# Annual Report

Banco BPI 2012

# Report

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# Leading business indicators

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

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Net total assets | 43 003 | 47 449 | 45 660 | 42 956 | 44 565 |
| Assets under management[1] | 13 805 | 17 256 | 18 592 | 14 425 | 13 445 |
| Business turnover[2] | 64 910 | 64 875 | 66 106 | 63 564 | 61 397 |
| Loans to Customers (gross) and guarantees | 33 079 | 33 562 | 33 621 | 31 535 | 30 519 |
| Total Customer resources | 32 134 | 31 673 | 33 072 | 32 665 | 30 878 |
| Business turnover[2] per Employee (thousands of euro) | 6 931 | 7 001 | 7 081 | 7 198 | 7 073 |
| Loans to deposits ratio[3,4] | 112% | 132% | 122% | 109% | 106% |
| Net operating revenue | 1 181.8 | 1 164.8 | 1 098.8 | 1 020.1 | 1 330.0 |
| Net operating revenue per Employee (thousands of euro) | 127 | 126 | 117 | 112 | 151 |
| Operating costs / net operating revenue[5] | 59.0% | 58.0% | 64.5% | 67.2% | 48.1% |
| Operating costs / net operating revenue, excluding non-recurring impacts[6] | 60.0% | 57.9% | 62.5% | 64.4% | 62.1% |
| Net profit | 150.3 | 175.0 | 184.8 | (284.9) | 249.1 |
| Return on average total assets (ROA) | 0.4% | 0.6% | 0.6% | (0.4%) | 0.8% |
| Return on shareholders' equity (ROE)[7] | 8.8% | 8.8% | 8.8% | (13.2%) | 12.9% |
| Adjusted data per share (euro)[8] | | | | | |
| Net profit per share | 0.159 | 0.174 | 0.184 | (0.284) | 0.216 |
| Dividend | 0.063 | 0.069 | - | - | - |
| Book value | 1.492 | 1.841 | 1.441 | 0.467 | 1.235 |
| Weighted average no. of shares (in millions)[8] | 946.8 | 1 004.0 | 1 003.5 | 1 003.8 | 1 154.6 |
| Loans in arrears for more than 90 days (in the balance sheet) | 1.2% | 1.8% | 1.9% | 2.4% | 3.2% |
| Credit at risk / Loans to Customers[4,9] | 1.7% | 2.4% | 2.7% | 3.2% | 4.2% |
| Net credit loss[10] | 0.32% | 0.50% | 0.35% | 0.43% | 0.92% |
| Adjusted net credit loss[11] | 0.32% | 0.38% | 0.46% | 0.43% | 0.92% |
| Pension liabilities to Employees | 2 298 | 2 275 | 2 306 | 836 | 937 |
| Cover of pension obligations[12] | 99% | 108% | 105% | 100% | 105% |
| Shareholders' equity and minority interests | 1 962 | 2 303 | 1 964 | 822 | 2 061 |
| Core tier I capital[4] | 2 083 | 2 041 | 2 267 | 2 321 | 3 684 |
| Core tier I capital ratio[4] | 8.0% | 7.8% | 8.7% | 9.2% | 15.0% |
| Core tier I capital ratio (EBA) | - | - | - | - | 9.8% |
| Closing price (euro)[8] | 1.557 | 1.886 | 1.232 | 0.471 | 0.943 |
| Stock market capitalisation at year end | 1 575 | 1 908 | 1 247 | 476 | 1 311 |
| Distribution network (no.) | 934 | 946 | 959 | 917 | 914 |
| BPI Group staff complement (no.)[13] | 9 365 | 9 266 | 9 335 | 8 831 | 8 680 |

*Table 1*

1) 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).
2) Customer loans, guarantees and total Customer resources (balance sheet resources, unit trust funds, PPR's and PPA's).
3) Deposits as a percentage of net loans.
4) Calculated in accordance with Bank of Portugal Instruction 23 / 2011.
5) Operating costs (personnel costs, outside supplies and services and depreciation and amortisation) as a percentage of net operating revenue.
6) Excluding non-recurring impacts both in costs and revenues.
7) In calculating ROE, revaluation reserves are excluded from shareholders' equity.
8) Figures adjusted for capital increases by way of the incorporation of reserves in May 2011 and through cash injection in August 2012.
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 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) Includes contributions to the pension fund made at the beginning of the following year.
13) Excludes temporary workers.

# Introduction

## THE TEMPORARY EXCEPTION

***Chairman of the Board of Directors***

*Artur Santos Silva*

The realisation of the capitalisation process initiated in December 2011 with the announcement of the results of the stress tests carried out by the European Banking Authority (EBA), was the most influential factor affecting BPI's business in 2012, and will continue to remain the principal determinant governing the institution's affairs in 2013.

As a consequence of that evaluation which involved 71 European banks, it was imposed on BPI a temporary capital reinforcement of 1 389 million euro in order to attain a core tier I capital ratio of 9% with effect from June 2012, thus reflecting the valuation of sovereign debt at market prices ruling in September 2011, a date arbitrarily set by the EBA. In order to comply with this new regulatory imposition, *temporary and exceptional*, 90% of which resulting from the exposure to sovereign debt, BPI lodged with the Bank of Portugal a five–year *Funding and Capitalisation Plan* and submitted to the European Commission's Directorate General for Competition a Restructuring Plan susceptible of demonstrating the ability to execute the objectives proposed and to compensate for alleged market distortions.

BPI's Capitalisation Plan entailed the issue of 1.5 thousand million euro in contingent convertible subordinated bonds (CoCo) with a five-year maturity, subscribed for by the Portuguese State in June 2012; this amount was immediately reduced in August to 1 300 million by way of a capital increase of 200 million euro reserved for Shareholders, and now stands at 1 000 million euro following early repayments of 100 and 200 million euro realised in December 2012 and March 2013, respectively. The contingent convertible bonds pay interest in the first year of 8.5%, which increases by 0.25% in each one of the following two years and by 0.5 in each of the last two years. The Portuguese State, which funds this investment at an average rate of 3.4%, therefore earns a positive return of 5.1%, which meant a gain of 33 million euro in 2012 and signifies an estimated benefit of 52 million in 2013, after already taking into account the repayments made by the Bank. There is therefore no loss to the taxpayer, in fact, to the contrary, a very substantial gain paid, in the final analysis, by the Shareholders.

The scale and exceptional character of this public intervention warrants a careful explanation for its *raison d'être*. Accordingly the following facts should be considered:

- in 2009, as part of its normal financial management, BPI constituted a portfolio of Portuguese and other Eurozone countries' public debt in light of a regulatory background in which *(i)* the public debt of European Union countries had a zero weighting for purposes of calculating capital ratios and *(ii)* the unrealised losses on bonds in the portfolios of available-for-sale assets did not have an impact on results or on capital, with such impact only occurring in the case of early sale or impairment charges for foreseeable default;

- at the time this portfolio was constituted, the relevant securities had without exception class A ratings, did not consume capital and were self-funding by virtue of the fact that they could be used as collateral at the ECB, in one-year term operations;

In December 2011, the European Council, at the recommendation of the EBA, altered retrospectively the regulations in force when this portfolio was formed and imposed three "temporary and exceptional" measures:

a) banks were obliged to have a core tier I capital ratio of 9% in June 2012, taking into consideration the sovereign debt exposures recorded in the portfolio at 30 September 2011, that is, three months before this rule was approved;

b) the prices to be considered for these exposures would similarly be those ruling on 30 September 2011 and the amount of the capital shortfall thus administratively calculated would be fixed until new rules were announced, and could not be altered by the change, negative or positive, in the market prices occurring in the meantime, nor by the sale or redemption of the securities concerned;

c) finally, unrealised gains or losses – because in either case they were not actually realised – began to be taken into account for calculating the EBA's capital ratios.

In the case of BPI, whose Shareholders had meanwhile already assumed the loss resulting from the partial pardon of Greek debt, this exceptional regulation translated into the need to constitute a "temporary capital reserve" ("*buffer*") of close to 1200 million euro, resulting almost exclusively from sovereign debt exposure and, above all, Portuguese sovereign debt, which, *accounted for at prices ruling on 30 September 2011*, evidenced large losses which are not recoverable as regards the impact on capital until the EBA's temporary freeze is lifted.

The reference to this set of facts and circumstances is crucial for understanding the extraordinary nature of BPI's position because, if the "temporary reserve" was updated based on the actual volume of the exposure to sovereign debt as at 31 December 2012 at the market prices on that date, the Bank would be able to return to the State an additional 613 million euro worth of contingent bonds, reducing to 387 million euro the extent of the public involvement; moreover, this figure would fall even further to 256 million euro if, to be strictly correct, an additional 131 million euro was deducted corresponding at the same date to the impact on capital of Portuguese municipalities' debt which the State undertook to acquire in 2011 within the ambit of the negotiation for the transfer of the Pension Fund to the Social Security. One could even add that the debt to the State could be more than eliminated if, as would also be reasonable, the 366 million euro corresponding to the interest-rate risk hedging derivatives which are associated with the public-debt securities portfolio was deducted from the abovementioned 256 million euro.

## CAPITAL, LIQUIDITY AND RISK

As referred to previously, BPI's capitalisation via contingent convertible bonds was concluded on 30 June 2012, while August saw the realisation of the 200 million euro capital increase. The latter confirmed the Bank's principal Shareholders' resolve and confidence in transforming the difficult period experienced since 2009 into a new cycle of growth and affirmation on both the domestic and international fronts. Previously, in April, the two biggest Shareholders had already given an important sign of cohesion and convergence when they acquired in equal shares the position of around 20% held for almost two decades by Banco Itaú, Brazil's and South America's largest financial institution, which by the way had made a very meaningful contribution to the BPI Group's development and which is hereby acknowledged with gratitude and sympathy.

Following these movements, the Bank evidenced a very sound capital position at the end of 2012 regardless of the valuation criterion used; at this moment, it is imperative to refer to three of these criteria bearing in mind the transitional regulatory alterations in force and the scenario envisaged for the near future:

- according to the Bank of Portugal's rules, the core tier I capital ratio corresponded to 15% of risk-weighted assets, the Portuguese financial system's highest level, which meant a capital surplus of 1.2 thousand million euro *vis-à-vis* the 10% required minimum;
- in terms of the EBA's recommendation which imposes, for the reasons already outlined, an exceptional reserve resulting from the freezing of the volume and value of the sovereign debt as at 30 September 2011, the core tier I ratio was situated at 9.8%, which represents a capital surplus of 203 million euro relative to the required minimum of 9%;
- finally, if we take into account the Basle III regulatory framework which should come into force in the European Union as from 2014, with a five-year adjustment period, BPI's core capital in December, excluding the public investment, would be equivalent to a ratio of 8.5%, with a surplus of 1.2 thousand million euro relative to the 4% minimum, currently envisaged for that date.

As concerns *Liquidity*, the Bank's position remains well balanced, as has always been the case even in the most critical periods of the past three years. The commercial liquidity gap declined by virtue of the conjugation of the stability of resources with the contraction in the consolidated loan portfolio, thereby permitting the transformation of deposits into loans indicator to reach 106% at the close of 2012, the Portuguese financial system's lowest figure and well below the Bank of Portugal's recommended indicative limit of 120%. Resources obtained from the ECB at the same date were situated at 4.2 thousand million euro, by far the lowest figure for the system's five largest banks in both absolute and relative terms. It is important to underline in this context that the net funding requirements of medium and long-term debt amount to only 500 million euro up till 2018.

In a particularly challenging economic environment, undoubtedly the most arduous of the last 35 years, it is worth highlighting, above all in relative terms, BPI's performance in *Risk control and management*, in particular credit risk. As was foreseeable, credit-risk cost and the volume of impairments rose significantly when compared with the preceding year, however the credit-at-risk indicator in domestic activity remained well below the system's average and continued to be the best amongst the leading Iberian banks. Furthermore, BPI achieved the best result in the 2012 *On-site Inspection Programme (OIP)* carried out in the second half of 2012 by the Bank of Portugal in order to evaluate the eight largest Portuguese banks' exposure to the construction and property development sectors in Portugal and Spain, with only an increase of 0.4 million euro in impairment allowances being prescribed, relative to a portfolio totalling 2.4 thousand million euro. In 2011, the Bank obtained one of the best classifications in the 2011 *Special Inspection Programme (SIP)*, also conducted by the Bank of Portugal. Considering the aggregate "credit at risk plus properties", BPI also evidenced the lowest absolute figure for the national financial system and the best impairments' cover.

## NET PROFIT AND PROFITABILITY

The Bank presented in 2012 the best return on shareholders' equity reported by the banks operating in Portugal (13%) and a consolidated net profit of 249 million euro, practically the first, "*ex-aequo*", amongst the same group. This profit is almost symmetrical to the loss reported in the previous year and its size is similarly explained by the influence of the extraordinary impacts essentially related to the public-debt portfolio. The loss incurred in 2011 reflected the losses arising from the Greek debt pardon imposed on the private sector – and only the private sector – by the European Union authorities; 2012 net profit includes, for its part, a contribution from non-recurring financial operations of 204 million euro, as a consequence of the repurchase of liabilities and gains realised from the sale of public debt which may not be repeated, at least on a similar scale, in the 2013 financial year.

In *domestic activity*, it is worth mentioning the 11% decrease in operating costs, the 11% increase in commissions and the 6% rise in net interest income, positively influenced by income from securities and negatively by the deterioration in the average cost of term deposits and the decrease in the margin on sight deposits, insufficiently offset by the inevitable increase in the spreads on new loans contracted in the Companies segment. The acquisition of a Portuguese public-debt portfolio made a very positive contribution to the trend in net interest income, more than offsetting the cost of the contingent convertible subordinated bonds issued under the capitalisation programme.

On the commercial front, special mention is made in the present economic landscape of the 57% share, corresponding to more than one thousand million euro, conquered in the placing of highly-rated corporate bond issues, and the creation of very competitive credit solutions amounting to more than 1 500 million euro, as support for cash management, investment and exports, including in this case the offer of financing and credit-risk insurance via Cosec. 100% use was also made – in 547 business-related

projects with an average value of 262 thousand euro – of a 200-million euro credit line earmarked for SME's resulting from a protocol signed with the European Investment Bank. Indeed, BPI consolidated in 2012 its leading position in the SME segment, with market shares of 31% and 39%, respectively in the granting of the PME Líder and PME Excelência status. More than 60% of these companies are today the Bank's Customers.

In *international activity* – responsible for 35% of consolidated net profit, with a return on average allocated capital of 25% – it should be noted that Banco de Fomento Angola has surpassed the one-million Customers mark, maintaining first or second place in market shares in the main commercial banking segments, with the exception of the volume of loans granted; for its part, in Mozambique, BCI continued to narrow the gap with the market leader, while its contribution to consolidated net profit was around 10 million euro, a 50% increase which reflects the institution's ability to respond to the good prospects for the growth of the country's economy.

***Board of Directors' Executive Committee***

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

## COMPARATIVE ADVANTAGE

The set of results presented by BPI in 2012 in all domains of its business, accompanied by the confirmation of reputation indicators relating to the quality of service, Customer trust and public recognition in specialised areas such as the Capital Markets, confirm that the Bank is managing to operate in the exceptionally challenging circumstances posed by the current economic climate with a relative performance that clearly outstrips the market average and that of its major rivals. BPI has the best capital indicators regardless of the criterion, its pensions are 105% covered, it is the only listed bank which has not issued State-guaranteed debt to manage liquidity, it records the lowest absolute and relative utilisation of ECB resources, the lowest rate of loan leverage, the lowest credit risk indicators, the highest loan-impairment cover indices and the highest returns reported in 2012. From this platform it can embark much stronger on a new growth cycle that will emerge, sooner or later, from the ruins of the protracted crisis initiated in 2007 with especially grave consequences in the European Union and in Portugal, which registered in 2012 one of the deepest recessions in living memory, with a 7% decline in domestic demand and serious social repercussions, well evidenced by an unemployment rate that is the highest since the second World War. After a turbulent first half, still marked by the Greek drama and by the spreading of the domino effect to Italy and Spain, the ECB's steadfast commitment to the euro, declared in July and accompanied by new intervention instruments, contributed decisively to the sustained fall in the risk premiums of the peripheral countries and opened up a credible horizon for Ireland's and Portugal's return to the markets already in 2013. This step, insufficient by itself, today appears to be indispensable for steering the negotiation of the Portuguese economy's adjustment against a new medium / long-term backdrop, integrated in the institutional context of the Monetary Union created in the last two years, and under conditions conducive to the return to economic growth, without which it will not be possible to give useful meaning to the resistance test that the country is being subjected to.

# Financial structure and business

The BPI Group – headed by Banco BPI – is a financial group centred on corporate and retail banking businesses, and in the provision of investment banking and asset management services.

The two main markets of operations are Portugal, a developed and competitive market where BPI has a strong competitive position, and Angola, an emerging economy which has recorded robust and sustained growth in recent years, where BPI, through its equity interest in BFA, has a leading position in the market.

At 31 December 2012, 83.7% of the Group's Shareholders' equity was allocated to domestic operations[1], and the remaining 16.3% to international activity.

