration, and for ensuring that the appropriate conditions are present within the company for such services to be provided, as well as being the first company interlocutor and the first recipient of the respective reports.

2.3.6. Articulation between the Supervisory Board and the Audit and Internal Control Committee

In the terms defined by the relevant statutes, there exists within the ambit of the Board of Directors an Audit and Internal Control Committee (Portuguese acronym CACI), made up of non-executive members of the Board of Directors, and also including a member who does not belong to that body, in accordance with the provisions of article 10(4) of the Statutes. The existence of this Committee is justified, amongst other reasons, by the following:

- the existence of a vast number of years of experience and the very positive functioning of a structure within the ambit of the Board of Directors whose mission is to monitor and oversee the Executive Committee's activity;
- the conviction that the non-executive members of the Board of Directors are in a particularly favourable position to exercise the function of monitoring and overseeing the Executive Committee.

The CACI therefore plays a very major role of monitoring and overseeing the Executive Committee, a role that complements but does not substitute the role which in this domain and according to the law and the statutes is performed by the Supervisory Board.

The orientation of the coordination between the Supervisory Board and the Audit and Internal Control Committee is assured by the respective Chairmen.

As referred to further on with respect to the Audit and Internal Control Committee's functioning, the members of the Supervisory Board can take part in that Committee's meetings and have access to all the documentation distributed for such meetings, witnessing the explanations given by those in charge of each one of the areas being analysed, and questioning and requesting clarifications which the documents under review may engender.

As referred to already, it is worth underlining that the liaison between the Supervisory Board and the CACI has proven to be efficient.

2.3.7. Liaison between the Supervisory Board and the Board of Directors

The orientation of the liaison between the Supervisory Board and the Board of Directors is assured by the respective Chairmen.

The members of the Supervisory Board who participate in the meetings of the Board of Directors, in terms of articles 421 and 422 of the Commercial Companies Code, must give prior notice to the other members of their intention to participate and must subsequently inform the other members of the matters relating to the Supervisory Board's functions which have been dealt with at those meetings.

The Supervisory Board may request information from the Board of Directors and its Executive Committee.

2.3.8. Reporting of the Internal Audit and Compliance functions

From the functional viewpoint, the Supervisory Board has an active participation in the definition of the annual programme for internal audit and compliance services, as well as following closely the respective execution.

The Audit and Inspection and the Compliance divisions are responsible for furnishing the Supervisory Board information about shortcomings or weaknesses which evidence or indicate situations of great gravity identified by them. The Supervisory Board can also:

- request from the Audit and Inspection Division, the external auditor and the Compliance Division, the respective activity reports;
- propose the holding of periodic meetings with the above-mentioned entities.

The Audit and Inspection Division and the Compliance Division report hierarchically to the Executive Committee of the Board of Directors and to the persons designated by it for this purpose.

According to the internal regulations of the Audit and Inspection Division and the Compliance Division, these may:

- submit directly to the Chairmen of the Supervisory Board and of the Audit and Internal Control Committee proposed actions which, within the ambit of the respective functions, they deem appropriate;
- communicate directly to the Supervisory Board any facts that they consider the latter should be aware of.

2.3.9. Rules relating to the nomination, substitution and removal of members of the Supervisory Board

The members of the Supervisory Board are elected by the General Meeting, in terms of article 415 of the CCC. The GM also appoints its chairman and, where this applies, one or more Deputy-Chairmen. The rules governing the substitution of the Supervisory Board's members are also set out in article 415. The General Meeting can also remove, in terms of article 419 of the CCC, the members of the Supervisory Board providing that there is just cause.

2.3.10. Activity carried out by the Supervisory Board

The Supervisory Board met 13 times in 2011, at which all its members were present. In 2012 and up until the issue of the present report, the Supervisory Board met 5 times with all its members present.

The Supervisory Board also participated in 2011 at the 10 meetings of the Audit and Internal Control Committee, at the meeting of the Board of Directors at which the annual accounts were reviewed and approved, and at Banco BPI's General Meeting.

In compliance with the functions vested in it under article 420 of the CCC, the Supervisory Board prepares an annual report of its work and issues an opinion on the annual report and accounts and on the proposed appropriation of net profit, presented by the Board of Directors to the General Meeting.

Any transaction of business between the company and shareholders owning a qualified holdings, or with entities with whom they have any relationship in terms of article 20 of the SMC, as well as those covered by articles 85 and 109 of the General Regime for Credit Institutions, is always preceded by the Supervisory Board's opinion, irrespective of the amount thereof. During 2011 the Supervisory Board was called upon to issue an opinion on two cases.

The Supervisory Board's Report and Opinion, besides forming part of the annual Report and Accounts, is the object of disclosure together with the annual report and accounts on the Investor Relations website at www.ir.bpi.pt.

2.3.11. Evaluation of the External Auditor by the Supervisory Board

DECLARATION

"Banco BPI's Supervisory Board declares for the purposes envisaged in point II.4.5 of the Corporate Governance Code, that it monitored the work of the external auditor, considering that such work was performed in accordance with the review and audit techniques and meets the monitoring requirements of the company's accounts."

28 March 2012

The Supervisory Board

Abel Pinto dos Reis – Chairman
Jorge Figueiredo Dias – Member
José Neves Adelino – Member

2.4. PORTUGUESE STATUTORY AUDITOR

The Portuguese statutory auditor is appointed by the General Meeting following a proposal by the Supervisory Board. It can be a natural person or a company with the statutory auditor status.

In addition to the member in office, an alternate must also be appointed.

The Portuguese statutory auditor is responsible for carrying out all the examinations and all the necessary verifications for the audit and certification of the accounts.

2.4.1. Legal responsibility

Portuguese law provides for the terms under which the Portuguese statutory auditor is liable to the company, the shareholders and the creditors, as well as enshrining the Portuguese statutory auditor's duty of vigilance.

2.5. REMUNERATION COMMITTEE

The Remuneration Committee contemplated in article 28(2) of the Statutes is elected by the General Meeting.

2.5.1. Composition

The Remuneration Committee is composed of three shareholders elected every three years by the General Meeting, who for their part elect a chairman who has the casting vote.

None of the members appointed to the Remuneration Committee forms part of the Board of Directors. However, the natural persons who the appointed members indicated to exercise the respective positions on the Remuneration Committee also form part of the Board of Directors as non-executive directors. All the members of the Remuneration Committee currently occupy or have occupied in the past management positions at various other companies, and possess knowledge and experience in matters of remuneration policy (for compliance with II.38. of CMVM Reg. 1/2010 and recommendation II.5.2.).

The Remuneration Committee does not resort to the services of natural or legal persons who are not independent because they are bound by an employment or service contract to the Board of Directors as well as , when applicable, because such persons have a current relationship with BPI's consultancy firm.

2.5.2. Terms of reference

The Remuneration Committee is responsible for fixing the remuneration of the members of Banco BPI's governing bodies, defining the remuneration policy and applying the retirement regime for members of Banco BPI's Executive Committee and the Board of Directors of Banco Português de Investimento. The Committee also evaluates the members of Banco BPI's Executive Committee and of the Board of Directors of Banco Português de Investimento, with a view to determining the respective annual variable remuneration.

In the exercise of their functions, the Remuneration Committee takes into consideration the proposals and recommendations presented to it by the Nominations, Evaluation and Remuneration Committee in terms of the provisions of article 7(4) of Bank of Portugal Notice 10/2011.

According to the statutes (article 28) at the time the General Meeting appoints the Remuneration Committee, the former must define that the term of office of the governing bodies which commences on the date of that resolution, the limits of the annual fixed remuneration of all the members of the Board of Directors and the maximum percentage of the profits, which cannot exceed 5%, that can be set aside each year for the variable remuneration of the members of the Executive Committee.

No Director has the power to fix his/her own remuneration. The principles, criteria and amounts involved in fixing the remuneration of members of Banco BPI's governing bodies are addressed in greater detail in chapter six ("Remuneration") of the present report.

2.5.3. Representation at the AGM's

The Remuneration Committee is represented at the Shareholders' Annual General Meetings through the presence of at least one of its members.

2.5.4. Activity during the year

The three members of the Remuneration Committee were present at the following meetings. The attendance rate was 100%.

25 March 2011

The Committee approved the amount of the variable remuneration to be awarded to each one of the Executive Committee members relating to 2010, in harmony with the content of the Nominations, Evaluation and Remuneration Committee's recommendation.

The Committee, conscious of the situation prevailing on the stock market and in line with that deliberated by the Executive Committee for the other BPI Group employees, approved the application to the Executive Committee members the possibility of these receiving the variable remuneration relating to the 2010 financial year, at their option, in cash or according to the RVA share incentive scheme rules in force, without prejudice to the application of the rules relating to the deferral for 3 years and the subjection of access to the suspensive conditions defined in the Remuneration Policy approved at the General Meeting of 22 April 2010.

The Committee also approved the content of the declaration on the Remuneration Policy for the members of the management and supervisory bodies to be presented at the Shareholders' General Meeting of 27 April 2011.

2.6. BOARD OF DIRECTORS

The Board of Directors is the governing body vested with the widest management and representation powers on behalf of the company, without prejudice to the specific powers attributed by law to the Supervisory Board. The BPI Group's major strategic lines are defined by it.

2.6.1. Composition

Banco BPI's Board of Directors is currently composed of 24 members, seven of whom make up the Executive Committee. The Board's nominative composition and that of its consultative committees appears in point 3.1.

Chairman

It is the duty of the Board of Directors Chairman to coordinate the Board's activity, directing the respective meetings and overseeing the execution of its resolutions. The Chairman is also responsible on the front line for representing the Institution before the public and other authorities.

2.6.2. Evaluation of the Board of Directors as regards the independence of its members

In accordance with European Union¹ principles and recommendations relating to the independence of the non-executive members of the Board of Directors, "A director must be deemed to be independent if he/she has no commercial, family or other relationships with the company, with a shareholder who has control or with the management bodies of any of these – that could give rise to conflict of interests capable of jeopardising his/her judgement"². In light of the aforementioned European Union recommendations, it is also a fundamental principle that the Board of Directors itself is responsible for fixing the criteria for determining the independence of its members

Banco BPI's Board of Directors believes that its composition as regards the non-executive directors ensures the desirable participation of persons who perform or have performed very recently functions of primary importance at certain of the Bank's major international financial institution shareholders, as well as founding shareholders and other persons with extensive experience in the financial sector and profound knowledge of the Bank.

In terms of the foregoing paragraphs and in line with the European Union's principles and recommendations relating to the independence of the non-executive members of the Board of Directors, the Board of Directors issues its opinion that the

1) Recommendation of the Commission of the European Community (CEC) of 15 February 2005, relating to the role of non-executive directors or members of the supervisory boards of quoted companies and to the Board of Directors' or supervisory committees.

2) Point 13.1 of ECC Recommendation of 15 February.

effective involvement of all its members, and the contribution which they make to the Bank's development, fruit of the relevance and complementarity of their knowledge, analytical skills and professional experience, assures an independent decision-making process. Accordingly, despite the fact that one Director does not meet one of the criteria adopted at national level for assessing the independence of Directors, he can still be deemed to be independent due to the specific circumstances of the person or the company, with the opposite being equally applicable.

It is worth highlighting that the powers of the Board of Directors are subordinated to the resolutions passed by the Shareholders and to the Supervisory Board's involvement in the cases provided for in the Law and in the Statutes.

2.6.3. Basis of independence and incompatibility

The annex to CMVM Regulation no. 1/2010 dealing with the structure of the corporate governance report establishes a duty of information which entails providing details of the non-executive directors of the Board of Directors who, although not covered by the disqualification rules of article 414 – A (with the exception of sub-paragraph b) and by the independence criteria of article 414(5), both of the Commercial Companies Code and applicable to the members of the Supervisory Board, would find themselves in any of the situations envisaged in these rules and criteria were they applicable to them.

The following table shows the individual situation of each one of Banco BPI's 17 non-executive directors as regards the independence and disqualification basis referred to above:

Non-executive members of Banco BPI's Board of Directors

At 31 December 2011

	Board of Directors consultative committees				Independence basis ¹	Disqualification ²
	Audit and Internal Control Committee	Financial Risks Committee	Corporate Governance Committee	Nominations, Evaluation and Remuneration Committee		
Chairman						
Artur Santos Silva		Chairman	Chairman	Chairman	b)	✓
Deputy-Chairman						
Carlos da Camara Pestana		Member		Member	a) b)	✓
Members						
Alfredo Rezende de Almeida	Member				b)	✓
António Lobo Xavier			Member		Independent	✓
Armando Leite de Pinho				Member	b)	c)
Carlos Moreira da Silva			Member		Independent	c)
Edgar Alves Ferreira			Member		a)	✓
Henri Penchas					a)	c)
Herbert Walter ³				Vogal	a)	c)
Ignacio Alvarez-Rendueles	Member				a)	✓
Isidro Fainé Casas					a) b)	c)
Juan Maria Nin					a)	c)
Klaus Dührkop					a) b)	✓
Marcelino Armenter Vidal		Member		Member	a)	c)
Mário Leite da Silva	Member				a)	c)
Ricardo Villela Marino					a)	c)
Tomaz Jervell			Member		b)	c)

1) According to the independence requirements applicable to the member of the Supervisory Board envisaged in article 414(5) of the CCC and which by force of a CMVM recommendation, serve as reference for the non-executive members of the Board of Directors:

- a) The director concerned is not the holder of the qualified holding of 2% or more of Banco BPI's share capital; the director concerned occupies management positions at an entity(ies) holding a qualified holding of 2% or more of Banco BPI's share capital or in an entity(ies) of that group, a fact that, in the opinion of the Board of Directors, does not mean, nor does it have as a consequence that the said director must be deemed to be a person who acts in the name or on behalf of the above-mentioned entity(ies); if however one interprets in the broad sense the expression "who acts in the name or on behalf of the above-mentioned entities holding a qualified shareholding of 2% or more of the company's capital", in such a manner as to deem that such action exists by the simple fact of being an executive of the aforesaid entity(ies), then the director is in that situation.
- b) Was re-elected for more than two terms of Office, continuous or interspersed.

2) According to the disqualification rules applicable to the members of the Supervisory Board envisaged in article 414 - A of the CCC and which by force of a CMVM recommendation, serve as reference for the non-executive members of the Board of Directors:

- c) Exercises management or supervisory functions at five or more companies.

✓ The director concerned is not covered by any of the situations mentioned in article 414-A(1) of the CCC which constitutes the reference framework in question.

3) Indicated by Allianz Europe, Ltd. to exercise the position in his own right.

At 31 December 2011 and on the date of the completion of this report, the disqualification rules did not apply to seven directors, i.e. the Chairman Artur Santos Silva, the Deputy-Chairman Carlos Camara Pestana, and the members Alfredo Rezende de Almeida, António Lobo Xavier, Edgar Alves Ferreira, Ignacio

Alvarez-Rendueles and Klaus Dührkop. Ten directors are covered by one of the situations envisaged, by virtue of the fact that they perform management or supervisory functions at five or more companies.

2.6.4. Board of Directors' terms of reference

PRINCIPAL TERMS OF REFERENCE OF THE BOARD OF DIRECTORS

- To appoint the Executive Committee from amongst their members.
- To define the BPI Group's general policies: for this purpose, the BPI Group shall mean the group of credit institutions and financial companies controlled directly or indirectly by Banco BPI, SA, including the entities with management contract to be assumed by BPI.
- To approve the strategic plan and operating plans and budgets, both annual and pluri-annual, and the alterations thereto, and to periodically monitor their execution.
- To prepare the documents forming the annual report and accounts and the proposed appropriation of net income, to be presented at the General Meeting.
- To take the initiative to propose any amendments to the statutes and capital increases, as well as bond issues which do not fall within its powers, presenting the corresponding proposals to the General Meeting.
- To approve the code of conduct of the companies controlled fully by the BPI Group.
- to deliberate, in the terms of paragraph two of Article three of the Articles of Association, on the company's participation in the equity capital of other companies and in partnership association (joint venture) contracts, in complementary corporate groupings and in European economic-interest groupings;
- to approve shareholdings in banks and insurance companies, as well as their disposal;
- to approve loan operations to companies or groups of companies where the exposure exceeds 300 M.€;
- to appoint the Directors of the banks controlled by BPI;
- to appoint authorised signatories to perform certain acts or categories of acts, defining the extension of the respective mandates.

Furthermore, the Board of Directors is responsible for practising all the other acts which are necessary or appropriate for the pursuance of the business activities falling within its objects clause and, in particular:

- to represent the company in and out of court, as plaintiff and defendant, to institute and contest any legal or arbitration proceedings, to confess, withdraw or reach a compromise in any legal actions or to abide by arbitrators' decision;
- to acquire, dispose of or encumber any assets or rights;

The Board of Directors is also responsible for the following:

- to delegate to an Executive Committee, composed of three to nine members, the day-to-day management of the Company, subject to the limits to be fixed in the resolution approving such delegation;
- to co-opt directors to fill any vacancies which may occur;
- to appoint a Company Secretary and an alternate Secretary;
- to draw up a set of internal rules of procedure and approve the functioning regulations for the Executive Committee to be appointed, as well as for the Audit and Internal Control Committee, the Nominations, Evaluation and Remuneration Committee and the Corporate Governance Committee; these last two committees must prepare reports (at least annually) for the Board of Directors' review and approval.

2.6.5. Board of Directors' meetings

The Board of Directors meets at least every quarter and always when convened by its Chairman or by two Directors.

The meetings are held each year on the dates set, at the very latest, at the last meeting of the previous year. Such dates shall be notified immediately in writing to the members who did not attend the meeting at which they were set.

The meetings shall be convened in writing, with a minimum notice period of 10 days, while the notice of the meeting must contain the order of business.

Each of the Directors must notify the Company Secretary up to five days before the appointed date if he/she will be present.

2.6.6. Order of business for meetings

The Chairman shall draw up the order of business for each meeting of the Board of Directors which shall be sent to its members, together with the respective notice of meeting in the case of meetings not set in the previous year; in the case of meetings to be held on a date which was set in the previous year, the order of business shall be sent at least seven days beforehand.

The documents relating to the meetings, except those relating to financial information, shall be sent up to seven days prior thereto in their original version in Portuguese, accompanied by the respective summaries in English.

The order of business for the last meeting of each year must mandatorily include approval of the Annual Operating Plan and

Budget of the BPI Group and the banks controlled by it, as well as the calendar of the meetings for the same period if such has not yet been set.

The following must mandatorily form part of the order of business of the preparatory meeting of the General Meeting:

- a resolution on the report and accounts relating to the previous financial year;
- the drafting of a proposal for the appropriation of net profit to be tabled at the General Meeting;
- the drafting of other proposals to be tabled by the Board to the Shareholders.

2.6.7. Functioning of the meetings

The meetings of the Board of Directors shall be presided over by its Chairman and in his absence or impediments by one of the Deputy-Chairmen, in the order in which the Board was appointed. In their absence, the Board of Directors must choose who must perform the respective functions at such meeting.

It is the Chairman of the Board of Directors function to conduct the meeting and to formulate in the appropriate manner the proposals to be submitted for the Board's decision.

Whenever he deems it appropriate, the Chairman or whoever substitutes him/her can delegate to one of the members the task of preparing a report on any of the matters submitted for the Board's consideration.

The meetings of the Board of Directors shall be held in Portuguese, without prejudice to the organisation of a simultaneous translation.

2.6.8. Participation at meetings

The Directors and senior employees of the Banks or other companies of the BPI Group and/or their consultants may be summoned to attend meetings of the Board of Directors whenever this is beneficial to the good progress of proceedings.

The meetings of the Board of Directors shall also be attended by the Company Secretary or his alternate, whose function it is to assist the Chairman in formulating the resolutions, organising the matters to be dealt with at the meetings, in particular, ensuring that the pertinent documents are sent to all the members of the Board of Directors, and to draw up the respective minutes.

For the performance of their functions and whenever they consider it appropriate, the members of the Supervisory Board, jointly or separately, may attend the meetings of the Board of Directors. This attendance is mandatory in the meeting in which the annual accounts are addressed.

2.6.9. Resolutions

The Board of Directors shall be deemed to be validly constituted and in a position to deliberate provided that the majority of its members are present or represented, but none of them can represent at each meeting more than one member. The proxy shall take the form of a letter addressed to the Chairman and cannot be used more than once.

The resolutions of the Board of Directors shall be passed by an absolute majority of the votes cast by the members present or represented, with the Chairman having the casting vote in the event of a tie.

In exceptional circumstances or for reasons of acknowledged urgency, the Chairman of the Board of Directors may resort to resolutions being passed through the circulation of documents amongst all the Board members, provided that all these give their prior agreement to this form of resolution.

The circulation of documents shall be done by mail, fax or electronic mail, while the response of each member must be given via one of these channels in a reasonable period set by the Chairman in each case, in accordance with the urgency and complexity of the matter for consideration.

2.6.10. Minutes

With respect to each meeting of the Board of Directors, the Company Secretary or the respective Alternate, shall draw up a draft minute which shall contain the proposals presented, the resolutions passed in relation thereto and the votes cast by any member during the meeting. The draft minutes shall be written in Portuguese, with an English translation.

The minutes shall be written up in conformity with applicable legal requirements and recorded in a proper minute book. Whenever it becomes necessary to ensure the immediate production of all its effects, the resolutions of the Board shall be reduced immediately to writing.

2.6.11. Information provided to the non-executive members

With the object of keeping the non-executive directors permanently acquainted with the Group's affairs, they are sent monthly information concerning the Group's consolidated economic and financial situation, as well as the performance of the principal business units, including the situation regarding Banco BPI's pension fund. This information gives an account of the most important changes that took place and compares, whenever possible, monthly and accumulated trends with budgeted and previous-year figures.

On the other hand, the Chairman of the Executive Committee sends to the Board of Directors' Chairman the notices of meetings and makes available the minutes of the respective meetings. The non-executive directors are regularly informed of the main decisions taken by the Executive Committee.

2.6.12. Rules relating to election and dismissal

Members of the Board of Directors are elected in their personal capacity for terms of three years at the Shareholders General Meeting, while re-election is always possible.

The members of the Board of Directors are subject to the scrutiny of and registration with the Bank of Portugal. If the central bank is of the opinion that the candidate member does not meet the integrity, professional experience and availability requirements that ensure “a sound and prudent management taking into consideration in particular the security of the funds entrusted”, the Bank of Portugal may turn down his / her registration.

In terms of article 401 of the CCC, should subsequent to the director's appointment, some incapacity or disqualification which constitutes an impediment to such appointment occur and the director does not relinquish the position or does not remove the supervening incompatibility within 30 days, then the Supervisory Board must declare the termination of his/her functions. The Board of Directors must then appoint by co-option another to replace him / her. This co-option must be ratified at the first Meeting thereafter.

A director can be dismissed by a resolution passed by a simple majority at a Shareholders' General Meeting.

The executive Directors do not have, nor have they ever had, any involvement in the selection of candidates for non-executive directors, such appointment being made by way of proposal and decision of the Shareholders. In the case of co-option of Directors, the power to identify such candidates is vested in the Nominations, Evaluation and Remuneration Committee, which is composed solely of non-executive directors. Consequently, the Bank complies with recommendation II.1.3.2. relating to the selection process for non-executive directors and the manner to ensure no interference from the executive directors.

2.6.13. Induction of new Directors

When new directors are admitted, they are given a folder with the Bank's Statutes and the Board of Directors', the Supervisory Board's and the Board of Directors consultative committees' regulations, as well as a summary of the legal and regulatory framework holding the rights and duties that lie upon them within the scope of their new functions.

2.6.14. Accountability and adherence to the codes of conduct

Portuguese law¹ provides that the Directors are jointly and severally liable to the company and its creditors², being liable for the culpable breach of legal or contractual provisions.

The Directors are also subject to the provisions of the BPI Group's Code of Conduct.

2.6.15. Duties of care and loyalty at the Commercial Companies Code

The Commercial Companies Code stipulates in article 64 that the Directors must observe duties of care, revealing the appropriate availability, technical competence and knowledge of the company's business commensurate with their functions, employing in this domain the diligence of a scrupulous and thorough manager.

On the other hand, the company is also subjected to the duty of loyalty, taking into consideration the long-term interests of both the shareholders and the other relevant parties for the company's sustainability, such as the Employees, Customers and Creditors.

The members of the Board of Directors are bound to a strict duty of confidentiality concerning the matters discussed at the board meetings.

These members of the Board of Directors are bound in the same manner to strict duties of information and with the object of ensuring that in the performance of their functions they cannot be placed in a situation in which there are or may be conflicts of interest.

CONFLICTS OF INTEREST

(Article 10 of the Board of Directors' Regulations)

- Members of the Board of Directors must disclose any interest, direct or indirect, which they, any member of their families or entities with which they have professional ties, may have in a company in respect of which the possibility is being considered of acquiring a participating interest, or in respect of which the BPI Group's Banks or companies are considering granting a loan or provide any service.
- In the circumstances referred in the preceding paragraph, they must declare the nature and extent of any such interest and, in the case where this is substantial, they must refrain from taking part in the discussion and/or voting on any proposal that the said operation refers to.

Information on the academic and professional experience of the members of Banco BPI's Board of Directors, as well as a list of positions held by them on BPI Group or other companies is provided in an appendix to this report (pages 309 to 315).

1) Commercial Companies Code – Chapter VII: “Public liability for the incorporation, management and supervision of the company, arts. 72 and 78.

2) When the net assets of the company are insufficient to discharge the aforesaid debts.

2.6.16. Exercise of Board of Directors functions in 2011 and up until 27 March 2012

The Board of Directors met eight times in 2011, having recorded an average attendance level of 84%, not considering for this purpose proxy representations.

During 2011, and at the five meetings held between 1 January and 27 March 2012, Banco BPI's Board of Directors considered and approved amongst others the following matters:

Principal resolutions/matters object of the Board of Directors' meetings

Dates (2011, except if indicated otherwise)	Resolutions / matters
16 December	Approval of plans and budgets Review of the estimated results for 2011 Review and approval of the Budget for 2012
28 October	Funding and Capital Plan presented to the Bank of Portugal in September
16 December	Medium-term projections
18 November, 16 December, 2012: 5 January, 17 e 20 January, 14 March	Recapitalisation of the Banking sector and Banco BPI's Recapitalisation Plan
26 January 16 March 27 April 25 July 28 October 2012: 2 February 2012: 27 March	Annual report and accounts and proposed appropriation of net profit Review and approval of the 2010 consolidated accounts, as well as deliberation on their public disclosure Approval of the draft Report and Accounts to be presented to the AGM of 27 April 2011 Review of the consolidated accounts at 28 February 2011 Review of the consolidated accounts at 31 March 2011 as well as deliberation on their public disclosure Review of the consolidated accounts at 30 June 2011 as well as deliberation on their public disclosure Review of the consolidated accounts at 30 September 2011 as well as deliberation on their public disclosure Review and approval of the 2011 consolidated accounts, as well as deliberation on their public disclosure Consideration of the draft Report and Accounts to be presented to the AGM of 2012 Review of the consolidated accounts at 31 January 2012
16 March	Proposed items for presentation to the Shareholders' General Meeting Approval of the draft notice of meeting and proposals to be presented to the AGM of 27 April 2011
26 January, 16 March, 27 April, 25 July, 28 October 28 October, 18 November, 24 November	Monitoring of the trend in the BPI Group's pension liabilities and pension fund assets Review of retirement and survivors' pension liabilities and the respective cover by the pension fund, as well as the return achieved by it Transfer of the pension fund to the Social Security system
25 July 26 January, 16 December 2012: 14 March 28 October, 16 December	Monitoring the Bank's exposure to the biggest risks and financing operations Review of the exposures to credit risks in excess of 300 M.€ Review of credit exposure limits to customers, shareholders with a qualified holding Consideration of a possible issue of State-guaranteed bonds
26 January 2012: 5 January 2012: 2 February	Bond issues Approval of the renewal /revision of the Euro Medium Term Note Programme (EMTN Programme) Approval of the public acquisition of mortgage bonds issued by Banco BPI Approval of the renewal / revision of the Euro Medium Term Note Programme (EMTN Programme)
26 January, 16 March, 27 April, 25 July, 28 October, 16 December 2012: 2 February, 14 March 25 July, 28 October, 16 December 2012: 5 January, 2 February, 14 March 26 January 16 March	Internal functioning Information concerning the activity of the Audit and Internal Control Committee Information about the activity of the Financial Risks Committee Cost reduction projects Information about the activity of the Corporate Governance Committee and the Nominations, Evaluation and Remuneration Committee

Principal resolutions/matters object of the Board of Directors' meetings (cont.)

Dates (2011, except if indicated otherwise)	Resolutions / matters
27 April	Internal functioning (cont.) Appointment of the Executive Committee (CECA), the Financial Risks Committee (CRF), the Audit and Internal Control Committee (CACI), the Nominations, Evaluation and Remuneration Committee (CNAR), the Corporate Governance Committee, the Company Secretary and the alternate Company Secretary
25 July	Evaluation of Banco BPI's branch network in Portugal Amendment to the Regulations of the Board of Directors, the Audit and Internal Control Committee (CACI), the Nominations, Evaluation and Remuneration Committee (CNAR), the Corporate Governance Committee, and approval of the Regulations of the Financial Risks Committee
28 October	Timetable of General Meeting and Board of Directors meetings for 2012
2012: 2 February	Alteration to the composition of the CNAR
26 January, 16 March, 27 April, 25 July, 28 October	Other matters of general interest to the company Analysis of Banco BPI shares on the stock exchange
26 January	Review of the situation of the Financial and Credit Markets
16 March	Behaviour of the net interest margins in the Portuguese banking sector
25 July	Financing plan to be discussed with the external assistance authorities Results of the stress tests Approval of the new version of BPI's Ethics and Conduct Code Review of the Stock Options regime / Review of the conditions of the loans associated with the RVA and the share capital increase
28 October	Situation of the financial system in June 2011 Credit to the public sector The Board of Directors considered that all the conditions laid down in the Directors Retirement Regulations have been fulfilled for the Chairman of the Board of Directors to exercise his right to retire
2012: 2 February	Implications of the Remuneration Policy for the banking sector fixed by the Bank of Portugal

2.7. EXECUTIVE COMMITTEE OF THE BOARD OF DIRECTORS

2.7.1. Composition

The Executive Committee of Banco BPI's Board of Directors (Executive Committee, CECA) is presently composed of seven professional executive Directors who are independent from any shareholders or specific groups.

It is the BPI Group's policy that the persons making up the Executive Committee only occupy other positions by indication of and after approval by the Bank.

Executive Committee	Principal areas of responsibility
Chairman Fernando Ulrich	Planning, Accounting and Statistics; Asset Management, Private Banking, International Private Banking, Investment Centres
Deputy-Chairman António Domingues	Financial, Alternative Investments and Structured Products; Audit and Inspection, Security, Institutional Banking / State Business Sector, Financial Services - Mozambique; Business Development Unit - Africa, Banco de Fomento Angola; BCI (Mozambique)
Members José Pena do Amaral Maria Celeste Hagatong Manuel Ferreira da Silva António Farinha Morais Pedro Barreto	Individuals and small businesses banking; Non-residents; Commercial partners; Communication and Brand Management Corporate Banking; Project Finance; Construction Financing; Corporate Credit recovery; Banco BPI's branch in Spain; Africa Office Equities, Corporate Finance, Private Equity, Economic and Financial Studies, Investor Relations, BPI Investimentos' branch in Spain Procurement, Outsourcing and Fixed Assets; Operations; Analysis and Risk Control, Credit Risk, Legal, Compliance, Affiliated companies; Insurance Organization, Information Systems, Product Marketing and Strategic Marketing, Human Resources, Public Relations

2.7.2. Terms of reference

The Executive Committee has wide management powers, delegated by the Board of Directors, to carry on the Group's day-to-day activity, while its exercise is the object of permanent monitoring by the Board of Directors. These powers, delegated by the Board of Directors, are expressed in the regulation of that Committee.

The full spectrum of the Executive Committee's terms of reference is set out in the statutes and in the respective regulations¹.

2.7.3. Executive Committee Meetings

The Executive Committee meets at least once a month for the purpose of dealing with matters of general interest relating to Banco BPI and its subsidiaries. It normally meets on a weekly basis. In 2011, the Executive Committee met 54 times.

2.7.4. Functioning rules

The Executive Committee can only adopt resolutions when the majority of its members are present, while representation is not permitted.

The resolutions of the Board of Directors' Executive Committee are adopted by an absolute majority of the votes, with the Chairman having the casting vote.