**Leading indicators by business segment**
At 31 December 2012

Amounts in M.€

| | Domestic activity | International activity | Consolidated |
|---|---|---|---|
| Net total assets[2] | 38 517 | 6 048 | 44 565 |
| Loans to Customers[3] and guarantees | 29 046 | 1 473 | 30 519 |
| Total Customers resources | 25 611 | 5 268 | 30 878 |
| Business turnover[4] | 54 657 | 6 741 | 61 397 |
| No. of Customers (thousand) | 1 676 | 1 074 | 2 750 |
| No. of Employees | 6 400 | 2 280 | 8 680 |
| Distribution network (no.) | 747 | 167 | 914 |

*Table 2*

## Main units of the BPI Group

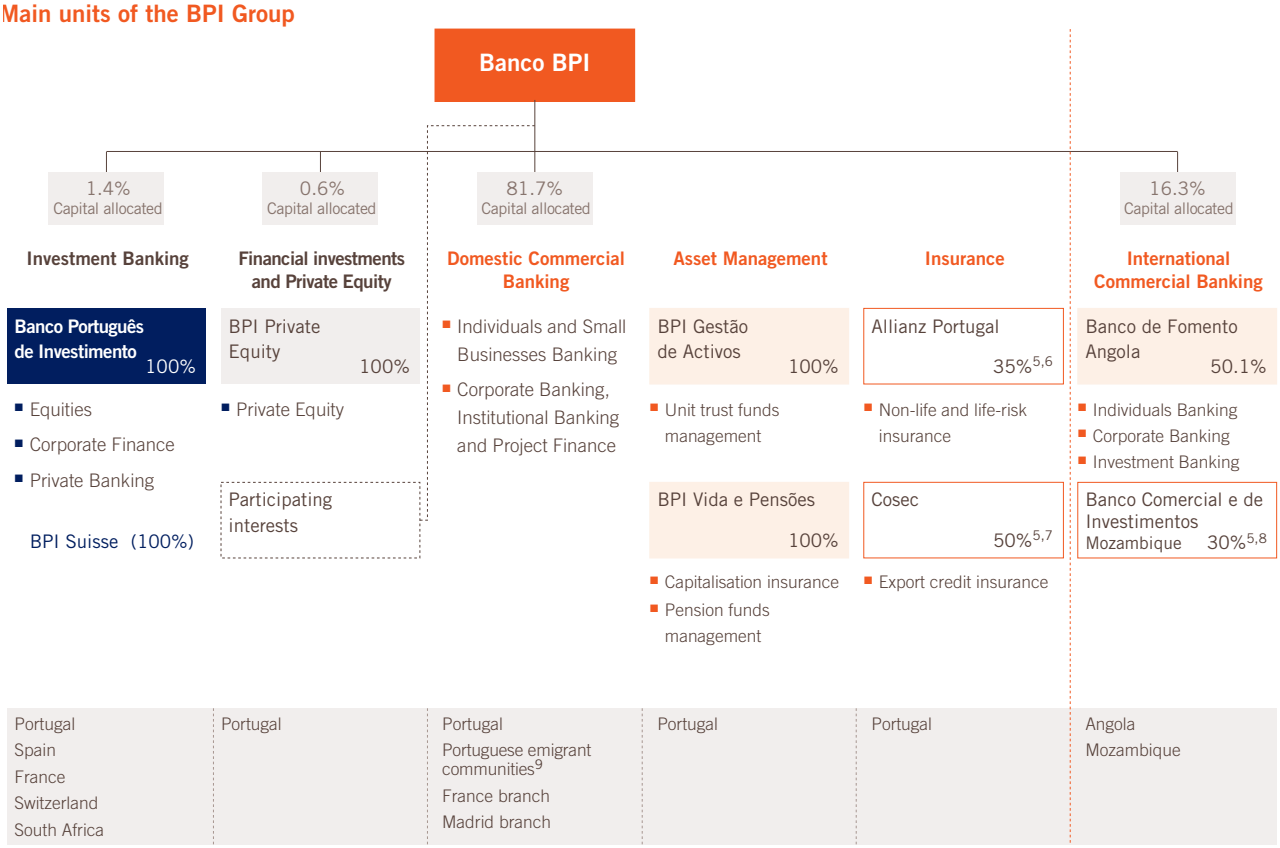



*Figure 1*

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, in terms of business volume, serving more than 1.7 million Customers holding market shares of close to 8% in loans and resources.

Individuals and Small Businesses Banking serves individual Customers and small businesses with turnovers of up 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 and Corporate Finance – these within the geographic confines of the Iberian Peninsula and in the first case includes offices in Madrid, Paris and South Africa and in the second case, 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 2012, BPI Gestão de Activos was the third biggest fund manager in Portugal, with a market share of 15.7%, BPI Vida e Pensões was the third largest pension fund manager with a market share close to 15% and had a 4.3% market share in the segment of capitalisation and PPR products in the form of insurance.

**Private equity** invests essentially through the venture capital funds, mainly 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 holds leadership positions in Angola, with market shares of 16% and 10% in deposits and loans, respectively, 17% in the distribution network, 24% in cards and 29% in payment terminals.

BFA is a retail bank – BFA has an ample base of deposits and reduced transformation of deposits into loans – offering a structured and differentiated spectrum of products and services for individuals and companies and complemented, in this case, by the availability of project finance, corporate finance and private equity services.

BFA served 1.1 million Customers, through a distribution network with a strong presence in Luanda and wide coverage throughout of the whole territory, comprising 144 branches, 8 investment centres and 15 corporate centres.

BCI is a retail bank predominantly focused in collecting resources and granting loans, in which activities the bank has market shares close to 28% and 30%, respectively. BCI serves 564 thousand Clients via a branch network of 128 units, which represented 26% of the total branches in the Mozambican banking system.

# Distribution channels

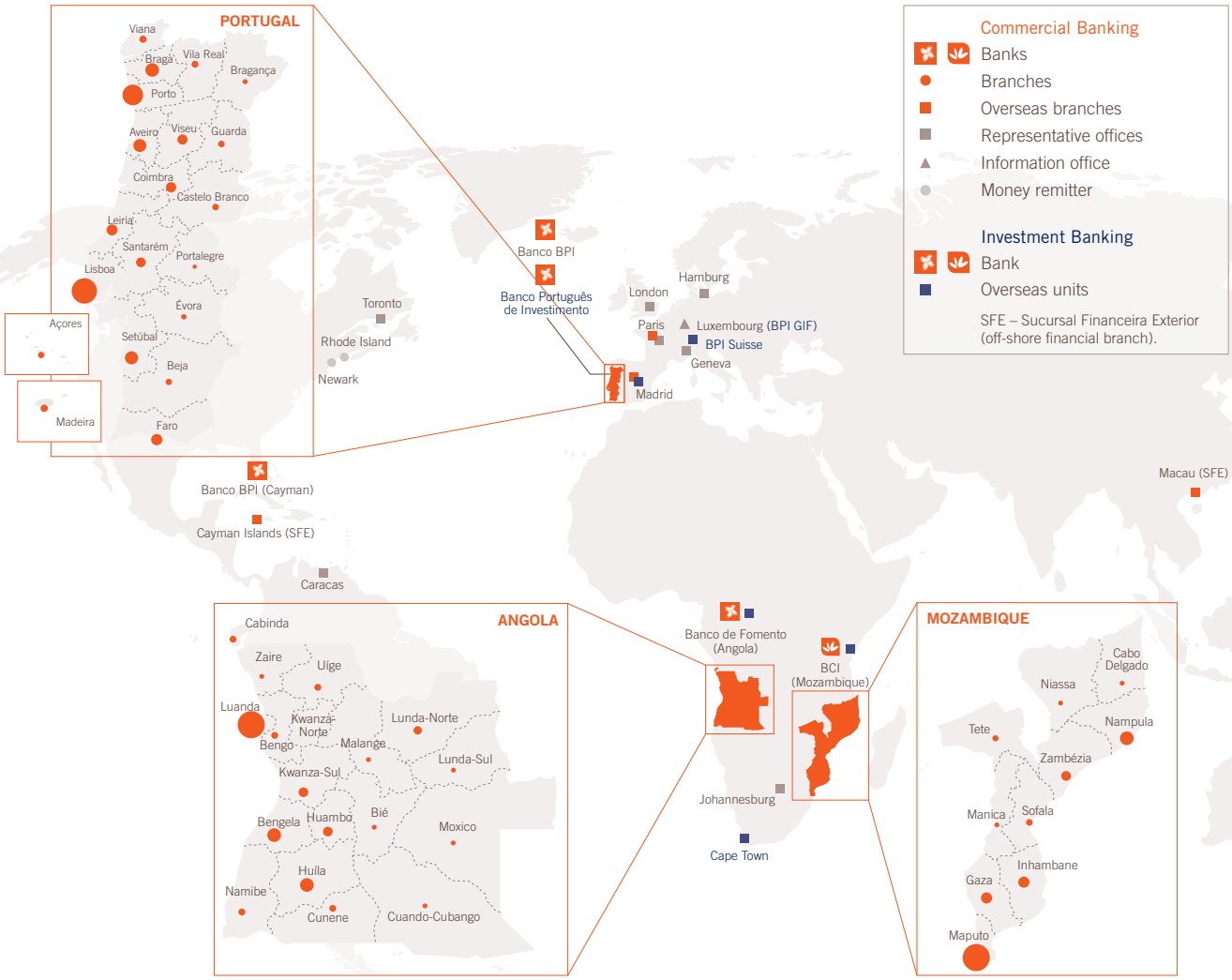



*Figure 2*

**Distribution network selected indicators**

| | Banco BPI | Banco de Fomento Angola | BCI – Banco Comercial e de Investimentos[2] |
|---|---|---|---|
| Traditional branches | 642 | 144 | 121 |
| Paris branch (branches) | 12 | – | – |
| Investment centres | 39 | 8 | – |
| Corporate centres[1] | 54 | 15 | 7 |
| Automatic bank (ATM) | 1 516 | 320 | 320 |
| Active points of sale (POS) | 37 517 | 3 917 | 3 862 |
| Commercial partners | 30 029 | – | – |
| Internet Banking (active users) | BPI Net: 710 096<br>BPI Net Empresas: 78 310 | BFA Net Particulares: 340 901<br>BFA Net Empresas: 7 670 | E-banking Particulares: 26 094<br>E-banking Empresas: 5 109 |
| Telephone banking (active users) | BPI Directo: 361 053 | – | – |

*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.

# BPI Brand

BPI reaffirmed its leadership in the Trust and Satisfaction indicators in 2012, and continued to receive national and international acclaim in the arena of Asset Management, Capital Market, Brokerage and Research.

The Bank centred its investment and communication policy on providing support for the Portuguese economy's growth, on encouraging saving and financial literacy, on a closer relationship with Customers and bolstered its action in the social responsibility domain.

## Satisfaction and trust

In the 2013 edition of the Trusted Brands survey published annually in the Reader's Digest Selections, BPI was voted the most trusted private bank, retaining for the fourth consecutive year the 2nd place in the financial sector.

According to the ECSI Portugal – National Customer Satisfaction Index, BPI occupies third place in 2012 in the satisfaction index amongst the banks surveyed individually.

The Financial System's Base Survey (BASEF), published by Marktest, confirms once again that BPI has the highest satisfaction level amongst the Portuguese financial system's five largest banks as regards satisfaction indicators relating to attendance and total satisfaction, a leading position that it has always occupied, as well as satisfaction with products. The same survey also places BPI in second position as regards the share of abandonment. It is worth recalling that the BASEF report is compiled on the basis of market perceptions influenced by direct experience and by the volume of advertising expenditure.

## Reputation and recognition

BPI's performance continued to merit public recognition, as borne out by a very diversified array of distinctions in the most diverse areas of financial activity, awarded by prestigious national and international independent institutions. Amongst other honours bestowed on the Bank, the following merit special mention:

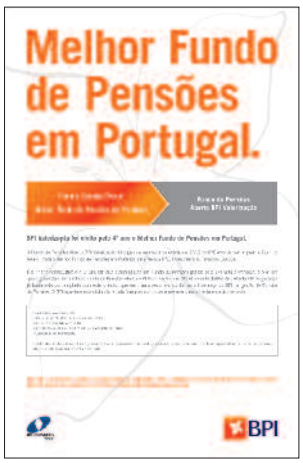
- **Best National Fund Manager of the year**
  BPI Gestão de Activos was voted, for the fourth year in the ninth edition of the Morningstar-Diário Económico awards, as having the best unit trust funds.

- **Best National Equities Fund Manager**
  BPI Gestão de Activos was honoured for the fourth year in the Morningstar-Diário Económico awards.

- **Best Portugal National Equities Fund**
  BPI Portugal Fi was honoured in the Morningstar-Diário Económico awards.

- **Best Open-end Pension Fund**
  BPI Valorização received the *Country Award*, for the fourth year by the magazine *IPE, Investment & Pensions Europe*.

- **Capital Market winner**
  In the 2nd edition of the *NYSE Euronext Lisbon Awards*, an event which honours entities which have contributed most actively to the development of the Portuguese



capital market, BPI won four prizes in the categories Listed Company – Best Performance – Compartments B and C; Market Member – Most Active Trading House in Bonds, N.º 1 Corporate Bond House and Most Active Research House.

- **Best Research House in Portugal**
  For the seventh time in nine editions of the *Investor Relations & Governance Awards 2012*, organized by Deloitte and Diário Económico.

- **The Financial System's Best Annual Report**
  For the fourteenth time in the last 25 years, in the same *Investor Relations & Governance Awards 2012*.

- **Iberian Peninsula's 2nd best Sales Team**
  According to Thomson Reuters, in the Extel Surveys conducted amongst the leading international fund managers. BPI also attained 3rd place in *Trading & Execution* and *Equity Sales* and fourth position in *Brokerage Firm*.

- **2nd Best Research Team in the Iberian Peninsula**
  For the third year running, in the *2013 Institutional Investors All-Europe* poll, on the sector's most prestigious awards.

### Investment and communication

The financial sector recorded in 2012 a 6% cutback in advertising expenditure, presenting itself as the eighth biggest investor in the universe of all the sectors of activity, with a 4% market share.

In the financial sector's total investment ranking, BPI maintained 12th position with a total share of 1% and 2% amongst the five biggest Portuguese banks. As in previous years, BPI continued not to invest in the higher visibility media – television and outdoor – but achieved the 2nd best investment efficiency ratio within the financial sector, measured by way of the relationship spontaneous recollection / investment volume.

BPI's communication policy was centred on the creation and dissemination of a broad spectrum of initiatives, the goals of which were spurring growth of the Portuguese economy, incentivising savings, the development of financial literacy and the improved quality of Customer service. The Bank also ramped up its involvement in social responsibility, which is dealt with in a separate chapter of this report.

Of the series of initiatives carried out in 2012, we highlight:

- **Backing for the Portuguese economy's growth**
  BPI created specific credit lines for facilitating the access by small, medium and large-size companies' to financing and also supported Portuguese companies in accessing the capital market through the issue and placing of bonds as an alternative source of funding.

For the 5th consecutive year, BPI was leader in assisting some 5 thousand small and medium-size enterprises who attained the PME Líder status and the no. 1 bank for the PME Excelência status, in the placing of the PME Investe and PME Crescimento credit lines and in operations with the Mutual Guarantee system.

The bank also reinforced its role in backing the international dealings of Portuguese companies through the creation of an innovative product range – BPI Exportação Segura – which integrates financing solutions and risk cover, enabling companies to export to all corners of the globe with greater assurance.

It enlarged and diversified its product range in the agricultural sector, both through the availability of a set of financial instruments and by way of the sponsorship of the main national events: National Agricultural Fair, Agroglobal – Maize Fair and Ovibeja.

- **Incentive for saving and financial literacy**
  The reinforcement of the campaigns dedicated to savings solutions, with an expressive pedagogic component, which sought to make Customers of all ages aware of the growing importance of starting to save early in life. An example of the campaign is "slowly you will go far", with the object of boosting and advocating savings through monthly contribution plans; the campaigns for youth savings solutions "Come surf with the champion" and for children "Save and visit the Badoca Safari Park" and "Learn to save" which endeavoured to make parents and children aware of the need to adopt regular saving habits.

  Still in this domain, it supported the publication of the book "You and money", written by the bank's Employee Rita Ferreira de Almeida and which constituted the offer of the "Learn to save" campaign. The book aims to explain to children and juveniles the value of money and some of the financial concepts in their daily lives.

  In 2012, the Bank promoted a total of 57 dynamic-oriented initiatives at schools and companies, which translated into 2,850 attendees in the immediate response to the challenge launched by the National Financial Training Plan to contribute actively to the national training strategy addressing the importance of saving.

  Also promoted were the itinerant weeks devoted to savings and retirement with the object of making local populations aware of the importance of saving. In this respect, great focus was placed on dynamic commercial activity through intensive training courses at the branch network and local promotional initiatives, north and south of the country.

- **Customer service**
  BPI launched 5 new applications for mobile devices which permit the realisation of bank consultations and operations in a simple and rapid manner. With this initiative, the Bank created a new channel for relating to its Customers, offering one of the most complete and innovative mobile banking apps on the national market.

BPI Net Empresas was the object of a series of developments, which seek to facilitate managing companies, in particular exporters. With the introduction of the new functionalities, BPI Net Empresas became one of the best corporate banking platforms in Portugal.

The Bank pursued its document digitisation strategy and at the end of 2012, almost all correspondence related to customer accounts was already available in digital format, thereby contributing to curbing the usage of paper and so protecting the environment.

# 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 solidarity, culture, education and research, innovation and entrepreneurship and the environment.

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.

## CORPORATE 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 an open 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.

In the BPI Group's Corporate Governance Report information is provided about the investor relations' activity undertaken in 2012.

## SERVICE QUALITY

The maintenance of high standards of quality of the service provided to its Customers has always been one of BPI's most distinctive attributes.

During 2012, BPI reaffirmed its commitment in this sphere to the relationship with its Customers with the goal of consolidating the service quality levels achieved in previous years. Accordingly, BPI's action has been focused on the following fundamental pillars:

- Market: monitoring of the perceived quality, through the analysis of the internal and external indices relating to service quality;
- Customer: adoption of methodologies for enhancing Customer satisfaction with the quality of attendance;
- Internal: reformulation of various processes with a view to a substantial improvement in the quality of service rendered to the end Customer.

The pursuance of the principles inherent in these fundamental pillars led to the confirmation on the part of Customers of the quality level of the service rendered by BPI, as borne out by the key market indices and surveys.

As regards Market assessment:

- the National Customer Satisfaction Index (ECSI), an independent survey promoted annually by entities specialising in Quality, BPI was ranked 3rd in the Satisfaction Index.

- the 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. Once again, this poll ranks BPI with the highest satisfaction level amongst the Portuguese financial system's five largest banks as regards the indicators "Satisfaction with Quality of Attendance", "Satisfaction with Quality of Products" and "Overall Satisfaction".

- the Mystery Customer survey, also independent, which analyses banks operating in the domestic market. The results obtained confirm the soundness of BPI's branch attendance methodologies, maintaining an upward trajectory in the results obtained.

The level of Customer satisfaction is monitored by means of two main in-house indicators:

- The Bank's Service Quality Index (IQS Banco), determined based on an annual satisfaction survey which gathers the Customer's opinion about the quality of the service provided by the Bank as an organisation. Conducted since 2002, this index has presented successive increases since 2009, attaining its historical maximum in 2012.

- The Branch Service Quality Index (IQS Balcão), compiled based on a quarterly survey of Customer opinion regarding the quality of service received at BPI branches. At the end of 10 years' existence, this index attained a new historical maximum in the 4th quarter of 2012.

## ADVANCEMENT OF HUMAN RESOURCES

During 2012, 4 863 Employees received training occupying a total of 95 thousand hours. Training activity was developed with a view to keeping pace with business trends, with the focus on enhancing Employees' competencies. This added value was achieved by means of training based on different structured learning models (classroom, e-learning and on-the-job), essentially focused on the development of skills of a technical and behavioural nature. In parallel, the Bank continued to support its Employees' academic education in diversified areas of knowledge.

## PATRONAGE

In the exercise of the patronage aspect of its social responsibility, BPI is governed by the following principles of action: privileged relationship with first-class institutions in Portuguese society; the logic of continuity which permits entities, through a long-term bond, to effectively plan their activities; and preferential support for projects and teams which clearly demonstrate the ability to become sustainable over the short term.

The Bank maintained the backing for the company's initiatives in the various domains in which it exercises its social responsibility, the importance of which is even greater given the country's current socio-economic situation.

BFA – Banco de Fomento Angola, in which BPI has a 50.1% shareholding, continued to support major activities via its social fund. At the end of 2012 the social fund was worth 18.8 million dollars.

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

## Social solidarity

In the social solidarity arena, we highlight:

- The third edition of the BPI Capacitar Prize, registered 257 candidacies and awarded prizes worth 700 thousand euro to 18 non-profit private institutions.

  The BPI Capacitar Prize is one of the largest private funds lending support to social integration projects in Portugal. This initiative has as its mission the promotion of quality of life and social integration of persons suffering from disabilities or permanent handicaps.

In total, and since its creation in 2010, already more than 1.5 million euro has been paid over to 37 projects submitted by Portuguese institutions, from north to south of the country. In this regard, some 15 thousand direct beneficiaries have been covered.

## BPICAPACITAR 2012

**1st Prize**

- Ramada Parish Community Centre, Odivelas – Project "Inclusion through the kitchen": industrial cooking for professional inclusion of handicapped people, through the manufacture of registered brand products sold to the public. Donation of € 95 000.
- Rainha D. Leonor Special Education Centre, Caldas da Rainha – Project "FloresSER": modernisation of the agricultural production of decorative flowers, a social business for the professional inclusion of handicapped people. Donation of € 105 000.

**Honourable Mentions**

- ACAPO – Associação dos Cegos e Amblíopes de Portugal, Lisbon (blind and sight-impaired association). Donation of € 50 000.
- Acreditar – Associação de Pais e Amigos de Crianças com Cancro, Lisbon (association of parents and friends of children with cancer). Donation of € 26 784.
- Associação Beira Aguieira de Apoio ao Deficiente Visual, Mortágua (charity for the visually impaired). Donation of € 50 000.
- Associação de Ajuda ao Recém-Nascido, Lisbon (association for the newly-born). Donation of € 30 000.
- Associação do Porto de Paralisia Cerebral (cerebral palsy association), Porto. Donation of € 50 000.
- Associação Portuguesa de Pais e Amigos do Cidadão com Deficiência Mental da Covilhã (association of the parents and friends of the mentally handicapped). Donation of € 8 692.
- Associação Portuguesa de Paralisia Cerebral de Faro (cerebral palsy charity). Donation of € 50 000.
- Associação Salvador, Lisbon. Donation of € 31 671.
- Associação Seara de Trigo, Ponta Delgada. Donation of € 21 992.
- Centro de Bem-Estar Social de Arronches (social day care centre). Donation of € 11 613.
- Centro Social Paroquial de Pinhal Novo. Donation of € 50 000.
- Cerciag – Cooperativa para a Educação e Reabilitação de Crianças Inadaptadas de Águeda (education and rehabilitation cooperative for delinquent children). Donation of € 30 985.
- Cercibeja – Cooperativa de Educação e Reabilitação de Cidadãos Inadaptados (education and rehabilitation cooperative for delinquent citizens), Beja. Donation of € 24 700.
- Misericórdia – Obra da Figueira, Figueira da Foz. Donation of € 30 367.
- Santa Casa da Misericórdia de Portalegre. Donation of € 25 000.
- Sociedade Portuguesa de Esclerose Múltipla, Lisbon (multiple sclerosis). Donation of € 8 252.

- The Solidarity Campaign, which has been held for nine years now over the Christmas season, had for the first time a regional dimension. Besides the five institutions which operate at national level, – Casa das Cores, Raríssimas, Operação Nariz Vermelho, Centro de Acolhimento para Crianças Refugiadas and Instituto de Surdos Mudos da Imaculada Conceição – the campaign encompassed 18 regional institutions, from north to south of the country and islands, which translated into a donation of 163 thousand euro.

- The BPI Christmas Tree initiative – Help a child to smile, which enabled offering more than 20 thousand presents to children from various institutions. All the Christmas trees at BPI's branch network and central services were decorated with a card which bore the name, age and present that each child wanted for Christmas. The presents were offered by the Bank's Customers and Employees.

- The voluntary work initiatives undertaken by some Bank Employees in a total of more than 30 such initiatives during the year.

- The renewed support to EPIS – Empresários pela Inclusão Social, whose activity is centred on the education and more specifically on the combat against failure and school abandonment; to Fundação de Direitos Humanos Pró-Dignitate; to Novo Futuro – Associação de Lares para Crianças; to Cruz Vermelha Portuguesa (Red Cross); to CADIN – Centro de Apoio ao Desenvolvimento Infantil; to BUS – Bens de Utilidade Social and to Igreja Paroquial São Nicolau e São Julião. Other important initiatives in these domains are the contributions to the Santa Casa da Misericórdia de Albufeira and to the Liga do Hospital D. Estefânia.

In Angola, BFA gave its backing to the following initiatives:

- Projecto Social de Oshivambi, in the Môngua municipality, Cunene, donating to a primary school with four classrooms.

- Projecto Social Kandimabas de Santa Cecília, promoted the Grupo de Leigos da Paróquia das Dores in Huília province, which involves the distribution of a basic Christmas hamper to all old-aged people in need.

- Gala Grupo de Amizade em Angola, a guild formed by the Ambassadors' wives of the PALOP (Portuguese-speaking African countries) in Angola, with the aim of reducing the asymmetries in the access to social, cultural and educational opportunities.

In Mozambique, BCI continued to support the Associação Amigos sem Fronteiras (friends without borders) through the granting of study bursaries; the Associação de Cooperativismo Moderno; the Casa do Gaiato; the Direcção Nacional dos Serviços Sociais da PRM and the Cruz Vermelha de Moçambique (Red Cross).

In the health arena, BCI undertook a concerted blood donor campaign and the distribution of Christmas hampers at Provincial and Central Hospitals in Mozambique and at the Hospital Geral da Machava, in Maputo, it promoted the monthly offer of milk reserved for breast-fed babies.

Support was also given to the Mozambique Olympic Committee; the Mozambican Football Federation; the Clube Ferroviário de Maputo; the Clube de Desportos da Costa do Sol; the Muslim Sports League, and the Maputo Athletics Club.

### Culture

BPI continued to support in 2012 a number of leading national institutions linked to the arts, such as the Serralves Museum and the Casa da Música, of which the Bank is a founder, and the Calouste Gulbenkian Foundation, with which it associated itself for the 11th consecutive year in the cycle of great world orchestras.

- Sole Patron of the Serralves Museum, which received more than 416 thousand visits in 2012.

- Patron of the Annual Grand Exhibition in 2012 entitled "Locus Solus – Impressões de Raymond Roussel" which attracted more than 100 thousand visitors.

- Patron of the "Serralves em Festa" – 40-hour non-stop culture, with more than 240 cultural events and more than 84 thousand visitors in 2012.

- Principal Patron of the Casa da Música (Music Hall), with 470 thousand visitors in 2012.

- Patron of Sala Suggia, known as the heart of the Casa da Música, with 137 annual concerts and 100 thousand spectators.

- Patron of the "À volta do Barroco", with performances from Casa da Música groupings and the most prestigious contemporary performers.

- Sponsor of the "Summer at Home" event, one month of shows which contribute to promoting culture and dissemination of the most diversified musical projects, national and international.

- Patron of the cycle of Great World Orchestras concerts, with more than 10 thousand visitors in 2012.

FUNDAÇÃO CALOUSTE GULBENKIAN

- Patron of the exhibition 'A perspectiva das coisas. A Natureza-morta na Europa', with 97 thousand visitors.

Also meriting mention was the renewal of the patron status of the Fundação Museu do Douro, Museu de Arte Contemporânea de Elvas, Centro Nacional de Cultura, Museu do Caramulo and the Teatro Viriato in Viseu and the contributions given to the Eça de Queiroz, José Saramago and Luís Miguel Nava foundations. Continuity was also given to backing for the Vila do Conde Short Film Festival.

In Mozambique, BCI is the patron of the museums managed by the Universidade Eduardo Mondlane; it gave for the 2nd consecutive year the BCI Literature Prize in partnership with the Associação dos Escritores Moçambicanos; it staged several exhibitions and promoted the launching of various performances which took place at the Bank's Mediateca; contributed to the Maputo Book Fair; the 7th edition of the National Culture Festival; the Maputo International Music Festival and the 4th edition of the "Mozambique Music Awards".

## Education and research

In the educational and research fields, BPI had at the end of 2012 protocols in force with a total of 31 institutions of higher learning. Special mention is made of the long-term protocols with the Instituto Superior Técnico (IST), which in 2012 saw the establishment of a Workshops Nucleus of the IST which permits the creation of industrial parts prototypes, and the first international conference devoted to the Employability of Tertiary Education Graduates in Portugal; with the Foundation for Science and Technology in the 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; with the Escola de Tecnologias Navais da Armada and with the Escola de Fuzileiros da Armada which ministered leadership and training programmes to 228 BPI Employees.

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

In Angola, it is worth noting the collaboration with the Fundação Cidade de Lisboa in the contribution towards the granting of 5 annual study bursaries of 7 500 euros each in the 2010 / 2011 academic year to five university students coming mainly from Angola; the backing for the MBA for Executives course run by the Universidade Católica de Angola, in collaboration with the São Paulo (Brazil) and Porto (Portugal) Catholic Universisities and the 3rd Gathering of Portuguese Language Writers held in Brazil by the União das Cidades Capitais da Língua Portuguesa (Union of Portuguese–Speaking Capital Cities).

In Mozambique, BCI gave its support to a number of universities and renowned national institutes; it awarded study bursaries to young students attending the country's main universities and offered school textbooks to the National Library for distribution by the National Network of Public Libraries.

## Innovation and entrepreneurship

In 2012, BPI renewed its support for the following projects in the innovation and entrepreneurship field:

- 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.

- iTGROW – Software e Sistemas, ACE, an innovative project in Portugal, jointly controlled by BPI and Critical Software. This constitutes a commitment to computing capability in order to select, train and groom new graduates for professional life by way of an education programme and on-the-job skills training. During 2012, new training programmes were developed and implemented in the Project Management and Interaction Design domains which complemented the basic Engineering Tutorial programme being attended by all of iTGrow's professional staff.

- 2012 was also the year in which iTGrow took its first step towards the internationalisation of its talent and skills development activity, recruiting a team of 6 Mozambican youths who are presently integrated into the on-the-job training programme in Maputo.

- PME Inovação COTEC BPI 2012 Prize, sponsored in partnership with COTEC Portugal – Associação Empresarial para a Inovação. In 2012, the 1st prize went to Bluepharma – Indústria Farmacêutica, S.A., while Vision Box and Wit Software received honourable mentions.

- 5th edition of the Innovative Entrepreneurial Prize for Portuguese Diaspora, sponsored by COTEC. This prize has as its objective rewarding and disseminating Portuguese citizens who have distinguished themselves for the entrepreneurial, innovative and responsible flair within the context of the respective host countries.

- New Idea Competition. This initiative, sponsored in partnership with the Dean's Office of the Universidade Nova de Lisboa, has as its objective stimulating an entrepreneurial culture amongst its students and to foster multi-disciplinarity and the crossover of cultures, through the constitution of teams composted of students from the university's different organic units.

- INSEAD Entrepreneurship Prize 2011 / 2012, sponsored by INSEAD and which seeks to honour a company and a key manager from the Portuguese business community, rewarding and disseminating the cases of successful national entrepreneurship.

## Environment

BPI gave continuity to a series of internal and external initiatives within the ambit of environmental responsibility, which contributed to reducing the usage of paper and protecting the environment. At the end of 2012, BPI had made available virtually all the correspondence related to Customers' accounts in digital format.

# Human resources

## Staff headcount

At 31 December 2012, the BPI Group's workforce numbered 8 680.

In domestic operations, the staff headcount fell by 3.9% (-258), in part as a consequence of the early retirements programme executed in the 4th quarter.

In international operations, in Angola, the workforce grew by 95, which represents a 4.4% increase. At the end of 2012, Banco de Fomento Angola's headcount stood at 2 267 Employees, of which 26 is BPI staff seconded to Angola.

**BPI Group Employees**

| | | Year-end figures | | | Year-average figures | | |
|---|---|---|---|---|---|---|---|
| | | 2011 | 2012 | Δ% | 2011 | 2012 | Δ% |
| **Domestic activity** | | | | | | | |
| Activity in Portugal | | | | | | | |
| Banco BPI | 1 | 6 238 | 5 997 | (3.9%) | 6 611 | 6 195 | (6.3%) |
| Banco Português de Investimento | 2 | 148 | 137 | (7.4%) | 163 | 140 | (14.1%) |
| Other subsidiary companies | 3 | 69 | 66 | (4.3%) | 72 | 68 | (5.6%) |
| *[= Σ 1 to 3]* | 4 | 6 455 | 6 200 | (4.0%) | 6 846 | 6 403 | (6.5%) |
| Overseas branches and representative offices | 5 | 203 | 200 | (1.5%) | 203 | 201 | (1.0%) |
| **Domestic activity** *[= 4 + 5]* | 6 | **6 658** | **6 400** | **(3.9%)** | **7 049** | **6 604** | **(6.3%)** |
| **International activity** | | | | | | | |
| Banco de Fomento Angola | 7 | 2 172 | 2 267 | 4.4% | 2 077 | 2 220 | 6.9% |
| BPI Capital Africa | 8 | 1 | 13 | 1200% | 1 | 4 | 300% |
| **International activity** *[= 7 + 8]* | 9 | **2 173** | **2 280** | **4.9%** | **2 078** | **2 224** | **7.0%** |
| **Total**[1] *[= 6 + 9]* | 10 | **8 831** | **8 680** | **(1.7%)** | **9 127** | **8 828** | **(3.3%)** |

*Table 4*

**BPI Group staff complement**

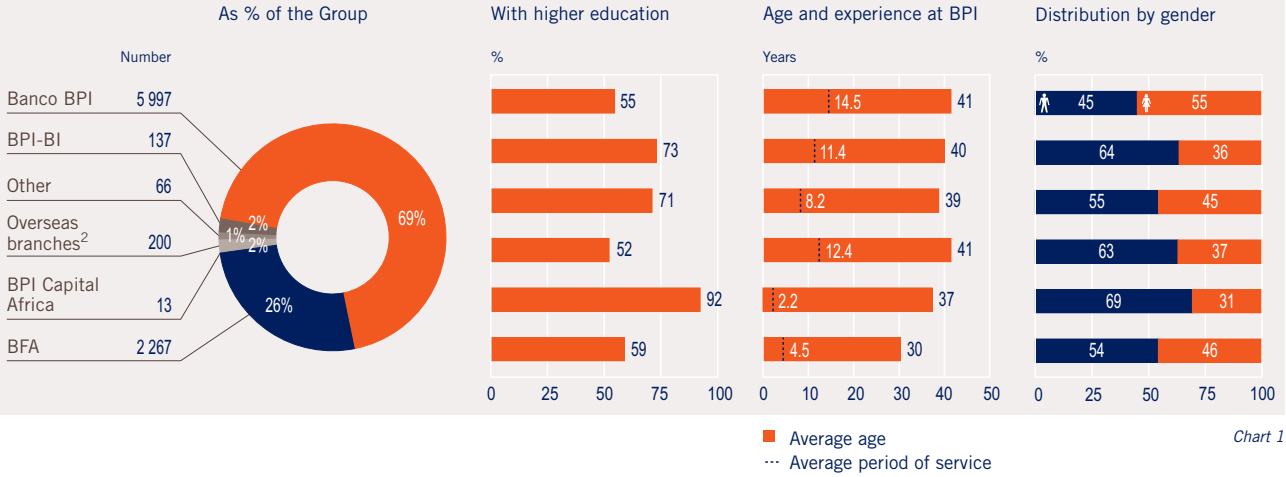



*Chart 1*

1) Includes fixed-term contracts and excludes temporary employment of persons with no binding work contracts with BPI.
At 31 December 2011 and 2012, the number of Employees with fixed-term contracts in Portugal stood at 76 and 49, respectively, while for the same years, the numbers relating to overseas operations were 17 and 13, respectively.
In average terms, in 2011 and 2012, the number of Employees with fixed-term contracts in Portugal was situated at 207 and 53 respectively, while the corresponding figures for overseas operations were 19 and 11 respectively.
2) Overseas branches and representative offices.

# Technology

BPI intensified the execution of the modernisation and optimisation plan for its Information Systems in 2012, by way of a series of projects designed to improve internal management, technological renovation and increased productivity and collaboration processes, with a view in the final analysis to boosting in a sustainable manner the value contributed to the business by the IT systems. Owing to their current and potential impact, we highlight the following initiatives:

**Restructuring of the Information Systems Division**
With the goal of optimising the management of priorities and the allocation of resources in accordance with the strategic objectives of each business area, the areas of management systems of demand, architecture, development and applicational maintenance were reorganised according to five areas: i) Customers, accounts and means of payment; ii) resources; iii) loans; iv) channels; and v) corporate centre.

**Evolution of management processes**
With the object of enhancing productivity and the correct allocation of assets, the "Lean" management methodology was extended to the universe of the Applications Development teams in order to guarantee that the business areas' requests focus on the essential components for generating value, the teams' rigorous work planning and the promotion of continuous improvement systems based on the systematic measurement of the results obtained.

**Systems architecture**
The investment in the information systems was stepped up and a series of programmes embarked on with a view to the standardisation, simplification and rationalisation of the applications and development platforms.

**Strengthening of productivity and collaboration platforms**
The internal video-conference and video-call platforms were reinforced, increasing the number of branch Employees and central services with access to this communication channel, which translated into an improvement in the effective communication time and a decline in the direct costs and lost productivity associated with travelling.

**Modernisation of the business support solutions**
Several modernisation projects involving the systems supporting the activity of the commercial networks, asset management and the accounting and reporting areas were concluded. Also noteworthy was the evolution of the digitisation and automation of loan-decision processes and contracting in the quest to implement a more efficient management of these processes and a simpler control of the operational and credit risks.
We should also highlight the progress verified in the digitisation of the entire communication between the Bank and its Customers, which represents a major improvement in the information component of the service rendered to the Customer.