According to the statutes, a person cannot be appointed to the Executive Committee who, at 31 December of the year prior to such appointment, had attained 62 or more years of age.

2.7.5. Policy of rotation of areas of responsibility in the Executive Committee

All the members of the Executive Committee play an active role in the day-to-day management of the Group's business, having under their stewardship one or more specific business areas, in accordance with the respective profile and with individual expertise, and corresponding to the distribution of responsibilities which at any moment best contributes to that body's effective and balanced functioning. The Executive Committee meets weekly to review the Bank's operations and risks. Without limitation to the greater or lesser concentration of one or other person in a specific area, the Executive Committee's decision-making process on matters pertaining to the conduct of the current management of the Group is based on a collegial format and is the object of systematic monitoring by the Board of Directors.

In addition, given the importance of market risks in financial activity:

- Banco BPI has a specialised committee functioning, the Executive Committee for Global Risks, the body charged with analysing global risks (market, liquidity, credit, country, operational and other risks). Besides the members of Banco BPI's Executive Committee, this body includes the heads of the divisions more closely related with such matters. Since the beginning of the international financial crisis the Executive Committee has assumed as a management priority the monitoring by it of the aforementioned risks.
- The Financial Risks Committee, composed of non-executive members of the Board of Directors, monitors the management policy relating to all the financial risks inherent in the Bank's operations, including credit risks, as well as the management of its pension fund.
- On the other hand, the Audit and Internal Control Committee, the Board of Directors' consultative body which meets monthly, monitors closely the operational risks and the exercise of the compliance function.

BPI does not see advantage, in the present circumstances and bearing in mind the conditions and manner of the Executive Committee's functioning, in the periodic rotation of areas of responsibility of any executive director.

2.7.6. Information to the Board of Directors and to the Supervisory Board

The Chairman of the Executive Committee sends to the Chairman of the Board of Directors and to the Chairman of the Supervisory Board, for his knowledge, the notices of that Committee's meetings prior to their realisation. The minutes of the respective meetings are also made available.

The members of the Executive Committee furnish in a timely and proper manner the information solicited from them by other members of governing bodies.

2.7.7. Specialised Executive Committees

Bearing in mind the importance of credit risks and market risks in banking activity, as well as the importance attributed to information technologies as a competitive factor, there are three specialised committees: the already-mentioned Executive Committee for Credit Risks, the Executive Committee for Global Risks and the Executive Committee for Information Technologies which include, each one of them, and in addition to the members of the Executive Committee, the Group's senior executives in charge of the respective areas.

1) Both the regulations are available on the Investor Relations website, in the BPI Group's Corporate Governance section.

2.7.7.1. Terms of reference

The **Executive Committee for Credit Risk** is the body which monitors and decides on the concession and recovery of loans, analysing mandatorily all the exposures to any one entity involving more than a defined limit.

The **Executive Committee for Global Risks** is the body charged with managing global exposure to risks related with the BPI

Group's activity, specifically, liquidity risks, market risks (trading, bank portfolio interest rate, refinancing, bank portfolio exchange rate), credit/counterparty risks (global perspective only); country risk; operational risks (global perspective only); other risks materially relevant.

The **Executive Committee for Information Technologies** is the body which defines and monitors the Bank's priorities regarding information systems and the control over related projects.

2.7.7.2. Composition

Besides the members of Banco BPI's Executive Committee, these bodies include the heads of the relevant divisions.



The policy, procedures and allocation of powers amongst the Group's various bodies and departments on matters relating to the control and management of the Group's risks – credit risk, market risk, liquidity risk and operational risk – are described in detail in chapter 4 of the present Corporate Governance Report and in a separate chapter of the Directors' Report, which must be read together.

2.8. CONSULTIVE AND SUPPORT BODIES FOR THE BOARD OF DIRECTORS

Within the ambit of the Board of Directors, there are four consultative committees providing specialist support and envisaged in the statutes: (i) the **Audit and Internal Control Committee (CACI)**, (ii) the **Financial Risks Committee¹ (CRF)**, (iii) the **Corporate Governance Committee**, (iv) the **Nominations, Evaluation and Remuneration Committee (CNAR)**.

The full spectrum of these bodies' terms of reference and the rules relating to their composition and functioning is embodied in the respective specific regulations². The above four committees are governed by a set of rules, with the following aspects common to all of them, or shared by some of them as outlined as follows.

Composition

All four Committees referred to are composed of (three to six) members of the Board of Directors who do not form part of the respective Executive Committee and if the Board of Directors deems it necessary, by persons who do not belong to this body, freely selected by it taking into consideration their specialist knowledge in the area of each Committee's mission.

The number of members of each one of the Committees referred to in number two who are not members of the Board of Directors

1) Created by resolution of the General Meeting of 27 April 2011.

2) Available on the Investor Relations' website in the section "BPI Group's Corporate Governance".

must always be less than half the total number of members making up the committee.

Independence requirements

At least one of the members of the Financial Risks Committee and of the Nominations, Evaluation and Remuneration Committee must meet the following requirements:

- Not be associated with any specific interest group in the company;
- Not be in any position capable of affecting his/her unbiased judgement or decision, namely by virtue of being the holder or acting in the name of or on behalf of the holders of qualified holdings of two or more per cent of the company's share capital.

Secretariat

The CACI and the SB have a secretariat managed by a person who reports functionally and hierarchically to each body's Chairman. The Company Secretary serves as secretary to the CGS and the CNAR.

Frequency

The CACI and the CRF meet at least bi-monthly and fortnightly, respectively, and whenever convened by their Chairman. The CGS and the CNAR meet whenever convened by the respective Chairman or by two of its members and, namely, whenever they are called upon to give an opinion on matters within their jurisdiction.

Meeting notice

The meeting notices which include the agenda are sent by the Chairman, at least 7 days beforehand in the case of the CACI, 4 days in the case of the CRF and 10 days in the other cases.

Preparatory documents

The documents relating to each meeting are sent beforehand (up to seven and 3 days prior to the meeting in the cases of the CACI and the CRF, respectively).

Minutes

Minutes are drawn up with respect to all the meetings and such minutes are communicated to the Board of Directors.

2.8.1. AUDIT AND INTERNAL CONTROL COMMITTEE

2.8.1.1. Terms of reference

The Audit and Internal Control Committee is responsible, without prejudice to the functions of the Supervisory Board, for monitoring the Executive Committee's activity, following closely the preparation and disclosure of financial information and the effectiveness of the internal control, risk management and internal audit systems.

The full spectrum of this body's terms of reference is set out in the statutes and respective regulations. Both regulatory documents are available on the Investor Relations website, in the section "BPI Group's Corporate Governance".

2.8.1.2. Participation at meetings

The meetings of the Audit and Internal Control Committee can be attended, but without voting rights, by the Chairman or Deputy-Chairman of the Board of Directors' Executive Committee, the members of the Supervisory Board, the Manager responsible for the BPI Group's internal audit area, the Portuguese statutory auditor and support members whenever deemed necessary.

The Directors and Managers whose areas are being analysed can also be summoned to attend the meetings of the Audit and Internal Control Committee, whenever this is deemed useful for contributing to the satisfactory conduct of its work.

2.8.1.3. Support structures

The Audit and Internal Control Committee can appoint, when it deems this necessary, one or more support persons with experience acquired in the areas of its jurisdiction, to provide information and undertake work aimed at substantiating the respective analyses and conclusions. The provision of information shall include:

- the progress of projects and studies under way at Banco BPI and other Group companies subject to supervision on a consolidated basis, relating to the internal control system;
- the evolution of initiatives and regulations emanating from national and international banking supervision institutions pertaining to internal control issues.

2.8.1.4. Activity

During 2011, the Audit and Internal Control Committee met 10 times. The average attendance rate was 56%. In 2012, and up until the date the present report was approved, the Audit and Internal Control Committee met 3 times and the respective attendance rate was 75%.

Considering the interest for the exercise of the functions legally attributed to the Supervisory Board of the matters and issues dealt with at the meetings of the Audit and Internal Control Committee, the Supervisory Board's members have been present at and participated in those meetings.

In terms of the respective regulations, the Chairman and/or Deputy-Chairman of the Board of Directors' Executive Committee and the representative of the Portuguese statutory auditors (Deloitte e Associados, S.R.O.C.) also participated regularly at the meetings, but without the right to vote.

REPORT OF THE AUDIT AND INTERNAL CONTROL COMMITTEE'S ACTIVITY IN 2011

During 2011, the Audit and Internal Control Committee (CACI – Comissão de Auditoria e Controlo Interno) held ten meetings with the object of carrying out an in-depth analysis of the matters relating to its terms of reference, in accordance with the activity plan approved at the January meeting.

Following the creation of the Financial Risks Committee - which was decided at General Meeting of 27 April 2011, at which it became responsible for monitoring the management policy governing those risks hitherto undertaken by the CACI -, the aforesaid activity plan was reformulated with effect from the May meeting so as to cover only the matters falling within this Committee's terms of reference. This encompasses monitoring the Executive Committee's activity, the process involving the preparation and disclosure of financial information and the effectiveness of the internal control, non-financial risk management and internal audit systems.

On 25 July, the Board of Directors approved the proposed revision of the CACI's regulations which was submitted to the Committee, incorporating the necessary alterations for the harmonisation of its functions with those entrusted to the new Financial Risks Committee.

In terms of the aforementioned regulations, the Chairman of the Board of Directors, the Chairman and Vice-Chairman of the Executive Committee, the members of the Supervisory Board, the representative of the Portuguese statutory auditors participated regularly at the CACI's meetings, but without the right to vote.

Besides the above, the Directors and managers responsible for the areas whose matters were under review were also summoned to attend the meetings.

The analyses undertaken and the decisions taken were mainly founded on the work performed by the external auditors, by the Audit and Inspection Division (DAI – Direcção de Auditoria e Inspeção) and by the Bank's various Divisions within the ambit of their respective functions. Where this was the case, they were also backed up by inspections and by the communications of the competent supervision authorities.

The following is a summary of the work carried out by the Committee in 2011 as part of its terms of reference:

1. Overseeing observance of the law and regulations, the supervision authorities' standards, the company's statutes and the internal policies, standards and practices

The Committee supervised compliance with legal, regulatory and internal provisions in the various areas encompassed by the audit and review work covering the internal and external auditors' procedures. To this end, not only were the findings

of these procedural reviews and work (which were submitted regularly during the year) analysed, but it also monitored compliance with the ensuing recommendations.

In the same order of concerns, it analysed the reports drafted by the external auditors, with the conclusions resulting from the execution of the following work:

- Circularisation of customers with portfolios managed by Banco Português de Investimento and BPI Gestão de Activos, in compliance with the instructions issued in this respect by the Bank of Portugal;
- Analysis of the processes instituted at the Group companies for ensuring the safeguarding of customers' assets in compliance with the Securities Market Code;
- Analysis of the conformity of customers' asset portfolios with the adequacy tests laid down in the Markets in Financial Instruments Directive (Mifid);
- Analysis of BFA's compliance with the rules prescribed by Banco Nacional de Angola with reflection on that Bank's financial statements and operations.

The November meeting reviewed the report also prepared by the DAI on the reliability of various prudential reports submitted to the Bank of Portugal and to the CMVM by Banco BPI and Banco Português de Investimento.

At the September meeting, the Committee was informed about the tasks already being developed and in progress in order to satisfy the requests received within the ambit of the execution of the "memorandum of understanding" between Portugal and the external assistance authorities.

As regards keeping abreast of the inspections carried out by the supervisory authorities, the Committee was informed at the January meeting of the analysis conducted by the competent Divisions, the Bank of Portugal's inspection report on the mortgage loan area, having subsequently accompanied the contacts made with that Bank with a view to the implementations of the recommendations presented.

It also reviewed at the July meeting the preliminary version of the report on the Bank of Portugal's inspection covering the "Loans to large and medium-sized companies" business area.

2. Supervision of the adequacy and compliance with the accounting policies and practices, review of the statutory audit and of the process involving the preparation and dissemination of financial information

Verification of compliance with accounting policies, criteria and practices and checking the integrity of financial information were also undertaken primarily through appraisal of the findings of the audits and reviews of procedures

conducted during the year by the external and internal audit teams.

Moreover, the Committee analysed in detail Banco BPI's consolidated results relating to December 2010, as well as those relating to the first, second and third quarters of 2011. Already in January 2012, it analysed the results to December 2011.

It also reviewed at the March meeting the draft Board of Directors' Management Report relating to 2010 and, still with reference to that financial year, the Supervisory Board's opinion on the report and accounts and the Portuguese statutory auditor's draft statutory audit certification and audit report. At the September meeting, it analysed the report and accounts for the first half of 2011, as well as the external auditors' reports on the half-yearly information.

The Committee also reviewed the principal conclusions of the audit procedures performed by Deloitte covering Banco BPI's and Banco Português de Investimento's financial statements as at 30 September 2010, 31 March and 30 September 2011. It also carried out an identical examination of Banco de Fomento Angola's financial statements to 30 June 2011.

It also reviewed the reports submitted by the external auditors covering the quantification of adequate economic provisions relative to the implicit risk in Banco BPI's and Banco Português de Investimento's loan portfolios with reference to 31 December 2010 and 30 June 2011.

Still as regards the monitoring of the preparation and dissemination of financial information, the Committee analysed at the May and December meetings the "Quarterly consolidated information of Banco BPI", prepared in compliance with CMVM Regulation no. 5/2008.

On the other hand, the report prepared by the Legal Division on the IRC tax computation relating to 2010 was the object of special review, as was the report on the review carried out by the external auditors of Banco BPI's and Banco Português de Investimento's Form 22 (the annual corporate income tax return). It also examined in the same manner the findings of Deloitte's review of tax-related procedures in several areas deemed to be important for both banks.

In addition, the Committee monitored up until the revision of its terms of reference the performance of the Banco BPI Pension Fund, acquainting itself with the trends registered in the asset management market, the investment policy pursued and the actuarial assumptions used in calculating the respective liabilities.

3. Evaluating and enhancing the effectiveness of the internal control system

The evaluation and enhancement of the efficacy of the internal control systems within the BPI Group was a permanent concern of the Committee.

With this goal, the Committee regularly evaluated the Group companies' operational procedures, including those of the branches and subsidiaries.

The analysis carried out was essentially based not only on the findings of the procedural reviews conducted by the external auditors and by the Internal Audit's audit and inspection work, but also on the presentations and clarifications which are the responsibility of the relevant Boards and Divisions. The recommendations regarded as being important were then transmitted to the Executive Committee. The work done in these domains is described in greater detail in the chapters dedicated to the effectiveness of risk management and to monitoring the audits being carried out.

The information furnished periodically by the Internal Audit unit on the degree of compliance and the forecast of the periods for implementation of the recommendations formulated by that Audit and by the external auditors, with an indication of the degree of associated risk, also constituted an important indicator.

The Committee also periodically reviewed the schedules indicating the areas and themes subjected to the audits conducted by the DAJ in the last three years with the aim of promoting the desirable scope of these initiatives and their contribution to streamlining the internal control systems.

Also the object of analysis at the March meeting was the document "Economic-financial risks-Domestic activity" compiled by the Planning Division and containing a detailed analysis as at the end of December 2010 of the principal risks attaching to the BPI Group's domestic operations, namely, those relating to the loan and securities portfolios, interest rates, liquidity, country and currency risks.

In more specific domains, the Committee reviewed at the May meeting the most significant aspects and the main rules for managing Banco Fomento's operational, compliance, credit, market, liquidity, currency and information systems risks, with the Chairman of the respective Executive Committee having given the necessary clarifications on these issues.

On the other hand, it analysed at the January meeting, the Group's international structure, having acquainted itself with the characteristics, objectives and factors determining the maintenance of the overseas subsidiaries and branches.

It also examined at the March meeting the report covering 2010 on the "Internal Capital Adequacy Assessment Process (ICAAP)", which was sent to the Bank of Portugal in terms of Instruction 15/2007.

At the July meeting, it studied the document “Market Discipline”, published in terms of Decree-Law 104/2007 and Notice 10/2007 and containing information about the BPI Group’s risk management policies.

As concerns compliance with the reporting duties to the supervision authorities on the adequacy and efficacy of the internal control systems instituted, in terms of the regulatory provisions of the Bank of Portugal, the CMVM (Portuguese Securities Market Commission) and the Instituto de Seguros de Portugal, the Committee analysed:

- the annual reports on the risk-management, compliance and internal audit functions;
- the annual internal control reports sent to the Bank of Portugal and the CMVM of the BPI Group and all the Group’s companies and offshore branches subject to supervision on a consolidated basis;
- the opinions of the respective supervisory bodies and statutory auditors, which accompany the internal control reports;
- the annual report on the organisational structure and the risk management and internal control systems of BPI Vida, sent to the Instituto de Seguros de Portugal, and the external auditors’ opinion thereon.

4. Evaluating and monitoring the effectiveness of the risk-management system

a) Operational risk

One of the principal means used in assessing and promoting the control of operational risk involved the appraisal of the findings and recommendations resulting from the audits and review procedures conducted by the Auditors, in conjunction with the heads of the Divisions and Group companies which were the object of these reviews.

This method permitted identifying the most important shortcomings and resulted in the issue of guidelines for the bodies audited, as well as the transmission of suggestions to the Executive Committee regarding the issues at stake.

During 2011, the procedures’ audits and reviews analysed according to that method encompassed the following areas:

(i) Reviews of the external auditors’ procedures:

- Banco Português de Investimento and BPI Gestão de Activos – Circularisation of the management of portfolios
- Operations Division – Operations with cards
- Information Systems Division – General computer controls
- Banco BPI, Banco Português de Investimento, BPI Gestão de Activos – Safeguarding customers’ assets
- Conformity of the portfolios of customer assets with the adequacy tests within the ambit of the Mifid
- Operations Division – Guarantees and documentary operations
- Mitigation of risk of internal fraud incidents

- Banco Português de Investimento – International Private Banking Division
- BFA – General Computer Controls
 - Operation of customers’ accounts
 - Foreign operations
- Operations Division– Individuals Area – Insurance

(ii) Audits of Banco BPI’s Audit and Inspection Division

- French branch – Contracts entered into with external entities
- Management and selling of gold coins and gold bars
- Presentation of post-dated cheques
- Banco BPI Cayman, Madeira branch, Santa Maria branch, Macau branch, Spanish branch
- Elos IT application (registration of alterations of credit operations)
- Compliance Division
- Compliance and reliability of prudential reports

Furthermore, the Committee was informed at the January and July meetings of all the incidents investigated by the DAI that generated loss, respectively in the second half of 2010 and the first six months of 2011, having analysed the operational causes of these occurrences and the measures to eliminate them.

It also carried out an identical analysis at the May meeting of the incidents occurring at BFA in 2010 by way of that Bank’s report written by the Audit, Inspection and Security Division.

It also analysed at the January and July meetings statistical information presented by the DAI about occurrences of this nature recorded at Banco BPI, respectively in the four-year periods 2007/2010 and 2008/2011, cataloguing the risks imputed to the Bank and employees, and those not assumed.

Also reviewed at the March and September meetings were the half-yearly summaries compiled by the New Channels Division covering Customers’ complaints received at Banco BPI in the above half-year periods, as well as the improvements of an operational nature introduced stemming from the situations which were the object of complaints.

The Compliance Division gave an account at the March meeting of the activity undertaken by it and the streamlining of the respective operating resources during 2010 as part of the action directed at the prevention of money laundering and the funding of terrorism, including the vigilance action taken.

Special attention was also paid at the September meeting to the report presented by the Procurement, Outsourcing and Assets Division on outsourced activities, with indication of the in-house and contracted procedures with the suppliers of services in order to ensure proper control of this type of activity as regards security, quality and pricing.

The Committee also examined at the January meeting the fundamental lines and the progress of Banco BPI's "Business Continuity Plan", as well as the "Disaster recovery Plan" of the respective information systems. It also acquainted itself with the degree of compliance with the recommendations published in this domain by the National Council of Financial Supervisors.

Finally, the April meeting was devoted to the presentation of the annual activity report relating to operational risk management at the BPI Group during 2010, the coordination of which is undertaken by the Organisation Division's Operational Risk Area. From the document presented, the Committee learnt about the steps taken to refine self-evaluation of that risk by the Divisions, the statistics of incidents and the resulting losses, as well as the tasks programmed in this area for 2011.

b) Financial and credit risks

As referred to previously, the monitoring of the management policy governing financial and credit risks inherent in the Bank's activity began to be the responsibility of the new Financial Risks Committee with effect from May 2011. Up until that date, this function was undertaken by the CACI in the terms and within the ambit laid down in the respective Regulations.

Accordingly, as regards financial risks, this Committee followed closely until May the behaviour of the money and financial markets, as well as the associated risks.

It similarly paid attention to the evolution of the Group's activities relating to those markets, having studied the policies pursued in this domain.

In this respect, the Finance Division furnished at the March meeting detailed information about the evolution of the debt markets, as well as about the principal aspects related to the Bank's funding structure and liquidity position, the management of the bond portfolio, the analysis of counterparties and respective ratings and country-risk exposure.

Also contributing to enlightening this Committee in this area was the presentation at the same meeting of the document entitled "Economic-financial risks-Domestic activity" referred to earlier.

As part of the evaluation of credit risk management, the Committee monitored the situation and liabilities of customers being monitored by the Corporate Credit Risk Division and by the Corporate and Small Businesses Credit Recovery Division, and who find themselves in the following situations:

- defaults of more than 100 thousand euro with exposure of more than 500 thousand euro;
- the twenty largest individual impairments, excluding customers in judicial recovery/action;

- under observation, without impairment and with exposure of more than 25 million euro.

Moreover, the June meeting analysed the annual report on credit risk concentration as at December 2010 and compiled in compliance with Bank of Portugal Instruction 5/2011.

c) Reputational risk

The Committee reviewed at the March and November meetings the various service-quality evaluation factors, as well as the external and internal instruments used at Banco BPI for its measurement, namely the service quality indices "IQS – Índices da qualidade de serviços". It also acquainted itself through the Strategic Marketing Division with the strategic priorities resulting from the analysis of those indicators and the initiatives taken in order to foster quality in customer attendance and support.

Complementarily, the reviewing of the already-mentioned half-yearly summaries on complaints provided the opportunity to assess reputational risk linked to communications with customers.

The Committee reviewed at the October meeting the report on the work carried out during 2011 by the Investor Relations Division in the discharge of its financial information disclosure functions covering the control and management of reputational risk within the scope of its activity, and the response to requests from investors, analysts and other market agents.

Moreover, at the November meeting, it studied the Legal Division's information describing the procedures relating to the relationship with the Directorate General for Taxes within the context of compliance with tax-related obligations.

The Committee promoted the revision of the BPI Group's Code of Conduct, which included the refinement of the rules relating to the duties of members of the Bank's governing bodies and employees in the realisation of operations involving financial instruments, having approved at the April meeting the respective draft version for submission to the Board of Directors.

In addition, it reviewed the conclusions of the various monitoring reports issued during the year by the rating firms (Standard & Poor's, Moody's and Fitch Ratings) covering Banco BPI and Banco Português de Investimento, Portuguese banks and the Portuguese Republic.

d) Compliance risk

The Committee examined at the March meeting the report on the work performed by the Compliance Division during 2010, in its mission of preventing and mitigating compliance risk and more specifically, as already mentioned, in the prevention of money laundering and anti-terrorism financing. Furthermore, it gave its agreement to the Division's activity plan for 2011.

The same meeting also studied the Legal Division's report describing the respective competencies and initiatives in the function of controlling legal risk, i.e. as concerns the compliance risk aspect, and its coordination with the Compliance Division in this matter.

5. Evaluating and promoting the effectiveness of internal audit activity

The monitoring of the Audit and Inspection Division's work and the evaluation of its efficacy were undertaken during the year through:

- the approval of the quarterly audit plans;
- the review of the activity undertaken by the Division in each half year;
- the quarterly analysis of the audits performed in the last three years and the underlying criteria;
- the analysis of the principal findings of the audits
- the analysis of compliance, controlled by the DAI, with the recommendations issued by this Division, by the external auditors and by the Bank of Portugal, as well as the appraisal of the justifications presented by the bodies audited for non-compliance situations.

In endorsing the audit plans, the Committee was concerned with guaranteeing as regards the central services and the Group companies, adequate distribution of the audit work over the major risk areas or with a greater administrative burden, and as regards the commercial network, the bodies also indicating the greatest risk or the occurrence of possible irregularities.

The monitoring and control of the activity of BFA's Audit, Inspection and Security division were meanwhile undertaken through the review of its 2010 activity report and the approval

of the respective audit plan for 2011, which functions are exercised within the scope of the Committee's terms of reference as concerns the Group companies subject to supervision on a consolidated basis.

6. Monitoring and overseeing the Portuguese statutory auditors' independence and activity

The Committee supervised and evaluated throughout the year the activity and independence of the Portuguese statutory auditors, namely as regards the provision of additional services.

In this regard, the Committee issued an opinion on the external auditors' procedural review plan for 2011 at Banco BPI and Banco Português de Investimento, with a view to its approval by the Supervisory Board. In addition and as already referred to, it studied the findings of those reviews and followed through the adoption of the resulting recommendations.

It also pronounced for the same purpose on the proposed fees relating to the external auditors' annual work plan at those two banks and at the other Group companies.

The Committee also examined and submitted, with its opinion, for the Supervisory Board's approval the proposed services to be provided by Deloitte for work not directly related with their function as the Group's external auditors.

Finally, it is worth noting that the Committee obtained information throughout the year from members of the of the Executive Committee and managers of the areas concerned about matters of special importance for the Bank's management, although not included in its functions, namely those relating to the transfer of the pension funds to the Social Security system, the recapitalisation of credit institutions and the realisation of stress tests at credit institutions under the orientation of the European Banking Authority.

2.8.2. FINANCIAL RISKS COMMITTEE

2.8.2.1. Terms of reference

Without prejudice to the functions legally attributed to the Supervisory Board, the Financial Risks Committee is responsible for monitoring the management policy covering all the financial risks associated with the company's business, namely liquidity, interest rate, currency, market and credit risks, as well as monitoring the management policy relating to the company's pension fund.

The comprehensive list of this body's terms of reference is embodied in the statutes and respective regulations. Both these legal framework documents are available on the Investor Relations website, under the section "BPI Group Governance".

2.8.2.2. Participation at meetings

Members of the Executive Committee and other Banco BPI Managers participate at the meetings of the Financial Risks Committee whenever this is deemed necessary and requested, but without voting rights.

The members of the Supervisory Board and the Company's Portuguese Statutory Auditor can attend the meetings of the Financial Risks Committee whenever they wish, notifying the Chairman of this desire.

2.8.2.3. Support structures

The Financial Risks Committee can appoint whenever it deems necessary one or more support staff with experience acquired in the areas of its functions for the purpose of providing information and undertaking work aimed at substantiating the respective analyses and findings.

2.8.2.4. Activity

During 2011, the Financial Risks Committee met 11 times. The average attendance rate at the meetings was 100%. In 2012, and up till the date of the approval of the present report, the Financial Risks Committee met 4 times and the respective attendance rate was 83%.

Following the resolution passed at the 27 April General Meeting, the Financial Risks Committee was formed. It met thirteen times in 2011, at which the following matters were dealt with:

7 June 2011

- Banco BPI's financial position;
- Analysis of scenarios for the funding and capital plan to be filed with the Bank of Portugal and the external assistance authorities;
- Situation of the European Banking Authority's (EBA) stress tests;
- Analysis of the Committee's draft regulations to be submitted to the Board of Directors for approval at its 25 July meeting.

15 June 2011

- Analysis of the alternative possibilities for the Bank's capitalisation in order to attain a core Tier 1 capital ratio of 10% at the end of 2012;
- Situation of the EBA stress tests.

22 June 2011

- Analysis of alternative scenarios and the approval of the funding and capital plan to be presented to the Bank of Portugal and the external assistance authorities;
- Possible sale of assets.

6 July 2011

Between this and the previous meeting, the Committee approved, after circulation of the documentation amongst its members, the repurchase of two of the Bank's subordinated bond issues.

The following matters were dealt with at this meeting:

- Evolution of Banco BPI's liquidity situation;
- State of the pension fund;
- Credit risks: defaults in excess of 250 thousand euro, the 50 largest impairment cases and companies under observation.

22 July 2011

- Analysis of the final results of the EBA stress tests;
- Monitoring of the funding and capital plan to be presented to the Bank of Portugal and the external assistance authorities;
- Pension fund policy and decision regarding the maximum exposure to equities risk;
- Review of the 1st half-yearly results

30 August 2011

- Analysis of Banco BPI's financial situation: liquidity, corporate bonds portfolio and portfolio of Greek sovereign-debt bonds;
- Trend in impairments in excess of 1 million euro;
- Management policy and possible transfer of the pension fund to the Social Security system;
- Monitoring the "Special on Site Inspections Programme", relating to the analysis of credit risk to be carried out within the ambit of external assistance programme for Portugal;
- Analysis of the July results.

15 September 2011

- Review of Banco BPI's liquidity situation;
- Following closely the risk attaching to Greek sovereign debt;
- Approval of financing to companies forming part of the State Business Sector;
- Analysis of impairments in August;

- Monitoring the process involving the future transfer of the pension fund to the Social Security system;
- Updating the funding and capital plan drawn up to 30 September to be submitted to the Bank of Portugal and to the external assistance authorities;
- Approval of the proposed repurchase of subordinated debt issued by the Bank;
- Information concerning the meeting held with Moody's;
- Analysis of the August results.

29 September 2011

- Review of Banco BPI's liquidity position;
- Sensitivity analysis of the impact of the Republic's and the Bank's ratings downgrades on liquidity and ECB eligible assets;
- Information about the conditions for the issue of State-guaranteed bonds;
- Approval of the updating of the funding and capital plan to be submitted to the Bank of Portugal and to the external assistance authorities (the so-called "Troika");
- Situation of the liabilities of the companies forming part of the State Business Sector;
- Following closely the "Special on Site Inspections Programme";
- Situation regarding the transfer of the pension fund to the Social Security system;
- Analysis of the banking sector's profitability in the 1st half of the year.

19 October 2011

Between this meeting and the previous one, the Committee approved after circulation of the documentation amongst its members the financing operations to companies forming part of the State Business Sector.

The following matters were dealt with at this meeting:

- Review of Banco BPI's liquidity position;
- Analysis of the September results;
- Stress test applied to the funding and capital plan;
- Following closely the "Special on Site Inspections Programme";
- Analysis of the possibility of repurchasing preference shares;

- Monitoring the transfer of the pension fund to the Social Security system.

27 October 2011

- Review of the implications for the Bank of the decisions taken by the European Council on the previous day regarding the reinforcing of the capitalisation levels of the banks subject to the EBA's stress test programme;
- Monitoring the "Special on Site Inspections Programme".

15 November 2011

- Financial management of Banco BPI: review of the liquidity situation and approval of the market room limits to financial institutions;
- Analysis of the proposed Law governing the recapitalisation of banks;
- Approval of the repurchase of preference shares;
- Approval of the repurchase of the Mortgage Bonds issued in 2010;
- Situation of the transfer of the pension fund to the Social Security system;
- Analysis of the sovereign-debt exposure;
- Monitoring the "Special on Site Inspections Programme";
- Information about the meeting of the Executive Committee's Chairman with the external assistance authorities;
- Approval of financing operations to companies forming part of the State Business Sector;
- Analysis of the October results.

7 December 2011

- Review of Banco BPI's liquidity position;
- Analysis of the Bank's budget for 2012;
- Analysis of sovereign-debt exposure.

28 December 2011

- Review of Banco BPI's liquidity position;
- Approval of the repurchase of securitisation operations;
- Analysis of the proposed repurchase of mortgage bonds
- Analysis of the BPI Group's economic and financial forecasts for 2011-2020.

2.8.3. CORPORATE GOVERNANCE COMMITTEE

2.8.3.1. Functions

The function of the Corporate Governance Committee is, besides its core mission of supporting and advising the Board of Directors on matters relating to corporate governance, to make pronouncements on matters within the scope of corporate social responsibility, ethics, professional conduct and environmental protection. The Committee prepares an annual report on the functioning of the company's corporate governance structure.

2.8.3.2. Activity

The Corporate Governance Committee met on the following dates.