**Launching of mobile solutions**
A set of applications designed for accessing the Bank via mobile devices was also launched (smartphones or tablets). Designed to take advantage of the devices' functionalities and ergonomics and systems more widely accepted by Customers, the first five applications – Apps – permit a vast range of consultations and the execution of more frequent operations, while also making available an innovative locator of banking services nearby the Customer.

**Renovation of multi-channel solutions platform**
A start was made to the renovation of the multi-channel support platform for Customer service which encompasses the renovation of all the Customer service applications in all the contact channels and represents an opportunity for modernising technologically and functionally the solutions which BPI offers on the different service channels.

**Technological renovation**
The complete renovation and the reinforcement of BPI's technological infrastructures have been in progress since 2011 with completion scheduled for 2013, with the object of increasing their availability, performance and scalability, as well as to simplify their management and to bolster contingency solutions.

# Background to operations

## PORTUGAL – ECONOMY AND MARKETS

### WORLD AND EUROPEAN ECONOMY

2012 saw successive downward revisions to economic growth forecasts with the International Monetary Fund (IMF) estimating that global economic expansion had fallen to 3.2%, that is, below that posted in 2011 (3.9%). The developed economies registered historically low growth rates (1.3% against the previous 1.6%), but it was in the group of emerging economies where the most negative surprises occurred (China, 7.8%, the lowest figure since the end of the 90's, and Brazil, 1%), evidencing, despite their growing contribution to global performance, the inability to decouple from the behaviour of the major economic blocs.

#### Events in Europe affect sentiment

2012 was a clearly dichotomous year, with the first six months largely affected by the protraction of the euro's sovereign debt crisis. The effect of the accommodative measures adopted by the European Central Bank (ECB) at the end of 2011 and the beginning of 2012, namely the provision of an ample liquidity cushion (3-year LTRO[1], the English abbreviation for funding operations for periods of more than 7 days) to the European financial system became exhausted in the early months of the year in light of the rapid deterioration in Europe's economic and political situation. In this context, noteworthy were the events in Greece and the consequent contagion to larger countries, notably Spain and Italy, both of which impossible to bail out in the same manner as the other cases to date. The political crisis, the elections in Greece and the process involving the negotiation of the Greek debt pardon constituted fundamental events in this period, given the intensification of the risks of extreme scenarios occurring, namely the EMU's collapse or Greece's exit from the euro. As a result, there was a widespread decline in confidence levels, not only in the European Union but also in the other economic blocs, thereby explaining the retraction in activity in the euro region (annual GDP retreated 0.6% according to Eurostat estimates).

The outline of the Greek debt restructuring – resulting in the pardoning of 50% of the nominal amount by private creditors, with the official creditors (ECB, IMF, EC) maintaining the status of preferred creditors – were reflected in the worsening of mistrust regarding the bailed-out peripheral countries, thereby increasing the degree of market fragmentation, as borne out by a more restrictive financial environment for the countries under scrutiny. Spain was one of the states most penalised by the effects of contagion and by the negative confluence of various negative factors: the Greek crisis, a new reform of the Spanish banking sector and the nationalisation of the fourth biggest bank in asset terms. These fears materialised in a formal request for external assistance with a view to the recapitalisation of the Spanish banking system which took place in the second half of the year.

#### "...and believe that it will be sufficient"

However the European Central Bank's posture since the summer, when its president declared that he would do everything to save the euro, has changed the forces at play and served as a catalyst for a more sustained change in sentiment. The announcement of new intervention instruments, in particular the sovereign-debt purchase operations (OMT– Outright Monetary Transactions) with maturities of up to 3 years, potentially for unlimited amounts and conditional upon an adjustment programme, global or preventative, within the ambit of the EFSF / ESM, has constituted the key element behind the change in market sentiment since then. Moreover, the ECB agreed to accept the same status as other investors, waiving its debt seniority rights. The dissuasive effect of this announcement was significant, as can be seen from the fall in peripheral countries' risk premiums since the summer of 2012 despite the OMT programme having not yet been activated.

The descent in the risk premiums of the sovereigns under scrutiny, the controlled situation in Greece – which in the second half of the year benefited from the revision of the financing conditions by the EU / IMF with a reduction in the interest rate and the extension of the debt repayment terms –, as well as the successful progress made in the recapitalisation plans and the intervention in the Spanish banking system, calmed the tensions on the international financial markets. In this more favourable context, positive impacts were recorded in financial institutions' balance sheets and earnings in the assisted countries, more exposed to the investment in public debt securities of the respective countries. It thus became possible for certain peripheral country companies and banks to return to the wholesale debt markets, namely, the Portuguese, representing an important step forward for the normalisation of the funding situation.

However, notwithstanding the changed circumstances and the significant easing in funding conditions, European

1) LTRO – Long term-refinancing operations.

states and banks have not yet seen any changes in their credit ratings by the main rating agencies (already in 2013, S&P has altered the prospects for Ireland's debt rating to "stable").

### The road to greater European integration

Following the summit of the Union's leaders and heads of State in June 2012, the European authorities' desire to reinforce the union's monetary architecture became more evident, advancing towards greater banking, fiscal and political integration. The first steps towards banking integration have already been taken, having been agreed the creation of the Single Supervisory Mechanism under the auspices of the European Central Bank, which will encompass banks with assets of more than 30 th.M.€ or 20% of the member State's GDP. The ECB's remit will be to supervise around 200 banking entities, controlling as well those with cross-border business operations, such as banks with branches in at least two other participating countries.

This is a step towards breaking the connecting link between sovereign debt and the banking system permitting that more solid institutions affected by the drop in the value of sovereign assets can offer less onerous financing conditions; or that sovereign states see that the burden of the financial system on their situation is recognised (as is the case of Ireland). However, the final details of this process have still to be defined given the need to foresee the risk-sharing mechanisms. The possibility that the European Stability Mechanism starts to fund directly financial institutions in difficulty is one of the paths proposed, but the final responsibility will possibly lie with each member state.

## PORTUGUESE ECONOMY

### External adjustment surprises

According to still preliminary information from the National Statistics Institute (Instituto Nacional de Estatística – INE), in 2012 the Portuguese economy recorded a drop in activity of 3.2% – change of -1.6% in 2011. The fact that Portugal finds itself subject to an international assistance plan and respective constraints – namely the burden of budgetary consolidation, the implementation of structural reforms and the deleveraging drive – as well as the weak performance of the external economies, constituted the principal factors affecting the behaviour of economic activity. This global performance – retreat of 3.2% – conceals the contrasting trends between the contributions from domestic demand – which is estimated to have exceeded -7% – and that of net external demand, with a positive and significant contribution – about 4 p.p. – thanks to both the fall in imports and to the good performance of goods and services exported. Competitive gains materialised in the decline in unit labour costs and the greater focus on the search for alternative markets, permitted market share gains and the expansion of sales to larger markets (the USA is an example) or those with the potential for high growth – the cases of China, Brazil, Angola and the other PALOP (Portuguese–speaking African) countries, North African countries.

**GDP growth**

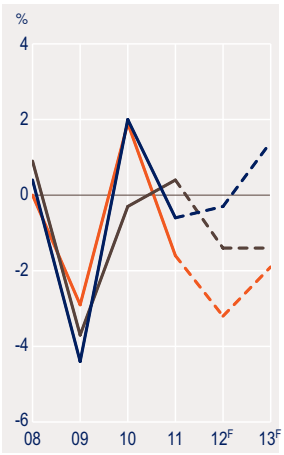



*Chart 2*

— Portugal
— Spain
— EMU

Source: European Commission, Winter 2013 forecasts.

**Current and capital balance as % of GDP**

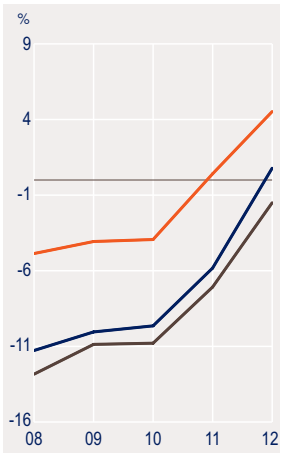



*Chart 3*

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

Source: Bank of Portugal.

Against this backdrop, a positive development has been the fact that Portugal has managed to attain a practically balanced external financial situation at the end of the year – minimal financing capacity as regards the exterior, reflecting the slightly positive current and capital accounts. It should be underlined that this is an unprecedented fact in democracy, contrasting with the recurrent funding needs in the vicinity of 10% of GDP in the first decade of the XXI$^{st}$ century. On the one hand, this greater rate of external adjustment constitutes a good signal, favouring the dilution of the stock of external indebtedness (which exceeds 100% of GDP). Conversely, the pronounced decline in domestic demand surprised and constituted one of the factors underlying the budget performance, obliging two corrective budgets and the implementation of extraordinary measures to comply with the measures fixed by the Economic and Financial Adjustment Programme (Programa de Ajustamento Económico e Financeiro – PAEF). Recognising the government's commitment to the process of budgetary consolidation, the objectives for the deficit were adjusted during the Programme's sixth evaluation, being fixed at 5% (4.5% previously) and 4.5% (3% previously) of GDP in 2012 and 2013, respectively.

In part, the difficulties in attaining the fiscal targets stem from the speed of the national productive system's reorientation to the tradable sector. Excluding non-recurrent measures – such as the impact of the proceeds from the banking sector's pension funds – the budget balance records a considerable contraction, shrinking from 7.5% in 2011 to an estimated 6% in 2012. Roughly 2/3 of the budgetary consolidation in the past couple of years reflects savings on the expenditure side which, excluding interest, retreated 16.4%, around 13.5 th.M.€ relative to 2010, when it reached a historical high. The decrease in personnel costs and the acquisition of goods and services explains a major part of this trajectory. However, it is important to point out that part of these expenditure-cutting measures assumed a non-recurring nature, as is evidenced by the increase projected for public spending in 2013 relative to GDP, according to the State Budget for the same year.

It is worth highlighting the advances made in the implementation of structural reforms, namely in the property rental market, promoting geographical mobility, and in the labour market, boosting flexibility and reducing duality in this market. Some steps have been taken in reforming the judicial system, as well as progress being registered in the Public Administration, cutting back on services and bodies, simplifying the organizational structure and promoting greater efficiency.

On the negative side, one can cite unemployment which continues to soar to historical highs: 16.9% in the last quarter of 2012, 15.7% in average terms in the year, representing an increase of 2.9 percentage points when compared with the previous year. The employed population declined by 4.3% in year-on-year terms; the number of jobless climbed 19.7% while the working population decreased – the effects of emigration and the passage to inactivity. This scenario is unlikely to change in the near future, although it should tend to stabilize once the larger scale restructuring processes have taken place.

The inflation rate declined to 2.8% in average terms in 2012, reflecting also the impact of the hikes in indirect taxes which occurred at the beginning of the year – VAT in the restaurant and electricity sectors, and the reduction in the number of products eligible for lower rates, the increase in the basic user charges in the Health sector, the increase in public transport's regulated tariffs, etc., with a view to consolidating the public accounts.

During the course of 2012 the efforts directed at reducing the Portuguese banking sector's funding imbalances continued to be pursued, while witnessing an orderly deleveraging – the loans / deposits ratio attained 133% in September 2012 – by way of a more restrictive policy in the granting of financing, the selective sale of non-strategic assets, the halt to dividend payments to shareholders, amongst others. Of the 12 thousand million euro (th.M.€) available in the Banks Recapitalisation Fund within the framework of the Adjustment Programme, some 5.6 th.M.€ has already been used. Three financial institutions resorted to public capital, including BPI – 1.5 th.M.€, of which 500 M.€ has already been repaid (of which 200 M.€ in the first half of 2013) BCP, 3 th.M.€ and Banif, 1.1 th.M.€. Consequently, the overall core tier I capital ratio for the banking system was situated at 11.3% at the end of the 2$^{nd}$ quarter, complying with the 10% requirement laid down in the Economic and Financial Adjustment Programme. It should be recorded that the capital requirements for European public debt were fixed with reference to September 2011, although there have been clear improvements in the value of sovereign assets since then (hence, the potential reduced necessity for capital).

## Deposits

The deposits of the resident, non-financial private sector (individuals and companies) grew by 3.1% in 2012 in annual average terms (4.8% in 2011). This behaviour is explained by the increase in individuals' deposits (5%, in annual average terms), while deposits of non-financial companies shrank by roughly 4.5%. Of note is the significant deceleration in the non-financial private sector's deposits, which in December registered a year-on-year drop of 3.8%, a trend which was more marked in the business sector. Individuals' deposits were situated at virtually the same levels as those observed at the end of 2011 (in year-on-year terms) with the slight increase in time deposits being offset by the fall in sight deposits. Non-financial companies' deposits suffered a decline in both annual average terms (4.5%) and at the end of period (-18.8% in December). On the one hand, the decrease in households' disposable incomes affected the ability to save money. However, there was an increased savings effort in this sector, as borne out by the rise in the savings rate, reflecting above all precautionary reasons and the change in consumption standards and preferences. Conversely, in the corporate sector, the business community's deleveraging and restructuring drive entailed the predominant recourse to own funds, thereby influencing the trend in the sector's deposits.

Also contributing to the trend in deposits was the appearance of alternative investments, a reflection of the improvement in sentiment in the financial asset markets with higher risk – equities and bonds, above all in the closing months of the year. The increased containment on the greater part of financial institutions in remunerating deposits also explained their diminished attractiveness. The interest rates on offer accompanied the downward trend in the key Euribor rates. The cost of new time deposit operations fell from 3.6% (2011 average) to 3.2% (2012 average), while it was situated at 2.4% in December. It will be recalled that in November 2011, the Bank of Portugal imposed a penalty on time deposits with remuneration of more than 300 basis points (b.p.) above the 6-month Euribor rate, expressed in the penalisation of own funds by 0.5% of the interest in excess of the limit imposed, weighted by maturity.

## Loans

In 2012, lending to residents recorded a clear downward trend in line with the desired reduction in indebtedness levels in all sectors of economic activity. In December, this aggregate fell by 6.1% relative to the preceding year, a trend that is identical to that of the annual average (+0.5% in 2011). Excluding Public Administration, lending suffered a contraction of 5.7%. The decrease in the loan stock encompassed all sectors, in particular the non-financial business sector (-7.4%) and individuals, -3.2% (home loans -3.7%), which together represented around 89% of loans granted by the banking system. The financial system's deleveraging goals – expressed in the indicative target of 120% for the loans / deposits ratio (133% in September 2012) and the new rules imposed by the EBA, reinforcing the requirements relating to the capital ratio and introducing a change to the European public debt valuation criteria – contribute to the banking institutions' more restrictive posture in the granting of loans.

**Evolution of loans in Portugal**

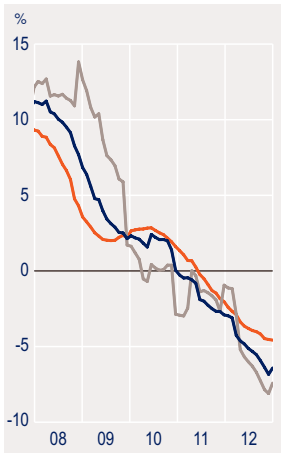



*Chart 4*

— Individuals
— Companies
— Total lending[1]

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

**Trend in deposits in Portugal and in the EMU**

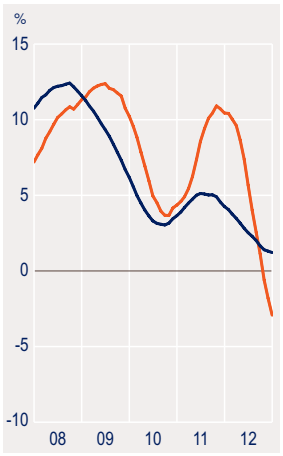



*Chart 5*

— Portugal
— EMU

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

1) Total loans to residents excluding Public Administration.

The deteriorating trend in default ratios continued to be evident and covered all sectors of activity, although a deceleration in the rate of non-performing loan expansion was evident throughout the year. Considering individuals and non-financial companies, the default ratio ended the year at 6.3%, which compares with 4.6% at the end of 2011. In the individuals segment, this ratio climbed from 3.2% to 3.7%, being situated at 2.1% in the case of home loans and which represents a significant portion of the volume of loans extended by the banking sector: 42% of total loans and 83% of lending to individuals; as regards non-financial companies, the default ratio rose from 6% at the end of 2011 to 9.4% in December 2012, with the worst sectors being Construction (18.6%), Real Estate Activities (11.6%) and Retailing (12.3%). In the meantime, above all from the middle of 2012, there was already a deceleration in the growth rate in loan defaults. By way of example, defaults in the individuals' segment registered a change of about 15% in January, slowing down to roughly 6% in December.

### Outlook for 2013

In 2013 the process of European integration should advance further, with concrete steps expected to be taken towards the materialisation of the Banking Union. Meanwhile it is possible that we could witness new tension hot spots, above all of a political origin, namely due to the holding of a number of general elections in Europe (Italy, Germany). The discussion of a budgetary consolidation trajectory for the North American economy and the possibility of automatic spending cuts, namely in the defence budget, pose additional risks to the global growth trajectory. The International Monetary Fund expects a slight acceleration in world growth to 3.5%, forecasting more contained risks than in the past but still on a downward path.

Portugal should also register a contraction in activity, in the order of 1.9% according to the Bank of Portugal, although a return to an upward trajectory, albeit modest, is envisaged for 2014, reflecting the re-equilibrium in aggregate demand in favour of the tradable segment and the advances already recorded in the re-composition of households' and corporate balance sheets. The profile of the trend in aggregate demand should be similar to that of 2012, although with less serious tendencies, but with the prospect of a fall in private consumption (-3.5%) reflecting the continued decline in households' disposable incomes due to the persistence of high unemployment levels and the more onerous tax burden.

On the other hand, the pace of consumer price rises should abate appreciably, while key short-term interest rates for the fixing of financing costs should remain at low levels, minimising the weight of households' borrowing costs.

Special reference is made to investment since this is expected to stabilise and then recover moderately (only in 2014) to the extent that installed capacity is depleted and the outlook improves as regards the demand for and returns on investments, the principal obstacles cited by businessmen.

## MARKETS

### Currency market

2012 was characterised by this market's great volatility. More specifically, the EUR / USD exchange rate registered contrasting behaviours in the first half of the year, when the dollar appreciated by some 7% (the EUR / USD exchange rate fell from 1.29 to 1.20, the year's low, in mid-July), whereas in the second half of 2012 it surpassed 1.33, corresponding to the dollar losing more than 10% against the euro. If, in the first six months, the danger of the euro's implosion constituted the main market factor, then in the final 6 months of the year the measures meantime defined in the Eurozone paved the way for curbing risk and pacifying the market turbulence. The issues posed at the end of the year relating to the budgetary situation in the US and the possibility that the limit on the issue of federal public debt could be reached again contributed to weakening the dollar, which in the meantime lost further ground to the euro in the early months of 2013 (hovering around the 1.36 mark).

### Money market

In 2012 the accommodative monetary policies in the developed economies were strengthened, with central banks continuing to resort to unconventional instruments in light of the exhaustion of the interest-rate instrument at values of close to zero. The Bank of England and the Federal Reserve stepped up asset purchases (public debt, mortgage bonds and miscellaneous debt in the case of the Bank of England). Meanwhile, the ECB cut its benchmark refinancing rate by 25 basis points to 0.75%, eliminated the rating limits and extended the acceptance rules for eligible collateral; and announced additional intervention instruments in the public-debt market, namely the OMT programme involving the purchase of sovereign public debt on the secondary market for unlimited amounts. In addition, the ECB fixed at zero

the rate banks' deposits at the ECB are remunerated, contributing to the reduction of the amounts parked at the institution and inducing significant recoil in Euribor interest rates.

**Evolution of reference rates**

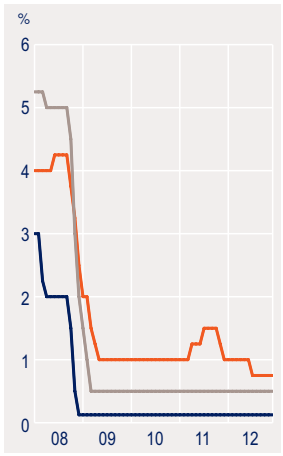



*Chart 6*

ECB
BoE
Fed

Source: Central banks.

**Net financing with ECB in the Eurosystem**

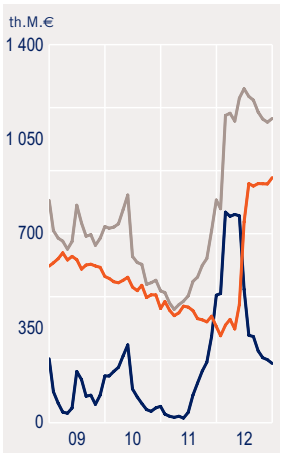



*Chart 7*

Gross loans
Deposits
Net loans

Source: Central banks.

Notwithstanding the ECB's proactive attitude, the region's money markets remained fragmented, while the access to financing on the part of the bail-out countries' institutions continued restricted, although progressively more facilitated, with the monetary transmission mechanism continuing not to function.

As a result of the abundant liquidity in the financial system, Euribor rates registered a steep descent, with the 6-month benchmark falling from 1.62% in December 2011 to 0.32% at the end of 2012. In the US there was a similar movement as a result of the reinforcement of the quantitative measures by the Federal Reserve (QE3), with the dollar 6-month Libor declining from 1.57 to 0.32 at the close of 2012.

## Bond market

This market also presented a dichotomous behaviour in 2012. In the early months of the year, the increase in risk aversion induced a pronounced fall in the key markets' yields (Bund and US Treasuries) to levels below 2%, while the risk premiums of the states under scrutiny (notably the contagion to Spain and Italy) reached new highs. Subsequently, in the wake of the adoption of a more interventionist posture on the part of the ECB, there was a widespread decline in the spreads of the peripheral countries, while long-term interest rates on the benchmark markets remained at levels below 2%. The comfortable liquidity cushion afforded by the developed countries' central banks – Federal Reserve, ECB, Bank of England and Bank of Japan –, the fact that short-term interest rates should remain anchored to minimum levels as a means of facilitating the deleveraging process, associated with the expectation that the lacklustre growth scenario, slackness in the factors markets and that the absence of inflationary pressures will prevail in the near term, explain this trend. Against this background, the Portuguese public-debt bond market evidenced its behaviour posting significant gains throughout the year: the 10-year TBonds yield stood at 7% at the end of 2012, which compares with 13.6% in December 2011, marking a fall in the risk premium (differential relative to the Bund, German TBond) in this maturity in the order of 600 basis points; the 5-year rates slumped from 16.7% to 5.2% in the same period. This movement of appreciable convergence formed the basis to the Portuguese Treasury's return to the primary public-debt market already in the early stages of 2013.

The corporate debt market posted sharp gains during the course of the year, benefiting from the decline in risk aversion levels, the maintenance of benchmark interest rates at low levels and the comfortable liquidity levels. The average yields on corporate bonds denominated in euro eased from levels of around 7% three years ago to 2%. During 2012, these shrank on average by more than 130 basis points. This fact, coupled with the return of peripheral countries' companies to this market, evidences an improvement in investors' sentiment, even as regards the segments with lower quality creditworthiness. Low funding costs and the upswing in demand fuelled debt issues on the primary market, which increased substantially when compared with previous years.

The financial disintermediation process also contributed to companies confronted with limited recourse to credit, opting for the placing of bonds at relatively lower costs, while enabling some companies to extend debt maturities. In the US, the placing of corporate bonds with investment grade ratings or deemed to be high yield attained historical highs in 2012. In Europe, debt placement grew at a more modest pace, with net issues have remained in negative territory as a result of the deleveraging process in which the financial sector and companies find themselves.

**10-year sovereign debt**
Yield

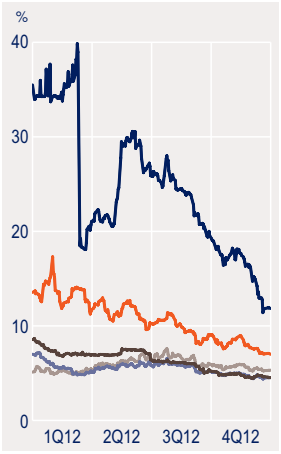



*Chart 8*

- Greece
- Ireland
- Portugal
- Spain
- Italy

Source: BPI and Reuters.

**Corporates and financials**
Credit risk premiums

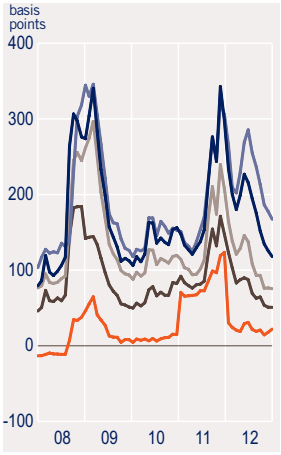



*Chart 9*

- Financials
- BBB
- A
- AA
- AAA

Source: Credit Suisse, Bloomberg.

## Equities market

### Global context

The sovereign debt crisis in Europe continued to negatively influence the behaviour of the equity markets in 2012. However, the year can be divided into two distinct phases: a first half of the year characterised by the subsistence of perceptible political and economic uncertainty in the Eurozone; and a second half of the year marked by the signalling of the European authorities, namely, the ECB as regards its commitment to resolving the crisis. In this context, with effect from June we witnessed a widespread fall in the yields of the peripheral countries and a recovery of the stock market indices, with the EuroStoxx 600 closing 2012 with an accumulated rise of 14%. For its part, the S&P500 – the leading North American stock market index – ended the year with a 13% gain.

### Portugal and Spain – secondary market

In Portugal, the key PSI-20 index closed 2012 with a 3% rise, while in Spain the IBEX 35 index lost 5%. Trading volumes fell by 27% in Portugal to 20 th.M.€ and by 25% in Spain to 641 th.M.€, registering a worse performance than the global indices – the EuroStoxx 600 and S&P 500 (-20% and -12%, respectively).

### Portugal and Spain – primary market

The Iberian primary market remained relatively inactive, with no initial public offering of any significant size being recorded during 2012. However, the Spanish alternative market – MAB – demonstrated some activity with the flotation on to the market of 5 new companies involving a total value of 32 M.€ (*vs.* 4 offers in 2011 in a total of 49 M.€).

As concerns capital increases realised by quoted companies, 2012 was a year of more intensive activity in the Iberian market, with the total amount of capital increases reaching 5 123 M.€, of which 33% in Portugal and 67% in Spain. This trend was underpinned above all by the recapitalisation of the banking systems with capital increases in Portugal of 1 010 M.€ at BES, 500 M.€ at BCP and 200 M.€ at BPI. In Spain, Banco Popular and Banco Sabadell realised capital increases of 2 500 M.€ and 913 M.€, respectively. In the non-financial sector, the increase in activity was less expressive, with special mention of the small and medium-sized enterprises segment (Pescanova, Funespaña and Gowex in Spain).

In terms of convertible bond issues, the only operation worth highlighting was the 160 M.€ issued by Pescanova in Spain.

## ANGOLAN ECONOMY

### Economic activity

The Ministry of Finance's most recent estimate points to GDP growth of 7.4% in 2012, a significant acceleration when compared with recent years. Noteworthy was the oil sector's performance which after three years of contraction, recovers output levels and expands at an annual rate of 4.3%. Nonetheless, oil output fell short of expectations: it is estimated to have reached 1.74 million / barrels / day, which compares with the IMF's forecast of 1.80.

In 2013, the Angolan government forecasts that oil GDP will grow by 6.6% and non-oil GDP by 7.3%. The non-oil sector will continue to be underpinned by the public investment programmes aimed at infrastructures. Energy, transport and housing will be some of the areas which will continue to benefit from this type of investment. The policy of substituting imports of basic goods remains, with the result that the re-launching of agriculture and other associated industrial activities became an overriding priority. The exploitation of natural gas production could commence in the first half of 2013, a factor that will also be positive for the Angolan economy's performance.

### External sector

In 2012, the current account balance should attain 7.3% of GDP. Exports benefited from the higher oil output, but also from the maintenance of the average barrel price at high levels.

In December, foreign currency reserves amounted to 30.6 th.M.US$, an increase of 4.5 th.M.US$ relative to 2011. Besides the improvement in the trade balance, this favourable trend resulted from the entry of funds associated with the agreement concluded with the IMF.

The kwanza depreciated slightly by around 0.6% during the year. The authorities should pursue the current policy of currency stability, with this variable acting as a domestic demand adjustment mechanism in such a manner as to ensure balanced external balances and controlled inflation.

**Real GDP growth in Angola**

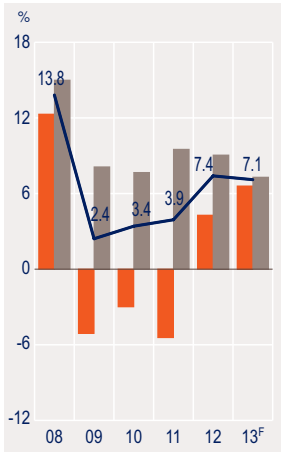



*Chart 10*

**Foreign exchange reserves**

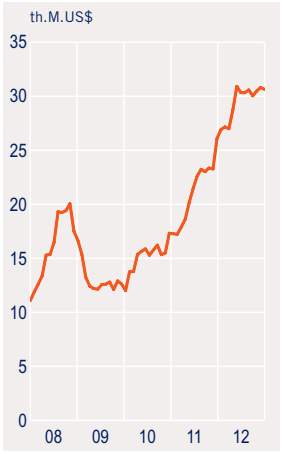



*Chart 11*

Oil sector
Non-oil sector
Total

Source: Angolan Central Bank (BNA).

### Public accounts

In 2012, the Angolan government should present a budget surplus of 7.7% of GDP. The oil taxes continue to represent a major source of revenues, although the tax base has been progressively extended to the non-oil sector. In 2012, non-oil taxes increased by 35%, representing roughly 20% receipts.

**Economic indicators and forecasts**

| | 2009 | 2010 | 2011E | 2012F | 2013F |
|---|---|---|---|---|---|
| Real Gross Domestic Product growth (yoy, %) | 2.4 | 3.4 | 3.9 | 7.4 | 7.1 |
| Oil sector | (5.1) | (3.0) | (5.4) | 4.3 | 6.6 |
| Non-oil sector | 8.1 | 7.6 | 9.5 | 9.1 | 7.3 |
| Oil production (millions of barrels / day) | 1 809 | 1 755 | 1 660 | 1 739 | 1 840 |
| Price of Angolan oil (average, USD / barrel) | 60.9 | 77.8 | 110.3 | 101.8 | 96.0 |
| Consumer Price Index (y-o-y change, end of period) | 14.0 | 15.3 | 11.4 | 9.0 | 9.0 |
| Fiscal balance (% of GDP) | (9.6) | 5.3 | 10.2 | 7.7 | (3.4) |
| Non-oil primary fiscal balance (% of non-oil GDP) | (57.7) | (44.1) | (48.2) | (47.4) | (43.8) |
| Net foreign exchange reserves (in millions of USD) | 12 622 | 17 328 | 26 084 | 30 631 | 40 309 |
| Imports cover by gross reserves[1] | 4.4 | 5.1 | 6.9 | 7.3 | 8.2 |
| Average exchange rate (AKZ / USD) | 79.3 | 91.9 | 94.0 | 95.6 | 96.3 |

Source: IMF, BNA, INE, Angolan Ministry of Finance. E – estimated. F – forecast.

*Table 5*

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

As concerns 2013, the government estimates a public deficit of 3.4% of GDP which according to the IMF should be carefully managed in such a manner that its impact on inflation and the balance of payments is minimised. The 2013 Budget presents a significant increase in expenditure (+27%), namely, investment spending (+58%) and for the first time incorporates the para-fiscal operations conducted by the State-owned oil company Sonangol in previous years, thereby conferring greater transparency to the State's intervention in the economy.

The State's preferred funding mode continued to be the issue of Treasury Bills (TBills), primarily with longer dated maturities (364-day TBills corresponded to 62% of the total placed). The outstanding balance at the end of the year totalled 89 th.M.AKZ; 250 th.M. less than in 2011. The average placing rates for 1-year securities did not register any defined trend, while the cost of funding rose slightly at the end of the year to 5.14%.

**Placements of Central Bank Securities (TBC) and Treasury Bills (BT) in the last 2 years**

Placement interest rates

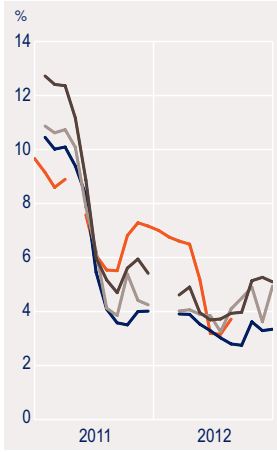



*Chart 12*

63 days
91 days
182 days
364 days

Amounts placed

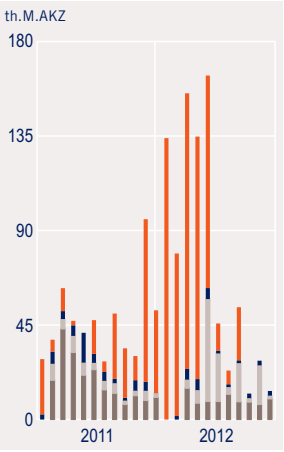



*Chart 13*

63 days
91 days
182 days
364 days

Source: Angolan Central Bank (BNA).

The State's lower gross financing needs is reflected in the scarcity of instruments at the financial system's disposal for absorbing surplus liquidity and exert pressure on interest rates. This situation has an influence on the financial sector's profitability, without any visible effects on lending activity, restricted by other factors.

## Inflation and interest rates

After the Banco Nacional de Angola having created the Monetary Policy Committee (MPC) in 2011 and fixed the principal intervention instrument – the Basic Interest Rate (Taxa BNA) – at 10.5%, 2012 saw an accommodative monetary policy being pursued. The BNA rate fell by 25 b.p. in January to 10.25%. At the start of 2013, there was another decline in the benchmark rate to 10%. The liquidity absorption and provision rates also declined to 1.25% and 11.25%. Benefiting from a more favourable inflation scenario, the BNA's monetary policy goal has been reducing the cost of lending granted by the financial system which remains very high due to the non-existence of bank guarantees.

The monetary policy pursued appears not to have compromised the inflation target, the rate of which sank to 9% in December, a historical low. The movement allowed accommodating lower interest rates; the 1-year LUIBOR rate descended from 12.4% at the start of 2012 to 10.7% at the end of the year. The central bank securities' interest rate also declined to around 5% at the end of the year. The yield on this instrument remains negative in real terms.

## Loans

In 2012, domestic lending grew at an annual average rate of 16.1%, which compares with rates of change of 20.6% in 2011 and 32.9% in 2010. Loans to the private sector presented more robust growth, having expanded by an average 25.5% in 2012, but decelerated when compared with 2011, when it grew 30%. As regards loans to the State (excluding the state public sector), after having decreased in 2011 on average by 1.7%, in 2012 the drop was more pronounced at 3.4%.

The weight of lending extended to the public sector by commercial banks continues to fall, dropping from 32% in 2011 to 29% in 2012. In the private sector, loans to individuals posted a change of 8%, being predominantly for the purchase of homes. In terms of the share of total loans advanced, the following sectors continue to dominate: wholesale and retail trade (17%), real estate activities, rentals and services provided to companies (10%), manufacturing (10%) and construction (12%).

## Deposits

Deposits grew in annual average terms by 29.1% in 2012 (13.2% in 2011). Deposits in local currency accounted for 55% of total deposits in December.

## MOZAMBICAN ECONOMY

### Economic activity

Mozambique continues to register robust growth rates in excess of 6% in the last 5 years, with a tendency to accelerate even further. The real rate of Gross Domestic Product (GDP) growth was situated at 7.3% in 2011 and accelerated to 7.5% in 2012[1]. Contributing to this performance was the recent development of the mining sector, the expansion of electric-energy generating capacity and the rising Direct Foreign Investment (FDI) flows. The relative diversification of economic activity, with the significant weight of the agricultural sector, as well as that of the industrial sector (notably aluminium smelting), together with the diversification of exports outside the large-scale projects (including tobacco, wood, sugar, chestnuts and cashew nuts, prawns, etc.), also contribute to the Mozambican economy's resilience. In spite of starting from a low base, the country has been asserting itself as one of the most dynamic economies in the region.

In the third quarter of 2012, the economy expanded at a rate of 6.8% when compared with the same period a year earlier. Output in the mining industry, underpinned by the higher production of the coal mines, increased by 42% in the period, having contributed with 0.6 percentage points (p.p.) to total GDP growth. Agriculture continues to be the sector with the biggest weight on the regional economy, accounting for 23% of total economic activity and having contributed 2.1 p.p. to the total growth rate in production.

Year-on-year inflation eased to 2.0% in December 2012 (6.1% in the corresponding period), while the annual average rate fell to 2.6% (11.2% in 2011).