14 March 2011

The Corporate Governance Committee met on 14 March 2011, having dealt with the following matters:

- BPI's situation relating to compliance with legal and regulatory provisions and the adoption of the recommendations applicable to the 2010 financial year;
- Consideration of the BPI Group's proposed 2010 Corporate Governance Report to be submitted to the Board of Directors for approval;
- Consideration of the proposed amendments to Banco BPI's statutes to be presented by the Board of Directors to the Shareholders' General Meeting of 27 April 2011;

- Review of Banco BPI's activity in 2010 within the ambit of its social responsibility duties, with the Committee having viewed very positively the fact that the Bank, notwithstanding the constraints stemming from the international crisis and attendant impacts on earnings, maintained its social responsibility commitments, continuing the support given to leading institutions in the fields of culture, education, innovation, science and social solidarity. In the latter domain, special mention is made of the initiative "Prémio BPI Capacitar" designed to support projects covering Portuguese society which improve the quality of life and the social integration of handicapped or permanently disabled people, as well as the support given to the Madeira Autonomous Region in the wake of the devastating storms and mudslides which occurred in February 2010, which funds were earmarked for the reconstruction of housing in Ribeira Brava.

22 March 2012

The Corporate Governance Committee met on 22 March 2012, having dealt with the following issues:

- Review of BPI's situation as regards compliance with legal and regulatory requirements and adoption of the CMVM's recommendations applicable to 2011;
- Review of the tentative and preliminary of BPI's Corporate Governance Report relating to 2011;
- Consideration of the proposed amendment of Banco BPI's statutes to be submitted by the Board of Directors to the Shareholders' Annual General Meeting;
- Review of Banco BPI's activity in 2011 as relates to its Corporate Responsibility, with the Committee having considered very positively the fact that the Bank, notwithstanding the constraints stemming from the international crisis, having kept to its social responsibility commitment, maintaining the support given to the key institutions in the fields of culture, education, innovation, science and social solidarity.

2.8.4. NOMINATIONS, EVALUATION AND REMUNERATION COMMITTEE

2.8.4.1. Terms of reference

The Nominations, Evaluation and Remuneration Committee has as its principal functions issuing opinions on the filling of vacancies arising on the governing bodies on the choice of Directors to be appointed to the Executive Committee and the evaluation and fixing of this Executive Committee's remuneration.

This body's terms of reference are set out in the statutes and in the respective statutes and in article 7 of Bank of Portugal Notice 10/2011.

The Nominations, Evaluation and Remuneration Committee in preparing its report to the Remuneration Committee, and the Remuneration Committee itself define the variable remuneration of executives according to their performance evaluation and carry out that evaluation based on the following criteria which (i) are consistently used over the years and are hence predetermined and (ii) are quantitative. Effectively, besides the non-quantitative parameters (such as those linked to reputation/level of complaints, etc.), the Remuneration Committee also takes special account the following quantitative parameters: i) solvency (solvency ratio, non-performing loan ratios, repossessed properties under foreclosure proceedings and the situation of Banco BPI's pension fund); ii) profitability (ROE and net interest income after impairments) and efficiency (cost to income ratio); iii) market position (market shares); iv) liquidity (ratio of transformation of balance sheet resources into loans, maturity of medium /long term debt and level of ECB utilisation). The evaluation of performance assesses the contribution of each one of the executives in the light of those criteria.

Consequently, the Bank complies with the recommendation appearing in point II.1.5.1(i), according to which the remuneration of the Directors who perform executive functions should incorporate a variable component, the amount of which depends on a performance evaluation carried out by the company's competent bodies, in accordance with predetermined measurable criteria that takes into account the company's real growth and the value actually created for the Shareholders, its long-term sustainability and the risks assumed, as well as compliance with the rules applicable to the company's business.

The remuneration policy in force at the BPI Group is described in chapter 6 of the present report (pages 277 to 295).

2.8.4.2. Activity

The Nominations, Evaluation and Remuneration Committee met on the following dates.

15 and 25 March 2011

The Nominations, Evaluation and Remuneration Committee met on 15 March 2011, with the meeting continuing on 25 March, having dealt with the following issues:

- Evaluation and remuneration of the members of the Executive Committee.
- The Committee held individual meetings with the Chairman and the Deputy Chairman and with the other members of the Executive Committee, at which it assessed its performance in 2010 taking into consideration quantitative (solvency, profitability, market position and liquidity) and qualitative (reputation indicators and level of customer complaints) parameters.
- As a result of the evaluation conducted the opinion to be submitted to the Remuneration Committee was approved as

regards the fixing of the amounts of the variable remuneration to be granted to the members of the Executive Committee for their performance in 2010;

- RVA 2010 – The Committee deliberated to recommend to the Remuneration Committee that, considering the prevailing situation on the stock market and in line with what was deliberated by the Executive Committee for other BPI Group employees, the members of the Executive Committee of the Board of Directors will receive the variable remuneration relating to 2010, at their option, in cash or in accordance with the RVA rules in force, without prejudice to the application of the relating to the deferral for 3 years and subjection to the suspensive conditions laid down in the Remuneration Policy approved at the General Meeting of 22 April 2010.
- Identification of talent – The Committee considered and discussed with the Chairman of the Executive Committee the identification of talent in the Bank's top ranks who meet the conditions for qualifying for access to the Executive Committee, as well as the alternatives for their succession.

23 March 2012

- Election of the Committee's Chairman.
- Review of the legal and regulatory changes as relate to remuneration policies.

The principal alterations relating to remuneration policy stemming from the publication of Decree-Law 88/2011 of 20 July and Bank of Portugal Notice were assessed, as well as Banco BPI's response in order to comply with these enactments.
- Considering the implications emerging from the content of Notice 10/2011 on Banco BPI's Remuneration Policy, the Committee requested that, prior to taking a decision on this matter, it should obtain clarification from the Bank of Portugal as regards the doubts about its applicability to the term in progress, as well as about the intention and scope of certain rules appearing in the aforesaid regulation.
- Alterations to the Directors Retirement Regulation.

The Committee deliberated to issue a positive opinion on the proposed alteration to the Directors Retirement Regulation which will integrate the proposed remuneration policy applicable to the members of the management and supervisory bodies to be presented by the Remuneration Committee to the annual General Meeting.

2.9. THE COMPANY SECRETARY

The Company Secretary is appointed by the Board of Directors. The duration of his/her functions coincides with the term of office of the members of the Board of Directors which appointed him/her. In the case of the secretary's absence or impediment, his/her functions will be performed by the alternate secretary.

2.9.1. Terms of reference

In addition to the other functions attributed by the Bank, the Company Secretary performs the functions contemplated in the law:

- To serve as secretary at the meetings of the governing bodies;
- To record the minutes and sign them together with the members of the respective governing bodies and the Chairman of the General Meeting Committee, when this is the case;
- To keep, store and maintain in proper order the minute books and loose minute sheets, the list of presences, the share register, as well as attending to the routine matters relating to these;
- To expedite the legal notices convening the meetings of all the governing bodies;
- To authenticate the signatures of the members of the governing bodies placed on the company's documents;
- To certify that all the copies or transcriptions extracted from the company's books or of filed documents are genuine, complete and up-to-date;
- To satisfy within the scope of the terms of reference, the requests formulated by shareholders in the exercise of their right to information and to furnish the information solicited from the members of the governing bodies which exercise oversight functions covering the deliberations of the Board of Directors or of the Executive Committee;
- To certify the content, total or partial, of the company's statutes in force, as well as the identity of the members of the company's various bodies and which are the powers vested in them;
- To certify the up-dated copies of the statutes, deliberations of the shareholders and of management, and of the entries in force appearing in the company's books, as well as ensuring that they are handed over to or sent to the owners of the shares who have requested them and have paid the respective cost;
- To authenticate with his/her initials all the documentation submitted to the General Meeting and that referred to in the respective minutes;
- To promote the registration of the company's acts subject to this requirement.

2.10. MANAGEMENT OF OTHER RELEVANT BPI GROUP ENTITIES

2.10.1. Banco Português de Investimento's management

Banco Português de Investimento is the Group unit specialising in investment banking, namely *Corporate Finance, Equities and Private Banking*.

Banco Português de Investimento's Board of Directors is made up of seven members, of whom four are executive Directors who constitute the Executive Committee responsible for the day-to-

day business management. This body is presided over by Manuel Ferreira da Silva, executive Board member of the entity heading the Group, Banco BPI.



The Board of Directors can only pass resolutions when the majority of its members are present or represented. Resolutions can only be passed by an absolute majority of votes, with the Chairman having the casting vote. Any Director can be represented at a meeting by another Board member, by means of a letter addressed to the Chairman, although each proxy instrument may not be used more than once.

As is the case at Banco BPI, all the members of the Board of Directors are bound by strict confidentiality rules concerning the matters discussed at the Board's meetings, as well as by a set of internal rules. These are embodied in a code of conduct aimed at safeguarding against conflicts of interest or situations involving the abuse of privileged information. This issue is dealt with in greater detail under point 8 – Ethics and Professional Conduct, of this report (pages 297 to 302).

2.10.2. Banco de Fomento Angola's management

Structure and functioning rules

Banco de Fomento SARL – 50.1% held by Banco BPI – is an Angolan-law bank engaged in commercial banking business in the Republic of Angola.

In terms of the relevant Statutes, Banco de Fomento Angola, S.A. (BFA) is managed by a Board of Directors composed of an uneven number of members, with a minimum of seven and a maximum of fifteen (currently eleven), which can delegate the day-to-day running of the company to an Executive Committee.

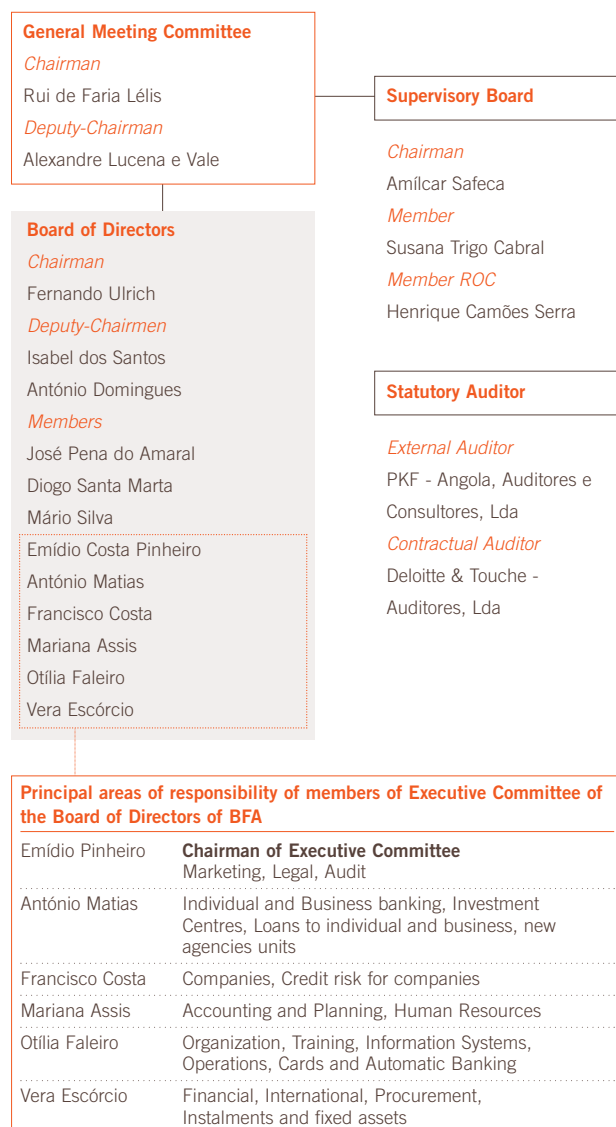
The Board of Directors, which is attributed the widest powers to manage and represent the company, meets every quarter and whenever convened by its Chairman or at the request of more than half of the Directors. The Executive Committee meets at least once a month. The resolutions of the Board of Directors and the Executive Committee are recorded in the minutes.

The Board of Directors and the Executive Committee can only deliberate in the presence of the majority of their members, with their resolutions being adopted by a majority of votes. The Chairman has the casting vote.

All the members of Banco de Fomento Angola's governing bodies are bound by strict rules of confidentiality and are subject to a set of rules designed to prevent the existence of conflicts of interest or the abuse of privileged information, at the same adhering to the best practices and principles of good and prudent management.

The current members of the Executive Committee reside permanently in Angola and are responsible for the following areas.

In order to facilitate contact between the various members of BFA's senior management and Banco BPI, BFA's head office possesses a video-conferencing system which allows Luanda to connect to Banco BPI's main premises in Lisbon and Oporto.



Legal and regulatory framework governing BFA'S activity

Framework	Enactment	Description
Financial Institutions Law	Law 13 / 05	Regulates the process for the establishment, exercise of activity, supervision and funding of financial institutions, banking and non-banking (namely, financial-lending, micro-credit, leasing companies subject to the jurisdiction of the Angolan Central bank (Banco Nacional de Angola) or financial holding, asset management, investment fund, real-estate management and investment companies, subject to the jurisdiction of the Securities Market Supervisory Body).
Supervision		As a bank subject to Angolan law , BFA is subject to the supervision of Banco Nacional de Angola which, according to its Organic Law , has as its principal objectives the preservation of the national currency's value and the stability of the financial system. To this end, the BNA is vested with powers to regulate and supervise the banking system. Subsidiarily, BFA as an entity invested in by Banco BPI, is subject in terms of Portuguese banking legislation and complementary regulations, to supervision on a consolidated basis by the Bank of Portugal.
Money laundering and financing terrorism	Law 34/11, 12 Dec. 11 Notice 01/11, 26 May	Aims to fight against money laundering the financing of terrorism. Regulates the obligations envisaged in Law 12/10, including the creation of the <i>Compliance Officer</i> .
Principal prudential rules		
Share capital and minimum own funds	Notice 04/07	Fixes the new minimum amounts for share capital and regulatory own funds for financial institutions.
Adequacy of own funds	Notice 05/07	Defines the general formula for the calculation of the Regulatory Solvency Ratio (RSR) and prescribes a minimum RSR of 10%. It provides that complementary own funds can correspond to a maximum of 100% of the amount of Basis Own Funds after making the deductions envisaged for their calculation.
	Instruction 03/11	Classifies assets according to their degree of risk and fixes the respective weightings for calculating RSR.
Currency position limit	Notice 05/10	Defines the basis for calculating the exposure to currency risk and states that the currency position is limited to 20% of Regulatory Own Funds for long and short positions.
Fixed asset limits	Notice 06/11	Fixes the limit for resources invested in fixed assets.
Limits on risk concentration involving on single customer or group	Notice 08/07	Defines the concept of customer and provides that: ■ the maximum exposure limit per customer cannot exceed 25% of regulatory own funds (the revoked Notice 05/96 fixed that limit at 30% of Own Funds); ■ the maximum exposure limit for the 20 largest debtors cannot exceed 300% of regulatory own funds.
Classification of risk levels on lending operations	Notice 04/11	Prescribes that financial institutions must classify the loans granted and the guarantees given according to 7 levels, both on the estimated basis of probable losses, and on the basis of the delays registered in debt servicing. Prescribes limits on the granting of loans in foreign currency.
Monetary adjustment	Notice 2/09	Sets out new rules for monetary adjustment based on the Consumer Price Index (CPI) in the case of hyper-inflation.
Revaluation of fixed properties for own use	Notice 11/07	Defines the rules for fixed properties for own use.
Establishment of overseas branches and acquisitions of participating interests	Notice 12/07	Regulates the conditions and procedures governing the setting up of branches abroad and the acquisitions of participating interests.
Formation of financial institutions	Notice 13/07	Regulates the procedures for the formation of financial institutions in Angola.
Publication of results	Notice 15/07	Lays down the rules/procedures and frequency for the preparation of consolidated financial statements by financial institutions authorised by BNA to carry on business.
Compulsory reserves	Instruction 03/10	Sets a coefficient of 25% on local currency deposits and 15% on foreign currency deposits.
Procedures of the system of management, settlement and custody of securities issued by the national treasury and by BNA	Notice 01/08	Defines the requirements for participation in the Assets Market Management System (Sistema de Gestão de Mercado de Activos - SIGMA) in terms of the entering into contracts between the participants and the BNA and the need to comply with the rules laid down in SIGMA's manual of standards and procedures.
Consumer protection	Notice 02/2011	Lays down the rules and procedures to be adopted by financial institutions for the protection of consumers of financial products and services.
Formation of factoring companies	Notices 14/11 and 15/11, 19 Dec.	Regulates the process of formation and functioning of Factoring companies.
Formation of leasing companies	Notices 16/11 and 17/11, 19 Dec.	Regulates the process of formation functioning and prudential rules applicable to Leasing companies.

3. The Group's functional organisation chart

Executive management, supervision and control

The composition and functions of the BPI Group's management, supervisory and control bodies are detailed in points 2.1. to 2.10. of this report.

BPI Group functions

The BPI Group units grouped according to their functions are under the direct command of Banco BPI's Executive Committee.

Central structures

These structures embrace the entire universe of shared services (of the back-office kind) which act as direct support to the Group's other units by undertaking the development and maintenance of its operational, physical and technological infrastructure.

Credit risks

The Executive Committee for Credit Risk is the body that takes the principal decisions concerning matters relating to the concession, monitoring and recovery of lending operations. At a more operational level, credit risk management is centralised at the Credit Risk Division which manages in an integrated fashion the Customer segments - small businesses, companies, institutional banking and project finance in relation to the granting, at the Corporate and Small Business Credit Recovery Division which manages in an integrated manner the individual entrepreneurs and small business, companies, institutional banking and project finance Customer segments as regards recovery and litigation and at the Individuals Credit Risk Division which manages the Individual Customers segment. The manner in which the various risks are managed at the BPI Group is comprehensively dealt with in a separate chapter in the Directors' Report.

Global risks

The Executive Committee for Global Risks is the body that makes the main decisions concerning the activities which entail risks for BPI. It is primarily responsible for formulating overall strategy and operating regulations, fixing the limits for treasury exposures to be adhered by the Finance Division, and defining the parameters for the management of long-term structural positions (interest rate or currency risks) and fixing the global limits for value-at-risk (VaR).

Marketing

The marketing function is undertaken in a coordinated manner by two Divisions. The Product Marketing Division is responsible for the management of the Bank's product range for individual and corporate customers and product promotion and sales support, in particular, more complex products which require greater specialisation and an ongoing training drive. The Strategic Marketing Division is responsible for strengthening the Bank's positioning in priority segments, for the coordination and implementation of the Marketing and Sales Plan, for customer relationship with the Bank via all the remote channels, for fostering Quality as a brand attribute and for making available management information which permits the proper business monitoring at the different networks.

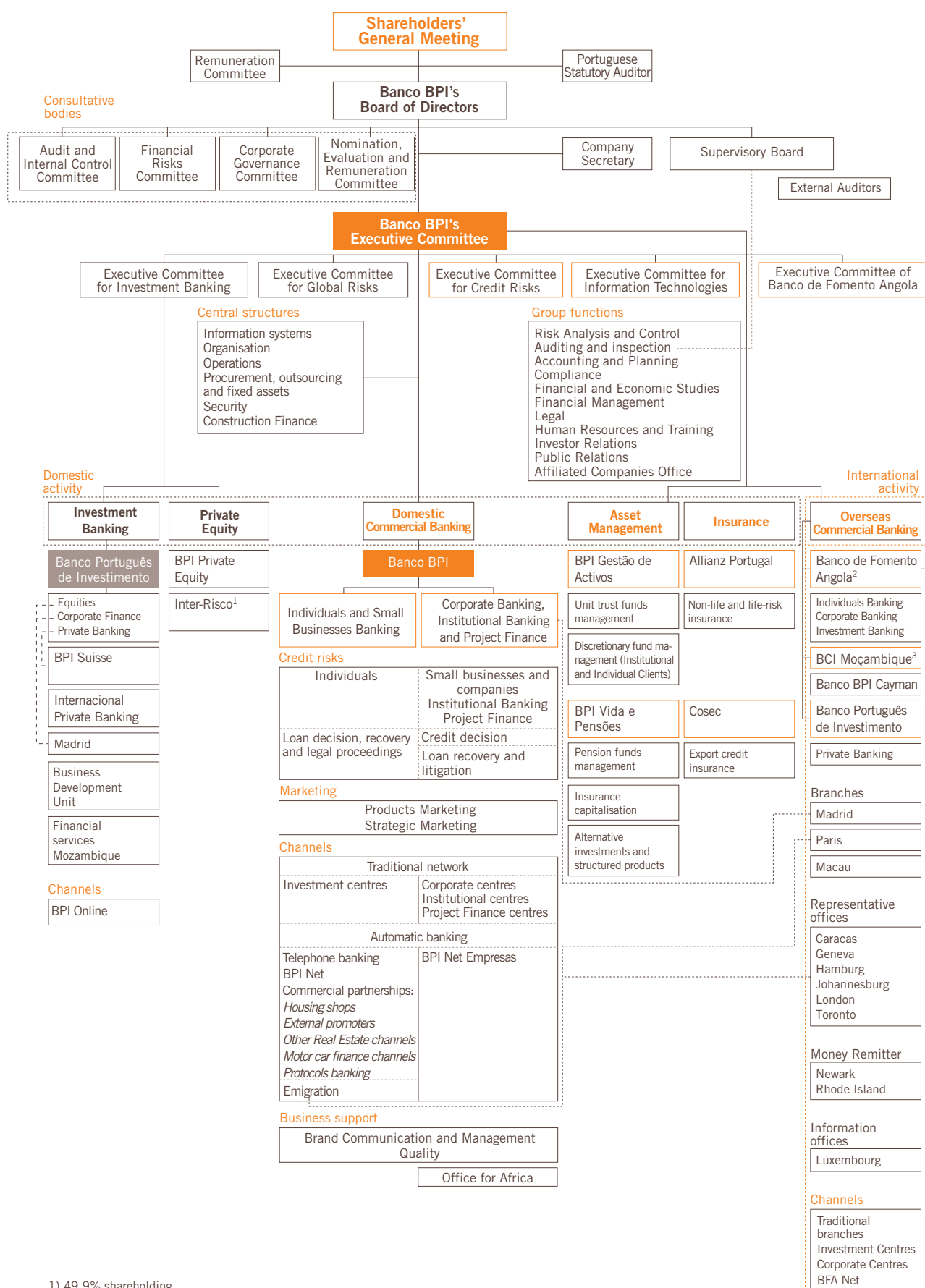
Channels

BPI possesses a fully-integrated, multi-channel distribution network, fully integrated, composed of 649 retail branches, 39 investment centres, Automated Banking (ATMs), agents network, remote access channels, online brokerage, specialised branches and structures dedicated to the corporate and institutional segment (46 corporate centres, one project finance centre and six institutional Client centres). Outside Portugal, BPI is engaged in commercial banking business in Angola and Mozambique, through two local-law banks – Banco de Fomento Angola (50.1% held by the BPI Group) and BCI Mozambique (30% held by the BPI Group). It also has a number of branches and representative offices which essentially provide support to Portuguese emigrant communities.

Quality and training

Quality and training are managed by the same member of Banco BPI's Executive Committee. This situation has in its sights the goal of giving priority to the Client, which dictates the close coordination of quality programmes with the training programmes, a critical element in securing high service standards.

GROUP'S FUNCTIONAL ORGANISATION CHART



1) 49.9% shareholding.

2) 50.1% shareholding.

3) 30% shareholding.

4. Risk management

4.1. PRINCIPLES

Risk management at the BPI Group is based on the permanent identification and analysis of exposure to different risks – credit risk, country risk, market risks, liquidity risk, operating and legal risks or other – and on the adoption of strategies aimed at maximising profitability within predefined (and duly supervised) limits. Management is complemented a posteriori by analysis of performance indicators.

4.2. DIVISION OF RESPONSIBILITIES

The policy, procedures and allocation of powers amongst the Group's various bodies and departments on matters relating to the control and management of the Group's risks are described in detail in a separate chapter of the Directors' Report and are incorporated into this document by way of reference.

It is worth noting the creation in 2011 of the Financial Risks Committee – a Board of Directors' consultative body whose main function, without impinging upon the Supervisory Board's terms of reference, is to monitor the management policy relating to all the financial risks attaching to the Company's business.

We believe that the existing internal control system at Banco BPI, which complies with that prescribed in Bank of Portugal and CMVM regulations governing this subject, incorporates the components referred to in CMVM recommendation II.1.12.2. and, therefore, that the recommendation in question is implemented. Amongst other aspects, it should be emphasised that this system is founded on goals and guidelines laid down by the Board of Directors and by the CACI, being monitored closely by this last-mentioned Committee and based on a structure which encompasses, amongst others, the Risk Control Division, an Audit Division and a Compliance Division.

This system's oversight and evaluation are conducted by the Supervisory Board which not only functions in full coordination with the CACI but is also directly involved at supervision level as regards the principal risks and in the definition of the risk management, compliance and internal audit programmes, as a result of which it also complies with CMVM recommendation II.1.1.3.

Matrix of responsibilities for risk management and control

	Identification and analysis of exposure	Strategy	Limits and control	Recovery	Performance Evaluation
Credit / counterparty risk	DACR: rating and scoring models (Probabilities of Default), and loss given default for all loan segments DACR and DF: external rating identification for debt securities and for credit to financial institutions DRC: Rating of Companies and Small Businesses, Project Finance and Institutional clients Comité de Rating: Rating for large sized Corporates and Institutional clients DRCP: Expert system for loans to Individuals DACR: Exposure to Derivatives DACR: analysis of global exposure to credit risk	CECA, CERG: overall strategy CECA, CERC: approval of substantial operations Credit Board, DRC, DBI, DRCP, DF: approval of operations	CA (advised by the CRF), CECA, CERC, Credit Board, DRC, DRCP, DACR and DF: limits CECA, CACI, CERC, CERG, Credit Board, DACR, DO, Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control	DRCE: Corporate DRCP: Individuals and Sole proprietors	CECA, CERG, CERC, DCPE, DACR, All other Divisions
Country risk	DF: analysis of individual country risk with recourse to external ratings and analyses DACR: analysis of overall exposure	CECA and CERG: overall strategy DF, DA and DIAPE: operations	CA (advised by the CRF), CECA, CACI, CERG, DACR, DC Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control		
Market risk	DACR: analysis of risk by books / instruments and global risks – interest rates, currencies, shares, commodities, other	CECA and CERG: overall strategy DF, DA and DIAPE: operations	CECA, CA (advised by the CRF), CERG, DACR, DF and DA: limits CECA, CACI, CERG, DACR, DC, Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control		
Liquidity risk	DF, DA and DIAPE: individual risk analysis of liquidity, by instrument DACR: analysis of overall liquidity risk	CECA e CERG: overall strategy	CECA, CACI, CA (advised by the CRF), CERG, DACR, DC, Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control		
Operating risks	DACR: analysis of overall exposure DORG and all the Divisions: identification of critical points	CECA: overall organisation Operating Risk Committee DORG: regulations	CECA, CERG, DORG, DACR: Regulations and Limits CECA, CACI, DORG, DACR, DC, Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control	DJ, DAI, DO, Commercial Divisions	CECA, DORG²
Legal and compliance risks	DJ, DC	CECA: compliance	CECA, CACI, DJ, DC, Internal and external Auditors¹, Supervisory Board, Bank of Portugal: control	DJ	

CACI – Comissão de Auditoria e de Controlo Interno (Audit and Internal Control Committee); **CECA** – Comissão Executiva do Conselho de Administração (Board of Directors' Executive Committee); **CERC** – Comissão Executiva de Riscos de Crédito (Executive Committee for Credit Risks); **CERG** – Comissão Executiva de Riscos Globais (Executive Committee for Global Risks); **CRF** – Comissão de Riscos Financeiros (Financial Risks Committee); **DA** – Departamento de Ações (Equities Department); **DACR** – Direcção de Análise e Controlo de Riscos (Risk Analysis and Control Division); **DAI** – Direcção de Auditoria Inspeção (Inspection Audit Division); **DBI** – Direcção de Banca Institucional (Institutional Banking Division); **DC** – Direcção de Compliance (Compliance Division); **DF** – Direcção Financeira (Financial Division); **DIAPE** – Direcção de Investimentos Alternativos e Produtos Estruturados (Alternative Investments and Structured Products Division); **DJ** – Direcção Jurídica (Legal Division); **DO** – Direcção de Operações (Operations Division); **DORG** – Direcção da Organização (Organisation Division); **DRC** – Direcção de Riscos de Crédito (Credit Risk Division); **DRCE** – Direcção de Recuperação de Crédito a Empresas (Corporate Credit Recovery Division); **DRCP** – Direcção de Riscos de Crédito a Particulares (Individuals Credit Risk Division).

1) As part of the execution of the audit and statutory audit of the BPI Group's accounts, the external auditors also contribute to the process of controlling the various risks to which the Group is exposed.

2) Except in the cases of compliance and Compliance Division.

5. Portuguese Statutory Auditor and external auditors

Deloitte & Associados, SROC, S.A. (Deloitte), a member firm of the international network Deloitte Touche Tohmatsu (DTTL network), is the BPI Group's Portuguese Statutory Auditor and was elected in the General of Meeting of 27 April 2011 for the 2011/2013 three year period. António Marques Dias is currently the partner in charge of the audit of Banco BPI's consolidated financial statements.

Deloitte & Associados, SROC, S.A. is equally, for purposes of article 8 of the Securities Code, the Bank's External Auditor.

5.1. LIABILITY

In terms of the law¹, auditors² are jointly and severally liable for the "damages caused to the issuers or to third parties for any shortcomings in their reports or opinions".

The Board of Directors will call for a tender by the end of 2013, with the object of soliciting proposals so as to enable the Supervisory Board to select and propose to the General Meeting the firm selected to provide external audit services.

5.2. INDEPENDENCE

BPI recognises and subscribes to the concerns manifested, amongst others, by the CMVM (Securities Market Commission), by the European Commission and by IOSCO – International Organization of Securities Commissions, amongst other entities, regarding the safeguarding of auditors' independence vis-à-vis the audit Client. BPI believes that this independence is essential for ensuring the public's trust in the reliability of their reports and in the credibility of the financial information published.

BPI is of the opinion that its auditors are independent within the context of the regulatory and professional requirements applicable and that their objectivity is not compromised. BPI has incorporated into its governance practices and policies several mechanisms which safeguard the independence of the auditors.

Indeed, the company which audits the BPI Group's accounts, as well as the persons in charge of the relevant audit work, has to the best of BPI's knowledge, no interest – effective or imminent – financial, commercial, employment, family or of any other nature – other than those which result from the normal course of their professional activity – in BPI Group companies, capable of leading a reasonable and informed third party to consider that such interests could compromise the auditor's independence.

On the other hand, the Portuguese Statutory Auditors Act (EOROC) provides that anyone who has served in the last three years as a member of a company's administrative or

management bodies, cannot exercise the function of auditor of the same company. In the same manner, the Portuguese Statutory Auditor who in the last three years has acted as the Portuguese Statutory Auditor of companies or entities, is barred from exercising functions as a member of such companies' or entities' administrative or management bodies.

The EOROC furthermore provides that in the case of public-interest entities the maximum period for carrying out audit functions by the partner responsible for the direct organisation or execution of the audit is seven years, commencing from the date of his/her appointment, but may be appointed again after a minimum period of two years has elapsed.

Pursuant to the provisions of applicable legislation, the Supervisory Board verified the auditors' independence by means of: (a) the auditors' written confirmation of independence as envisaged in article 62-B of the EOROC; (b) the confirmation of compliance with the rotation requirements relating to the partner in charge and (c) the identification of the threats to independence and safeguard measures adopted for their mitigation.

BPI has adopted the principle of not entering into employment contracts with any person that has in the past been partner of the audit firm which has provided audit services to any BPI Group companies before at least three years have elapsed since the cessation of the provision of such services.

5.3. REMUNERATION

The fees paid to Deloitte and to its network³ for services rendered to the BPI Group companies in 2011 totalled 1.98 M.€. Note 4.43 (page 180) presents a table with the breakdown of this figure by nature of the work and the company to which the service were provided.

Deloitte and its network did not provide any service to the BPI Group in areas such as financial information technology, internal audit, valuations, legal defence, recruitment, amongst others, which are capable of generating situations of conflict of interest and impairment to the quality of the audit and statutory audit work.

All the services provided by Deloitte, including the respective remuneration terms are, irrespective of their nature, the object of prior review and approval by the Supervisory Board, thus constituting an additional mechanism safeguarding the independence of the External Auditor.

1) Article 10 of the Securities Code.

2) In terms of article 10 of the Securities Code, the term "auditors" includes "the Portuguese statutory auditors and other persons who have signed the report or the opinion" (paragraph 1a) and "the firms of Portuguese statutory auditors and other audit companies, provided that the documents audited have been signed by one of their members/partners" (paragraph 1b).

3) BPI's "Network" of auditors include Deloitte and Deloitte & Associados, SROC, S. A., and is in accordance with the definition of "Network" laid down by the European Commission in its Recommendation C (2002) 1873, of 16 May 2002.