Mozambique's economic performance should continue to outpace that of the group of peer economies – the Economic and Social Plan (Plano Económico e Social – PES) projects real economic growth of 8.4% in 2013. The main contribution to this scenario will come from the increased production and exports of coal, which began in August 2011 and by the end of the third quarter of 2012 already corresponded to 12% of total goods exported. The increased FDI inflows, primarily earmarked for the exploration of natural resources, should also continue to spur economic growth.

Meanwhile, the mining sector's expansion continues to be restricted by the need to improve the road and rail network infrastructures, reducing the costs of connecting the mines in the interior to the sea ports. Currently the transportation capacity is inadequate to cope with output, impeding the mining industry to attain its full potential.

**Real GDP growth in Mozambique**

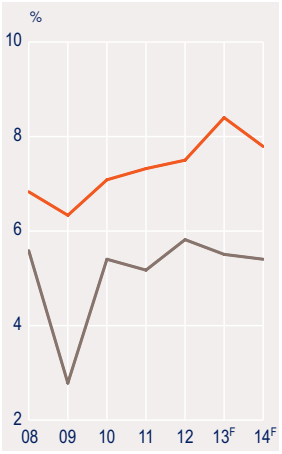



*Chart 14*

— Mozambique
— Sub-Saharan Africa

**Trend in loans and in deposits**

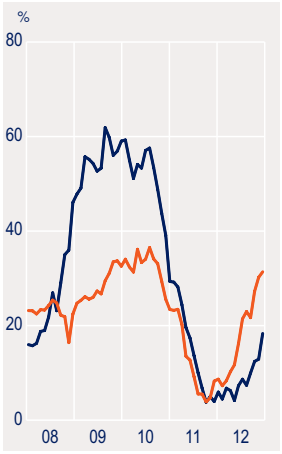



*Chart 15*

— Loans
— Deposits

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

### FINANCIAL SECTOR, DEPOSITS AND LOANS

The Bank of Mozambique adopted an expansionist monetary policy in 2012, having cut the Permanent Provision Facility by 5.5 p.p. during the course of the year, accommodating the effects of the global economy's weakness, namely emanating from the developed countries, reflected above all by way of the lower flow of donations as well as the lesser demand for Mozambican exports. In this manner, the central bank permitted acceleration in lending to the economy, the balance of which posted a 17% annual accumulated increase up till November compared with the 6% increase in 2011. By sectors, the most salient areas were loans to trading activities, transport and communications, and to other unspecified sectors (which include mining). Deposits in the banking system also recorded a strong acceleration having expanded 27% in accumulated terms since the start of the year till November, which compares with the 9% growth noted in 2011.

1) According to the Government Economic and Social Plan (PES – Plano Económico e Social).

# Domestic Commercial banking

## INDIVIDUALS AND SMALL BUSINESS BANKING

The protraction during 2012 of the extremely adverse economic environment reduced households' savings capacity and boosted their demand for lower risk financial investments. The rates that deposits are remunerated by the great majority of banks remained at very high levels throughout the year (with some decline towards the end of the year), reflecting the sector's liquidity needs.

BPI – fruit of its balanced liquidity situation – was able to maintain the pricing of deposits in the lower to middle range of the market, simultaneously offering new savings and investment solutions, amongst which special mention is made of 7 Portuguese corporate bond issues placed by the Bank.

### CUSTOMER RESURCES

At 31 December 2012, Individuals and Small Business Banking's Customer resources totalled 20 034 M.€, reflecting a decrease of 1 857 M.€ relative to the end of 2011 (-8.5%)[1].

On-balance sheet resources posted a decrease of 1 960 M.€ (-9.7%) relative to December 2011, essentially due to:

- the decrease in the time deposits portfolio (-361 M.€) motivated by more restrictive pricing policies;
- the drop in bonds placed with Customers (-1 175 M.€), explained in large part by the maturity of Obrigações BPI (1 020 M.€) which were not replaced by new issues;
- the decline in capitalisation insurance (-325 M.€).

Total off-balance sheet Customer resources (1 767 M.€) grew 6.2% in 2012, with special mention of the expansion in Unit Trust Funds (+16.9%), which at the end of the year attained a portfolio of 1 108.9 M.€. It is worth highlighting the contribution of the Fundo Especial de Investimento (FEI – special investment fund)) BPI Monetário Curto Prazo (short-term money fund) and the placing of three closed-end FEI funds (BPI Obrigações Portuguesas I, II and III – Portuguese bonds).

The portfolio of retirement-savings plans registered a 9.1% decrease in 2012, influenced by households' liquidity needs which discouraged the investment in medium / long-term products. At the end of 2012, there were 366 thousand Customers with retirement-savings plans, while 53% of Customers with PPR's had plans with regular contributions (50% in 2011).

**Customer resources[2]** Amounts in M.€

| | | 2011 | 2012 | Δ% |
|---|---|---|---|---|
| Sight deposits | 1 | 3 505.7 | 3 523.0 | 0.5% |
| Time deposits | 2 | 11 077.1 | 10 715.7 | (3.3%) |
| Bonds and structured products[3] placed in Customers | 3 | 2 814.3 | 1 639.1 | (41.8%) |
| PPR (insurance capitalisation)[4] | 4 | 1 191.9 | 1 076.3 | (9.7%) |
| Insurance capitalisation[5] | 5 | 1 638.3 | 1 313.1 | (19.8%) |
| **On-balance sheet resources** *[= Σ 1 to 5]* | 6 | **20 227.2** | **18 267.3** | **(9.7%)** |
| Unit trust funds[5] | 7 | 948.2 | 1 108.9 | 16.9% |
| PPR[6] | 8 | 715.6 | 657.6 | (8.1%) |
| **Off-balance sheet resources** *[= 7 + 8]* | 9 | **1 663.8** | **1 766.6** | **6.2%** |
| **Total Customer resources** *[= 6 + 9]* | 10 | **21 891.0** | **20 033.8** | **(8.5%)** |
| Note: | | | | |
| Corporate bonds held by Customers | 11 | 51.6 | 949.3 | n/m |

*Table 6*

**Individuals and Small Businesses Banking**

Loans and guarantees

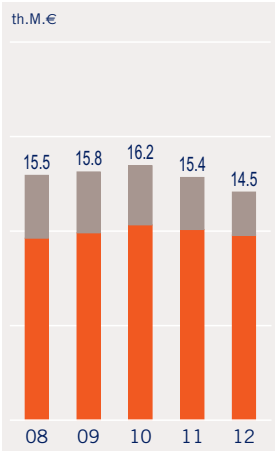



*Chart 16*

Other loans and guarantees
Mortgage loans

Customer resources

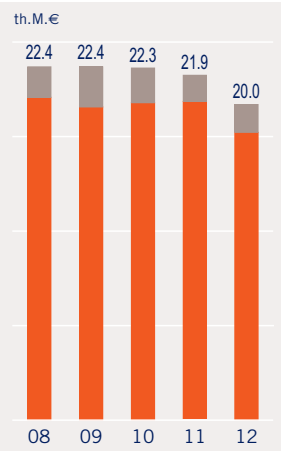



*Chart 17*

Off-balance sheet
On-balance sheet

1) Total Customer resources does not include the portfolios of corporate bonds held by Customers. If those bonds were included, total resources would amount to 21.9 th.M.€ in 2011 and 21.3 th.M.€ in 2012 (-3%).
2) Does not include securities portfolio.
3) Guaranteed-capital and limited-risk bonds.
4) Retirement-savings plans (PPR) in the form of capitalisation insurance.
5) Excludes PPR.
6) Retirement-savings plans (PPR) in the form of unit trust funds.

Thanks to a balanced liquidity position, BPI was able to propose alternatives to traditional investments through the offer of highly-rated Portuguese corporate bonds, while simultaneously supporting those companies in accessing the capital market. In the seven issues which took place in the year, the amount placed by the BPI Group with Customers amounted to 949.3 M.€ and represented 57% of the total issued.

**Portfolio of placed bonds** Amounts in M.€

| | Coupon | Maturity | 2011 | 2012 |
|---|---|---|---|---|
| EDP – Energias de Portugal | 6% | 07.12.2014 | 51.6 | 53.8 |
| EDP – Energias de Portugal | 6% | 04.05.2015 | - | 136.2 |
| Semapa | 6.85% | 30.03.2015 | - | 140.9 |
| Zon Multimédia | 6.85% | 19.06.2015 | | 129.4 |
| Brisa Concessão Rodoviária | 6.25% | 05.12.2014 | | 107.1 |
| Portugal Telecom SGPS, S.A. | 6.25% | 2016 | | 109.0 |
| Continente | 7% | 25.07.2015 | | 100.1 |
| Ren – Redes Energ. Nacional | 6.25% | 21.09.2016 | | 172.9 |
| **Total portfolio of placed bonds** | | | **51.6** | **949.3** |

*Table 7*

## LOAN PORTFOLIO

The portfolio of individual Customers' loans and guarantees totalled 14 478 M.€ at the end of 2012, which corresponded to a 928 M.€ decrease (-6.0%) relative to 2011. In 2012 loans to individuals presented a decrease of 536 M.€ (-4.0%), while loans to small businesses, excluding guarantees, contracted by 367 M.€ (-18.9%).

The mortgage loans portfolio amounted to 11 739 M.€ at the close of 2012, down 3.1% when compared with the preceding year. Despite the backdrop of shrinking demand and the application of stringent risk-evaluation criteria, the maintenance of very competitive interest rates explains why the decline in new business contracted was less pronounced at BPI than elsewhere on the market (-27.4% *vs.* -55.3%). The bank improved its market share in new business contracted from 8.3% in 2011 to 13.5% in 2012.

**Customer loans and guarantees** Amounts in M.€

| | 2011 | 2012 | Δ% |
|---|---|---|---|
| **Loans to individuals** | | | |
| Mortgage loans[1,2] | 12 116.7 | 11 739.3 | (3.1%) |
| Personal loans[3] | 744.6 | 678.0 | (8.9%) |
| Credit cards[4] | 174.9 | 160.8 | (8.1%) |
| Car finance[5] | 267.1 | 189.4 | (29.1%) |
| | **13 303.3** | **12 767.4** | **(4.0%)** |
| **Loans to small businesses** | | | |
| Commercial loans[6] | 1 450.0 | 1 169.5 | (19.3%) |
| Equipment leasing[5] | 83.4 | 56.4 | (32.4%) |
| Property leasing[5] | 392.5 | 337.8 | (13.9%) |
| Factoring | 10.6 | 6.1 | (42.7%) |
| | **1 936.5** | **1 569.8** | **(18.9%)** |
| **Total loan portfolio** | **15 239.8** | **14 337.2** | **(5.9%)** |
| Guarantees and sureties | 166.5 | 141.0 | (15.3%) |
| **Total** | **15 406.3** | **14 478.2** | **(6.0%)** |

*Table 8*

At the end of 2012 the personal loans portfolio totalled 678 M.€, 8.9% less than the figure a year earlier. Contributing to this trend were the lower demand and a more restrictive lending policy. It is worth noting that financing for the acquisition of non-financial products trended very positively in 2012, posting 40% growth in the amount financed, benefiting from the contribution from a number of campaigns implemented by Banco BPI commercialising several prestigious brands.

The Motor Car Finance portfolio was situated at 189.4 M.€, down 29.1% on the 2011 figure as a result of the steep slump in light passenger vehicle sales and the consequent reduced demand for loans.

As concerns small business loans, the commercial loans, leasing and factoring portfolio recorded a decrease of 366.7 M.€ (-18.9%) *vis-à-vis* 2011.

1) Loans secured by fixed property. Corresponds primarily to home loans and loans for home alterations.
2) In 2011 includes 762 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.

BPI maintained a leading position in the programmes launched by the government aimed at supporting small and medium-size companies and as regards the Fincresce Programme. It is worth noting with respect to the individuals and small business network's involvement in the Fincresce Programme, the granting of the PME Líder status to 1 619 companies and the PME Excelência status to 328 companies. The BPI Group was market leader in the awarding to firms of the PME Líder and PME Excelência statuses in 2012, achieving market shares of 31% and 39%, respectively.

During the year Banco BPI maintained an active involvement in the PME Investe VI – 2nd phase and the PME Crescimento credit lines for SME's. These credit-line programmes led to the contracting of 2 306 operations worth a total of 86 M.€ on the part of individuals and small business Customers.

In the general aggregation of the PME Investe / Crescimento credit lines, BPI was involved in handling applications totalling 1 933 M.€, thereby enabling it to assume market leadership with a 20% market share.

## CREDIT AND DEBIT CARDS

At the end of 2012, Banco BPI's portfolio comprised 544.6 thousand credit cards, representing a drop of 16.2 thousand cards (-2.9%) relative to 2011, while debit cards placed with Customers numbered 1 085.4 thousand, reflecting a slight decrease when compared with the previous year (-0.3%).

**Credit and debit cards**
Selected indicators

| | 2011 | 2012 | Δ% |
|---|---|---|---|
| **Credit cards** | | | |
| Number of credit cards at the end of the year (x th.) | 560.8 | 544.6 | (2.9%) |
| Billing (M.€) | 1 025.1 | 975.5 | (4.8%) |
| Loan portfolio (M.€)[1] | 174.9 | 160.8 | (8.1%) |
| **Debit cards** | | | |
| Number of debit cards at the end of the year (x th.) | 1 088.8 | 1 085.4 | (0.3%) |
| Billing (M.€) | 5 788.0 | 5 738.1 | (0.9%) |

*Table 9*

## ISOLATED SALE INSURANCE

Within the ambit of the partnership with Allianz Portugal, Banco BPI offers a comprehensive array of isolated-sale insurance policies targeted at the individuals and small business segment, sole proprietors and self-employed professional Customers.

During 2012, the commercial focus remained on the placing of business-oriented insurance through the implementation of several dynamic initiatives. As a consequence, the business insurance portfolio expanded by 44.9% when compared with the preceding year to reach 16 065 policies.

In overall terms and taking into account the entire product range, at the close of 2012 the portfolio of isolated-sale insurance placed by Banco BPI comprised 245 thousand policies, reflecting 13.9% growth relative to 2011, which permitted a 24.1% increase in brokerage commissions generated by this business.

## NON RESIDENTS

The non-residents' segment is charged with serving communities abroad which maintain important ties with Portugal, namely communities of emigrants and Portuguese descendants, as well as non emigrants Portuguese living abroad.

This segment is served by the branch and investment centre network in Portugal, for which there is a specific product range, and by structures overseas – six representative offices[2], one information office, two money-remitter offices and the branch in France which has 12 agencies – geared to prospecting for business and providing support to Customers.

At the end of 2012, the Non-Residents segment of Individuals and Small Business Banking[3] was responsible for a resources portfolio[4] of 4 372 M.€ (-2.1% relative to 2011) and for loans of 497 M.€ (-5.5% relative to 2011), representing 22% of resources[3] (20% in 2011) and 3% of loans (3% in 2011) attributable to Individuals and Small Business Banking.

1) Outstanding owed by Individuals and Small Businesses Banking Customers and non Customers.
2) The business originated by the representative offices and by the remittance offices is domiciled at the Individuals and Small Businesses network.
3) Does not include the branch in France.
4) Does not include securities portfolio.

The French branch serviced a resources portfolio totalling 211 M.€ at the close of 2012 (-2% relative to 2011) and a Customer loans portfolio of 81 M.€ (-7% relative to 2011).

## HOMEBANKING

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

Turning to Corporate Internet Banking, in 2012 a broad package of new functionalities was made available on BPI Net Empresas, with special mention of the Import and Export Documentary Operations and Effects Operations, positioning itself as provider of the most complete solution on the domestic market for the exporting companies' segment.

In 2012, BPI unveiled new solutions in the Mobile Banking segment by offering a number of native applications for mobile devices with IOS (Apple) and Android systems, which permit amongst other functions, consulting balances and account and credit card movements, payments, transfers and localisation of BPI services. It should be noted that by the end of 2012, more than 80 000 downloads of BPI mobile applications had been made.

**Homebanking services**
Selected indicators

| | 2011 | 2012 | Δ% |
|---|---|---|---|
| **BPI Directo / Net + BPI Net Empresas** | | | |
| Active subscribers (in thousands) | 907 | 976 | 8% |
| Active users (in thousands) | 810 | 874 | 8% |
| % of the Banks' total consultations (account-balances and activity)[1] | 69% | 70% | 1 p.p. |
| % of the Banks' total transactions[1] | 88% | 87% | -1 p.p. |
| **BPI Directo / Net** | | | |
| Active subscribers (in thousands) | 822 | 885 | 8% |
| Active users (in thousands) | 738 | 796 | 8% |
| **BPI Net Empresas** | | | |
| Active subscribers (in thousands)[2] | 85 | 91 | 7% |
| Active users (in thousands)[2] | 72 | 78 | 8% |
| Volume transacted (M.€) | 49.2 | 52.6 | 7% |
| **Online brokerage** | | | |
| Market share | 20.6% | 23.7% | 3.1 p.p. |

*Table 10*

## SERVICE QUALITY

The principal in-house indicators for evaluating service quality – the Bank Service Quality Index (SQI) and the Branch SQI – registered significant improvement in 2012 with both reaching historical highs.

The Bank SQI annually evaluates the level of BPI's service through the gathering of Customer opinions about the quality of the service provided to them by the Bank as an organisation. This index climbed to 812 points in 2012 (805 points in 2011), on a scale with a maximum of 1 000, achieving the best result since its launch in 2002.

The Branch SQI is computed quarterly through the gathering of Customer opinions about the quality of the service received at each one of BPI's branches. At the end of 10 years' existence, this indicator attained in the 4th quarter of 2012 the new historical peak of 895 points (out of 1 000).

**Service quality in branches**
IQS Branch in the 4th quarter 2012

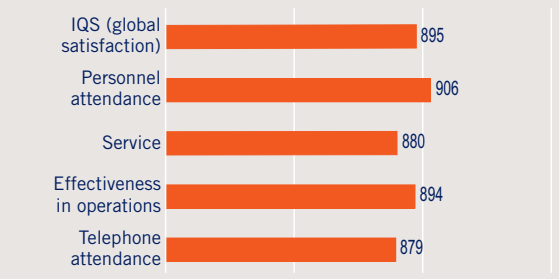



*Chart 18*

1) All BPI Net and BPI Directo consultations and transactions as a percentage of the Bank's total. Does not include ATM.
2) Does not include Small Businesses Clients that also use the BPI Net service. Those Clients are only considered in the BPI Net service.

## CORPORATE BANKING, INSTITUTIONAL BANKING AND PROJECT FINANCE

A challenging macroeconomic and financial background, with adverse repercussions for Portuguese companies' business activity, continued to be observed in 2012.