5.4. DELOITTE'S POLICIES AND PROCEDURES

Deloitte, an audit firm registered with the CMVM and appointed by BPI, has, according to information supplied by it to BPI, implemented policies and procedures designed to ensure that it

provides quality services and complies with all the applicable independence and ethical rules.

QUALITY CONTROL SYSTEM

Deloitte applies in Portugal the quality control system conceived globally by DTTL, which conforms to the provisions of the International Standard on Quality Control 1 ("ISQC 1"). This quality control system was supplemented with applicable Portuguese rules.

The quality control system is backed by a number of policies, namely those dealing with the following aspects:

- accountability and leadership commitment with the internal quality control system;
- ethical requisites;
- acceptance and continuation of relationships with clients and engagements;
- development of its professional staff;
- process of consultations on technical matters;
- work execution;
- work quality monitoring review;
- review of professional practice.

Accountability and leadership commitment

The functioning of the quality control system is assured in the first place by the designation of a partner with vast experience in the auditing field (Reputation and Risk Leader), who has no day-to-day management responsibilities, whose mandate in the relevant jurisdiction involves assuming leadership in all matters relating to quality, reputation and independence.

Ethical requisites

Deloitte conducts its activity based on ethical values and principles which have a global reach and are common to all the areas of activity undertaken in Portugal. An internal Code of Ethics was published which is based on International Ethics Standards Board for Accountants ("IESBA") of International Federation of Accountants ("IFAC") requirements, while in certain instances it is even more restrictive. The Code of Ethics is delivered to all professional staff as soon as they are admitted to Deloitte, and updates and periodic alerts are

transmitted by means of training courses and internal disclosure campaigns developed for this purpose.

Confirmations are required annually of compliance with the Code of Ethics in force.

Deloitte utilises various management tools for monitoring compliance with ethical requirements (in particular independence), namely:

- GIMS – monitoring of the financial interests of partners and managers
- DESC – global tool which permits identifying all the entities to which audit services are rendered by the DTTL network which are public-interest entities
- Dcontact – client data base of companies of the Deloitte network in Portugal

The post of Ethics Director is occupied by a partner with powers for this purpose at all companies of the Deloitte network in Portugal.

Acceptance and continuation of relationships with clients and engagements

There are internal policies at Deloitte for accepting clients and engagements encompassing a series of prior verifications that influence the actual provision of services or the acceptance of clients. The themes which are the object of verification are diverse, such as for example, the reputation of entities and of their managers, the nature of their operations, the internal control environment, the motives of management and directors, the skills required, independence and any conflicts of interest, the reasonableness of deadlines imposed, amongst other issues. Compliance with these policies is assured by a series of internal control procedures, as well as by means of management tools which permit documenting the verifications carried out, namely the Deloitte Risk Management System (DRMS) for purposes documenting the acceptance and continuation processes.

Development of its professional staff

One of Deloitte's principal objectives is the fostering of employees' talent and the development of their leadership potential, offering rewarding career opportunities and, above all, which constitute a permanent challenge to their capabilities.

The very rigorous standards in terms of professional recruitment, continuous training and the stringent evaluation process of staff are the essential pillars of that strategy.

Technical consultations process

There are in-house policies laid down at Deloitte for consulting specialists (accounting, audit, financial matters, taxation, legal aspects etc.) and accessing the corresponding documentation. These consultations can be referred to internal or external specialists.

In order to respond to consultation needs, a structure was set up internally which consists of: (i) a group of professional specialists in international financial reporting standards who maintain regularly contacts with Deloitte's international excellence centres in this domain; (ii) a support group for ethics, independence and conflicts of interest-related issues has been set up; (iii) a practice support group for technical audit matters.

Execution of engagements

Engagements are executed by scrupulously-selected teams, with the various individuals being designated according to their experience and their specific knowledge of the various sectors of activity. Procedures are defined which guarantee the monitoring of the workloads of partners and professional staff so as to ensure that they have sufficient time for complying with their professional obligations in an appropriate manner.

Deloitte boasts a group of technical staff with expertise in computer auditing and information systems. These employees are involved in the audit assignments in which the use of IT equipment by the entity concerned is classified as important.

In order to encourage specialisation amongst its professionals and enhance their response capability to the needs of various

clients, Deloitte decided to adopt an in-house organisation focusing on certain industrial segments.

In the execution of audit and related assignments, the Deloitte audit methodology is followed – Deloitte Audit Approach (“DAA”). Audit work is backed by electronic files, using specific software developed by DTTL (AS/2). The procedures to be executed are described in detailed work programmes, designed for each one of the work areas.

Review of work quality control

All audit work is subject to an internal review conducted by a qualified and experienced audit professional not involved in the audit. This review is carried out during the course of the assignment, and is concluded before the issue of the report.

The nomination of professionals who execute the review adheres to a meticulous process, aimed at ensuring that there are no conflicts of interest, that the independence principles are observed and that the appointed reviewer has appropriate competencies.

Review of professional practice

The various internal quality control processes are periodically subjected to verifications for evaluating their operability and effectiveness. These examinations essentially consist of an analysis of representative samples and are performed by independent persons.

Besides these checks, all the DTTL network's member firms are subject to periodic external reviews of their professional practice. These reviews are carried out by partners of another member firm, take place with a maximum frequency of three years and cover a representative sample of the partners and audit assignments undertaken in that year. These external reviews also contemplate the main processes of the firm's quality control system.

It should be noted that in each of the last three years Deloitte was subjected to the quality control review carried out by the Portuguese Institute of Statutory Auditors (Ordem dos Revisores Oficiais de Contas - OROC), pursuant to article 68 of its Statutes.

6. Remuneration

6.1. REMUNERATION POLICY

6.1.1. Remuneration policy of the members of Banco BPI's management and oversight bodies¹

Policy set out in the Statement on Remuneration Policy for the members of Banco BPI's management and supervisory bodies, submitted by the Remuneration Committee to the General Meeting of 27 April 2011 and approved thereat.

1. DEFINITION OF REMUNERATION POLICY

Responsibility for defining the remuneration policy applicable to the members of the management and supervisory bodies lies with the Remuneration Committee, assisted (advised) by experts and external consultants who the Committee deems should be consulted.

1.1 Remuneration Committee

1.1.1 Terms of reference

According to the provisions of article 28(2) of Banco BPI's statutes, the remuneration of the members of Banco BPI's management and supervisory bodies is laid down by the Remuneration Committee after having heard, as regards the members of the Board of Directors who form part of the Executive Committee, (in this document referred to as executive Directors), the Nominations, Evaluation and Remuneration Committee (NERC).

The definition of remuneration envisaged in the preceding paragraph is, in terms of article 28(3) of the Statutes, done within the framework of the ceiling for the fixed remuneration of the Board of Directors' members, as well as of the maximum percentage of the annual consolidated net profit – which cannot exceed 5% in any year –, that can be allocated to the executive Directors variable remuneration, which may be fixed by the General Meeting at the beginning of each governing body's term of office.

At least one member of the Remuneration Committee shall be present at Banco BPI's Shareholders' General Meeting.

1.1.2 Committee's composition

In terms of Banco BPI's statutes, the Remuneration Committee is composed of three shareholders elected every three years by the General Meeting, who shall appoint a Chairman from amongst their number and who shall have the casting vote.

The Remuneration Committee is composed of independent members vis-à-vis the executive members of the Board of Directors and includes at least one member with knowledge and experience in the field of remuneration policy.

The Remuneration Committee's composition for the three-year term 2011/2013 will be that which is approved at the Shareholders' General Meeting of 27 April 2011.

1.2 Comparisons used

In setting the remuneration of the members of Banco BPI's management and supervisory bodies, the Remuneration Committee takes into due consideration the remuneration policies and practices of comparable Iberian banks.

2. GENERAL PRINCIPLES OF BANCO BPI'S REMUNERATION POLICY

2.1 Remuneration policy

2.1.1 For non-executive Directors and members of the Supervisory Board

According to the provisions of article 28(1) of the statutes, the remuneration of the non-executive members of the Board of Directors (Non-executive Directors) and of members of the Supervisory Board is composed exclusively of a fixed component, paid monthly, and excluding any variable component and, therefore, not dependent on Banco BPI's results. In the case of the non-executive Directors who sit on the Board of Directors' consultative and support bodies contemplated in the statutes, that remuneration is increased by the amount of the respective attendance allowances.

2.1.2 For the executive Directors

The remuneration of the executive Directors is composed of a fixed and a variable component.

For its part, the variable component is composed of a portion payable in cash and a portion (hereinafter referred to the RVA Component) in Banco BPI shares and/or options to purchase of Banco BPI shares, awarded within the framework and in terms of the Regulations of the Variable Remuneration in Shares Scheme (hereinafter referred to as the RVA Regulations), which is attached hereto as Annex I) and other relevant rules.

The RVA Component should represent at least 50% of the overall amount of the variable remuneration of each executive Director.

The RVA Component, up to the limit of 50% of the overall amount of the variable remuneration of each executive Director, is made available subject to a deferment of 3 years, that is, it remains subject to the Deferment Period and the Condition for Access to Deferred Remuneration (as defined in the RVA Regulations), hereinafter referred to in this document as the Deferred RVA Component.

2.2 Overall limits applicable to the members of the management bodies

Banco BPI's statutes attribute to the General Meeting the powers to define, valid for the term of office of the governing bodies which commences on the date of this resolution, of the limit:

- i) of the annual fixed remuneration of the members of the Board of Directors;
- ii) of the maximum percentage of the annual consolidated net profit - which cannot exceed 5% in any year - that can be allocated each year to the executive Directors variable remuneration.

1) To which article 2 of Law no. 28/2009 of 19 June refers.

For the three-year period 2011/2013 the AGM from 27 April 2011 approved the following limits proposed by the Remuneration Committee:

- a) Limit of the annual fixed remuneration for the members of the Board of Directors: 4 000 000 euro; this limit is subdivided into the following partial limits:
 - Non-executive Directors (not including for this purposes attendance allowances): 1 400 000 euro;
 - Executive Directors: 2 600 000 euro.
- b) Maximum percentage of the annual consolidated net profit which each year can be allocated to the variable remuneration of the group of executive Directors: 1%.

2.3 Specific limits of the variable remuneration of the Executive Directors

Executive Directors variable remuneration is subject to the rules described in various points of the present Remuneration Policy which are summarised next, rules via which one arrives at the limit on executive Directors variable remuneration in the case envisaged in article 2(3)(b) of Law 28/2009 of 19 June, that is, “in the case where the results evidence a meaningful deterioration in the company's performance in the last financial year or where this is expected in the year in progress”:

- a) Rule which provides that the variable remuneration limit for the executive Directors is defined according to Banco BPI's consolidated results, ensuring annually in this way an effective ceiling on that remuneration in the event of a negative trend in results;
- b) Rule which provides that in fixing the overall amount of the variable component of the executive Directors remuneration, account is taken of the evolution of the overall amount defined for the variable remuneration of the universe of Banco BPI employees, which in turn in that part relating to the employees working in Portugal, depends on the pre-tax consolidated net profit from Banco BPI's domestic operations, ensuring also in this way the limit on the executive Directors variable remuneration in case of a negative trend in results;
- c) Rule that envisages that at least 50% of executive Directors variable remuneration is composed of Banco BPI shares and/or options to purchase Banco BPI shares which the executive Director cannot freely dispose of for a period of 3 years (Deferred RVA Component), shares and options whose value reflects by nature and in these terms an exposure to the behaviour of the company's performance and to the price of its shares;
- d) Subjection of the Deferred RVA Component to the Condition for Access to Deferred Remuneration and consequent loss of same if the aforesaid Condition for Access to Deferred Remuneration is not fulfilled in the terms contemplated in this same RVA Regulation.

On the other hand, the conjugation of the rules referred to in the preceding sub-paragraphs c) and d) with the fact that the duration of the executive Directors term of office is 3 years, ensures that a substantial portion of the variable remuneration (Deferred RVA Component) is effectively only paid after conclusion of the term of office and once the accounts for the latest financial year are approved, which materialises the possibility of what is referred to in article 2(3)(d) of Law 28/2009 of 19 June, that is, the “possibility that the payment of the variable component of remuneration, if it exists, takes place in whole or in part after the determination of the annual accounts corresponding to the entire term of office”.

2.4 Alignment of interests

The present Remuneration Policy is aimed at, amongst other objectives, contributing to the alignment of executive Directors interests with those of the company and to the disincentive for the excessive assumption of risk. That contribution results, amongst other aspects:

- a) from the relationship established in the terms set out in point 2.3 between the amount of the variable remuneration to be awarded each year and Banco BPI's consolidated results;
- b) from the circumstance that the payment of a portion of this remuneration (of an amount corresponding at least to 50% of the overall amount of the variable remuneration) is deferred for 3 years;
- c) from the fact that the aforesaid portion of variable remuneration is, as a rule, composed of Banco BPI shares and/or share options awarded within the framework and in the terms of the RVA Regulations; and, finally
- d) from the fact that the Deferred RVA Component is subject to the Condition for Access to Deferred Remuneration.

2.5. Determination of remuneration

2.5.1. For the non-executive Directors and the members of the Supervisory Board

The actual remuneration of the non-executive Directors and of the members of the Supervisory Board is defined at the start of each three years by the Remuneration Committee, taking into account in their case the overall limit laid down by the General Meeting referred to in 2.2 a). The Remuneration Committee also defines at the start of each three-year period, the setting of the value of the attendance allowances payable to the non-executive Directors who sit on the Board of Directors' consultative and support committees contemplated in the statutes.

2.5.2. For the executive Directors

2.5.2.1 Fixed remuneration

The fixing of the amount of the fixed remuneration of the executive Directors is undertaken by the Remuneration Committee, after having heard the NERC, within the framework of the limit envisaged in 2.2. a).

The amount of this remuneration is adjusted annually by the application of the rate of increase identical to that which, under the CEA for the banking sector, is applied to level 18 remuneration.

2.5.2.2 Variable remuneration

The fixing of the overall amount of the variable component of the Executive Directors remuneration is undertaken by the Remuneration Committee, having heard the NERC, based on their performance evaluation and taking in account:

- a) Observance of the limit referred to in 2.2. b) above;
- b) The policy adopted in this domain at peer (comparable) institutions, as defined in 1.2.

In fixing the overall amount of the variable component of the executive Directors' remuneration, although no automatic dependence relationship shall stem there from, the trend of the overall amount defined for the variable remuneration of the universe of Banco BPI employees is also taken into consideration. In this respect, it will be recalled that in defining the overall amount of the variable remuneration of the universe of Banco BPI employees who perform their functions in Portugal, one of the most important factors taken into account is the consolidated net profit before tax from Banco BPI's domestic operations.

2.6. Profit sharing

Banco BPI does not have a policy of remunerating its Directors through profit sharing.

2.7. Other benefits

2.7.1. Retirement benefits for executive Directors – principal characteristics

The management board members who are or were executive Directors (or, in the case of the previous governance model, members of the Management Board) benefit from the pension plan applicable to the majority of Banco BPI employees to the extent that they were Banco BPI employees before occupying these positions and have seen, in terms of the law, their employment contract suspended.

The management board members who are or were executive Directors (or, in the case of the previous governance model, members of the Management Board) also benefit under the defined-benefit regime from a supplementary pension approved at the Bank's General Board meeting of 25 July 1995 and which provides them a supplementary pension, the monthly

amount of which depends on the monthly salary earned as executive Directors and the number of years they performed those functions.

The rules which govern the aforesaid benefit are set out in the Retirement Entitlement Regulations for the Members of the Management Board, approved at the above-mentioned General Meeting (and hereinafter referred to as the Retirement Entitlement Regulations), the complete version of which is attached hereto as Annex II.

The executive Directors are entitled to a supplementary retirement benefit, to which the Bank contributes a monthly amount equal to 12.5% of the amount of their fixed monthly salary which exceeds at any moment the amount of their fixed monthly salary at 31 December 2009, updated at the identical rate of increase which under the CEA is applied to level 18 remuneration.

The members of the management and supervisory bodies who are not, nor have they even been, executive Directors (or, in the case of the previous model, members of the Management Board) are not entitled to any retirement benefit granted by the Bank.

The following amounts are deducted from the pensions paid under the plan for the executive Directors:

- i) the pensions paid by the Social Security which fall under any of the following three categories:
 - those relating to the functions performed at the BPI Group;
 - those relating to the functions performed at third party entities at the BPI Group's instigation and which the BPI Group has recognised for that purpose;
- ii) the pensions paid by other BPI Group pension plans.

2.7.2 Other non-monetary benefits

BPI Group Directors do not benefit from other forms of remuneration – cash and non-cash – other than those referred to in this document or which stem from the normal application of the CEA or labour law.

3. SPECIFIC RULES APPLICABLE TO THE VARIABLE REMUNERATION OF EXECUTIVE DIRECTORS

As referred to in 2, only the executive Directors remuneration includes a variable component which, in addition to that set out in the preceding points, is also subject to the following rules:

3.1. Structure and composition of the variable component

The variable remuneration awarded to executive Directors is composed of a portion awarded in cash and a portion in Banco BPI shares and/or options to purchase such shares within the framework and under the terms of the RVA Regulations. As a rule, the variable remuneration portion of each one of the executive Directors which comprises shares and /or options to purchase Banco BPI shares must represent at least 50% of the overall amount of the respective variable remuneration.

3.2. Definition of the amount to be awarded

Once the overall amount of the remuneration has been defined in the terms referred to in 2.5.2.2 above, the determination of the actual amount of the variable remuneration to be awarded to each executive Director is done by the Remuneration Committee, taking into account the evaluation of each one's performance with reference to the financial year and to the period elapsed between the start of the term of office in progress, which in turn takes into consideration the following quantitative criteria:

- a) Solvency (solvency ratio, loan default ratios, foreclosure properties and the situation of the Bank's pension fund);
- b) Profitability (ROE and net interest income and impairments) and Efficiency (cost-to-income ratio);
- c) Market position (market shares);
- d) Liquidity (ratio of transformation of balance sheet resources into loans, maturity of medium/long-term debts and the level of ECB utilisation).

On the other hand, qualitative criteria also encompass the Bank's reputation indicators and the level of customer complaints.

The amount of executive Directors variable remuneration laid down by the Remuneration Committee is reduced by the amount of the remuneration earned from the exercise of functions at other companies on Banco BPI's instructions.

3.3. Award

The awarding of variable remuneration to the executive Directors is done in the first half of the year following that to which it relates, observing the provisions envisaged in the following points and such other terms which may be set by the Remuneration Committee (which date is designated according to the RVA Regulations as the Payment Date).

3.4. Payment

The portion of each executive Director's variable remuneration paid in cash, up to the 50% limit of the overall amount of this variable remuneration, is made available immediately on the Payment Date and without such availability being subject to conditions.

The availability of the Deferred RVA Component is deferred for a period of 3 years commencing on the Payment Date (Deferment Period), which:

- a) In the case of BPI shares, constitutes a suspensive term to which the respective transfer is subject; and,
- b) In the case of options, constitutes the period after which they mature.

3.5. Access

Without prejudice to the above-mentioned payment conditions, the payment of the Deferred RVA Component is also subject to the fulfilment of the access condition (envisaged and termed in the RVA Regulations the Condition for Access to Deferred Remuneration).

The Condition for Access to Deferred Remuneration can be revised by the Remuneration Committee, after having heard the NERC (although does not affect the awards already made).

3.6. Exceptional regime

In exceptional circumstances, the Remuneration Committee can deliberate that the Deferred RVA Component be paid in cash, with, in any case, the respective payment being subject, to the same extent that it would have been if paid in Banco BPI shares and options, to the suspensive term and the suspensive conditions envisaged in RVA Regulations for the awarding of shares and/or options.

4. DISCLOSURE AND REVISION

The present Remuneration Policy is disclosed on the intranet and on Banco BP's website, and is available and accessible for consultation by any person.

The present Policy as well as its implementation will be the object of annual review by the Remuneration Committee, after having heard the NERC, with the Remuneration Committee being responsible for presenting to the Shareholders the alterations it considers warranted.

6.1.2. Directors' pension plans

In the context of the declaration by the Remuneration Committee on remuneration policy for the members of the management and oversight bodies, the main features of these

bodies' retirement benefits system, stemming from the regulation transcribed below, were presented to the General Meeting of 27 April 2011.

Article 1

1. The members of Banco BPI's Management Board are entitled to retire as set out in the Articles of Association and herein established, provided that the following conditions are met:
 - a) They have reached the age of 60 or became incapacitated to perform their duties;
 - b) They are at the time of the facts referred above, elected to the post of Directors;
 - c) They have held such office for at least 3 years, consecutive or intermittent.
2. For the purpose of the preceding paragraph, it is considered:
 - a) The entire length of tenure as a Director, even before these Regulations;
 - b) The entire length of tenure as a Director, before the alteration to the Bank's structure and as SPI – Sociedade Portuguesa de Investimentos, SARL's Director.
3. If Banco BPI, S.A.'s structure is changed again to Board of Directors instead of Management Board, the provisions herein set out shall still apply to Directors' retirement, as the aim is to regulate the retirement entitlement of the members of this bank's management body.

Article 2

1. Retirement entitles the beneficiaries to receive from the Bank a pension calculated based on the their fixed monthly compensation at 31 December 2009, revised at the identical rate of increase which, under the Collective Employment Agreement for the banking sector, is to be applied to level 18 remuneration¹.
2. The pension amount shall be that which results from the application of the percentages given below to the compensation referred to in paragraph 1 of this Article, depending on whether it is a disability to perform the duties or retirement age, and shall be calculated according to the number of years in which the office as member of the Board has been held:

No. of years the office as member of the Manag. Board was held	Disability to hold the office	Mandatory Retirement (age limit)
> 3	25%	-
> 4	30%	-
> 5	35%	-
> 6	40%	-
> 7	45%	-
> 8	50%	-
> 9	55%	30%
> 10	60%	40%
> 11	65%	50%
> 12	70%	60%
> 13	75%	70%
> 14	80%	80%
> 15	90%	90%
> 16	100%	-

3. The retirement pension, fixed under the terms of the preceding paragraphs, shall be updated annually by the CPI rate of change.
4. Irrespective of the provisions set forth in Article 1 (1) (c), if disability results from accident at work or illness caused by work, the beneficiary is entitled to a pension in an amount which results from the application to the compensation referred to in paragraph 1 of this Article of a percentage that, as from 10%, shall grow as much for each full year of tenure as member of the Management Board, other than the first year, up to 100%.

Article 3

1. For the purposes provided herein, the right to reach statutory retirement may be exercised when the Director reaches 60 years of age or is incapacitated to remain in office.
2. Any Director wishing to retire shall inform the General Board that, within 3 months from the date the notice is served, conditions herein set are met.
3. If the grounds for reaching retirement is a disability, the General Board may, if deemed fit, require that the Director be submitted to medical examination by experts appointed by the Board for the purpose.

Article 4

1. Whoever has completed 9 years, consecutive or interspersed, serving as a Director and who, having so ceased to serve, remains up till the age of 60 in the service of the BPI Group in management functions at any bank controlled by it, upon attaining that age, or if before attaining such age becomes incapacitated to perform such functions, acquires the right to begin receiving a retirement pension calculated by application of the percentages indicated in article 2(2) for the retirement situation due to age limit, to the fixed monthly compensation earned by the beneficiary at 31 December 2009, revised at the identical rate of increase as that which, under the Collective Employment Agreement for the banking sector, is to be applied to level 18 remuneration¹.
2. For the purpose of calculating the retirement pension referred to in the preceding paragraph, the full period of tenure as Director and that corresponding to the exercise of management functions at any bank controlled by the BPI Group are considered.
3. Whoever has completed 9 years, consecutive or interspersed, serving as a Director and who, having so ceased to serve, remains up till the age of 60 in the service of the BPI Group but in different functions to those referred to in no. 1 of this article, upon attaining that age, or if before attaining such age becomes incapacitated to perform such functions, acquires the right to begin receiving a retirement pension calculated by application of the percentages indicated in article 2(2) for the retirement

1) Amendment in force since 1st January 2010.

situation due to age limit, to the fixed monthly compensation earned by the beneficiary at 31 December 2009, revised at the identical rate of increase as that which, under the Collective Employment Agreement for the banking sector, is to be applied to level 18 remuneration.

4. The amount of the pensions referred to in the foregoing paragraphs shall be:
 - a) revised under the terms set out in paragraph 3 of article 2;
 - b) reduced by 20%, in case the beneficiary no longer is part of BPI's Management Board or of the management bodies of the banks listed therein, due to relinquishment of his / her posts on unfair grounds, or, if not re-elected, ceases to serve the BPI Group before attaining 60 years of age.

Article 5

1. In case of death of any Director who is retired, or who is still holding office but has already acquired rights pursuant to Article 4 of these Regulations, his/her relatives are entitled to a survivor's pension.
2. The amount of the survivor's pension provided for in the preceding paragraph shall be calculated based on the pension to which, pursuant to these Regulations, the beneficiary would be entitled if he/she were already retired, or on that already actually earned, as appropriate, and shall be revised annually by the CPI rate of change.
3. The percentages and conditions for granting a survivor pension to the relatives of the deceased Director shall be governed, in the part not specifically provided for in these Regulations, by the rules of the social security general scheme in force.

Article 6

1. Pensions referred to in the preceding articles shall be deducted of the entire amount of pensions received or to be received by beneficiaries for their years of service at the BPI Group, or which the BPI Group may have acknowledged for said purpose.
2. If and when the interested party is entitled to the pensions referred to in the preceding paragraph, it shall apply for them and notify the Bank that they have been awarded and of any changes to the amounts – otherwise, the Bank

shall not pay the pension due – substantiating, upon request, the amounts actually received for the Bank to calculate the amount of the pension to be paid or any repayment to be made by the beneficiary to the Bank.

3. The pensions set out herein shall be paid 14 times a year: twelve in the calendar months, one in June and the other before Christmas.
4. Any Director removed from the Management Board on fair grounds, or who has lost its mandate, as well as any Director not re-elected on fair grounds for dismissal, shall lose any right it may have acquired.

Article 7

1. The Bank may transfer any liabilities arising from the retirement entitlement herein ruled to an insurer or any pension fund.
2. Such transfer requires prior written agreement of the beneficiaries whenever it causes changes to retirement conditions or a reduction in benefits or guarantees that they had been enjoying.
3. Insurance contracts against the risk that the Bank is extinguished shall be made, at the Bank's expense, ensuring, besides the extinction, that pensions continue to be paid.
4. The Management Board is authorised to enter into the insurance contracts mentioned in the preceding paragraph.

Article 8

Any expedient action resulting from the application of these Regulations, including the starting of retirement proceedings shall be organised by the relevant departments of the Bank.

Article 9

The General Board may delegate to the Compensation Committee the powers conferred in article 3, as well as any issues concerning the interpretation and integration of these Regulations.

Article 10

These Regulations replace those entered into force on 29 November 1990 but, for Board Members currently in office, apply only to those who, until 31 December 1995, opt for being subject to these Regulations.

6.1.3. Loans to members of Banco BPI's Board of Directors

In general terms, the granting of loans to the members of the Executive Committee of Banco BPI's Board of Directors is regulated in article 85 of the General Regime of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras). This enactment provides that "credit institutions cannot grant loans in whatever form or mode, including the provision of guarantees, and whether directly or indirectly, to the members of the management or supervisory bodies, neither to companies or other collective entities controlled by them directly or indirectly", unless such loans can be classified as "operations of a social nature or with a social objective or arising from personnel policy, as well as loans granted as a result of the use of credit cards associated with the current account, under similar conditions to those offered to other Customers with a similar risk profile".

In this regard and in terms of established policy, the members of the Executive Committee of Banco BPI's Board of Directors benefit from the subsidised and non-subsidised home loan regime in force at the Banks for all their Employees.

The terms and conditions – risk evaluation, interest rates, guarantees furnished, term, etc – under which loans are granted to the members of the Executive Committee of Banco BPI's Board of Directors are identical to those applied to the Group's other Employees.

The Executive Directors, as well as Employees, also benefit from a credit line for the exercise of options obtained through the RVA, as described in greater detail in the segment 6.2.4. of this report.

6.1.4. Indemnities and early termination of contracts

Early termination of contracts

There are no specific rules addressing the early termination of contracts with members of the management and oversight bodies.

The applicable legal provisions ensure compliance with the concern underlying recommendation II.1.5.1.(vii), which is that there is no payment of an indemnity if the dismissal is attributable to deficient performance and, therefore, to just cause.

Change in control of the company

The BPI Group's Directors and Senior Employees do not benefit from any indemnity clause of an extraordinary nature, in terms of which they are entitled to be compensated in the event of a change occurring in the control of the company.

6.1.5. Other benefits and compensations

The BPI Group's Directors and Employees do not benefit from other forms of remuneration other than those referred to in this chapter or which are derived from the normal application of the ACTV (Collective Employment Agreement for the Banking Sector) or from labour law.

6.1.6. Policies relating to the remuneration of other members of the group's senior management

Remuneration policy

In compliance with the provisions of the CMVM's recommendations, the General Meeting of 27 April 2011 approved a document containing the Remuneration Policy for the universe of the employees in that document classified as senior management, which universe corresponds to employees classified as "senior managers" for purposes of the provisions of article 248-B of the Securities Code and to first and second tier employees at the divisions where they perform control functions.

Managers are not, by virtue of that fact, the object of a remuneration policy different from the one which is applicable to Banco BPI's other Employees.

Consequently, the remuneration policy covering the Managers is that which is applied to the majority of Banco BPI's Employees.

That policy, described in this point 6.1.6., is based on the existence of a remuneration made up of two components; a fixed and a variable component.

The fixing of the variable portion to be awarded to Banco BPI Employees and, therefore, to its management, takes into account a number of factors, amongst which - for those working in Portugal - the consolidated net profit before tax generated by Banco BPI's domestic operations.

As a rule, the abovementioned variable component is broken down into a part payable in cash and another payable in Banco BPI shares and share options, awarded within the framework of the share incentive scheme (Portuguese nomenclature Programa RVA), described in the BPI Group's Corporate Governance Report. The weight of this portion in shares and share options on the total variable component varies, according to the manager's responsibility, between a minimum of 10% and a maximum of 35%.

In exceptional circumstances, as happened with the variable remuneration paid in 2007, for reasons linked to the pending takeover bid for Banco BPI shares, or with the variable remuneration paid in 2009 and 2010, bearing in mind the exceptional state of the financial markets, the RVA component of the variable remuneration may be fully paid in cash.

The definition of the remuneration to be paid in each year to each Manager results from:

- as regards the fixed portion, that envisaged in the existing employment contract with each one of the Managers;
- as regards the variable component, the decision of the Board of Directors' Executive Committee, excluding the Managers who are members of Banco Português de Investimento's Board of Directors, in which the final decision is taken by the Board of Directors, in both cases taking into consideration their level of responsibility and the result of the respective evaluation process.

The remuneration policy precepts above described are designed to contribute, amongst other objectives, to the alignment of Managers' interests with those of the company and to discourage the assumption of excessive risk; such contribution results from, amongst other aspects:

- the relationship established, under the mentioned terms, between the amount of the variable remuneration and the Bank's pre-tax results from the domestic activity;
- the fact that a portion of this remuneration may be composed of Banco BPI shares / options to buy such shares awarded within the framework of the RVA share incentive scheme and;
- the fact that the free disposal of the shares awarded under the RVA scheme may be deferred over 3 years.

6.1.7. Principal features of the retirement benefits system for Banco BPI managers

The following are the principal features of the retirement benefits system applicable to Banco BPI Managers:

- a) as set out in point b) below, the retirement benefits applicable to Managers are defined and correspond to the benefit deriving from the pension plan contemplated in the Collective Labour Agreements for the banking sector entered into with the following banking sector trade unions - "Sindicatos do Norte, do Centro e do Sul e Ilhas", on the one hand, and with the "Sindicato Nacional dos Quadros e Técnicos Bancários" and the "Sindicato Independente da Banca", on the other. In certain cases arising from commitments previously assumed, Managers may be subject to the rules of the social security system's general regime.
- b) with respect to the benefits referred to above:
 - i) managers are not entitled, for this fact and in their capacity as such, to retirement benefits, except for those

who are Directors of Banco Português de Investimento, S.A. but who are not members of the Executive Committee of Banco BPI, S.A., who, in such capacity and in addition to the regime applicable to the majority of Banco BPI's Employees, benefit, cumulatively and whilst they hold office, from a supplementary defined-contribution pension scheme, with a monthly contribution corresponding to 12.5% of the € 2 500 additional remuneration they earn for serving as directors;

- ii) without prejudice to what is referred to in a) above, Banco BPI's Employees and, therefore, Managers, benefit from a retirement pension plan envisaged in the Collective Labour Agreement for the banking sector or, in certain cases, and to the extent that it is more favourable, under the rules of the social security system's general regime, a plan funded by a Pension Fund. These benefits are identical to those enjoyed by the majority of Banco BPI's Employees, under the same circumstances.