Against this backdrop, BPI reinforced its policy of support and proximity to companies which, together with the provision of a quality service, enabled it to retain its reputation as a privileged partner in lending support to Portuguese companies, as borne out by the leadership in the principal programmes and public status classifications (PME Investimento / Crescimento, PME Líder and PME Excelência).

The Bank extended its range of products and services, enabling companies to access new forms of financing. Complementing the direct granting of loans to Large Corporations, BPI was very active in the mounting and placing on behalf of its Customers of bonds issued by large national companies, having placed 1 128 M.€ in eight public offers for bond subscriptions (54% of the total), being the only bank which participated in all the public offers.

BPI pursued its policy of supporting Portuguese companies, having launched during the year two credit lines earmarked for funding investment and corporate treasuries with very competitive conditions: Linha BPI Empresas 2012 in the amount of 1 000 M.€, directed at medium and large-size companies and Linha BPI Negócios 2012 in the amount of 500 M.€, targeted at micro, small and medium-size companies.

In order to support SME's international operations, the Bank offered a generalist product range with innovative features, amongst which BPI Exportação Segura (secure exports) which aggregates backing for exports, finance and risk cover.

In a scenario of higher risk levels, the Bank maintained a policy of great rigour in the analysis of credit risk, as well as practices and processes that ensure a permanent tracking and monitoring of companies by the commercial areas.

At the end of 2012, the loan portfolio of Corporate Banking, Institutional Banking and Project Finance Customers amounted to 10 462 M.€, which corresponded to a decrease of 1 111 M.€ (10%) relative to the previous year end. Bank guarantees at 31 December 2012 totalled 1 864 M.€, presenting a 13% decrease *vis-à-vis* the preceding year in line with the marked cutback in investment, in particular public works.

**Corporate Banking, Institutional Banking and Project Finance**

Amounts in M.€

| | | Dec. 11 | Dec. 12 | % |
|---|---|---|---|---|
| **Loan portfolio** | | | | |
| Corporate loans | *1* | 5 907.9 | 5 302.2 | (10.3%) |
| Large companies | *2* | 2 782.8 | 2 503.7 | (10.0%) |
| Medium-sized companies | *3* | 3 125.1 | 2 798.6 | (10.4%) |
| Project Finance – Portugal | *4* | 1 225.3 | 1 201.3 | (2.0%) |
| Madrid branch | *5* | 1 972.6 | 1 750.1 | (11.3%) |
| Project Finance | *6* | 799.1 | 749.6 | (6.2%) |
| Companies | *7* | 1 173.5 | 1 000.5 | (14.7%) |
| Public sector | *8* | 2 466.5 | 2 208.0 | (10.5%) |
| **Total loan portfolio** *[= 1 + 4 + 5 + 8]* | *9* | **11 572.3** | **10 461.6** | **(9.6%)** |
| Guarantees | *10* | 2 151.5 | 1 863.5 | (13.4%) |
| **Resources**[1] | *11* | **2 229.7** | **2 183.9** | **(2.1%)** |

*Table 11*

**Corporate Banking, Institutional Banking and Project Finance**

Loans and guarantees

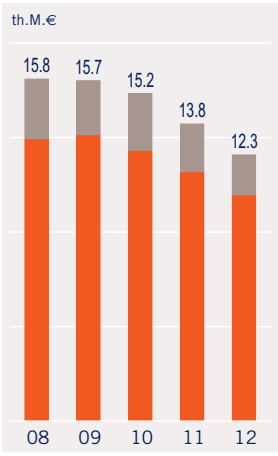



*Chart 19*

Customer resources

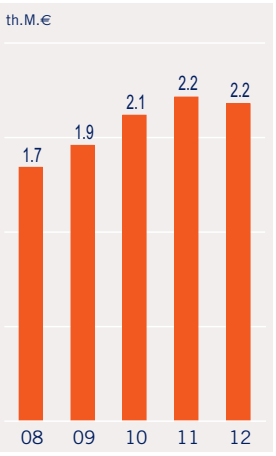



*Chart 20*

Guarantees

Loans

### COMPANIES AND LARGE CORPORATIONS

At the end of December 2012, the loan portfolios of the Companies and Large Corporations segment's Customers amounted to 2 799 M.€ and 2 504 M.€, respectively, which corresponds to decreases of 10.4% and 10.0% relative to the previous year. Since BPI intends to continue expanding its corporate financing business, the trend in 2012 reflects the decrease in the demand for credit in the domestic market and the reduction in exposure to international syndicated loans as a consequence of the Bank's decision not to grant more financing in this market.

1) Includes sight and term deposits.

## BACKING FOR SME

BPI maintained a very prominent position in the support given to SME's via the lines protocoled with the Portuguese State. It had a noteworthy participation in the new lines PME Crescimento, Investe QREN, Açores Reestruturação III, IFAP – Carência Capital, Pro Investe Madeira and Linhas Turismo de Portugal.

These lines enabled companies to take advantage of medium-term bank finance under very attractive conditions and are a fundamental instrument for companies to access credit in the current financial context. Since their launch, BPI has had a leading position:

| Credit line | Operations contracted by BPI (no.) | Amount BPI (M.€) | | BPI market share (%) |
|---|---|---|---|---|
| | | Contracted | Outstanding | |
| PME Investe[1] | 17 417 | 1 738 | 1 468 | 19% |
| Azores[2] | 261 | 13 | 10 | |
| Madeira[3] | 197 | 18 | 8 | |

*Table 12*

## BPI BUSINESS 500-MILLION LINE AND BPI COMPANIES 1 000-MILLION LINE

BPI launched in 2012, the BPI Negócios (Business) 500 M.€ and BPI Empresas (Companies) 1 000 M.€, credit lines for funding companies' treasuries and medium-term investment projects under extremely competitive terms. These lines constitute a complementary range to the State subsidised lines.

## PME LÍDER AND PME EXCELÊNCIA

IAPMEI and Turismo de Portugal promoted the 5th edition of the PME Líder status, which rewards companies with a sound risk profile and which demonstrate growth and greater competitiveness strategies. BPI was for the 5th consecutive time the principal banking supporting SME's in obtaining this status. Of the roughly 8 300 PME Líder firms in 2012, BPI was the bank with the biggest number of applications, with a 31% share. Of the total PME Líder firms, 61% are BPI Customers.

The PME Excelência status honours PME Líder companies which present the best performances and risk profiles. BPI is also the leading bank for the 4th consecutive year in this category since it began to be awarded. In 2012 the status was awarded to 1 314 companies: 39% of the PME Excelência companies adhered via BPI, while 61% of the PME Excelência companies are the Bank's Customers.

## MUTUAL GUARANTEE

Banco BPI continued to assume a major role in the proactive promotion of mutual guarantee operations in close liaison with the Mutual Guarantee Companies (Norgarante, Lisgarante, Garval and Agrogarante), as a result of the eminent position it has had within the ambit of the lines protocoled with the Portuguese State.

In 2012, BPI maintained a leading position – with a 20% market share – in terms of the value of the accumulated portfolio within the mutual guarantee system.

It is also worth highlighting BPI's position in the agricultural sector where in 2012 it was leader in the value of the portfolio guaranteed by Agrogarante with a 25% market share.

## EIB CREDIT LINE

Under the contract entered into with the European Investment Bank (EIB) BPI made available the 18th global line which was the object of a protocol with the EIB and earmarked above all for supporting Small and Medium-size Enterprises in the overall amount of 200 M.€. The line was 100% utilised, having funded a total of 547 business projects with an average value of 262 thousand euro. Moreover, 29 projects were presented by institutional entities, one of which in the amount of 3 M.€, was approved and processed in 2012.

## ENTREPRENEURIAL LINES

In 2012, Banco BPI maintained an active role in providing support for entrepreneurship, including the involvement in the FINICIA II line (Microcredit line), the FINICIA III line (FIINICIA FAME) and the IEFP (Invest + and Microinvest) lines, within the sphere of which 111 operations worth a total of 2.7 M.€ were contracted.

1) PME Investe I, II, III, IV, V, VI, VI – Phase 2 and PME Crescimento (SME Growth).
2) Credit lines: SAFIAGRI, Açores Empresas, Açores Investe and Açores Reestruturação de Crédito.
3) Credit lines: PRO-INVEST, Micro e Pequenas Empresas da Madeira, Apoio à Recuperação Empresarial da Madeira and PME Madeira.

## BACKING FOR EXPORTS

In order to give support to export companies, BPI has a complete product range geared to those companies and specialist teams who are able to respond to specific needs.

### Secure exports

With the aim of assisting Portuguese companies in their international operations, the Bank offers a generalist product range with innovative features, namely a package of products which bring together solutions for backing exports, finance and risk cover, the latter in partnership with Cosec.

### Cross selling with COSEC

2012 saw the launching of BPI Exportação Segura, a credit insurance product. In the first year of execution, this product registered a total of 190 operations contracted in the amount of 7.5 M.€.

In the sale of credit insurance policies, Banco BPI's performance was once again decisive, contributing with more than one third to COSEC's total new business contracted with premiums of more than 1 M.€.

Associated with the good performance in new business, there was also a very positive retention of Customers brokered by BPI, which permitted the sustained growth in the portfolio of these Customers. Presently Banco BPI accounts for 21% of COSEC's total Customer portfolio.

In line with previous years and since 2009, Banco BPI was very active in the promotion of commercial support lines guaranteed by the State amongst national companies. In this domain, we highlight the Bank's role in the placing of these policies covering countries outside the OECD, Mexico and Turkey, which reached 63% of the total.

### Electronic channels

In order to respond to the needs of companies with international operations, the BPI Net Empresas website has specific functionalities allowing companies to manage their operations online, namely the management of export and import documentary credit operations.

BPI Net Empresas's functionalities are also available in Castilian and English.

### Specialist structures and teams

In important markets for national companies such as Spain, Angola, Mozambique and Brazil, Banco BPI occupies a unique position; in Spain, by virtue of the privileged relationship with La Caixa, in Angola, through BFA, in Mozambique via BCI and in Brazil, in collaboration with Itaú BBA. In this respect and in collaboration with the aforementioned partners, BPI offers products and services to assist companies wishing to invest in or export to those markets: "Iberian Solutions for Companies", "Angola-Companies Solutions", "Mozambique-Companies Solutions" and "Brazil Express Line". In Portugal, BPI possesses specialist support structures for the above products and services.

**Spanish Companies Office**
This unit assists companies operating in the Iberian market and services the largest Spanish group and companies present in the national market.

**Office for Africa**
The Office assists Customers – in conjunction with the BPI corporate centres in Portugal, with BFA in Angola and with BCI in Mozambique – in the prospecting for business in Angola and Mozambique.

**Business Development Unit**
Helps companies to expand their businesses to Angola, offering a wide range of services, namely consultancy, and supports BFA in the mounting of large-scale and / or more complex operations.

**Trade finance**
The trade finance unit proactively commercialises the sale of specific products to companies engaged in international trade.

**Mozambique Financial Services Division**
Given the importance of Project Finance activities in the Portuguese-speaking countries, in particular, Angola, Mozambique and Cape Verde, the Mozambique Financial Services Division and a Financial Services Company under Mozambique law based in Maputo, undertake the promotion, prospecting and execution of financial consultancy mandates, and the organisation and mounting of structured finance.

## COMMUNICATION AND EVENTS WITH CUSTOMERS

### Customer events

BPI organised and participated, in collaboration with prestigious public and private entities, in more than 30 events which promoted themes with particular emphasis on business activity, amongst which exports and the internationalisation of Portuguese companies, as well as spotlighting Agriculture.

As regards initiatives directed at companies with international business dealings, the following merit special mention:

**"Secure Exports" Cycle of Seminars**
This cycle of 22 seminars in 11 Portuguese cities, organised in partnership with IAPMEI and COSEC, was attended by some 1 000 participants.

**BPI-SOFID Seminar, "Financing Investment in Mozambique"**
Seminar organised in Porto in partnership with SOFID, covering the Mozambican market, which attracted some 300 participants.

In addition, BPI was involved in a number of other initiatives directed at export companies, of which it associated itself with events with AICEP (How to sell in Angola), the Portuguese-Spanish Chamber of Commerce, the Portuguese-French Chamber of Commerce, amongst others.

BPI consolidated its presence in events associated with the agro-industrial sector, having taken part in 6 events which brought together more than 400 000 participants: Feira Nacional da Agricultura, SISAB 2012, Agroglobal – Feira do Milho e das Grandes Culturas, VIII Congresso Nacional do Milho, Ovibeja and Essência do Vinho.

### Newsletter BPI Empresas

BPI makes available to the corporate segment a monthly electronic newsletter containing information about products and services, as well as studies and other important information pertaining to current business affairs. The newsletter is distributed to more than 40 thousand Corporate Banking Customers.

### BPI Empresas website

In the companies section of the public site www.bancobpi.pt useful and comprehensive information is available about BPI products and services tailored to the needs of business Customers.

### Innovation and entrepreneurship

**SME Innovation Award COTEC-BPI:** BPI once again gave its backing to the award promoted by COTEC Portugal, which honours a group of SME's with innovative attitudes and businesses, and which serve as examples for value creation for the country. In 2012 the winner was Bluepharma – Indústria Farmacêutica, S.A.

**INSEAD Entrepreneurship Award 2011-2012:** BPI sponsored the 5$^{th}$ edition of this award, which highlights companies that distinguish themselves for their innovation, growth, internationalisation and importance of their strategy for Portugal and the manager who displays management and entrepreneurial capabilities. In 2012, the INSEAD Award winner was the Bluepharma Group and its manager Paulo Barradas Rebelo. Honourable mentions were also bestowed on Polisport Plásticos (Pedro Araújo) and SISCOG (Prof. Ernesto Morgado and Prof. João Pavão Martins).

**Creative Industries National Prize:** once again BPI backed this prize, which aims to foster the appearance of innovative projects and to contribute to increasing the number of copyrights, industrial property rights, trademark and patent registrations. The winner of the 2012 edition was Uniplaces while the Limetree and Safecity 3D projects received honourable mentions.

### INSTITUTIONAL BANKING AND STATE BUSINESS SECTOR

In 2012 this segment's portfolio declined by 10.5%, to be situated at 2 208 M.€.

### PROJECT FINANCE

The Project Finance segment evidenced loans to Customers of 1 951 M.€ at the end of December 2012, corresponding to a 3.6% decrease relative to the end of the previous year. This reduction was more pronounced in the portfolio of projects domiciled at the Madrid branch, involving operations in the international market (-6.2%), although there are still a number of projects still in the disbursement phase, essentially concentrated in the domestic market (at the end of the year under review the loan portfolio presented a stock of amounts to be disbursed in the order of 205 M.€).

This trend reflects the challenging domestic and external macroeconomic conditions and the very significant retraction in the launch of new investment infrastructures, in particular under the Public Private Partnership (PPP) regime.

Nonetheless, BPI has endeavoured to maintain its commitment to the provision of financial advisory services in Project Finance and PPP operations, giving continuity to its role of permanent financial advisor in a number of projects, in particular, in the infrastructures, transport and health sector, involving both private entities and central and local government. BPI has also focused on injecting dynamism into internationalisation activities in Portuguese-speaking African countries, notably in Angola and Mozambique, in coordination with the Bank's other areas, in particular for the Mozambique Financial Services Division and the Business Development Unit.

## 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 individual, corporate and small business Customers thus have at their disposal an extensive range of insurance products which cover both life assurance – death and disability insurance – and the other non-life branches – motor insurance, multi-risk insurance, work accident, engineering, agricultural, public liability, theft, personal accident, unemployment and sickness.

Bancassurance's performance in 2012 is reflected in the following indicators: the amount of commissions rose to 38.3 M.€; insurance premiums totalled 133.9 M.€, with BPI attaining 3rd place in the bancassurance risk market (Life and Non-Life); at the end of the year, the number of active insurance policies stood at 468 thousand in life assurance and 452 thousand in non-life insurance.

**Commissions**
Intermediation of insurance products

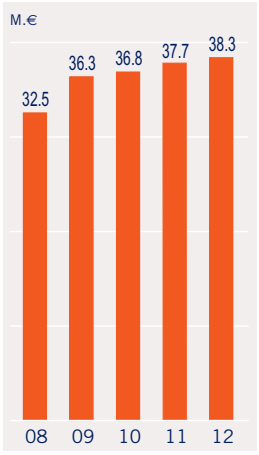



*Chart 21*

**Insurance**
Life-risk and non-life

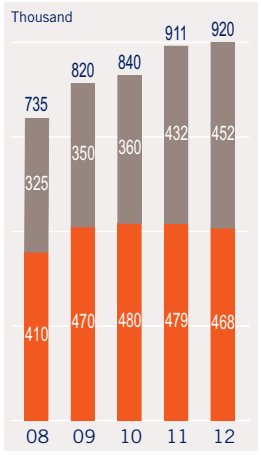



*Chart 22*

Non-life insurance
Life-risk insurance

# Asset management

## OVERVIEW OF ACTIVITY

At the end of 2012 BPI Gestão de Activos managed financial assets totalling 7 429 M.€.

**Assets under management** Amounts in M.€

| | 2011 | 2012 | Δ% |
|---|---|---|---|
| Unit trust (mutual) funds | 1 912 | 2 038 | 7% |
| Real estate unit trust funds | 200 | 193 | (4%) |
| Pension funds | 1 565 | 1 882 | 20% |
| Capitalisation insurance | 3 405 | 2 990 | (12%) |
| Institutional Customers | 494 | 506 | 2% |
| **Total**[1] | **7 416** | **7 429** | **0.2%** |

*Table 13*

BPI's Asset Management maintained leading positions in the national market, such as third position in the management of unit trust (mutual) funds (15.7% market share) and third place in pension-fund management (15% market share).

**Assets under management**
2008-2012

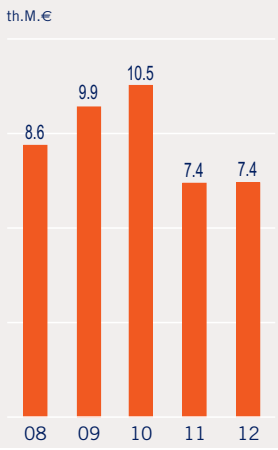



*Chart 23*

Breakdown at 31 Dec. 12

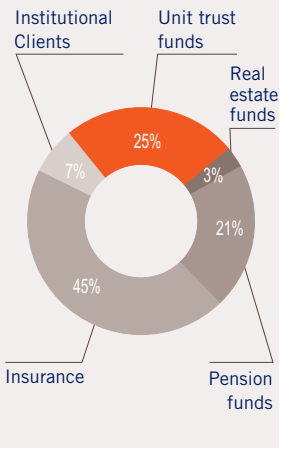



*Chart 24*

## UNIT TRUST FUNDS

The value of unit trust (mutual) funds under BPI's management rose by 7% in 2012. At the end of 2012 BPI Gestão de Activos had a 15.7% market share (16.6% in 2011), retaining third place in the national ranking of fund management companies.