The pension plan for the Members of Banco Português de Investimento's Board of Directors referred to above provides that each Director can choose what portion of the contribution borne by the Bank to allocate to the funding of a pension (deferred benefit) or to a life assurance policy (immediate benefit).

The conditions of access to the benefits envisaged in the aforementioned pension plan are those which are legally prescribed for retirement-savings plans (Portuguese initials - PPR): retirement due to age limit or infirmity; death; serious illness or long-term unemployment.

6.1.8. Declarations relating to remuneration policies

The Remuneration Committee, as regards that part relating to the members of the management and supervisory bodies – and the Board of Directors, with respect to the other senior management staff, presented to the GM of 27 April 2011 the declarations on remuneration policy.

The aforementioned declarations are made in compliance with Law 28 / 2009 of 19 June and with the Corporate Governance Code Recommendations numbers II.1.5.2 – relating to the Remuneration Policy of the members of the management and supervisory bodies¹ –, and II.1.5.4 as concerns the retirement-benefit systems that the members of the management and supervisory bodies and other senior management staff benefit from.

1) Within the meaning of article 248-B(3) of the Securities Code.

Adoption of Recommendation II.1.5.4 of the Corporate Governance Code issued by the CMVM relating to the share incentive scheme, as well as retirement-benefit systems which the members of the management and oversight bodies and other managers (regarding the share incentive scheme) benefit from

The BPI Group has since the beginning of 2001 a variable remuneration in shares programme (RVA programme) whose beneficiaries are the Group's Executive Directors and Employees, and which entails annually the granting of a part of the variable remuneration in the form of Banco BPI shares and options to buy Banco BPI shares.

As was previously explained in greater detail, in a section of this report dedicated to the objectives of the RVA, the RVA scheme constitutes an important instrument for the management of the Group's human resources and reinforces the alignment of the Directors' and Employees' interests with the ultimate goal of Management and the Shareholders – the creation of value – given that the income earned by Directors and Employees alike becomes intrinsically associated with the appreciation of the BPI share on the stock exchange, while the relative importance of the RVA incentive scheme rises with the level of responsibility. Indeed, the proportion of the RVA incentives in the variable remuneration of the members of the Executive Committee is 50%, and between 35% and 10% for the remaining Employees.

The general lines of the RVA were approved by the General Board (governing body which existed until 1999) and which, in terms of the law then in force, was necessarily composed of shareholders).

At the GM of 21 April 1999, the Chairman of the Board of Directors placed for the Shareholders' consideration a proposal to authorise the acquisition and disposal of treasury shares by

the Company, which acquisitions and disposals were destined, amongst other purposes, to make possible the execution of the aforesaid incentive scheme. This proposal is renewed every year for the same purpose.

In addition, at the General Meeting of 20 April 2005 the Chairman of the Board of Directors presented to the Shareholders the objectives, characteristics, composition and extent of the share incentive scheme (RVA) adopted by Banco BPI, having disclosed the figures relating to the application of the RVA scheme.

At the General Meeting held on 27 April 2011, a proposal was submitted to the Shareholders to amend the RVA scheme regulations, which proposal was approved by 99.4% of the votes cast, with the complete text of the aforesaid regulation having been made available at that time.

It is thus considered that the RVA scheme and respective regulation were approved by Banco BPI's Shareholders' General Meeting, as a result of which the recommendation in question has been complied with.

Compliance with the recommendation under review as regards the principal characteristics of the system of retirement benefits will be assured to the extent that there will be presented to the AGM to be held in April 2011 by the Remuneration Committee and by the Board of Directors, declarations relating to the Directors and to the other Managers within the meaning of article 248B(3) of the Securities Code, respectively.

6.1.9. RVA programme

Beneficiaries

The programme encompasses Banco BPI's Executive Committee, Banco Português de Investimento's Board of Directors, as well as all Employees whose annual variable remuneration is equal to or exceeds 2 500 euro¹.

The weight of the RVA Scheme on the Employees variable remuneration rises with the level of responsibility, oscillating between a minimum of 10% and a maximum of 35%.

The proportion of the RVA incentives in the variable remuneration of the Chairman and Vice-Chairman of the Executive Committee is no smaller than 50%.

Objectives

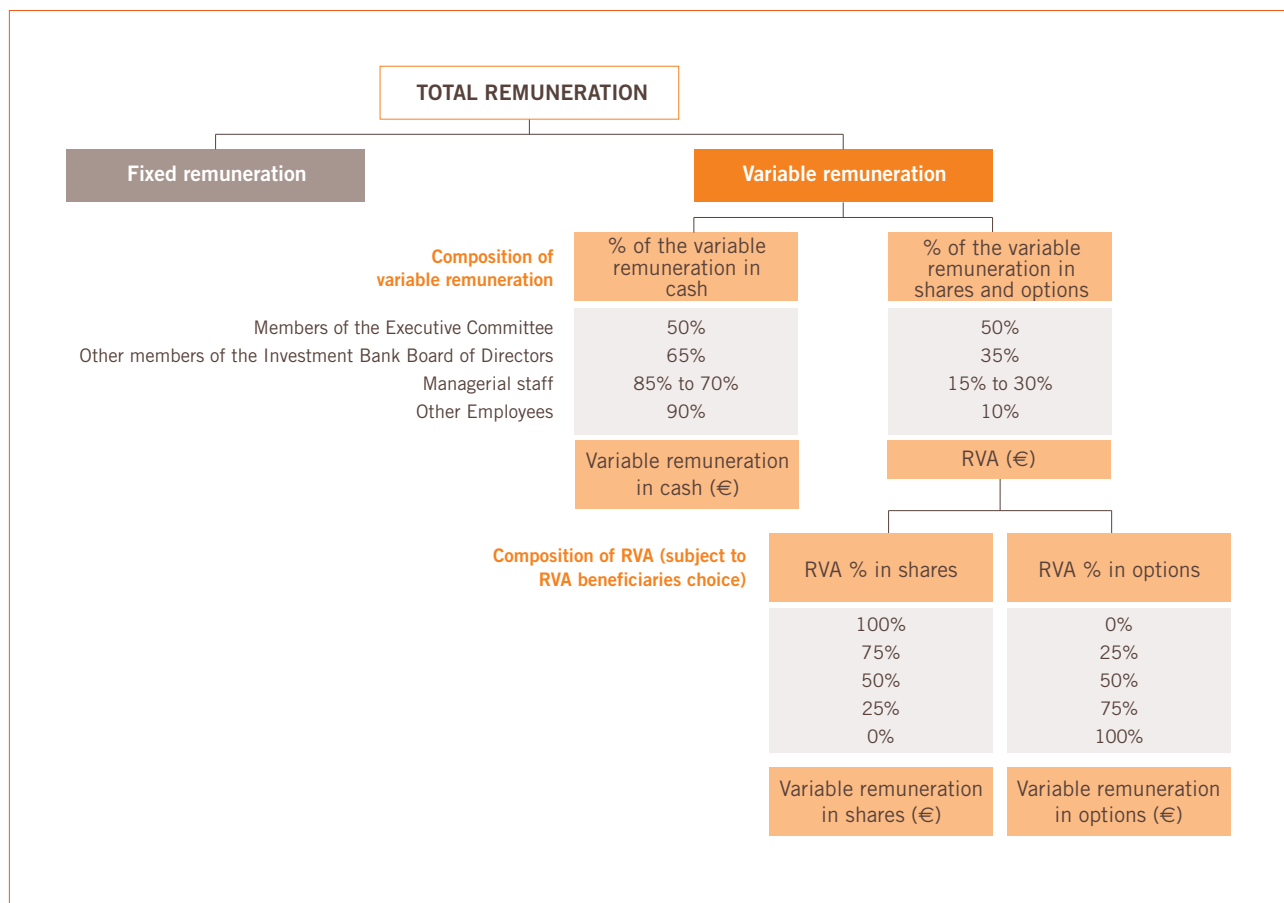
- Reinforces the **alignment of the interests** of the Directors and Employees with those of the Shareholders. This stimulus is

intensified by the existence of the option to buy BPI shares, thereby permitting the leveraging of the gains from the future appreciation of the shares, while a negative trend in the share price results in a nil value of the options.

- Encourages **individual merit**, given that since it is a variable component of remuneration, the amount thereof grows in step with the individual's performance and merit.
- Regarding the shares component of the variable remuneration, it boosts **fidelity and retains talents** – given that the RVA incentive is made available to the beneficiary in phases, from the award date to the end of the third year thereafter, and under the condition that the beneficiary maintains a connection with the Group. This effect is all the more important the higher the individual's responsibility and merit and constitutes an important means for the positive selection of human resources.

1) In the 2008, 2009 and 2010 RVA programmes, the Directors and Employees were granted the option to receive the variable remuneration wholly in cash or to be covered by the RVA under the terms applicable to each one of them.

The Bank's remuneration structure, applicable to the Executive Committee and to Employees overall



SHARE INCENTIVE PROGRAMME

Approval, regulation, directives and responsibilities for the execution and modification of the RVA scheme

The general lines of the RVA scheme were approved by the General Board on 10 December 1998. At the Shareholders' General Meeting of 21 April 1999, the Chairman of the Board of Directors presented to the Shareholders a proposal authorising the acquisition and sale of treasury stock by the company for the purpose of making the execution of the incentive scheme viable. This motion was carried with 99.99% of the votes in favour, and has been endorsed in following years.

RVA scheme's executive bodies

The Board of Directors delegated the annual execution of the RVA scheme to the Executive Committee. The concrete aspects of the RVA scheme's execution are regulated in a number of directives approved by the Board of Directors, which are binding on the Executive Committee's actions. Under the share incentive and options scheme (RVA) regulations, the Executive Committee is responsible for the awarding of shares and share

options to all the Group's Employees and to the Directors of BPI Group subsidiaries, excluding Banco Português de Investimento. In this domain, the following are the Executive Committee's principal duties:

- fixing the maximum number of shares and options to be awarded each year, as well as the criteria (of which the merit assessment of each employee always forms part) and the conditions underlying the distribution of these benefits amongst the Group's Employees;
- the adoption, at each attribution, of a model for valuing options which permits a more reasonable and realistic calculation of their fair value;
- interpreting the RVA regulations and covering any loopholes;
- making occasional changes to the RVA's contractual provisions, such as for example, bringing forward the option maturity dates or dispensing with the verification of the suspensive conditions or renouncing the attribution under condition subsequent.

The exercise of the above functions by the Executive Committee is monitored by the Board of Directors.

The Remuneration Committee is responsible for the awarding of shares and share options to the members of the Executive Committee of Banco BPI's Board of Directors and to the Directors of Banco Português de Investimento, undertaking the same functions as those attributed to the Executive Committee for purposes of attributing the RVA scheme to Employees, based on the opinion of the Nominations, Evaluation and Remuneration Committee. In terms of the RVA scheme's regulations, the Remuneration Committee cannot adopt more favourable award conditions than those applied by the Executive Committee in the attribution of the RVA scheme to Employees. In the same way, any technical adjustments to the exercise price of quantity of options held by members of the Executive Committee and by the Directors of Banco Português de Investimento cannot be effected under more favourable conditions than those applied to the Employees.

At the General Meeting of 27 April 2011, within the ambit of the proposal presented by the Remuneration Committee relating to the remuneration policy for the management and supervisory bodies for the three-year term 2011/2013, the revised version of the RVA Scheme Regulations were approved.

Credit line for the exercise of options

At the start of 2004, a credit line for the Bank's Employees and Executive Directors who wish to exercise the RVA options was made available.

As regards the use of the credit line by members of the Executive Committee, the Supervisory Board has given its approval, at the same time as the Bank of Portugal as well as the Remunerations Committee were informed.

According to the conditions in force at 31 December 2011, this credit line provides at the moment of utilisation an amount with a minimum limit of 2 500 euro and up to 75% of the market value of the shares to be purchased as a consequence of the exercise of the respective options, with a maximum amount of 100% of the amount needed to exercise the options.

The original conditions of the loans in question were as follows:

- Period – 4 years (extendable for a similar period);
- Repayment – At the end of the period, with the possibility of making partial or total early repayments without penalties;
- Interest – The outstanding principal earns interest at the 12-month Euribor plus 0.75 percentage points (or of 1.5 percentage points from the moment of the extension).

On 25 July 2011 the Board of Directors, without the participation of the Executive Committee members, approved the following alterations to the conditions of the aforementioned loans applicable to the Executive Directors and to employees:

1. The term of the loans can, at the request of the borrowers, be extended so that their maturity date becomes 31 May 2020;
2. The loan interest rate becomes the rate corresponding to the 6-month Euribor ruling at the antepenultimate working day prior to the commencement of each period for the accrual of interest; this rate is applicable to the interest period in progress at the date of approval of these measures, as well as to the ensuing interest periods;
3. At the request of borrowers, the interest whose maturity date is situated in a year in which Banco BPI does not distribute dividends can be capitalised;
4. The obligation to reinforce guarantees is suspended until 31 December 2015;
5. All the other credit line conditions remain in force, namely those relating to when an employee or an Executive Director cease to be employed by the Bank (in this case, provided not substituted by a work relationship with Banco BPI or a BPI Group company, namely:
 - the rule in this situation is that the loan matures, save where the Bank informs the borrower that it agrees to maintain the loan, in which case the consequences as regards the rate of interest envisaged in the Regulations shall apply;
 - however, if this situation is due to retirement, such maturity shall not apply, with the term of the loan and the other conditions in effect at the retirement date remaining in force without any modification;
6. In the event of the employee's or the Executive Director's death, all the conditions attaching to the respective loan which are in force on that date shall continue to apply;
7. For employees who are interested, the following operation is made possible:
 - a) Pledge in lieu of the shares blocked, at their market value (closing price on the date before the pledge) and decrease in the outstanding loan by this amount, providing that:
 - compliance with the rules laid down in the General Meeting authorisation in force for the acquisition of treasury shares;
 - Guarantees are given which the Bank considers to be adequate for the balance of the remaining debt;
 - b) Application to the amount of the remaining debt of the conditions 1 to 6.

6.2. REMUNERATION AND OTHER BENEFITS AWARDED TO THE MANAGEMENT AND SUPERVISORY BODIES

The present information is provided in compliance with the provisions of article 3 of Law 28/2009 of 19 June, article 3 of CMVM Regulation 1/2010 and article 17 of Bank of Portugal Notice 10/2011, as regards that part which refers to the disclosure of the annual amount of remuneration earned by the members of the management and supervisory bodies, in aggregate and in individual terms.

6.2.1. Remuneration of the Chairman of the GM Committee

In 2011, the overall amount of remuneration for the exercise of the function of **Chairman of the General Meeting Committee** was 22 233 euro, paid in 14 instalments¹.

The members of the General Meeting Committee do not benefit for this fact from any retirement entitlement.

6.2.2. Remuneration of the Supervisory Board

In 2011, the aggregate remuneration of the Supervisory Board members was 183 000 euro gross, paid in 14 instalments. The gross amounts earned individually were as follows: **Abel Pinto dos Reis** (Chairman) earned 67 000 euros; **Jorge Figueiredo Dias** earned 58 000 euros; **José Neves Adelino** earned 58 000 euros. The members of the Supervisory Board are not beneficiaries, for this fact, of any retirement-related benefit.

6.2.3. Remuneration of the Board of Directors

In 2011, the remuneration of the Board of Directors as a whole amounted to 5.29 M.€.

The remuneration of the non-executive members amounted to 1.42 M.€ and the remuneration of the executive members amounted to 3.87 M.€.

Remuneration of the members of Banco BPI's Board of Directors in 2011²

Amounts in thousands of euro			
	Fixed ³ Attendance allowances ⁴	Variable ^{5,6}	Total
Executive	2 550	1 322	3 872
Non-executive	1 258	162	1 420
Total	3 808	1 622	5 291

The Executive Directors variable remuneration amounting to 1 322 thousand euro is broken down as follows:

- in cash: 775.7 m.€
- in shares: 88.2 m.€
- in options: 457.8 m.€

Of the above-mentioned variable remuneration, 50% (that is, 679 thousand euro) was the object of deferment and is subject to the condition for access and, therefore, was not paid in 2011.

There is no deferred remuneration due, paid or the object of reduction as a result of the adjustments introduced according to individual performance.

There was no payment in 2011 arising from early termination.

The Remuneration Committee, following the opinion issued by the Nominations, Evaluation and Remuneration Committee, approved at its meeting of 25 March 2011 the amount of the variable remuneration to be awarded to each one of the members of the Executive Committee for their performance in 2010,

In arriving at the amount to be awarded to each executive Director, the Remuneration Committee took into account not only the opinion given by the NERC but also the Remuneration Policy rules approved at the General Meeting of 22 April 2010.

The Committee, taking into consideration the situation prevailing in the stock market and in line with the deliberation of the Executive Committee for other BPI Group employees, approved the application to the Executive Committee members of the Board of Directors of the possibility of them receiving part of the variable remuneration relating to 2010 to be awarded in Banco BPI shares and /or share options - which should correspond to at least 50% of the total amount of variable remuneration -, at their option, in cash or in accordance with the RVA rules in force, while in any event this part of variable remuneration is always subject to the rules set out in the Remuneration Policy approved at the General Meeting of 22 April 2010 for this portion of remuneration.

1) Up till the GM of 27 April 2011, the position was occupied by João Vieira de Castro, who earned 12.9 thousand euro; at the GM of 27 April 2011, Miguel Luís Kolback da Veiga was elected to the position, for which he earned 9.3 thousand euro.

2) Remuneration earned for the functions performed, not only at Banco BPI, but at all the companies with which Banco BPI has a control or group relationship.

3) The fixed remuneration includes seniority payments (in-lieu-of-promotion payments) and long-service bonuses.

4) Attendance allowances for participating on the Board of Directors' Consultative Committees.

5) Variable remuneration awarded in 2011 relating to 2010.

6) The Bank has a policy of taking into consideration in overall remuneration paid the remuneration earned for the exercise of positions at other companies whilst representing BPI.

Accordingly, for payment purposes and the corresponding accounting entry, the amount of the variable remuneration awarded to the Executive Committee members is deducted from the remuneration earned for the exercise of functions at other companies in representation of BPI.

6.2.3.1. Remuneration of the Board of Directors' non-executive members

The remuneration of the non-executive members of the Board of Directors was in aggregate terms 1.42 M.€ in 2011 and includes regular fixed salaries, paid in 14 instalments, in the amount of 1.26 M.€ and the payment of attendance allowances for the meetings of the Consultative Committees of the Board of Directors in the amount of 162 thousand euro¹.

The **amounts earned individually** were as follows: **Artur Santos Silva** earned a fixed remuneration of 124 966.30 euro for his role as Chairman of the Board of Directors. Added to this amount is the payment of 363 247.93 euro, corresponding to the period from 1 January to 31 October 2011 and relating to the amount of the retirement pension to which he has been entitled since April 2004 – in the terms of the regulations referred to in point 6.1.2. of the present report, given that he exercised the functions of Executive Chairman over more than 22 years – and which had not been paid to him because he remains in effective exercise of the functions of the Chairman of the Board of Directors. He received a pension of 58 539.50 by virtue of the fact that he retired on 1 November 2011. He also received attendance allowances in the amount of 46 800 euro for serving on the Board of Directors' committees (Audit and Internal Control Committee, 9 800 thousand euro; and the Financial Risks Committee, 37 000 thousand euro). **Carlos da Camara Pestana** (Deputy Chairman) earned a fixed remuneration of 65 500 euro. **Marcelino Armenter Vidal** earned a fixed remuneration of 48 000 euro, to which must be added the amount of 44 400 euro in attendance allowances, of which 7 400 euro for serving on the Audit and Internal Control Committee, and 37 000 euro for the Financial Risks Committee. **Alfredo Rezende Almeida** earned a fixed remuneration of 48 000 euro, to which must be added the amount of 29 600 euro in attendance allowances for the meetings of the Audit and Internal Control Committee. **Ignacio Alvarez-Rendueles** earned a fixed remuneration of 48 000 euro, to which must be added 22 200 euro in attendance allowances for serving of the Audit and Internal Control Committee. **Mário Leite da Silva** earned a fixed remuneration of 48 000 euro, to which must be added 18 500 euro in attendance allowances for serving of the Audit and Internal Control Committee. The Directors **António Lobo Xavier, Armando Leite Pinho, Carlos Moreira da Silva, Edgar Alves Ferreira, Herbert Walter, Henri Penchas, Isidro Fainé Casas, Juan Nin Génova, Klaus Dührkop** and **Tomaz Jervell**, each earned a fixed remuneration of 48 000 euro. **Ricardo Villela Marino** earned a fixed remuneration of 32 667 euro.

6.2.3.2. Remuneration of the Executive Committee

Total remuneration (fixed and variable) paid to Banco BPI's Executive Committee for carrying out its duties and for its performance in 2011 was 3.87 M.€.

- **Fixed** remuneration was 2.55 M.€;
- the **variable** remuneration awarded in 2011 relating to the performance in 2010 was 1.32 M.€, representing 0.72% of the consolidated net profit earned in 2010, when the limit set by the AGM at 22 April 2010 was 1.3%.

The total amounts of the remuneration earned individually by the members of the Executive Committee were as follows,

distinguishing between the fixed remuneration (paid in 14 instalments), and the variable remuneration awarded in 2011 in respect of their performance in 2010: **Fernando Ulrich** (Chairman): fixed remuneration of 468 187 euro and variable remuneration in cash of 266 000 euro, of which 133 000 was made available immediately and 133 000 euro the payment of which is deferred and conditional. **António Domingues** (Deputy-Chairman): fixed remuneration of 427 830 euro and variable remuneration of 173 710 euro, of which 68 710 was paid in cash and 105 thousand euro awarded in the form of options to buy BPI shares the availability of which is deferred and conditional.

António Farinha Morais: fixed remuneration of 334 199 euro and variable remuneration of 176 400 euro, of which 88 200 euro paid in cash and 88 200 euro awarded in the form of options to buy BPI shares the availability of which is deferred and conditional. **José Pena Amaral**: fixed remuneration of 330 638 euro and variable remuneration of 176 400 euro, of which 88 200 euro paid in cash and 88 200 euro awarded in the form of options to buy BPI shares the availability of which is deferred and conditional. **Manuel Ferreira da Silva**: fixed remuneration of 330 638 euro and variable remuneration of 176 400 euro, of which 88 200 euro paid in cash and 88 200 euro awarded in the form of options to buy BPI shares the availability of which is deferred and conditional. These figures relate to remuneration earned from Banco Português de Investimento (fixed remuneration of 249 304 euro and variable remuneration of 132 300 euro) and from Banco BPI (fixed remuneration of 81 334 euro and variable remuneration of 44 100 euro). **Maria Celeste Hagatong**: fixed remuneration of 330 638 euro and variable remuneration of 176 400 euro, of which 88 200 euro paid in cash and 88 200 euro awarded in the form of options to buy BPI shares the availability of which is deferred and conditional. **Pedro Barreto**: fixed remuneration of 327 736 euro and variable remuneration of 176 400 euro, of which 88 200 euro paid in cash

1) In 2010, the Audit and Internal Control Committee met on 9 occasions, the Nominations, Evaluation and Remunerations Committee on one occasion and the Corporate Governance Committee on one..

and 88 200 euro awarded in the form of options to buy BPI shares the availability of which is deferred and conditional.

With the aforementioned exception of the director Manuel Ferreira da Silva, no other member of the Executive Committee received any remuneration from any Group company other than Banco BPI.

6.2.3.3. Pensions and other benefits to the Chairman and other executive members of the Board of Directors

The universe of Directors covered by the defined benefits pension plan addressed in point 6.1.2., which includes the Chairman of Banco BPI Board of Directors (for his past executive duties at the BPI Group), and the plan's liabilities, were at 31 December 2011 as follows:

	Current	Retired	Total
Number of persons	7	4	11
Liabilities (m.€)	11 952	10 571	22 523

If one adds the figures relating to current or former Directors at Banks within the BPI Group who benefit from a defined-benefit pension plan to the figures presented in the table above, the table is as follows:

	Current	Retired	Total
Number of persons	13	9	22
Liabilities (m.€)	15 180	15 962	31 142

In December 2006, the liabilities for retirement and survivors' pensions under a defined-benefit regime to the Directors of the BPI Group's banks were transferred to an open-end pension fund (Fundo de Pensões BPI Valorização).

At 31 December 2011, the aggregate amount of the pension rights acquired by the members of the Executive Committee stood at 1.545 thousand euro, of which 194 thousand euro corresponded to the annual pension payable by the Social Security and 1 351 thousand euro to the annual supplementary pension payable by the Bank.

The old-age pension rights acquired by the members of the Executive Committee and by the Chairman of the Board of Directors (the latter by virtue of the exercise of previous executive functions at the BPI Group) were, in individual terms,

at 31 December 2011¹, the following, distinguishing between the estimate of the annual Social Security² pension (whenever the director concerned is entitled to it) and the annual supplementary pension payable by the Bank.

Artur Santos Silva: annual pension of 351 237 euro of which 43 602 euro payable by the Social Security and 307 635 euro payable by the Bank; Fernando Ulrich: annual pension of 348 000 euro of which 45 763 euro is payable by the Social Security and 302 237 euro is payable by the Bank; António Domingues: annual pension of 333 494 euro of which 40 684 euro payable by the Social Security and 292 810 euro payable by the Bank; António Farinha Morais: annual pension of 168 680 euro of which 826 euro payable by the Social Security and 167 854 euro payable by the Bank; José Pena do Amaral: annual pension of 229 724 euro, of which 22 428 euro payable by the Social Security and 207 296 euro payable by the Bank; Manuel Ferreira Silva: annual pension of 218 469 euro, of which 40 475 euro payable by the Social Security and 177 994 euro payable by the Bank; Maria Celeste Hagatong: annual pension of 224 097 euro, of which 38 726 euro payable by the Social Security and 185 371 euro payable by the Bank; Pedro Barreto³: annual pension of 22 745 euro, of which payable 5 348 euro payable by the Social Security and 17 397 euro payable by the Bank.

6.2.4. Loans to members of the BD

Mortgage loans

At 31 December 2011, the overall balance on mortgage loans granted to members of the Executive Committee of the Board of Directors for the purpose of acquiring their own homes amounted to 1.9 M.€.

Credit lines for exercise of options and subscription of BPI shares in the capital increase realised in 2008

Banco BPI's executive Directors (as well as its employees) benefit from the credit line for the acquisition and maintenance in portfolio of BPI shares resulting from the exercise of the options awarded under the RVA scheme. At the end of 2011, the balance on credit extended to the members of Banco BPI's Executive Committee was 5.6 M.€.

In 2008 a credit line was made available to the Directors of the Group companies (as well as to employees and retirees) who wished to subscribe for BPI shares in the capital increase and to

1) Pension based on the period of service up till 31 December 2011 (assumes the end of contributions on 31 Dec.11), payable at age 65 and assuming continued employment at the bank until that date.

2) This Social Security pension is an estimate of the amount receivable, taking into account the rules currently in force for the Social Security's general regime. In this calculation, account was taken of the period of deductions made by the BPI Group, including the period of future deductions to be recognised by the BPI Group, as well as the payroll information available.

3) This value corresponds to the pensions plan of which he is a beneficiary while at the Board of the Bank, since he still has not reached the minimum number of years eligibility for an old-age retirement under the regulation referred to in paragraph 6.1.2.

keep in portfolio the shares thus acquired¹. At the end of 2011, the credit-line balance relating to the members of Banco BPI's Executive Committee stood at 0.9 M.€.

Credit lines for exercise of options and subscription of BPI shares in the capital increase realised in 2008

Balance at 31 December 2011

Amounts in thousands of euro

	Credit line for exercise of options ²	Credit line for subscription of BPI shares ¹
Banco BPI Executive Committee	5 619	942
Directors of Banco Português de Investimento ³	97	37
Managers and other employees	2 553	385
Total	8 269	1 364

6.2.5. Insurance of Banco BPI's Directors

The Chairman of the Board of Directors and Executive Directors of Banco BPI in current service benefit from a range of insurance policies which cover life, illness and accident risks.

Amounts in thousands of euro

Policy	Risk covered	Capital insured
Group life assurance	Illness	424
	Accident (involuntary cause)	848
	Traffic accident	1 272
Personal accident insurance	Accident	148
Work accident insurance	Dead or professional disability	Under the terms of the law
Health insurance ⁴	Illness or accident	25 ⁵

The costs borne by the BPI Group in connection with the abovementioned policies amounted to 49.6 thousand euro, in 2011 (50.4 thousand euro in 2010).

In addition, the BPI Group bears costs of 8.0 thousand euro associated with SAMS contributions relating to the three members of Banco BPI's Executive Committee who benefit from this scheme's protection.

6.2.6. Early termination of contracts

No severance compensation was paid nor is any due in 2011 to any former executive Directors relating to the cessation of their functions during the year.

Banco BPI complied with the evaluation obligation relating to the remuneration policy's conformity with the Bank of Portugal's recommendations on the matter set out in Notice 1/2010 by means of the declarations annexed to the 2011 internal control report sent to the Bank of Portugal:

- the conformity of Banco BPI's Remuneration Policy vis-à-vis the recommendations contained in letter-circular no. 2/10/DSBDR;
- the Remuneration Policy's overall coherence of its overseas branches and "off-shores" establishments with the aforesaid recommendations.

6.3. EMPLOYEES' REMUNERATION AND OTHER BENEFITS

The information provided in this section has as its object complying with the requirements of Bank of Portugal Notice 10/2011, and refers to the universe of employees who meet certain of the following criteria which correspond to those set out in article 1(2)(a) to (c) of the aforesaid Notice:

- perform functions with responsibility for the assumption of risks on behalf of the institution or its customers, with a material impact on the institution's risk profile, which includes employees who have regular access to privileged information and participate in decisions on the institution's management and business strategy;
- perform the control functions contemplated in Bank of Portugal Notice 5/2008 (compliance, audit and risk control).

In applying the above-mentioned criteria and solely for the limitation of the employees to which the information to be provided pursuant to article 17 of Notice 10/2011 refers, the universe of employees considered corresponds to the Remuneration Policy for senior managers mentioned in 6.1.6., namely:

- employees categorised as "managers" for purposes of the provisions of article 248º-B of the Securities Code;
- employees who occupy first and second tier positions at divisions which perform control functions.

In 2011, the universe defined above encompassed 23 employees.

1) This credit line was earmarked exclusively to fund the acquisition of Banco BPI shares resulting from the exercise of the subscription rights which every Employee or Director was entitled to on the date the subscription rights were detached from the shares (21 May 2008, last day on which the shares traded cum rights).

2) Financing obtained for keeping in portfolio of BPI shares which resulted from the exercise of the RVA options.

3) Directors who are not simultaneously members of Banco BPI's Executive Committee.

4) Covers the respective family.

5) Annual cost with insurance.

In 2011, the remuneration paid to the above universe was, in aggregate terms, 3.33 M.€. split between fixed remuneration of 2.28 M.€ and variable remuneration of 1.05 M.€. The amount of variable remuneration of 1 051.8 thousand euro was distributed as follows:

- in cash: 1 018.2 thousand euro.
- in options: 33.6 thousand euro.

At 31 December 2011, the aggregate amount of pension rights (annual) acquired by the universe of employees under review was 1 083.7 thousand euro.

The breakdown of the remuneration and pension rights indicated above between the above-mentioned two groups was the following:

Amounts in euro		
	Control functions	Other functions
Employees	12	11
Fixed remuneration	925 482	1 362 411
Variable remuneration:	294 367	723 810
Disposable – cash		
Variable remuneration:	17 610	16 000
Disposable – Options		
Total remuneration	1 237 459	2 102 221
Pension rights acquired	444 076	639 632

There is no deferred remuneration (not paid) awarded to the above group of employees.

There is no deferred remuneration due, paid or the object of reduction as a result of the adjustment introduced according to individual performance.

No new employees were recruited in 2011 who fall within this universe.

No payments were made in 2011 for the early termination of employment contracts.

6.4. BANK OF PORTUGAL REGULATIONS GOVERNING REMUNERATION POLICIES

On 9 January 2012 the Bank of Portugal published Notice 10/2011, which updates the regulations relating to the general principles governing remuneration policies and practices with a view to ensuring that the remuneration structure does not encourage the assumption of excessive and imprudent risks, and is compatible with the institutions' long term interests and sets out the information disclosure requirements in this domain, revoking Bank of Portugal Notice no. 1/2010 and Letter-Circular 2/2010/DSB.

The aforesaid Notice came into force on 10 January 2012, while the Remuneration Policy disclosure requirements already apply

to the 2011 financial year (table which provides the information appearing in point 6.3. above).

Given that, as regards the other aspects, the dispensation which was in force in 2011 was that enshrined in Notice 1/2010 and Letter-Circular 2/2010, it is with reference to that table that account is given of the terms in which the Bank's remuneration policy complied with the applicable rules and recommendations. In this sphere, it can be seen that the Bank complies with the majority of the recommendations contained in the said Letter Circular (28 out of a total of 39), as noted in the following table.

It should be noted that of the 11 recommendations not adopted, 10 refer to two matters in which, namely in the light of that provided for in the CMVM's recommendations concerning Corporate Governance, the recommended requirement introduces new aspects, the analysis of which by the Bank is in progress. These matters are as follows:

Intervention and remuneration of the control functions

At issue here are:

- 6 recommendations (II.3, VI.1, VI.2, VI.3, VII.3 and VII.4) which point to the involvement of the control functions in the definition and evaluation of remuneration policy for the members of the management and supervisory bodies and the Covered Employees;
- 1 recommendation (V.8) which provides that the Employees involved in the performance of tasks associated with control functions are remunerated according to the pursuance of the objectives associated with the respective functions, irrespective of the performance of the areas under their control.

Bearing in mind their technical nature and hierarchical dependence on the Executive Committee of the Board of Directors, the involvement of those control functions in the matter in question and upon what terms it should take place is still under review. The same applies as regards the recommendation that the Employees with those functions should have a remuneration package which differs from that of the Bank's other Employees.

Structure of the remuneration of Employees

At issue here are 3 recommendations:

- that the "Criteria for granting variable remuneration based on performance must be predetermined and measurable, and must have as a reference a multi-annual timeframe of three to five years, with a view to ensuring that the evaluation process is based on long-term performance" (V.4); this multi-annual perspective is not used at the present moment in the definition of the variable remuneration of Employees;

- that “The variable remuneration, including the deferred portion of such remuneration, should only be paid or become an acquired right if it is sustainable in the light of the institution’s financial situation as a whole, and if it is justified in the light of the performance of the Employee concerned and of the unit structure to which he/she is attached” (V.5); the subjection of the payment of variable remuneration granted to Employees to this condition is presently not envisaged;
- that “A significant part of the variable remuneration should be deferred for a period of not less than three years and its payment should depend on criteria of future performance

measured on the basis of risk-adjusted criteria which take into account the risks associated with the activity which results in their granting” (V.6); the subjection of the aforementioned deferral of the payment of the variable remuneration granted to these Employees is currently not contemplated, save to the extent that it is composed of Banco BPI shares, which are vested in a deferred manner.

The possible introduction of these elements requires an analysis which takes into account, amongst other aspects, the delimitation of the universe of employees to be covered.

Indication of recommendations adopted and not adopted

Recommendation	Adoption
I. GENERAL PRINCIPLES	
I.1. Institutions should adopt a remuneration policy consistent with an effective control and management of risk, which avoids, excessive exposure to risk, which avoids potential conflicts of interest and which is coherent with the financial institution’s long-term objectives, values and interests, namely with growth and sustainable earnings prospects and the safeguarding of Customers’ and investors’ interests.	Adopted
I.2. The remuneration policy must be appropriate to the size, nature and complexity of the activity carried on or to be carried on by the institution and, in particular, as regards the risks assumed or to be assumed.	Adopted
I.3. Institutions should adopt a clear, transparent and appropriate structure relating to the definition, implementation and monitoring, of the remuneration policy, which identifies, in an objective manner, the Employees involved in each process, as well as the respective responsibilities and competencies.	Adopted
II. APPROVAL OF REMUNERATION POLICY	
II.1. As regards the remuneration of the members of the management and supervisory bodies, remuneration policy should be approved by a remuneration committee or, in the case where its existence is not feasible or appropriate vis-à-vis the size, nature and complexity of the institution concerned, by the general meeting or by the general and supervisory board, as the case may be.	Adopted
II.2. As concerns the remuneration of the other Employees covered by the present Letter-Circular, remuneration policy should be approved by the management body.	Adopted
II.3. In formulating remuneration policy, persons with functional independence and proper technical ability should be involved, including persons who form part of the unit structures responsible for the control functions and, whenever necessary, of the human resources area, as well as external experts, so as to avoid conflicts of interest and to permit the formation of an independent judgment on the appropriateness of the remuneration policy, including its effects on the management of the institution’s risks, capital and liquidity.	Not adopted
II.4. The remuneration policy should be transparent and accessible to all the institution’s Employees. The remuneration policy should also be the object of periodic review and be formalised in autonomous document(s), duly updated, with indication of the date of the alterations introduced and the respective justification, while a separate file should be kept of previous versions.	Adopted
II.5. The evaluation process, including the criteria used for determining variable remuneration, should be communicated to Employees prior to the period of time covered by the evaluation process.	Adopted
III. REMUNERATION COMMITTEE	
III.1. The remuneration committee, where one exists, should conduct a review at least once a year of the institution’s remuneration policy and its implementation, in particular, as concerns the remuneration of the executive members of the management body, including the respective remuneration based on shares or options, so as to permit the formulation of a substantiated and independent value judgment on the appropriateness of the remuneration policy, in the light of the recommendations of Bank of Portugal Letter-Circular no. 2/2010/DSB, in particular, on the effect on the management of the institution’s risks, capital and liquidity.	Adopted
III.2. The members of the remuneration committee should be (a) independent in relation to the members of the management body and comply with (b) personal integrity requirements and (c) professional qualifications appropriate to the exercise of their functions, in particular to possess (d) knowledge and/or professional experience in remuneration policy matters.	a) Not adopted b) Adopted c) Adopted d) Adopted

Recommendation	Adoption
III.3. In the case of the remuneration committee resorting in the exercise of its functions to the provision of external services relating to remuneration issues, it should not contract any natural or legal person who renders or has rendered in the last three years services to any structure reporting to the management body, to management itself or which has a current relationship as the institution's consultant, while this recommendation is equally applicable to any natural or legal person who has an employment or service contract with them.	Adopted
III.4. The remuneration committee should inform the Shareholders annually about the exercise of its functions and should be present at the general meetings where remuneration policy appears on the order of business.	Adopted
III.5. The remuneration committee must meet at least once annually, and keep minutes of all its meetings	Adopted
IV. REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BODY Executive members of the management body	
IV.1. The remuneration of Directors who exercise executive functions should have a variable component, the amount of which depends on a performance evaluation carried out by the institution's relevant bodies in accordance with predetermined measurable criteria, including non-financial criteria, which considers, besides individual performance, the institution's real growth and the value actually created for the Shareholders, the safeguarding of Customers' and investors' interests, their long-term sustainability and the risks assumed, as well as compliance with the rules applicable to the institution's activity.	Adopted
IV.2. The fixed and variable components of total remuneration total should be properly balanced. The fixed component represent a sufficiently high proportion of total remuneration, so as to allow the application of a wholly flexible policy on the variable component of remuneration, including the possibility of the non-payment of any variable component of remuneration. The variable component should be subject to a maximum limit.	Adopted
IV.3. A substantial part of the variable component of remuneration should be paid in financial instruments issued by the institution and the value of which depends on the institution's medium and long-term performance. The financial instruments should be subject to an appropriate retention policy designed to align the incentives with the institution's long-term interests and, when not quoted on a stock exchange, should be valued for this purpose at their fair value.	Adopted ¹
IV.4. A significant part of the variable remuneration should be deferred for a period of not less than three years and its payment should depend on the institution's continued positive performance throughout this period.	Adopted
IV.5. The variable component subject to deferral should be determined according to the growth of its relative weight vis-à-vis the fixed component of remuneration.	Adopted
IV.6. The members of the management body should not enter into contracts, not only with the institution but also with third parties, which have as an effect mitigating the risk attaching to the variability of the remuneration fixed for them by the institution.	Adopted
IV.7. Up till the end of their term of office, the executive members of the management body must keep the institution's shares which they have acquired under the variable remuneration schemes, up to the limit of twice the value of annual total remuneration, with the exception of those which need to be sold in order to make the payment of taxes resulting from the benefit of the self-same shares..	Adopted
IV.8. When the variable remuneration comprises the granting of options, the start of the exercise period should be deferred for a period of not less than three years.	Adopted
IV.9. After the exercise referred to in the previous number, the executive members of the management body should keep a certain number of shares, up to the end of their term of office, subject to the need to finance any related costs with the acquisition of shares, while the number of shares to be kept should be fixed.	Adopted
Non-executive members of the management body	
IV.10. The remuneration of the non-executive members of the management body should not include any component the amount of which depends on the institution's performance or value.	Adopted
Indemnities in the case of removal from office	
IV.11. Appropriate legal instruments should be laid down so that the indemnity laid down for any form of removal of a member of the management body without just cause is not paid where the removal or termination by accord results from an inadequate performance of the member of the management body.	Adopted
V. REMUNERATION OF EMPLOYEES Relationship between fixed and variable remuneration	
V.1. If the remuneration of the institution's Employees includes a variable component, this should be adequately balanced vis-à-vis the fixed component of remuneration, taking into consideration, namely the performance, responsibilities and functions of each Employee, as well as the business carried on by the institution. The fixed component should represent a sufficiently high proportion of the total remuneration, with a view to permitting the application of a fully flexible policy on the variable component of remuneration, including the possibility of the non-payment of any variable component of remuneration. The variable component should be subject to a maximum limit ² .	Adopted

1) Without prejudice to this being the general rule envisaged in the remuneration policy relating to the executive members of the management body approved at the GM, the same provides for the possibility of, in exceptional cases, the Remuneration Committee being able to deliberate that these executive members may opt to receive in cash the variable component of their remuneration which, according to that general rule and in the absence of the aforesaid exceptional conditions, would have had to be paid in financial instruments (shares and share options) of the type referred to in this recommendation.

2) Without prejudice to there being no predefined maximum limit for the variable component of the remuneration of the Employees concerned, (i) there exists a limit applicable to the total Banco BPI shares and share options to be granted, as well as, as regards the last-mentioned, applicable to the total shares which are the object of the options in force and (ii) the variable component of the remuneration of the universe of Employees in which the Employees concerned are included, has corresponded to a percentage which in the last few years has been on average 18% of the after-tax earnings from domestic operations. It can be regarded therefore that also this aspect of the recommendation in question is fulfilled.

Recommendation	Adoption
V.2. A substantial part of the variable component of remuneration must be paid in financial instruments issued by the institution and the amount of which depends on the institution's medium and long-term performance. These financial instruments should be subject to an appropriate retention policy designed to align the incentives with the interests of the institution's medium and long-term performance, and should be valued for this purpose, when not quoted on a stock exchange, at their fair value.	Adopted ¹
Criteria for the granting of variable remuneration	
V.3. The performance evaluation should take into consideration not only the individual performance but also the collective performance of the unit structure of which the Employee forms part and of the institution itself. It should include important non-financial criteria, such as observance of the rules and procedures applicable to the activity carried on, namely internal control rules and those relating to dealings with Customers and investors, so as to foster the institution's sustainability and the creation of long-term value.	Adopted
V.4. The criteria for the granting of variable remuneration based on performance should be predetermined and measurable, and should have a multi-annual timeframe of three to five years, with the object of ensuring that the evaluation process is based on long-term performance.	Not adopted
V.5. The variable remuneration, including the deferred part of that remuneration, should only be paid or constitute an acquired right if it is sustainable in the light of the institution's financial situation as a whole, and if it is justified in the light of the performance of the relevant Employee and the unit structure of which he/she forms part. The total variable remuneration should generally be strongly reduced in the case of the institution's diminished or negative performance.	Not adopted
Deferral of variable remuneration	
V.6. A significant portion of variable remuneration should be deferred for a period of not less than three years and its be dependent on future performance criteria, measured based on risk-adjusted criteria which take into consideration the risks associated with the activity that results in its granting.	Not adopted
V.7. The portion of variable remuneration subject to deferral in terms of the preceding number should be determined on a rising scale of its relative weight vis-à-vis the fixed component of remuneration, with the deferred percentage increasing significantly according to the Employee's hierarchical or responsibility level	Adopted
Remuneration of Employees who perform control functions	
V.8. Employees involved in the carrying out of tasks associated with control functions should be remunerated according to the pursuance of the goals associated with the respective functions, irrespective of the performance of the areas under their control, while the remuneration should provide appropriate compensation commensurate with the importance of the exercise of their functions.	Not adopted
VI. EVALUATION OF REMUNERATION POLICY	
VI.1. The remuneration policy should be subjected to an independent internal evaluation at least once a year, executed by the institution's control functions in liaison with each other.	Not adopted
VI.2. The evaluation envisaged in the preceding number must include, namely, a review of the institution's remuneration policy and its implementation, in the light of the recommendations of the present Letter-Circular, in particular on the respective effects on the management of the institution's risks, capital and liquidity.	Not adopted
VI.3. The control functions must submit to the management body and to the general meeting or, if one exists, to the remuneration committee, a report with the findings of the review referred to in number VI.1., which, in particular, identifies the measures needed to correct any eventual shortcomings in the light of the present recommendations.	Not adopted
VII. FINANCIAL GROUPS	
VII.1. The parent company of a financial group subject to the Bank of Portugal's supervision based on its consolidated situation must ensure that all its subsidiaries, including overseas subsidiaries and offshore establishments, implement remuneration policies consistent amongst themselves, having as the cornerstone the present recommendations ² .	Adopted
VII.2. The adoption of the present recommendations must be assured for all the remuneration paid to each Employee by the group of institutions, financial or not, which make up the same financial group.	Adopted
VII.3. The parent company's control functions must carry out, in liaison with each other, at least once a year, an evaluation of the remuneration practices of the overseas subsidiaries and offshore establishments in the light of the recommendations of the present Letter-Circular, in particular as regards the respective effects on the management of the institution's risks, capital and liquidity.	Not adopted
VII.4. The control functions must submit to the parent company's management body and to the general meeting or, if one exists, to the remuneration committee, a report with their findings of the review referred to in the previous number, which, in particular, identifies the measures needed to correct any eventual shortcomings in the light of the present recommendations.	Not adopted

1) See footnote number 1 on page 324.

2) The remuneration policy in force at Banco de Fomento Angola, S.A. provides that the remuneration of the executive members of its Board of Directors and of its Employees incorporates a fixed and a variable component, the latter being based on the performance at individual level, as well as taking into account the Bank's financial results.

7. Shareholder structure, control and transferability of shares

7.1. SHAREHOLDER STRUCTURE

At 31 December 2011 Banco BPI's capital was held by 21 862 Shareholders, of whom 21 365 were individuals owning 15.6% of the capital, while 497 institutional investors and companies owned 84.4% of the capital.

7.2. QUALIFIED SHAREHOLDINGS UNDER THE TERMS OF ARTICLE 20 OF THE SECURITIES CODE

Shareholders owning more than 2% of Banco BPI's capital^{1,2}

At 31 December 2011

Shareholders	No. of shares held	% of capital held	% of voting rights ¹
La Caixa Group ³	297 990 000	30.1%	30.1%
Itaú Group ⁴	186 840 660	18.9%	18.9%
Santoro ⁵	98 944 995	9.99%	9.99%
Allianz Group ^{5,6}	87 243 078	8.8%	8.8%
HVF SGPS, S.A.	28 351 791	2.9%	2.9%

Note: Shareholder positions recorded at 31 December 2011 at the securities clearing house (Central de Valores Mobiliários - CVM), based on the information received from the Central de Valores Mobiliários. At 31 December 2011 the BPI Group held 7 024 380 own shares corresponding to 0.71% of Banco BPI's share capital.

7.3. SHAREHOLDER CONTROL

Banco BPI has not adopted any defensive measures – whether they be financial, statutory or other mechanisms –, impeding the free transferability of the shares and the unrestricted review by shareholders of the performance of Board members or the success of public takeover bids. There are no financial or shareholder mechanisms commonly known in English terminology as “poison pills” or “anti-takeover provisions”.

BPI has also not adopted any defensive measure that has as its effect automatically provoking a serious erosion of its net assets in the case of the transfer of control or changes to the composition of the Board of Directors.

There are no significant accords of which BPI forms part and which enter into effect, are altered or cease in the event there is a change in the control of the company.

The BPI Group has no convertible bond issues or shares with warrants or other special rights in circulation the exercise of

which may result in changes in the shareholder structure, control or transferability of shares.

At 31 December 2011, the share capital held by the members of the Board of Directors or by companies in which those members occupy management positions was as follows:

The members of the Board of Directors held in their own names 9 149 415 shares, representing 0.92% of the Bank's share capital. Of these, 4 943 842 shares (0.50%) were held by members of the Executive Committee and 4 205 573 shares (0.42%) by non-executive Directors.

The executive members also owned at today's date 4 942 138 options to buy Banco BPI shares, which if exercised represent 0.50% of the capital.

The companies in which the non-executive Directors occupy management positions held at the same date 745 152 721 bank shares representing 75.3% of its share capital.

Banco BPI's statutes stipulate that the votes cast by a single shareholder, in his own name or as the representative of another or others, which exceed 20% of the company's total votes, representing the share capital, shall not be counted. Any change to this statutory provision requires the approval of 75% of the votes cast in General Meeting.

There are no BPI shareholders with special rights.

The Bank is not aware of any shareholder agreement with the same nature as those referred to in article 19 of the Securities Code (SC) relating to the exercise of company rights or to the transfer of Banco BPI shares. The Bank is also not aware of any voting syndicate or defence agreement against public takeover bids.

7.4. OTHER INFORMATION

There is no system of employee participation in the company's capital in which the voting rights are not exercised directly by them.

1) In terms of statutory provisions, votes cast by a shareholder in his/her own name and as the representative of others, and by persons with whom he/she has any of the relationships contemplated in article 20(1) of the SC, which exceed 20% of the share capital shall not be counted.

2) At 31 December 2011, companies controlled by the director Armando Leite de Pinho held 7 856 695 shares representing 0.8% of BPI's capital. Persons related by family ties and companies linked to them owned holdings which, added to the abovementioned, totalled 30 049 406 shares representing 3.0% of BPI's capital. According to the information which the Bank has, this does not mean that the aforesaid aggregate constitutes a qualified shareholding in BPI in terms of article 16 and following the Securities Code.

3) Through Caixabank, S.A., which is 81.5% held by the parent company of the La Caixa Group, Caixa d'Estalvis i Pensions de Barcelona (“La Caixa”).

4) Through IPI – Itaúsa Portugal Investimentos – SGPS, Lda., 100% held.

5) Directly held by Santoro Finance – Prestação de Serviços, SA (“Santoro Finance”), and imputable to Santoro Financial Holdings, SGPS (“Santoro”), as owner of the entire capital of Santoro Finance, and to Eng. Isabel José dos Santos, in her capacity as shareholder of Santoro Financial Holdings, SGPS.

6) Through the subsidiaries controlled by Allianz SE: direct shareholding of 8.66% held by Allianz Europe Ltd. (100% held by the Allianz Group) and a direct shareholding of 0.16% held by Companhia de Seguros Allianz Portugal (65% held by the Allianz Group).

7) Including shares held by spouses.

8. Ethics and professional conduct

8.1. COMMITMENT TO STRICT STANDARDS OF ETHICS AND PROFESSIONAL CONDUCT

The professional activity of the members of governing bodies and of Employees of the companies belonging to the BPI Group universe, is governed by the following principles:

- respect for absolute independence as regards the interests between the Company and its Customers, between personal interests and those of the Company, and those of the Customers amongst themselves;
- professional competence;
- personal integrity.

With the aim of safeguarding absolute respect for all the standards of an ethical and professional conduct nature at each of the BPI Group's companies, members of governing bodies, Employees, service providers and external consultants are obliged to declare in writing that they have full knowledge of the norms appearing in the following documents.

- Codes of conduct of the respective associations, namely, the Associação Portuguesa de Bancos (APB) and the Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios (APFIPP).
- BPI Group's code of conduct. It contains, in certain instances, even more restrictive rules than those embodied in directives issued by the associations to which the BPI Group companies belong and / or by the supervisory authorities.

Breach of the duties envisaged in the aforesaid codes is punishable according to the gravity of the infringement, the degree of the perpetrator's culpability and the consequences of the act, through the application of a sanction which is graduated on a case-by-case basis, ranging from a verbal admonishment to dismissal with just cause. Disciplinary responsibility is independent of responsibility of a civil, administrative offence and criminal nature.

BPI Group's codes of conduct in force are available for consultation or download at the website www.ir.bpi.pt or upon request to the Investor Relations Division (see contacts under point 9.2.3 of this report).

The ethical and professional conduct regulations imposed upon those who work for the BPI Group are intended to complement the legal provisions concerning the duty of professional confidentiality, the defence of Customers' interests and the prohibited use of privileged information for personal gain.

8.2. EQUITY AND SAFEGUARDING AGAINST CONFLICT OF INTERESTS

8.2.1. Conflicts of interest between Directors or Employees and Banco BPI

The members of Banco BPI's Board of Directors are bound to communicate any interest, direct or indirect, that they, any member of their families or any entities to which they are professionally connected, may have in the Company in respect of which the possibility of the assumption of an equity interest, or a loan or any service by BPI Group Companies or Banks, is being considered. In such circumstances, the Directors must inform the nature and extent of such interest and, where this is substantial, they must refrain from taking part in the discussion and / or voting of any proposal that such operation may entail.

Similarly, any conflicts of interest resulting from family relationships, personal assets or any other cause, of any Employee on the one side, and those of Banco BPI on the other, must be promptly communicated to the person in charge of the respective Division.

BPI Employees must also not accept any power of attorney or other form of mandate which involves the representation of third parties, Customers or not, in negotiations and contacts with BPI. Exceptions to this rule, namely when they involve the representation of family members or if justified by strong commercial grounds, must be requested in writing by the Employee, indicating the type of representation and the extent of the powers conferred on him.

Employees who have access to operate bank accounts, as well as to the loading of credit limits, through the internal IT systems of the Group's banks, are prohibited from processing movements and from loading credit limits on the accounts in which they appear as accountholders, authorised signatories or representatives, or of which they are beneficiaries or heirs. They are also prohibited from being responsible for any commercial involvement with any account of which they are the holders, signatories or representatives or of which they are the beneficiaries or heirs, as well as of accounts whose holders, signatories or representatives are their family members.

8.2.2. Business dealings between BPI and members of the Board of Directors, the Supervisory Board, the holders of qualified shareholdings or companies belonging to the Group

There were no business dealings or operations in 2011 between Banco BPI on the one hand, and the members of its Board of Directors, its Audit Board, the holders of qualified shareholdings or Group companies, on the other, which were materially relevant and cumulatively, which were carried out other than under market conditions (applicable to similar operations) or beyond the scope of the bank's normal day-to-day business operations.

However, it is important to disclose the following business relations existing between BPI and some of the holders of qualified shareholdings. Namely:

Allianz Group

BPI is in partnership¹ with the Allianz Group in the life assurance and life risk business, materialised in a 35% interest in Allianz Portugal² and in an agreement for the distribution of insurance through its commercial network.

The Allianz Group owns a 8.8% shareholding in Banco BPI at 31 December 2011.

La Caixa

BPI has a partnership with La Caixa reflected in the offer of products and services aimed at supporting companies operating in the Iberian Peninsula, allowing them to conduct international financial operations under the conditions equal to those performed in their home markets.

Arsopi

BPI has a partnership with the Arsopi, evidenced by:

- A 14%³ shareholding in a holding company called Viacer.
- a direct and indirect shareholding (via Viacer) of 13.5%⁴ e 9.5%, and 9.5%, respectively, totalling 23.02% in the holding company called Petrocer (at the moment is deactivated).

Viacer's most significant assets are a 56% shareholding in Unicer – one of the country's biggest drinks manufacturers and distributors.

8.2.3. Stock Brokerage Activity – dealing for own account

There are strict rules governing everything that refers to the execution of operations involving securities dealing for one's own account⁵. An example of these rules is the policy that securities acquired by members of the BPI Group's Governing Bodies and Employees can only be sold at least 10 days after their purchase, thereby limiting the risk of improper involvement in operations of a speculative nature.

Compliance with the rules envisaged in the preceding paragraph can only be waived by the decision of a Director or, when it involves a member of a governing body, by deliberation of the Board of Directors taken after submission of a written petition by the interested party⁶. To the present date, no member of a governing body and no Employee have ever requested the Board of Directors to waive compliance with this rule.

It is important to underline in more general terms the obligation imposed on all Directors of the Group and Employees to communicate to the Compliance Division within 24 hours all the operations realised involving securities⁷, except in the case where the Group's brokerage channels have been used (which in this case is regarded as communication of the operation). Recourse to these channels is compulsory for Employees involved in stock brokerage activity.

8.2.4. Acting for the account of Customers

BPI Group's Banks and specially those Employees who are involved in stock broking activity are subject to disclosure duties imposed by article 312 of the CVM, as well as to the duties laid down in BPI's code of conduct as well as that of the Associação Portuguesa de Bancos (Portuguese Association of Banks). The latter's code of conduct determines that the Banks must, in the execution of any operations entrusted to them, serve their Customers with diligence, loyalty and discretion, namely:

- carrying out the transactions with speed and upon the best conditions afforded by the market;
- abstaining from carrying out and inciting their Customers to effect repeated operations of securities purchases and sales, when these operations are not justified and have as the only or main aim the charging of corresponding commissions or any other objective that is contrary to the Customer's interest;

1) From which revenue is derived in the form of a share in the profits (from the shareholding) and commissions (for the selling of insurance at the bank's network).

2) Consolidated participation in Banco BPI's accounts using the equity method.

3) The Arsopi Group have a shareholding of 28%.

4) The Arsopi Group own a direct holding of 5.0% and an indirect holding – via Viacer – of 19.0%.

5) Operations are deemed to be carried out for one's own account when such operations are effected (i) by the member of the Governing Bodies or the Employee, or on his behalf by an intermediate person; (ii) by the spouse of the member of the Governing Bodies or Employee or person living with him/her in a common law union, descendants under his/her guardianship and other family relations co-habiting with him/her for longer than one year; (iii) by companies which are majority held and / or controlled by the member of the Governing Bodies or by the Employee; (iv) by a person whose relationship with the member of the Governing Bodies or Employee is such that he may have a direct, or indirect, material interest on the outcome of the operation.

6) The waiver shall only be granted when it does not jeopardise the values underlying the duties to defend the market and to prevent conflicts of interest which are envisaged in applicable legal, regulatory and deontological provisions, and where compliance with the rule whose waiver is being requested would seem, in view of the specific circumstances of the case, to be excessively onerous for the interested party.

7) Excluding bonds issued by entities with sovereign or similar risk, unit trust (mutual) funds and to the transfers of securities to another account of the Employee.

- abstaining from attributing to themselves the same securities when they have Customers who have requested them at the same or a higher price or, on the other hand, abstaining from selling securities which they hold instead of identical stocks in respect of which they have received orders to sell by the Customers at the same or lower price.

In parallel, the Banks must inform their Customers of all the material aspects that they require in order to form an informed decision about the transaction they intend to enter into, alerting them, above all, to the nature of the inherent risks and the financial consequences that their eventual realisation will imply.

With regard to the provision of portfolio management services, the banks and the investment fund management companies must ensure that their Customers are informed about the risk level to which they will be subjected, the degree of discretion granted to the broker and all the commissions and other expenses they will be charged.

8.2.5. Equity research activity

BPI complies with legal and regulatory requirements and adheres to the recommendations of the CMVM relating to financial analysis reports. To this end, it has implemented a series of measures to ensure that:

- the information published is complete, accurate, current, clear, objective and legitimate;
- the relationship with the public investor is founded on principles of equity and transparency, with high standards of diligence and loyalty and oriented towards reducing to a minimum the risk of conflicts of interest;
- the activity of the financial analysts is pursued in accordance with strict ethical and deontological principles.

Amongst the measures implemented with a view to effective compliance with the foregoing recommendations and principles, are the following:

- the existence of Chinese walls¹ between the research, equity sales and Corporate Finance areas;
- the decoupling of the financial analyst's remuneration² from the revenue generated by the transactions effected by BPI;
- the existence of standards of conduct of an ethical and deontological nature, as well as rules and procedures which

must be observed in the realisation of personal operations realised by the financial analysts;

- the monitoring of compliance with rules of conduct, namely the personal operations realised by the financial analysts³;
- the identification in the reports of the valuation assumptions and methods used;
- the identification in general terms of the existence of economic relations or benefits between the analyst, BPI and the company analysed, namely, of shareholdings and, in operations on the primary market, of corporate finance relations;
- the publication in the reports of a grid of recommendations vs. risk, and a history of the recommendations issued by BPI relating to the company concerned;
- the publication in the reports of an alert to investors to the fact that the recommendation, projections, assumptions and methods used by the analyst are capable of being changed where new circumstances warrant this;
- the identification of the posts occupied by directors of the BPI Group in the companies analysed.

8.2.6. Conflicts of interest with Customers

As concerns the Customers of the BPI Group's Banks and Companies, every Customer is accorded equal treatment in all situations where there is no motive of a legal and / or contractual nature to proceed otherwise. This does not contradict the practice of differentiated conditions on the realisation of operations after having weighed the attendant risks, their profitability and / or the Customer's return.

8.3. PROFESSIONAL SECRECY AND CONFIDENTIALITY

In contacts with Customers and the markets, members of the governing bodies and Employees of BPI Group companies must exercise the utmost discretion and practise professional secrecy regarding the services provided to their Customers and, furthermore, about facts or information relating to such Customers or third parties, knowledge of which stems from the exercise of the respective activities. This duty only ceases by way of the written authorisation of the person entitled to the aforementioned right to confidentiality, or in the cases expressly envisaged in the law. The duty of professional secrecy continues even after the cessation of functions as member of the governing bodies or as Employee.

1) The Anglo-Saxon term "Chinese walls" is used in the Investment Banking business to describe a set of procedures which are designed to guarantee the independence and autonomy between Employees who work in distinct areas with potential conflicts of interest.

2) The remuneration of analysts conforms to the same principles as those applied to other Employees and which are described in 6.1.

3) The financial analysts are obliged to use a BPI Group Bank when realising securities-trading operations.

8.4. PREVENTION AND SUPPRESSION OF MONEY LAUNDERING AND FINANCING OF TERRORISM

According to prevailing legislation and regulations designed to impede the utilisation of financial entities in money laundering operations and in activities associated with economic-financial and organised crime, or terrorism financing, BPI Group's financial institutions are endowed with identification, internal control and communication systems, as well as human and material resources, to provide their directors and Employees proper training for recognising operations which may be related to the aforesaid crimes and the persons perpetrating criminal activities.

These regulations (national and community) are transposed in their essence into the internal regulations of the BPI Group's financial institutions.

Banco BPI's Compliance Division is responsible for analysing occurrences, following these up appropriately and taking adequate measures with a view to preventing the BPI Group becoming involved in operations associated with money laundering and the funding of terrorism, taking whatever action is necessary for complying with all the other obligations arising from prevailing regulations dealing with the fight against organised and economic-financial crime.

Without prejudice to the investigations and control actions that the Compliance Division intends to take at its own initiative, the Employees of the credit institutions and other financial companies making up the BPI Group have instructions to inform that Division about any operations realised and/or to be realised which, due to their nature, amount or characteristics, could indicate the movement of funds derived from illicit activities.

The Supervisory Board is informed of any irregularities and the follow-up action taken.

In 2011, the Compliance Division, supported by an IT application, carried out systematic control initiatives involving the analysis of a total of 2 939 alerts about accounts and people, of which 41 required notification to the Attorney General and the Judiciary Police's Financial Information Unit.

The BPI Group provides training in the prevention of money laundering to all Employees, both immediately after their admission and later during the course of the audits which it performs at the various Bodies of the organisational structure, in this case of all those who form part of the respective workforce. In addition, it periodically organises classroom-type sessions dealing with this topic for all management and technical staff forming part of the commercial networks. On this subject, 166 e-learning training courses and many in-room courses were carried out in 2011.

8.5. PREVENTION OF INSIDE TRADING

Employees and Directors who, during the exercise of their functions, obtain information which has not been made public and which could influence prices on any securities market, are bound by a strict duty of secrecy, and must abstain from carrying out any transactions in the securities involved, until the public disclosure of such information.

Operations involving securities issued by Banco BPI

In terms of the Group BPI's code of conduct, Directors or Employees with a professional category on a par with or above manager, Employees who are involved in the preparation of documents or information relating to the financial statements or in the study and preparation of the issue of BPI shares or securities convertible into shares, as well as those with access to privileged or other confidential information, are prohibited from dealing in Banco BPI shares, as well as in securities convertible into shares or those which confer such rights:

- in the period falling between the 15th day before the end of each quarter or each financial year, and the moment the corresponding results are disclosed, which considering BPI's normal practice, means the barring of trading in Banco BPI shares in approximately half the stock exchange sessions in the year;
- in the period falling between the decision of BPI's management to propose the issue of shares representing its share capital or of securities convertible into shares or those which confer such rights, and the respective public announcement.

In relation to non-executive Directors the restriction mentioned in paragraph a) above only applies in the period falling between the 15th day before and the date of the public disclosure of the results.

Banco BPI and its Directors are also bound by communication duties imposed by law and by the CMVM's Regulations, such as the obligation to within a period of five business days, the latter have to inform the CMVM, of any operations realised in Banco BPI shares.

In order to strengthen the impediment of the use of privileged information, BPI also pursues a policy of:

- disclosing results on a quarterly basis, on the same day the Board of Directors approves them;
- informing the CMVM and placing on the Investor Relations site the presentations made at conferences with Analysts and Investors.

To the extent that such a procedure is compatible with the principles which it adopts with respect to the disclosure of privileged information, BPI invariably releases these announcements after the stock-exchange trading hours.

8.6. COMMUNICATION OF IRREGULARITIES

The Supervisory Board is responsible in terms of article 420 j) of the CCC, for the receiving the communications of irregularities presented by Employees, Customers, Shareholders and any other entities.

BPI Employees must communicate to any one of the management or oversight bodies and, namely, to the Supervisory Board any irregular practices which they detect or are aware of or have justified suspicions of so as to prevent or impede irregularities which may cause financial damages to BPI or damage to the Bank's image.

The communication referred to above must be made in writing and contain all the details and information that the Employee has and which he/she considers necessary for evaluating the irregularity. The Employee may also request confidential treatment as regards the origin of the communication.

The communications of irregularities are received, opened and processed by the Advisor to the Supervisory Board, who shall be responsible for safeguarding the anonymity of all the relevant subscribers.

The Supervisory Board Advisor informs the respective Chairman of the communications of irregularities received who, having heard the other members of the Supervisory Board, when deemed necessary, shall decide on what course of action to take.

Where the communications of irregularities warrant the intervention of the Bank's departments, namely of the Audit and Inspection Division, they are presented by the Supervisory Board's Chairman to the Chairman of the Board of Directors which will deal with them in the appropriate manner.

Copies of the reports produced by the AID or by any other body so requested are sent to the Chairmen of the Supervisory Board, of the Board of Directors and of the Audit and Internal Control Committee.

The Supervisory Board's report discloses the number of communications of irregularity received and their status.

8.7. ACCOUNTING TRANSPARENCY

BPI adopts a policy of recording all the costs in the proper ledger accounts in accordance with their nature. BPI does not incur or record "confidential expenses".

8.8. SOCIAL INVESTMENT

The Bank has since its foundation supported projects of undisputed merit in the area of culture, education, research and social solidarity, which involves partnerships with other private or public institutions. BPI's social investment policy, as well as a description of some of the most noteworthy projects BPI supported in 2011, are outlined in a separate chapter of the Directors' Report (pages 13 to 18).

8.9. EXERCISE OF CORPORATE RIGHTS BY BPI GROUP ENTITIES

The BPI Group's entities operating on the market as institutional investors are bound to the rules designed to ensure the diligent, efficient and critical use of the rights attaching to the negotiable securities of which they are the holders or whose management has been entrusted to them, namely as concerns information and voting rights.

The asset-management entities belonging to the BPI Group, besides the traditional investment criteria associated with the risk / return relationship, also take into consideration in the investment decision-making process, the following factors:

- quality of the system of governance and supervision;
- transparency in the provision of information;
- good environmental practices.

BPI GESTÃO DE ACTIVOS

BPI Gestão de Activos exercised its voting rights during 2011 at one Shareholders General Meeting, contemplating the respective order of business: the approval of the directors' report and accounts relating to 2010 and corresponding appropriation of results; the general appraisal of the company's management and oversight bodies; the election of the governing bodies for the three years 2011/2013, an authorisation for the Board of Directors to acquire and dispose of treasury shares; alteration to articles 16 and 18 of the company's statutes; deliberation on the remuneration policy for the management and supervisory bodies and other managers and, finally, the deliberation on the value of the attendance allowances to be given to the members of the Remuneration Committee and to the Chairman of the General Meeting Committee for the three years 2011/2013.

The Shareholders General Meeting attended by BPI Gestão de Activos refers to a national-issuer company, with BPI Gestão de Activos communicating its voting intention, as well as the respective justification, to the CMVM in terms of applicable legislation.

BPI Gestão de Activos voted as a rule in favour of the motions presented by the governing bodies of the company at which General Meeting it participated.

In the prospectuses of the various funds managed by BPI Gestão de Activos a text which establishes the company's "voting policy" is included. Namely:

- "BPI Gestão de Activos only takes part in the General Meetings of the companies (whether based in Portugal or overseas) in which it has equity holdings and where it considers that there is interest in such participation;
- BPI Gestão de Activos does not have a predefined global policy with respect to the exercise of voting rights in the companies in which it has equity holdings; at any moment, BPI Gestão de Activos will evaluate the voting intention that best safeguards the interests of unit holders, taking into account the goals of seeking value and the financial soundness of the company in which it participates;
- in cases in which it opts to participate in General Meetings, the voting rights will be exercised directly by BPI Gestão de Activos or alternatively by a representative who is bound by the written instructions issued by BPI Gestão de Activos."

BPI VIDA E PENSÕES

In 2011 BPI Vida integrated BPI Pensões by way of merger. BPI Vida e Pensões exercised its voting rights at eleven Shareholders General Meetings of local companies, in 2011, having voted as a rule in favour of the motions presented by the Board of Directors of the companies in which Shareholders General Meetings it attended. In all of these Shareholders General Meetings, only the voting rights relating to the equity holdings owned by Banco BPI's pension funds were exercised.

Insurance Institute of Portugal Standard 21 / 2002-R of 28 November sets out that the strategy for the exercise of voting rights in the issuing companies for the assets held by the pension funds, must be contemplated in the Pension Fund Management Contracts or in the Management Regulations in the case of Open-end Pension Funds.

With a view to ensuring compliance with this requirement, BPI Pensões agreed in writing for each managed pension fund the

rules to be followed concerning the exercise of voting rights, the usual guidelines of which are as follows:

- BPI Vida e Pensões will exercise its voting rights at the General Meetings of the companies in which the pension fund has equity holdings, when it considers the exercise of such right is advantageous;
- BPI Vida e Pensões does not have a predefined global policy with respect to the exercise of voting rights in the companies in which the pension fund has equity holdings. At any moment, it will evaluate the voting intention that best safeguards the goals of seeking value and the financial soundness of the company in which the pension funds participates;
- in cases in which BPI Vida e Pensões opts to participate in General Meetings, the voting rights will be exercised directly by BPI Vida e Pensões or alternatively by a representative who is bound by the written instructions issued by BPI Pensões.

PRIVATE BANKING

Banco Português de Investimento, within the scope of the mandate awarded for the management of Private Banking Clients portfolios, acts in conformity with the specific rules in a diligent manager and taking into account the principles and rules relating to the exercise of financial intermediation activity as envisaged in the Securities Market Code (CVM) and respective regulations, namely, the principle of safeguarding the legitimate interest of Clients.

At the start of the second quarter of 2010, the exercise of portfolio management activity, including that relating to Private Banking clients, was concentrated at BPI Gestão de Activos, through the assignment of Banco Português de Investimento's contractual position in the management mandates currently in force.

Final note

Most of the matters, principles and rules referred to in this section were integrated in the meantime into BPI's new Code of Ethics and Conduct and the internal regulation governing these, and are scheduled to come into force by the end of the first half of 2012.

9. Communication with the market

9.1. PRINCIPLES GOVERNING THE DISCLOSURE OF FINANCIAL INFORMATION AND OTHER IMPORTANT FACTS

9.1.1. Disclosure of financial information

The Board of Directors ensures the existence and maintenance of a proper and effective internal control system which, observing the principles set out in article 3 of Notice 5/2008, guarantees compliance with objectives laid down in article 2 of that Notice, including the adequacy and efficacy of the part of the internal control system underlying the preparation and dissemination of financial information.

The Investor Relations Division (IRD) is the body responsible for the preparation of documents containing financial information and their disclosure. The process is duly formalised, whereby the major risks and respective controls are identified, compliance with which is compulsory. Their execution must be demonstrated internally and externally, in accordance with pre-determined criteria. Systematic reviews are carried out of all the documents by the IRD and the Accounting and Planning Division (APD), including the verification of the rigour and consistency of the quantitative information presented in the documents. The documents to be disclosed and the moment of their release are approved by the Executive Committee or by the Board of Directors. The IRD undertakes a periodic review of the legal and regulatory framework with respect to information duties.

9.2. INVESTOR RELATIONS DIVISION

9.2.1. Terms of reference

The Investor Relations Division has as its principal functions guaranteeing, to the Authorities and to the market, compliance with legal and regulatory reporting obligations to which Banco BPI is bound, responding to the information needs of investors, financial analysts and other interested parties, and lending support to the Executive Committee in aspects relating to Banco BPI's presence on the market as a listed entity.

Within the scope of the abovementioned responsibilities, of particular importance is the disclosure of information classified as "relevant fact", the furnishing of quarterly information concerning the Group's activity and results, and the preparation of the annual and interim reports and accounts.

In the sphere of advisory support given to the Executive Committee, we highlight the monitoring of Banco BPI's share price in its multiple facets, as well as the backing given in the direct contact which the Executive Committee regularly has with financial analysts and institutional investors (national and foreign), covering both conferences and road shows and individual (one-on-one) meetings.

BPI's policy is to disclose to the market the information presented at these gatherings, issuing a press release summarising the most relevant aspects and making available the presentations delivered during this event on the IR website.

9.2.2. Investor Relations web site

BPI has a website, available in English and in Portuguese, dedicated exclusively to the disclosure of information of an institutional nature about the Group. This website is available at the address www.ir.bpi.pt, or for those persons who do not have access to the Internet, at the Internet Kiosks located at the majority of Banco BPI branches.

All the information of an institutional nature which is public and material is as a general rule published on the website. For the most significant events, such as the Shareholders' General Meeting, the quarterly disclosure of results and the payment of dividends, specific pages are also created for disclosing information and giving support for such events. The Investor Relations website complies fully with the CMVM's recommendations on the use of the Internet as a means of disseminating information of an institutional nature.

The announcements of important facts and other announcements, besides being published on the Investor Relations site and on the CMVM's information channel, are also sent by electronic mail to the supervision authorities, the media, analysts, as well as to all the institutional investors or to those individuals who expressly request these.

Generally speaking, all the documents issued in paper form (including preparatory documents for the General Meetings) are available for dispatch in electronic format upon request.

9.2.3. Contacts

The Investor Relations Division contact details and availability are widely disseminated. All the information of a public nature regarding the BPI Group can be requested from the Investor Relations Office via the contact page at the website, by telephone, e-mail, fax or by letter.

INVESTOR RELATIONS CONTACTS

Address: Rua Tenente Valadim, n.º 284 – 3.º
4100-476 Porto
Phone: +351 22 607 33 37
Fax: +351 22 600 47 38
Email: investor.relations@bancobpi.pt
Website: www.ir.bpi.pt

9.3. REPRESENTATIVE FOR RELATIONS WITH THE MARKET

The Representative for Relations with the Market is Luís Ricardo Araújo, also head of the Investor Relations Division.

10. Banco BPI shares

10.1. MARKET BEHAVIOUR

Portugal formalised the request for international financial assistance in April, a situation made inevitable by the substantial increase in its financing costs on the capital market. It became the third European periphery country to do so (following Greece and Ireland).

Accordingly, concerns about the negative effects on the earnings and capital of Portuguese banks deepened as a result of the implementation of budgetary adjustment measures and of the measures directed at the banking sector within the ambit of the international bailout programme. These concerns are compounded by global market fears about the slowdown in economic growth in Europe, the intensification of the sovereign debt crisis and the euro zone's sustainability, and with a specific impact on Portuguese banks, the capital increase requirements imposed by the recapitalisation exercise conducted by the European Banking Authority, the partial transfer of pension liabilities and pension funds' assets to the Social Security system and the results of the Special Inspections Programme

(SIP) covering the loan portfolio, realised within the ambit of the Economic and Financial Assistance Programme for Portugal.

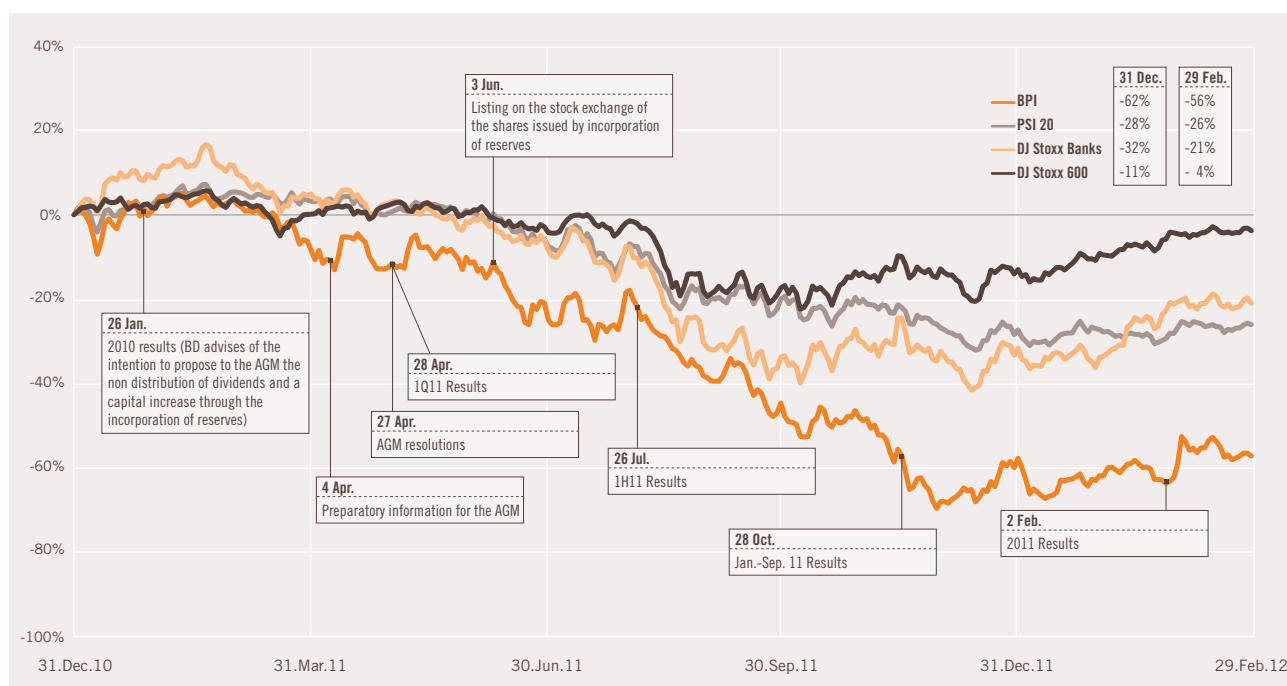
Against this backdrop, Banco BPI shares closed the year at 0.481 euro, down 62% on the year.

In the same period, the national PSI 20 index recorded a retreat of 28% while the European banking sector, represented by the DJ Europe Stoxx Banks index, fell by 32%.

Capital increase through incorporation of reserves

In 2011, BPI increased its share capital from 900 M.€ to 990 M.€ through the incorporation of reserves in the amount of 90 M.€. The new shares issued were admitted to trading on the Euronext market on 7 June 2011.

After the above operation, the share capital is now represented by 990 million ordinary, nominative and dematerialised shares with a nominal value of one euro each.



Codes and tickers:

ISIN and Euronext code: PTBPIOAM004
Reuters: BBPI.LS
Bloomberg: BPI PL

Listed on the Euronext stock exchange

Index weighting (31 Dec. 11)
PSI-20: 1.06%; #15
Next 150: 0.32%; #102

Notes: A) Banco BPI adheres to the policy, as a matter of principle, of waiting until the market closure before disclosing "sensitive" information. In this way, the possible "impact" on the price of Banco BPI shares is only felt in the following stock market session. B) The facts enumerated in this table do not represent all the information published by BPI in the CMVM's extranet, which can be consulted at the site www.cmvm.pt. BPI also discloses on this website, at the beginning of the year after that to which the information presented refers, a summary document with all the information communicated to the market.

Banco BPI shares principal indicators

	2007	2008	2009	2010	2011	
					As reported	Excl. non recurrent¹
Banco BPI share price²						
Closing price (€)	4.683	1.591	1.927	1.259	0.481	
Banco BPI share evolution	(9.3%)	(66.0%)	21.1%	(34.7%)	(61.8%)	
Dow Jones Europe STOXX Banks index evolution	(16.9%)	(64.4%)	46.9%	(11.6%)	(32.5%)	
PSI-20 index evolution	16.3%	(51.3%)	33.5%	(10.3%)	(27.6%)	
Dow Jones STOXX 600 index evolution	(0.2%)	(45.6%)	28.0%	8.6%	(11.3%)	
Data per share (€)³						
Cash flow after taxation	0.617	0.532	0.445	0.387	0.471	0.357
Net profit	0.413	0.162	0.178	0.188	(0.290)	0.118
Dividend	0.163	0.064	0.071	-	-	-
Book value	1.897	1.525	1.881	1.472	0.478	
Weighted average no. of shares (in millions)²	860.3	926.6	982.6	982.1	982.4	
Market valuation						
Price / Cash flow after taxation (PCF)	7.6	3.0	4.3	3.3	1.0	1.3
Price / Net profit (P/E)	11.3	9.8	10.8	6.7	(1.7)	4.1
Price / Book value (PBV)	2.5	1.0	1.0	0.9	1.0	
Earnings yield³	8.0%	3.5%	11.2%	9.8%	(23.0%)	9.4%
Stock market capitalisation (M.€)	4 073.6	1 575.0	1 908.0	1 246.5	476.2	
Liquidity						
Annual trading volume (M.€)	2 425.1	1 775.9	517.7	452.6	297.3	
Daily average trading volume (M.€)	9.5	6.9	2.0	1.8	1.2	
Dividends						
Net profit (M.€)	355.1	150.3	175.0	184.8	(284.9)	115.9
Distributed earnings (M.€)	142.1	60.1	70.2	0.0	0.0	
Pay-out ratio	40%	40%	40%	0%	0%	
Dividend yield (share price at the start of the year)	3.2%	1.4%	4.5%	-	-	

10.2. TREASURY SHARES

Banco BPI manages a treasury shares portfolio created with the purpose of executing the variable-remuneration scheme (Portuguese initials – RVA) for Employees and Directors. For this purpose, the transactions detailed below were performed in 2011.

At the end of 2011, Banco BPI held 7 024 380 treasury shares (0.7% of capital), while Banco Português de Investimento, S. A., 100% owned by Banco BPI, did not hold any Banco BPI shares at the end of the year.

Treasury shares transactions in 2011

	No. shares held (31 Dec.10)	Acquisition			Disposal			Total turnover (amount)	Allocation in capital increase ⁴	N.º shares held (31 Dec. 11) ⁵
		Quantity	Amount	Average Price	Quantity	Amount	Average Price			
Banco BPI (over-the-counter) ⁶	6 392 284	446	677	1.517	6 928	9 145	1.320	7 374	638 578	7 024 380
Banco Português de Investimento		175 002	121 858	0.696	175 002	121 461	0.694	350 004		0
In the stock exchange		175 002	121 858	0.696	30 001	28 385	0.946			
over-the-counter					145 001	93 076	0.642			
Total	6 392 284	175 448	122 535	0.698	181 930	130 606	0.718	357 378	638 578	7 024 380
% of share capital	0.71%	0.02%			0.02%			0.04%		0.71%

Note: the remaining subsidiaries whose management is controlled by Banco BPI did not hold any treasury shares at 31 December 2011, while the Banco BPI staff pension fund held at that date 5 652 472 Banco BPI shares, corresponding to 0.57% of the Bank's capital.

1) Figures per share (earnings and cash flow) and market multiples excluding non-recurring impacts occurring in net profit for the year.

The 2011 net profit was penalised by non-recurring factors which generated a global negative impact of 401 M.€ after tax, primarily due to the partial transfer of pension liabilities to the Social Security system (-71 M.€) and to the recognition of impairments arising from exposure to Greek debt (-420 M.€), which were partially offset by gains on the repurchase of own debt issues (81 M.€) and those associated with the contribution in kind of 11% of Viacer (60 M.€) to the pension fund.

2) Amounts adjusted for capital increases with cash contribution in June 2008 and through the incorporation of reserves in May 2011.

3) Earnings per share recorded in the year divided by the BPI share price at 31 December of the preceding year.

4) Shares allotted in the capital increase through incorporation of reserves of 90 M.€ approved at the GM of 27 April 2011.

5) The balance of treasury shares at the end of 2011 does not include 46 737 shares awarded under the condition subsequent as part of the RVA scheme but not yet freely disposable.

The transfer of the ownership of the shares awarded under the RVA scheme is wholly effected on the award date, but their availability is dependent on employees continuing to work for the BPI Group, with the result that for accounting purposes, the shares remain in Banco BPI's treasury shares portfolio up until the date they become freely disposable, but whose reporting of transactions to the CMVM and to the market occurs at the time of the award.

6) Over-the-counter trades only.

11. Dividend policy

In the revision of the Statutes, which was deliberated at the Shareholders' General Meeting of 20 April 2006, a principle was included that obliges the Board of Directors to submit for deliberation by the General Meeting a proposed long-term dividend policy and the justification of any variances that may eventually occur in relation thereto.

THE BPI GROUP'S LONG-TERM DIVIDEND POLICY (deliberated at the General Meeting of 19 April 2007)

Whereas:

1. Banco BPI's Statutes (article 26(3)) stipulate that the General Meeting deliberates on the long-term dividend policy proposed by the Board of Directors, and that this body justifies any deviations that may arise in relation to the said policy;
2. the present General Meeting is the first ordinary meeting to take place after that statutory principle was embodied in the revision deliberated at the General Meeting of 20 April 2006;
3. Banco BPI pursues sound financial-base goals that translate into the maintenance of:
 - a) a ratio between its basis own funds and risk-weighted assets – indicator normally designated as Tier I – which tendentiously is situated higher than 7%;
 - b) a percentage of preference shares that does not exceed 20% of basis own funds, that is, a Core Tier I indicator which tendentiously is situated higher than 5.5%;
4. historically, Banco BPI's dividend policy has translated into:
 - a) The distribution of an annual dividend which, when measured with reference to the net profit reported in the consolidated accounts of the financial year to which such dividend refers, corresponded to a payout of not less than 31% for the last ten years taken as a whole, and of not less than 36% in the last five years;
 - b) The retention of an adequate share of net profit for financing the Group's growth needs;
 - c) An adequate dividend remuneration – measured by the relationship between the dividend and the share price (i.e. the dividend yield) – vis-à-vis the remuneration levels (via dividend) prevailing at other listed banks.
5. Taking into account, in particular, that the above points 3, 4.b) and 4.c) remain perfectly current and valid for the future.

The Board of Directors proposes the adoption of the following long-term dividend policy:

Distribution of an annual dividend, by way of a proposal to be submitted by the Board of Directors to the General Meeting, which is tendentiously not less than 40% of the net profit reported in the consolidated accounts of the financial year to which it refers, save where exceptional circumstances warrant, in the Board of Directors' considered judgement, the distribution of a lesser dividend to be submitted for the Shareholders' deliberation.

Trend in key indicators over the last 5 years

	2007	2008	2009	2010	2011
Net profit (M.€)	355.1	150.3	175.0	184.8	(284.9)
Dividend (M.€)	142.1	60.1	70.2	0.0	0.0
Pay-out ratio	40%	40%	40%	-	-
Basic earnings per share					
(EPS) (€)	0.413	0.162	0.178	0.188	(0.290)
Δ%	14%	(61%)	10%	6%	s.s.
Dividend per share (€)	0.163	0.064	0.071	-	-
Δ% yoy	17%	(61%)	10%	(100%)	-
Closing price (€)	4.683	1.591	1.927	1.259	0.481
Δ%	(9%)	(66%)	21%	(35%)	(62%)
Dividend Yield (share price at start of the year)	3.2%	1.4%	4.5%	-	-
Dividend Yield (share price at end of the year)	3.5%	4.0%	3.7%	-	-
Capital ratio	9.9%	11.3%	11.0%	11.1%	9.3%
Tier I	6.2%	8.8%	8.6%	9.1%	9.0%
Core Tier I	5.4%	8.0%	7.8%	8.7%	9.2%

Notes:

The Group's consolidated net profit constitutes the relevant basis which has been used by Banco BPI for the calculation of the dividend to be distributed. Meanwhile, the dividend constitutes the application of Banco BPI's individual net profit, with the result that if that net profit, after the required allocation to the Legal Reserve Fund and to the payment of the priority dividend on any preference shares that the company may have issued, is inadequate for the payment of the proposed dividend, this will entail the distribution of free reserves to complement the distribution of the individual net profit.

The dividend per share is fixed in terms adjusted, namely, for capital increases (in cash or through the incorporation of reserves) and for stock splits.

Appendix

EXPERIENCE, PROFESSIONAL QUALIFICATIONS AND OTHER MANAGEMENT AND OVERSIGHT POSITIONS HELD IN OTHER COMPANIES OR ENTITIES BY THE GOVERNING BODIES OF BANCO BPI, S.A.

SHAREHOLDERS GENERAL MEETING

Miguel Veiga (Chairman)

Date of birth	30 June 1936
Nationality	Portuguese
Date of first appointment	27 April 2011
End of current term	31 December 2013

Academic qualifications

1959: Honours Law degree

Management and supervisory positions at other companies

2007-....: Non-executive Director of Impresa, SGPS, S.A.

1993-....: Non-executive Director of Companhia de Seguros Tranquilidade

Other positions

Chairman of the General Meeting Committee:
Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.
Interposto Comercial e Industrial do Norte
Fábrica de Chocolates Imperial (Grupo RAR)
Aplicação Urbana II – Investimento Imobiliário, S.A.
Atlantic SGFI, S.A.

Manuel Cavaleiro Brandão (Deputy Chairman)

Date of birth	6 June 1946
Nationality	Portuguese
Date of first appointment	23 April 2008
End of current term	31 December 2013

Academic qualifications

Honours Law degree, Universidade de Coimbra
Attended post-graduate course in European Affairs, Universidade de Coimbra

Management and supervisory positions at other companies

Owner-Director of OFFIG – Administração e Gestão de Escritórios, Lda.
Director of Fundação de Serralves

Other positions

Chairman of the General Meeting Committee:
Sonae SGPS, S.A.
LEICA – Aparelhos Ópticos de Precisão, S.A.
Equity Partner de “PLMJ - A.M. Pereira, Sáragga Leal, Oliveira Martins, Júdice e Associados – Sociedade de Advogados, R.L.”
Member of the Arbitration Board of the Câmara de Comércio e Indústria Portuguesa
Member of the Arbitration Board of the Delegação Nacional Portuguesa da CCI – Chambre de Commerce Internationale

Previous professional experience

2006-07: Member of the Labour Relations White Paper Commission (CLBRL)
2004-06: Chairman (2006) and Deputy-Chairman (2004 and 2005) of the CCBE (Conselho das Ordens dos Advogados Europeias)
2004-05: Member of the “Court of Arbitration” da “ICC – International Chamber of Commerce” (Paris)
1992-05: Member of the Arbitration Board of the Commercial Arbitration Centre of the Câmara de Comércio e Indústria Portuguesa and of the Câmaras de Comércio e Indústria de Lisboa e Porto
1990-92 and 2002-04: Member of the General Board of the Portuguese Law Society
1984-89: Member of the Porto District Board of the Portuguese Law Society
1990-11: Member (Advisor) of the European Economic and Social Committee

Maria Alexandra Magalhães

Date of birth	11 November 1967
Nationality	Portuguese
Date of first appointment	20 April 2005
End of current term	31 December 2013

Academic qualifications

1990: Economics graduate, Universidade do Porto

1996: “Master Quality Management” – Institut Méditerranéen de la Qualité / École Supérieure de Commerce et Technologie – France

2003: Post-graduation in Human Resources – Universidade Moderna do Porto

2010: MBA, IE Madrid

Management and oversight positions held at other companies

Director of Sarcol – Sociedade de Gestão e Investimento Imobiliário, S.A.

Previous professional experience

Various positions held at Produtos Sarcol, S.A.

Luís Manuel Alves de Sousa Amorim

Date of birth	1 September 1963
Nationality	Portuguese
Date of first appointment	23 April 2008
End of current term	31 December 2013

Academic qualifications

1986: Business Management graduate – Universidade Católica Portuguesa

Management and oversight positions held at other companies

2000-....: Director of RIAOVAR – Empreendimentos Turísticos e Imobiliários, S.A.

Previous professional experience

1993-07: Director of Simon – Sociedade Imobiliária do Norte, S.A.
1991-07: Manager of Sanor – Sociedade Agrícola do Norte, Lda.
1989-90: Manager of the Organisation and Management Systems Department – Modelo Supermercados, S.A.
1986-89: Professional staff member of the Management Control Department – Sonae Distribuição, S.A.

SUPERVISORY BOARD

Abel António Pinto dos Reis (Chairman)



Date of birth	10 October 1933
Nationality	Portuguese
Date of first appointment	23 April 2008
End of current term	31 December 2013

Academic qualifications

1960: Economics graduate of the Universidade do Porto
1952: Accounting Course, Instituto Comercial Porto
1948: General Commerce Course, Colégio Universal, Porto

Management and supervisory positions at other companies

2007-....: Chairman of the Supervisory Board of COSEC – Companhia de Seguros de Créditos, S.A.
2000-....: Non-executive Director of Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.

Previous professional experience

2007-2008 (31 March): Chairman of the Supervisory Board of BPI Vida – Companhia de Seguros de Vida, S.A.
2000-2008 (31 March): Non-executive Director of Fernando & Irmãos, SGPS, S.A.
1993-97: Member of the Management Board of Caixa Central de Crédito Agrícola Mútuo
1986-92: Chairman of the Management Board of the Fundo de Garantia do Crédito Agrícola Mútuo
1976-92: Director at the Bank of Portugal
1961-64: Assistant lecturer at Faculdade de Economia do Porto
1957-75: Employee, professional staff member, auditor and manager of Banco Português do Atlântico
1952-53: Employee of Banco Espírito Santo

Jorge de Figueiredo Dias



Date of birth	30 September 1937
Nationality	Portuguese
Date of first appointment	21 April 1999
End of current term	31 December 2013

Academic qualifications

1959: Law graduate of the Universidade de Coimbra
1970: PhD in Law (Legal Sciences) from Law Faculty of the Universidade de Coimbra
1977: Chair Professor

Management and supervisory positions at other companies

Does not hold any governing bodies' positions in any other company

Other positions

Member of Management Council of the Fundação Luso-Americana para o Desenvolvimento

Previous professional experience

1991-05: Deputy-Chairman of SIC (Société Internationale de Criminologie)
1990-01: Chairman of FIPP (Fondation Internationale Pénale et Pénitentiaire)
1996-02: Deputy-Chairman of SIDS (Société Internationale de Défense Sociale)
1996-00: Chairman of the General Meeting Committee of Caixa Geral de Depósitos
1991-96: Member of SIDS (Société Internationale de Défense Sociale)
1986-91: Member of SIC (Société Internationale de Criminologie)
1984-04: Member of the Management Council of the AIDP (Association Internationale de Droit Pénal)
1982-86: Member of the Council of State
1979-83: Member of the Constitutional Commission
1978-90: Member of FIPP (Fondation Internationale Pénale et Pénitentiaire)

José Neves Adelino



Date of birth	19 March 1954
Nationality	Portuguese
Date of first appointment	23 April 2008
End of current term	31 December 2013

Academic qualifications

1976: Finance graduate of the Universidade Técnica de Lisboa
1981: PhD in Finance from Kent State University

Management and supervisory positions at other companies

2007-....: Director of Sonae SGPS, SA (non-executive)
2010-....: Director of Cimpor SGPS, SA (non-executive)

Other positions

2008-....: Member of the Investments Committee of Portugal VC Initiative (EIF)
2007-....: Member of Remunerations Committee of Sonae Indústria, SA
2006-....: Guest lecturer, Bentley College, USA
2004-....: Member of the Investments Committee of the Caravela Fund
1981-....: Chair professor, Economy Faculty of Universidade Nova de Lisboa

Previous professional experience

2005-07: Member of the Investments Committee of PT Previsão
2003-07: Member of the Remunerations Committee of Sonae SGPS, SA
2002-06: Non-executive Director and Chairman of the Audit Committee of EDP – Electricidade de Portugal, SA
1999-02: Director of the Economics Faculty, Universidade Nova de Lisboa
1994-03: Member of the Management Committee, Fundo de Garantia de Depósitos
1990-96: MBA Director, Economics Faculty, Universidade Nova de Lisboa
1987-89: Visiting lecturer, Bentley College
1986-89: Guest lecturer, ISEE
1985-95: Associate Professor, Economics Faculty of Universidade Nova de Lisboa
1981-86: Member of the Management Council, Economics Faculty, Universidade Nova de Lisboa
1981-85: Assistant lecturer, Economics Faculty of Universidade Nova de Lisboa
1978-81: Teaching Fellow, Kent State University

BOARD OF DIRECTORS

Artur Santos Silva (Chairman)



Date of birth	22 May 1941
Nationality	Portuguese
Date of first appointment	6 October 1981
End of current term	31 December 2013

Academic qualifications

1985: Stanford Executive Program, Stanford University

1963: Law graduate, Universidade de Coimbra

Management and supervisory positions at other companies

Non-executive Director of Jerónimo Martins SGPS, S.A.

Non-executive Director of SINDCOM – Sociedade de Investimento na Indústria e Comércio, SGPS, S. A.

Non-executive Director of Partex Oil & Gas (Holdings) Corporation

Other positions

Chairman of the Board of Directors of Fundação Calouste Gulbenkian

Chairman of the General Council of Universidade de Coimbra

Member of the National Council of the Securities Market

Previous professional experience

1981-04: Executive Chairman of SPI / BPI

1997-04: Member of the Board of Directors of Associação Portuguesa de Bancos

1977-78: Deputy-Governor of the Bank of Portugal

1975-76: Secretary of State of the Treasury

1968-75: Manager at Banco Português do Atlântico

1963-67: Assistant lecturer at the Law Faculty of Universidade de Coimbra in the chairs Public Finance and Political Economics.

Carlos da Camara Pestana (Deputy-Chairman)



Date of birth	27 July 1931
Nationality	Portuguese
Date of first appointment	25 March 1993
End of current term	31 December 2013

Academic qualifications

1955: Law graduate, Universidade Clássica de Lisboa

Management and supervisory positions at other companies

In Brazil:

Chairman of the Board of Directors of Itaúsa-Investimentos Itaú, S.A.

In Portugal:

Chairman of the Board of Directors of Itaúsa Portugal, SGPS, S.A.

Member of the Management Board of IPI – Itaúsa Portugal Investimentos, SGPS, Lda.

Member of the Management Board of Itaú Europa, SGPS, Lda.

Member of the Management Board of Itaúsa Europa – Investimentos, SGPS, Lda.

Previous professional experience

In Brazil:

1995-08: Member of the Board of Directors of Banco Itaú and of Banco Itaú Holding Financeira, S.A.

1990-94: Chairman of the Management Board of Banco Itaú, S.A

1975-90: Member of Banco Itaú, S.A.'s Senior Management Board

In Portugal:

1970-75: Member of the Board of Directors of Banco Português do Atlântico

1957-70: Member of the Senior Management Board of Banco Português do Atlântico

1989-92: Member of the Council for the Financial System (at the invitation of the Government of Portugal)

1972-75: Chairman of the National Guild of Banks and Banking Houses

1970-72: Deputy-Chairman of the National Guild of Banks and Banking Houses

Fernando Ulrich (Deputy-Chairman and Chairman of Executive Committee)



Date of birth	26 April 1952
Nationality	Portuguese
Date of first appointment	22 March 1985
End of current term	31 December 2013

Academic qualifications

1969-74: Attended Business Management Course of the Instituto Superior de Economia de Lisboa

Management and oversight positions held at companies within the BPI Group

Chairman of the Board of Directors of Banco Português de Investimento, S.A.

Chairman of the Board of Directors of Banco de Fomento Angola

Chairman of the Board of Directors of BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.

Chairman of the Board of Directors of BPI Vida e Pensões – Companhia de Seguros, S.A.

Chairman of the Board of Directors of BPI Madeira, SGPS, Unipessoal, S.A.

Chairman of the Board of Directors of BPI Global Investment Fund

Management Company, S.A.

Director of BPI Capital Finance Limited

Director of Banco BPI Cayman, Ltd.

Management and supervisory positions at other companies

Manager of Viacer – Sociedade Gestora de Participações Sociais, Lda.

Manager of Petrocer, SGPS, Lda.

Other positions

Chairman of the Universidade do Algarve's General Board

Member of the Instituto Superior Técnico's Consultative Board

Member of the Instituto Superior de Economia e Gestão's Consultative Board

Member of the Associação Portuguesa de Bancos's Management Board

Previous professional experience

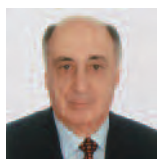
1981-83: Chief of the Office of the Minister of Finance and Planning

1979-80: Officer at the Secretariat for External Economic Cooperation of the Ministry of Foreign Affairs (Relations with the EFTA, OECD and GATT)

1975-79: Member of the Portuguese Delegation at the OECD (Paris), responsible for economic and financial matters

1973-74: In charge of the financial markets section of the weekly "Expresso"

Alfredo Rezende de Almeida



Date of birth	22 May 1934
Nationality	Portuguese
Date of first appointment	6 October 1981
End of current term	31 December 2013

Academic qualifications

1959: Economics graduate, Economics Faculty of the Universidade do Porto

Management and supervisory positions at other companies

Partner-Director of Casa de Ardias – Sociedade Agrícola e Comercial, Lda.

Previous professional experience

1998-08: Chairman of the Board of Directors of ARCOtêxteis, S.A.

1998-08: Chairman of the Board of Directors of ARCOfo – Fiação, S.A.

1998-06: Deputy-Chairman of the Board of Directors of ARCOtinto – Tinturaria, S.A.

1995-06: Director of FÁBRICA DO ARCO – Recursos Energéticos, S.A.

1989-90: Chairman of the General Board of BCI – Banco de Comércio e Indústria, S.A.

1985-88: Member of the General Board of BCI – Banco de Comércio e Indústria, S.A.

1986-91: Member of the General Board of Sociedade Portuguesa de Capital de Risco, S.A.

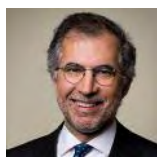
1959-63: Director of Sociedade Luso Americana de Confecções, SARL

Other positions

Director of ATP – Associação Têxtil e do Vestuário de Portugal

Director of Associação Portuguesa de Exportadores Têxteis

António Domingues (Deputy-Chairman of Executive Committee)



Date of birth	30 December 1956
Nationality	Portuguese
Date of first appointment	29 November 1995
End of current term	31 December 2013

Academic qualifications

1979: Economics graduate of the Instituto Superior de Economia de Lisboa

Management and oversight positions held at companies within the BPI Group

Deputy-Chairman of the Board of Directors of Banco Português de Investimento, S.A.

Deputy-Chairman of the Board of Directors of Banco de Fomento Angola

Deputy-Chairman of the Board of Directors of BCI (Mozambique)

Member of the Board of Directors of Companhia de Seguros Allianz Portugal, S.A.

Director of BPI Madeira, SGPS, Unipessoal, S.A.

Management and supervisory positions at other companies

Director at Zon Multimédia, S.A.

Previous professional experience

1988-89: Assistant Director-General of the branch in France of Banco Português do Atlântico

1986-88: Technical advisor at the Foreign Department of the Bank of Portugal

1982-85: Director of the Foreign Department of the Instituto Emissor de Macau

1981: Economist at IAPMEI

Until 1981: Economist at the Office of Studies and Planning of the Ministry of Industry and Energy

António Farinha Morais



Date of birth	2 August 1951
Nationality	Portuguese
Date of first appointment	11 December 2002
End of current term	31 December 2013

Academic qualifications

1974: Finance graduate of the Instituto Superior de Economia da Universidade Técnica de Lisboa

Management and oversight positions held at companies within the BPI Group

Director of Companhia de Seguros Allianz Portugal, S.A.

Director of BPI Madeira, SGPS, Unipessoal, S.A.

Management and supervisory positions at other companies

Director of SIBS – SGPS, S.A.

Director of SIBS – Forward Payment Solutions, S.A.

Director of UNICRE – Instituição Financeira de Crédito, S.A.

Previous professional experience

1992-96: Director of Banco de Fomento e Exterior and Banco Borges & Irmão

1992: Director of Companhia de Seguros Aliança UAP

1989-91: Director of Banco Pinto & Sotto Mayor

1984-89: Director of SEFIS and Eurofinanceira, BFE Group investment companies

1981-89: Director of Financial services and Capital Markets of Banco de Fomento e Exterior

1978-81: Technical analyst of investment projects at Banco de Fomento e Exterior

1975-82: Lecturer at the Instituto Superior de Ciências do Trabalho e da Empresa and at the Instituto Superior de Contabilidade e Administração de Lisboa

1967-78: Head of finance and administration at the group of four companies

António Lobo Xavier



Date of birth	16 October 1959
Nationality	Portuguese
Date of first appointment	23 April 2008
End of current term	31 December 2013

Academic qualifications

1982: Law graduate of the Universidade de Coimbra

1988: MSc in Legal-Economic Sciences from the Law Faculty of the Universidade de Coimbra

Management and supervisory positions at other companies

Executive director of SonaeCom – SGPS, S.A.

Non-executive director of Público – Comunicação Social, S.A.

Non-executive director of Mota Engil, S.A.

Non-executive director of Fábrica Têxtil Riopelle, S.A.

Non-executive director of Vallis, SGPS, S.A.

Chairman of the Board of Directors of Douro Old Chaps, S.A.

Director of Lemos & Van Zeller, S.A.

Previous professional experience

Partner of “Morais Leitão, Galvão Teles, Soares da Silva e Associados – Sociedade de Advogados”

Consultant of the Board of Directors of SonaeCom, SGPS, S.A.

Member of the Management Board of Associação Comercial do Porto

Member of the Advisory Board of Futebol Clube do Porto, SAD

2000-02: Director of Futebol Clube do Porto, SAD.

1988-94: Guest lecturer of the Law department of Universidade Portucalense

1988-94: Teacher at the European Studies Course at the Law Faculty of Universidade de Coimbra

1988: Advisor for the 1988 Tax Reform Commission

1988-94: Assistant lecturer at the Law Faculty of the Universidade de Coimbra.

1986-91: Member of the Higher Council of the Administrative and Tax Courts

1985- ...: Independent law consultant in the matters of Finance and Tax Law

1983-96: Member of the Portuguese Parliament

1983-88: Trainee assistant lecturer at the Law Faculty of the Universidade de Coimbra.

Armando Costa Leite de Pinho



Date of birth	29 April 1934
Nationality	Portuguese
Date of first appointment	26 March 1987
End of current term	31 December 2013

Academic qualifications

1956: Diploma in Engineering, Instituto Superior de Engenharia do Porto

Management and supervisory positions at other companies

Chairman of the Board of Directors of Arsopi – Indústrias Metalúrgicas Arlindo S. Pinho, S.A.
Chairman of the Board of Directors of Arsopi – Holding, SGPS, S.A.
Chairman of the Board of Directors of Arsopi – Thermal, S. A.
Chairman of the Board of Directors of A.P. Invest, SGPS, S.A.
Chairman of the Board of Directors of ROE, SGPS, S.A.
Chairman of the Board of Directors of Security, SGPS, S.A.
Deputy-Chairman of the Board of Directors of Unicer – Bebidas de Portugal, SGPS, S.A.
Director of Pluridomus – Sociedade Imobiliária, S.A.
Director of Pluricasas – Sociedade Imobiliária, S.A.
Director of Empresa de Transportes Álvaro Figueiredo, S.A.
Chairman of the Board of Directors of Tecnocon – Tecnologia e Sistemas de Controlo, S.A.
Director of Viacer – Sociedade Gestora de Participações Sociais, Lda.
Director of Petrocer – SGPS, Lda.
Director of IPA – Imobiliária Pinhos & Antunes, Lda.
Manager of Arsopi España, S.L.

Previous professional experience

2000-....: Chairman of the Board of Directors of Arsopi, S.A.
1990-....: Chairman of the Board of Directors of Arsopi-Holding, S.A.
1990-....: Director of Unicer, S.A.
1989-....: Chairman of the Management Board of Arsopi – Thermal e da Tecnocon
1988-00: Managing Director of Arsopi, S.A.
1985-90: Member of the General Board of BCI – Banco de Comércio e Indústria, S.A.
1969-88: Manager of Arsopi, S.A.
1957-69: Manager and Technical and Production Director of Metalúrgica de Cambra

Carlos Moreira da Silva



Date of birth	12 September 1952
Nationality	Portuguese
Date of first appointment	20 April 2006
End of current term	31 December 2013

Academic qualifications

2006: Stanford Executive Programme, University of Stanford, USA
1982: PhD in Management Sciences, University of Warwick, UK
1978: MSc in Man. Sci. and OR, University of Warwick, UK
1975: Graduate in Mechanical Engineering from the University of Porto

Management and supervisory positions at other companies

Chairman of the Board of Directors of La Seda de Barcelona, representing BA PET BV
Chairman of the Board of Directors of the companies within the BA Glass Group
Chairman of the Board of Directors of Bar.Bar.Idade, SGPS, S.A.
Chairman of the Board of Directors of Fim do Dia, SGPS, S.A.
Member of the Supervisory Board of Jeronimo Martins Dystribucja, S.A.

Previous professional experience

2005-....: Member of the Advisory Board of 3i Spain
2003-05: Chairman of Executive Committee of Sonae Indústria, SGPS
1998-....: Chairman of the Board of Directors of BA Vidro, S. A.
1988-98: Director of several companies within Sonae Group
1987-88: Director of EDP, Electricidade de Portugal
1982-87: Assistant Professor at the Engineering Faculty of the Universidade do Porto

Edgar Alves Ferreira



Date of birth	21 March 1945
Nationality	Portuguese
Date of first appointment	20 October 2005
End of current term	31 December 2013

Academic qualifications

1967: Forestry graduate of the Instituto Superior de Agronomia
Post-graduate degree in Management from the Universidade Nova de Lisboa

Management and supervisory positions at other companies

Director of HVF – SGPS, S.A.
Director of III – Investimentos Industriais e Imobiliários, S.A.
Director of Corfi, S.A.

Previous professional experience

1978-....: Production manager at Cotesi
....-2005: Director of companies within Violas Group
1989-05: Member of the Board of Directors of Unicer – Bebidas de Portugal, SGPS, S.A.

Henri Penchas



Date of birth	3 February 1946
Nationality	Brazilian
Date of first appointment	23 April 2008
End of current term	31 December 2013

Academic qualifications

1968: Degree in mechanical engineering from the Universidade Mackenzie
1971: Post-graduate in Finance of the Fundação Getúlio Vargas – FGV

Management and supervisory positions at other companies

Deputy-Director Chairman and Investor Relations Officer of Itaúsa – Investimentos Itaú, S.A.
Director Chairman of Duratex, S.A.
Member of the Board of Directors and of the Strategy and of the Nomination and Corporate Governance Committees of Itaú Unibanco Holding S.A.
Member of the Board of Directors of Banco Itaú BBA, S.A.

Previous professional experience

December 84 – April 08: Executive Director of Itaúsa – Investimentos Itaú, S.A.
March 03 – May 08: Senior Deputy-Chairman of Itaú Unibanco Holding, S.A.
May 08 – April 09: Member of the Risk Management and Capital Committee and of the Accounting Policy Committee of Itaú Unibanco Holding, S.A.
April 97 – March 03: Member of the Board of Directors of Itaú Unibanco, S.A.
April 97 – April 08: Senior Deputy-Chairman of Itaú Unibanco, S.A.
April 93 – March 97: Executive Deputy-Chairman of Itaú Unibanco, S.A.
April 88 – March 93: Executive Director of Itaú Unibanco, S.A.
February 03 – April 09: Deputy-Chairman of the Board of Directors of Banco Itaú BBA S.A.
April 09 – July 09: Director General of Duratex S.A.

Herbert Walter



Date of birth	10 August 1953
Nationality	German
Date of first appointment	21 April 2004
End of current term	31 December 2013

Academic qualifications

1982: PhD in Political Sciences
1974-79: Kaufmann graduate in Business Administration
 Ludwig-Maximilians University (Munich)

Management and supervisory positions at other companies

Member of the Board of Directors of DEPFA Bank plc, Dublin
 Member of the Board of Directors of NOMOS-BANK, Moscow (since February 2011)
 Member of the Board of Directors of Banco Popular Espanol S.A., Madrid (until March 2010)
 Member of the Board of Directors of Deutsche Lufthansa AG, Köln (until May 2010)
 Member of the Board of Directors of E.ON Ruhrgas AG, Essen (until May 2010)

Previous professional experience

Assistant lecturer at the University of Munich
 Journalist for "Frankfurter Allgemeine Zeitung und Handelsblatt"
2003-2009: Chairman of the Executive Committee of Dresdner Bank AG
2003-2009: Member of the Board of Directors of Allianz SE
1999-2002: Responsible for Customers (Companies and Individuals) and Member of the Executive Committee of the Deutsche Bank Group
1999-2003: "Spokesman" of the Executive Committee of Dresdner Bank 24 AG

Ignacio Alvarez-Rendueles



Date of birth	8 July 1965
Nationality	Spanish
Date of first appointment	22 April 2009
End of current term	31 December 2013

Academic qualifications

1991: The Wharton School, University of Pennsylvania MBA, Major in Finance
1988: C.U.N.E.F. Universidad Complutense de Madrid, Honours degree in Economic and Business Sciences

Management and supervisory positions at other companies

CaixaBank, S.A. – Deputy General Manager and Member of the Management Committee, International Banking

Other positions

Escuela de Organización Industrial de España - Member of the Advisory Board

Previous professional experience

2008-11: Caja de Ahorros y Pensiones de Barcelona "la Caixa" – Executive Deputy Chairman, International Banking
2000-08: Goldman Sachs International – Executive Director, Investment Banking
1993-00: Salomon Brothers International – Director, Investment Banking
1992-93: S.G. Warburg & Co. – Associate, Investment Banking
1989-90: Salomon Brothers International – Financial analyst, Investment banking

Isidro Fainé Casas



Date of birth	10 July 1942
Nationality	Spanish
Date of first appointment	27 March 1996
End of current term	31 December 2013

Academic qualifications

Graduate in "Senior Management", IESE
 PhD in Economics
 Member of the "Real Academia de Ciencias Económicas y Financieras" and the "Real Academia de Doctores"
 Holder of an ISMP in "Business Administration", Harvard University

Management and supervisory positions at other companies

Chairman of Caja de Ahorros y Pensiones de Barcelona "la Caixa"
 Chairman of CaixaBank, S.A.
 Chairman of Criteria CaixaHolding, S.A.
 First Deputy-Chairman of Abertis Infraestructuras, S.A.
 Deputy-Chairman of Telefónica, S.A.
 Deputy-Chairman of Repsol YPF, S.A.
 Second Deputy-Chairman of Sociedad General de Aguas de Barcelona, S.A.
 Non-executive member of the Board of The Bank of East Asia, Limited

Other positions

Chairman of the Fundación "la Caixa"
 Chairman of the Confederación Española de Cajas de Ahorros – CECA and the Patronato da Fundación de las Cajas de Ahorro – FUNCAS
 Chairman of the Federación Catalana de Cajas de Ahorros
 Deputy-Chairman of the European Savings Banks Group – ESBG
 Deputy-Chairman of the Institut de Prospective Économique du Monde Méditerranéen – IPEMED
 Member of the Management Committee of the Fondo de Garantía de Depósitos en Cajas de Ahorros
 Member of the Rectory Committee of the Fondo de Reestructuración Ordenada Bancaria – FROB
 Chairman of the Confederación Española de Directivos y Ejecutivos – CEDE
 Chairman of the Spanish Chapter of the Club de Roma
 Member of the Executive Committee of the Consejo Empresarial para la Competitividad – CEC

Previous professional experience

1999-07: Director-General of Caja de Ahorros y Pensiones de Barcelona "la Caixa"
1991: Executive Deputy Director-General of Caja de Ahorros y Pensiones de Barcelona "la Caixa"
1984: Deputy Director-General of Caja de Ahorros y Pensiones de Barcelona "la Caixa"
1982: Subdirector-General of Ahorros y Pensiones de Barcelona "la Caixa"
1978: General Manager of Banco Unión, S.A.
1974: Advisor and General Manager of Banca Jover
1973: Staff Manager of Banca Riva Y García
1969: Director of Banco Asunción, Paraguay
1964: Investment Manager of Banco Atlántico

José Pena do Amaral



Date of birth	29 November 1955
Nationality	Portuguese
Date of first appointment	21 April 1999
End of current term	31 December 2013

Academic qualifications

1978: Economics graduate from Instituto Superior de Ciências do Trabalho e da Empresa

Management and oversight positions held at companies within the BPI Group

Director of Banco de Fomento Angola
Director of BPI Madeira, SGPS, Unipessoal, S.A.

Other positions

Member of the Board of Founders of Casa da Música
Member of the Board of Curators of the Lisbon MBA
Member of the Scientific and Cultural Board of Fundação Francisco Manuel dos Santos

Previous professional experience

1986-96: Consultant at Casa Civil of the President of the Republic for European Affairs
1983-85: Head of the Office of the Minister of Finance and Planning; permanent member of the Portuguese Ministerial Delegation in the negotiations for Portugal's accession to the European Community
1982-83: Member of the Office of the consultants Jalles & Vasconcelos Porto; correspondent of the Expresso, RTP and of Deutsche Welle in Brussels
1980-82: Head of the ANOP delegation in Brussels
1979-80: Editor of the Economic Supplement of the Diário de Notícias
1975-80: Professional journalist at the Diário de Notícias

Juan Maria Nin Génova



Date of birth	10 March 1953
Nationality	Spanish
Date of first appointment	23 April 2008
End of current term	31 December 2013

Academic qualifications

Lawyer – Economist by Universidad de Deusto
Master of Laws from the London School of Economics and Political Sciences

Management and supervisory positions at other companies

President and C.E.O. of Caja de Ahorros y Pensiones de Barcelona “la Caixa”
Deputy Chairman and C.E.O. of CaixaBank, S.A.
Deputy-Chairman of Criteria CaixaHolding, S.A.
Director of VidaCaixa Grupo, S.A.U.
Director of Gas Natural S.D.G, S.A.
Director of Repsol YPF, S.A.
Director of Grupo Financiero Inbursa
Director of Erste Group Bank, AG

Other positions

Deputy-Chairman of the “Fundación la Caixa”
Member of the Governing Board of the Universidad de Deusto
Member of the Board of Directors of Deusto Business School
Members of the Board of Deans of the APD
Member of the Management Board of the “Círculo Equestre”
Patron of the “Fundación Consejo España-Estados Unidos”
Patron of the “Fundación Consejo España-China”
Deputy-Chairman of the “Fundación Consejo España-India”
Patron of the “Fundación ESADE”
Patron of the “Fundación Confederación Española de Directivos y Ejecutivos – CEDE”
Patron of the “Fundación Federico García Lorca”
Secretary of the “Federació Catalana de Caixes d’Estalvis”

(cont.)

Previous professional experience

2002-07: Managing Advisor of Banco Sabadell
1999-02: Director-General of “empresas y corporativas” of Santander Central Hispano
1994-98: Director-General of commercial banking of Banco Central Hispano and member of the Management Committee
1992-94: Cataluña Territorial Manager of Banco Central Hispano
1980-91: International Manager of Banco Hispano Americano
1978-80: Programme Director at “Ministério para las Relaciones com las Comunidades Europeas”

Klaus Dührkop



Date of birth	9 February 1953
Nationality	German
Date of first appointment	21 April 1999
End of current term	31 December 2013

Academic qualifications

Law graduate of the University of Hamburg

Management and supervisory positions at other companies

Director of Allianz Turquia

Previous professional experience

2007-09: Chairman of the Allianz4Good Department of Allianz SE Munich
2006: Chairman of the Executive Committee of Mondial Assistance Group
1998-05: Executive Deputy-Chairman of the European Department of Allianz AG
1995-97: Head of the Department of Governmental Matters of Allianz AG, Brussels
1994: Head of the CEO Office of Allianz Versicherungs – AG
1991-93: Managing Director of Allianz Industrial, S.A. (Spain)
1987-91: Member of the Executive Committee of Allianz Ultramar (Brazil)
1985-86: Director of the Industrial Department of Allianz Versicherungs – AG, Hamburgo
1982-84: Insurance brokerage assistant

Manuel Ferreira da Silva



Date of birth	25 February 1957
Nationality	Portuguese
Date of first appointment	26 April 2001
End of current term	31 December 2013

Academic qualifications

1982: MBA, post-graduate course in Business Management from the Universidade Nova de Lisboa in collaboration with the Wharton School (University of Pennsylvania)
1980: Economics graduate from the Economics Faculty of the Universidade do Porto

Management and oversight positions held at companies within the BPI Group

Member of the Board of Directors of Banco Português de Investimento, S.A.
Chairman of the Executive Committee of the Board of Directors of Banco Português de Investimento, S.A.
Chairman of the Board of Directors of BPI Private Equity – Sociedade de Capital de Risco, S.A.
Director of BPI Madeira, SGPS, Unipessoal, S.A.

Previous professional experience

1980-89: Lecturer at the Economic Faculty of the Universidade do Porto
1981-83: Assistant Director of the Navy's Centre of Operational Investigation

Marcelino Armenter Vidal



Date of birth 2 June 1957
Nationality Spanish
Date of first appointment 3 February 2005
End of current term 31 December 2013

Academic qualifications

1974-1979: Business Sciences Course and Master of Company Administration and Management, of the Escuela Superior de Administración y Dirección de Empresas (ESADE)

Management and supervisory positions at other companies

Senior Executive Vice-President of Caja de Ahorros y Pensiones de Barcelona "la Caixa"
General Manager of Risk of CaixaBank, S.A.
Director of Abertis Infraestruturas S.A.
Executive Chairman of Caixa Capital Risc, S.G.E.C.R., S.A.

Previous professional experience

2005-2007: Executive Director of Caja de Ahorros y Pensiones de Barcelona "la Caixa"
2001-2007: Director-General of Caixa Holding, S.A.
1995-2000: Managing Director of Banco Herrero
1996-2000: Director of Hidroeléctrica del Cantábrico

Maria Celeste Hagatong



Date of birth 2 July 1952
Nationality Portuguese
Date of first appointment 27 September 2000
End of current term 31 December 2013

Academic qualifications

1974: Finance graduate of the Instituto Superior de Economia da Universidade Técnica de Lisboa

Management and supervisory positions at other companies

Director of BPI Madeira, SGPS, Unipessoal, S.A.

Other positions

Non-executive Director of CVP – Sociedade de Gestão Hospitalar, S.A.
Non-executive Director of Cosac, SA

Previous professional experience

1984-85: Member of the Board of Directors of Fonds de Rétablissement du Conseil de L'Europe
1978-85: Manager of Financial Services at the Directorate-General of the Treasury of the Ministry of Finance
1977: Administrative and Finance Director of the Republic's Parliament
1976-77: Ministry of Finance – Directorate-General of the Treasury
1974-76: Lecturer at the Instituto Superior de Ciências do Trabalho e da Empresa
1974-76: Responsible for the Department of Local Finance of the Ministry for Internal Administration

Mário Leite da Silva



Date of birth 16 November 1972
Nationality Portuguese
Date of first appointment 22 April 2009
End of current term 31 December 2013

Academic qualifications

Economics graduate, Economics Faculty of Universidade do Porto
Attendance to the Master of Corporate Sciences with specialization in Finance, Economics Faculty of the Universidade do Porto

Management and supervisory positions at other companies

Chairman of the Board of Directors of Santoro, Financial Holding, SGPS, SA
Chairman of the Board of Directors of Santoro Finance, SA
Chairman of the Board of Directors of Fidequity – Serviços de Gestão, SA
Chairman of the Board of Directors of Grisogono, S.A.
Member of the Board of Directors of Socip – Sociedade de Investimentos e Participações, SA
Member of the Board of Directors of Esperaza Holding, B.V.
Member of the Board of Directors of Banco de Fomento Angola, SA
Member of the Board of Directors of Nova Cimangola, SA
Member of the Board of Directors of Finstar – Sociedade de Investimentos e Participações, SA
Member of the Board of Directors of Kento Holding Limited
Member of the Board of Directors of ZON Multimédia, SGPS, SA
Member of the Board of Directors of Victoria Holding Limited

Previous professional experience

Administrative and Financial Director and Member of the Board of Directors of the following companies of Grupo Américo Amorim:
II – Investimentos Ibéricos, SGPS, SA
Amorim Projectos, SGPS, SA
Amorim Imobiliária, SGPS, SA
Member of the investments Committee of Finpro, SGPS, SA
Member of the Shareholders Meeting Board of:
Amorim Holding II, SGPS, SA
Amorim Holding Financeira, SGPS, SA

Pedro Barreto



Date of birth 3 March 1966
Nationality Portuguese
Date of first appointment 3 March 2004
End of current term 31 December 2013

Academic qualifications

2001: Stanford Executive Program
1989: Business Management graduate of the Universidade Católica Portuguesa

Management and oversight positions held at companies within the BPI Group

Director of BPI Madeira, SGPS, Unipessoal, S.A.

Previous professional experience

1984-88: IT Division of Soporcel – Sociedade Portuguesa de Celulose

Ricardo Vilella Marino



Date of birth	28 January 1974
Nationality	Brazilian
Date of first appointment	27 April 2011
End of current term	31 December 2013

Academic qualifications

1996: Bachelor degree in Mechanical Engineering from the Escola Politécnica da Universidade de S. Paulo (Brasil)

2000: Master of Business Administration Company Administration University – MIT Sloan

Management and supervisory positions at other companies

In Brazil:

Director of BICSA Holdings, Ltd.

Alternate Member of the Board of Directors of Duratex Comercial Exportadora, S.A.

Alternate Member of the Board of Directors of Duratex, S.A.

Alternate Member of the Board of Directors of Elekeiroz, S.A.

Executive Director and Member of the Executive Committee of Programa Itaú Social da Fundação Itaú Social

Chairman of the Board of Curators and Executive Director of the Fundação Saúde Itaú

Member of the Board of Directors of the Instituto Itaú Cultural

Member of the Board of Directors of Itaú Bank, Ltd.

Member of the Board of Directors, member of the People Committee, member of the International Consultative Board and member of the Strategy Committee of Itaú Unibanco Holding, S.A.

Deputy-Chairman Director and members of the Executive Committee of Itaú Unibanco, S.A.

Chairman of the Deliberative Board of Itaúbank – Sociedade de Previdência Privada

Member of the Investment Policies Committee of Itaúsa – Investimentos Itaú, S.A.

Alternate Member of the Board of Directors of Itaútec, S.A., Grupo Itaútec

Director of Iupar – Itaú Unibanco Participações, S.A.

Coordinator of the Human Resources Committee of Redecard, S.A.

In Chile:

Chairman of the Board of Directors of Banco Itaú Chile, S.A.

Chairman of the Board of Directors of the Fundação Itaú Chile

Member of the Board of Directors of Itaú Chile Holdings, Inc.

In Uruguay:

Chairman of the Board of Directors of Banco Itaú Uruguay, S.A.

Tomaz Jervell



Date of birth	4 March 1944
Nationality	Norwegian
Date of first appointment	26 March 1987
End of current term	31 December 2013

Academic qualifications

1969: Higher School of Commerce, Oslo

Management and supervisory positions at other companies

Chairman of the General Board of Auto-Sueco, Lda.

Chairman of the Board of Directors of Norbase, SGPS, S.A.

Chairman of the Board of Directors of Auto-Sueco (Angola), SARL

Chairman of the Board of Directors of Vellar, SGPS, S.A.



BANCO BPI, S.A.

Public held company

Registered in Oporto C.R.C. and tax identification under the sole number 501 214 534

Headquarters: Rua Tenente Valadim, n.º 284, 4100-476 Porto, PORTUGAL

Share Capital: EUR 990 000 000