**Unit trust funds under management** Amounts in M.€

| | 2011 | 2012 | Δ% |
|---|---|---|---|
| Bonds and money market | 391 | 703 | 80% |
| Capital growth (equities) | 416 | 376 | (10%) |
| Tax efficiency (PPR/E and PPA) | 761 | 698 | (8%) |
| Diversification | 344 | 261 | (24%) |
| **Total** | **1 912** | **2 038** | **7%** |

*Table 14*

BPI Gestão de Activos unveiled new investment products through the launching of three closed harmonised investment funds – BPI Obrigações Portuguesas I, II e III (Portuguese bonds).

### UNIT TRUST FUND AWARDS

**Diário Económico / Morningstar**

BPI Gestão de Activos was once again the big winner of the Diário Económico / Morningstar awards, thus witnessing the growth in its already long list of accolades received in recent years.

This is now the fifth year running that BPI Gestão de Activos is rated the Best National Equities Fund Manager. Added to this distinction were the awards for Best National Fund Manager (for the fifth time) and the Best National Equities Portugal Fund.

### PENSION FUND AWARDS

**12th IPE European Pension Awards 2012**

The open-end pension fund BPI Valorização won the award in 2012 for the Best Portuguese Pension Fund 2012 given by the IPE, Investment & Pensions Europe magazine. It is the second consecutive and the fifth year that a pension fund managed by BPI Vida e Pensões is honoured in this manner.

The award received is attributable to the development by the portfolio management team of a management process for exposure to high-yield debt focused on protecting capital.

1) Adjusted to eliminate double counting.

## UNIT TRUST FUNDS

The unit trust funds' portfolio was situated at 193 M.€, a 4% decrease on the 2011 figure. In the national market, the total for open-end real-estate unit trust funds fell by roughly 2.6%. At the end of 2012 BPI Gestão de Activos had a 3.8% market share in the management of open-end real-estate unit trust funds (3.9% in 2011), which corresponded to tenth place in the ranking.

## INSURANCE

The capitalisation insurance portfolio amounted to 2 723 M.€ at the end of 2012, evidencing a decline of around 15% when compared with the preceding year.

In line with the trend observed in the previous year, insurance business once again recorded low figures in 2012. The decrease in new business contracted was a reality that encompassed the whole of the Portuguese capitalisation insurance and insurance-linked PPR (retirement savings) market, which in aggregate registered a drop of about 11% when compared with the same period of the previous year.

At the end of 2012, BPI Vida e Pensões market share stood at 4.3% in terms of the value of the capitalisation insurance (unit-linked) portfolios (8.9% in 2011), corresponding to sixth position in the market.

**Capitalisation insurance portfolio under management[1]**

Amounts in M.€

| | | | 2011 | 2012 | Δ% |
|---|---|---|---|---|---|
| **Under commercialisation** | | | | | |
| With guaranteed capital or income | | | | | |
| PPR[2] | | *1* | 1 219 | 1 106 | (9.3%) |
| Other savings plans / capitalisation | | *2* | 1 566 | 1 270 | (18.9%) |
| | *[= 1 + 2]* | *3* | **2 785** | **2 376** | **(14.7%)** |
| Without guaranteed capital or income | | *4* | 373 | 324 | (13.2%) |
| | *[= 3 + 4]* | *5* | **3 158** | **2 700** | **(14.5%)** |
| Excluded from commercialisation[3] | | *6* | 46 | 23 | (51.1%) |
| **Total** | *[= 5 + 6]* | *7* | **3 204** | **2 723** | **(15.0%)** |

*Table 15*

At 31 December 2012 accumulated new capitalisation insurance business contracted by BPI Vida e Pensões was 248 M.€, corresponding to a 36.6% decrease relative to 2011.

A new product was launched – "BPI Reforma Garantida 2 anos PPR", a retirement-savings plan in the form of capitalisation insurance with guaranteed capital and return at the end of the 2nd year for all the redemptions falling within the legal conditions. With an attractive return, this product benefits from a more favourable and deferred tax treatment at the time of redemption.

## PENSION FUNDS

2012 was the year of BPI Vida e Pensões's affirmation in the Portuguese market, having achieved an expressive increase of 22% in financial assets under management, which compares with the market's 8.7% growth. It was the fund manager with the year's highest growth.

At the end of the year, BPI Vida e Pensões was responsible for the management of 39 Pension Funds for 254 companies, with net assets of 1 919 M.€.

2012 saw the adjudication of the full or shared management of a further four corporate pension funds.

BPI Vida e Pensões occupied third place in the raking of pension fund managers in terms of the volume of assets under management at the end of 2012. The estimated market share was 15% (13% in 2011), not taking into account the amounts under management of the Sociedade Gestora do Fundo de Pensões do Banco de Portugal and of Previsão, the sole object of which entails the management of the respective shareholders' pension funds. In the management of open-end pension funds, it was market leader with a 30% share, being responsible for the largest open-end pension fund, the Fundo de Pensões Aberto BPI Valorização.

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.
2) Marketed in the form of insurance capitalisation.
3) Products closed to new and / or additional subscriptions.

# Investment banking

## CORPORATE FINANCE

In 2012, Mergers and Acquisitions activity in Portugal (Portuguese target or buyer) registered a significant increase in value terms based on data reported by Bloomberg. However, this growth is explained by a very small number of high value deals. The number of deals continued to languish at minimal levels, more than 70% below 2007 and 2008 levels, which reflect the subdued activity on the middle market.

In general, the Mergers and Acquisitions market continued to be impacted by several factors which have influenced national economic agents' decisions: Portugal's macroeconomic situation, the sovereign debt crisis, with the maintenance of budgetary consolidation policies, the financial system's deleveraging and the low level of investor confidence.

BPI's Corporate Finance Division was selected to provide services in high profile projects, amongst which the advice given to the consortium led by Corporación América (Argentina) in the privatisation of airport operator ANA – Aeroportos de Portugal, S.A., the support given to the Board of Directors of Brisa – Auto-estradas de Portugal, S.A. in the wake of the takeover bid launched by Tagus Holdings S.à.r.l. and the organisation and mounting of the bond issue realised by Sonae, SGPS, S.A. for retail investors on the Portuguese market.

Besides the above operations, BPI undertook a number of advisory assignments relating to investment (in Portugal and abroad), restructuring and financing decisions, to a broad range of national entities and some international organisations.

Amongst the processes in which BPI was involved, it rendered advisory services to (i) Ascendum, in the analysis of an international investment opportunity; (ii) Tecneira in the valuation of renewable energy assets; (iii) a private firm in the health sector in the analysis of an investment opportunity; and (iv) Porto Editora in the analysis of a potential investment opportunity.
On the other hand, it is worth noting the advice given by BPI to Spanish companies (Prisa and MCH), and to Partex in the valuation of its crude-oil assets.

Listed below are some of the advisory mandates of a public nature in which BPI was involved in 2012.

**EAMA Consortium (led by Corporación América)** – Advising in the privatisation of ANA.
**Brisa** – Advising the Board of Directors within the ambit of the takeover bid.
**Sonae** – Organisation and mounting of a bond loan.
**Ascendum** – Advising in the analysis of an international investment decision.
**Partex** – Advising in determining the fair value of its crude-oil interests.
**Porto Editora** – Advising in the taking of an investment decision.
**ProCME / Tecneira** – Advising in the analysis of strategic options for certain assets in the portfolio.
**Prisa** – Strategic options for certain assets.
**MCH** – Valuation of a subsidiary.
**Health sector** – Advising in the analysis of an investment decision.

## EQUITIES

### Secondary market

In 2012 BPI brokered share dealings worth 6.4 th.M.€ (7.9 th.M.€ in 2011) and generated net brokerage commissions of 6.9 M.€. In online brokerage, Banco BPI was market leader with a 21.8% share. Taking into consideration also Banco de Investimento (via the BPI Online channel), BPI's market share is 23.7% having brokered trades totalling 1.9 th.M.€.

### Primary market

BPI participated in the capital increase realised by Pescanova (Co-Lead Manager), as well as participating for the first time in a capital increase operation on the Spanish MAB, for the company Let's GOWEX.

### Research and sales

BPI continues to be among the research houses with the largest coverage of companies quoted in the Portuguese and Spanish markets: at the end of 2012, the universe of BPI Equity Research's coverage included 121 European companies: 74 companies in Spain, 27 in Portugal, one in Denmark and 19 French companies, of which 16 from

the new Paris office which with a local team composed of 6 people, had its first full year of operations.

In 2012, BPI Equity Research compiled 534 and 101 reports on Iberian and French companies respectively (excluding daily newswires). The "*Iberian Small & Mid Caps Guide*" and the "*Iberian Strategist*" are today prestige reference works amongst institutional investors specialising in this type of company.

BPI continued to organise various events with the object of approximating companies and the institutional investor community. Amongst these initiatives, we cite the IX Iberian Conference held in Porto on 20 and 21 September. Notwithstanding the market turbulence and all the uncertainties surrounding the peripheral economies, the event was attended by 32 Iberian companies and some 70 institutional investors, as well as representatives of the Portuguese and Spanish governments. In addition, BPI continues to organise a number of road shows with Portuguese and Spanish companies.

### BPI Capital Africa

BPI Capital Africa, the subsidiary in South Africa and member of the Johannesburg Stock Exchange, continued to expand its stockbroking business for institutional investors. During 2012, it expanded its universe of research coverage from 6 to 32 shares, including several companies quoted on various sub-Saharan stock markets (South Africa, Ghana, Nigeria, Kenya, Ruanda, Tanzania, Zambia and Zimbabwe). Moreover, BPI Capital Africa keeps active contact with some 50 institutional investors based in South Africa and in various international markets.

At the end of 2012, the BPI Capital Africa team was composed of 13 members (originating from Portugal, South Africa, Zimbabwe, Mozambique and England).

### Trading

The principal trading activity was segregated at BPI Alternative Fund – Iberian Equities Long Short. At the end of 2012 the Bank held roughly 85% of the fund's participating units. The fund turned in a positive performance of 6% net of commissions and taxes.

### Recognition

At the end of 2012, the Iberian team comprised 31 Employees, 15 of whom attached to the analysis team and 16 deployed in sales and trading.

This team received prominent recognition in the main rankings of Iberian brokers, amongst which the following awards:

**NYSE Euronext**
- Most active Research House 2012 – Portugal.

**Thomson Extel**
- #2 Iberian Corporate Access;
- #3 Iberian Trading & Execution;
- #3 Iberian Equity Sales;
- #4 Iberian Brokerage firm.

**Institutional Investors**
- #2 Iberian Research Team in 2012 – 2013 Institutional Investor Awards – All Europe.

**Deloitte**
- #1 Portuguese Research Team – IRG Awards.

## PRIVATE BANKING

At the end of December 2012, BPI Private Banking's business volume was 3 508 M.€, corresponding to an 8% increase relative to the end of December 2011. Assets under discretionary management and effective advisory mandate totalling 2 988 M.€, posted a similar increase, while stable investments under custody grew by 20% relative to the same period a year earlier.

The unfavourable economic and market landscape, marked by considerable volatility and uncertainty, in particular, during the first half of the year engendered an aversion to risk on the part of Customers. In this environment, priority was given to the preservation of wealth, while still seeking to gradually diversify part of the investments, taking advantage of opportunities in specific products or markets. As a consequence, there was a decrease in the volumes allocated to deposits, while opting for other investment solutions such as securities, structured products and funds. This priority resulted in a 62% increase in the amounts invested in structured products, 26% in securities and 17% in unit trust funds.

Canvassing for new Clients in 2012 resulted in a 10% increase in the initial Client base.

**Private Banking**
Selected indicators

Amounts in M.€

| | 2011 | 2012 | Δ% |
|---|---|---|---|
| Assets under management | | | |
| Advisory services | 2 490 | 2 750 | 10% |
| Discretionary management | 269 | 238 | (12%) |
| | **2 759** | **2 988** | **8%** |
| Stable investments under custody | 354 | 425 | 20% |
| Loans portfolio | 130 | 95 | (27%) |
| **Business volume** | **3 244** | **3 508** | **8%** |

*Table 16*

## 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% equity interest in Inter-Risco, a venture-capital fund manager. BPI Private Equity also has its own investment portfolio which it manages directly.

At the end of 2012, the overall portfolio of the Group's private equity area, comprising its own portfolio and the interest in the venture capital funds amounted to around 70 M.€, at balance sheet values.

The participating units in the venture capital funds correspond to:

- the 51.6% interest in Fundo Caravela – Fundo de Capital de Risco with a capital of 30 M.€, promoted by BPI and managed by Inter-Risco. This fund is currently in the disinvestment phase;
- the 46% interest in Fundo Inter-Risco II, launched in 2010, and which is also managed by Inter Risco. The fund-raising period was concluded at the end of 2011, having attained an amount of 81.5 M.€. Besides BPI's participation as a sponsor, with a position of 37.5 M.€, it also has as key investors the European Investment Fund and the Fundação Calouste Gulbenkian. The fund pursues a generalist sectorial approach and is geared to buyout and build-up investments in unquoted small and medium-size Portuguese companies. The investment period began in 2010 and extends till 2014. In 2011 the fund acquired the 32 Senses Group, a project in the oral health area in Portugal, which embraced 54 dental clinics at the end of 2012. By the end of 2012, and in addition to the aforementioned project involving the consolidation of the dental clinics, the Fundo IR II made investments in the cold-storage logistics area (with the acquisition of Frissul) and in the veterinary medicine arena (One Vet Group);
- the 9% interest in the Fundo PVCi, a 111 M.€ – fund managed by the European Investment Fund, directed at investments in private equity and venture capital funds Portugal.

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

**Private Equity investments**

| | % held | Description |
|---|---|---|
| **Managed funds** | | |
| Caravela fund | 51.6% | Early-stage and seed capital investments in Portuguese SME's |
| Inter-Risco II fund | 46.0% | Expansion and buyout investments in Portuguese SME's |
| PVCI | 9.0% | Investment in private equity and venture capital funds in Portugal |
| **Equity interests**[1] | | |
| Inter-Risco | 49.0% | Venture capital fund manager |

*Table 17*

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

# International activity

## BANCO DE FOMENTO ANGOLA

The growth in BFA's business is underpinned by the ongoing expansion of its physical and virtual distribution networks and by the reinforcement of its human resources and its operational infrastructure, in parallel with the development of a range of segmented financial products and services. At the end of 2012, BFA had total assets of 6.0 thousand M.€ (10.5% more than in 2011), 2 267 Employees and a distribution network made up of 167 units serving more than 1 million Customers.

### Resources

Customer resources[1] expanded 13% to 6 947 M.US$ (5 268 M.€). In December, BFA had a 16.3% market share in deposits, giving it second place in the local market.

### Loans

The loan and guarantees portfolio measured in dollars[1] posted an increase of 23% to 1 846 M.US$ (1 400 M.€). BFA's market share was 10.3%[2] in December 2012, which percentage corresponds to fifth place in the market.

At the close of 2012, 71% of the loan and guarantees portfolio corresponded to the companies segment and the remaining 29% to the individuals segment.

### Cards and electronic banking

BFA occupies a leading position in debit and credit cards in Angola, with 676 361 valid debit cards at the end of 2012 – which was equivalent to a 23.8% market shares – and with 14 080 active credit cards (Classic and Gold).

The Bank retained a prominent position in the number of active APT and ATM facilities in 2012, having terminated the year with 3 917 APT terminals, corresponding to first place with a 29% market share, and 320 ATM's which corresponds to second position with a 17.2% market share.

**Banco de Fomento Angola**
Selected indicators

Amounts in M.€

| | 2011 | 2012 | Δ% |
|---|---|---|---|
| Net total assets | 5 437 | 6 007 | 10.5% |
| Loans to Customers | 1 021 | 1 082 | 6.0% |
| Loans to Customers and guarantees | 1 161 | 1 400 | 20.6% |
| Customer resources | 4 756 | 5 268 | 10.8% |
| Shareholders' equity | 550 | 581 | 5.6% |
| Employees (no.) | 2 172 | 2 267 | 4.4% |
| Branches (no.) | 158 | 167 | 5.7% |
| ATM machines (no.) | 298 | 320 | 7.4% |
| POS (no.) | 2 908 | 3 917 | 34.7% |
| Customers (thousand) | 910 | 1 074 | 18.0% |

*Table 18*

**Customer loans**

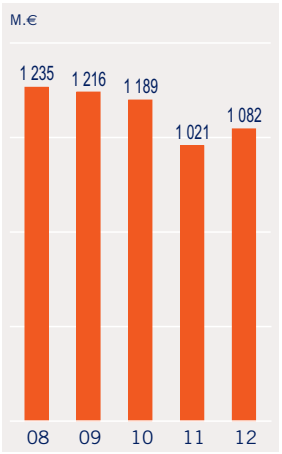



*Chart 25*

**Customer deposits**

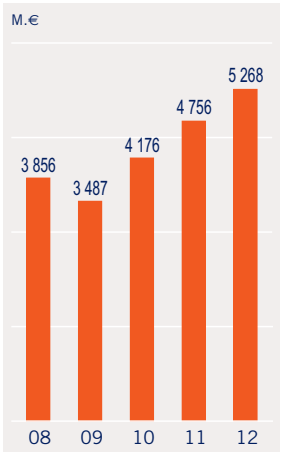



*Chart 26*

### Securities portfolio

BFA's securities portfolio amounted to 2 013 M.€ at the end of 2012. Roughly 26% of the securities portfolio corresponded to short-term securities (with maturities of up to one year) issued by the Angolan Treasury and by the Angolan central bank, while the remaining 74% comprised Angolan Treasury Bonds with maturities of 1 to 6 years.

1) When analysing the performance of BFA's commercial activity, variances in dollars are used for those items bearing in mind that close to 56% of Customer resources and 40% 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 11% while the loan and guarantees portfolio increased by 21% in 2012.
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.

## Customers

Prospecting for new Customers attained a high level in 2012 and resulted in expanding the Customer base by 163 thousand. At the end of 2012, BFA boasted a total of 1 074 thousand Customers.

Adherence to the homebanking service rose significantly, permitting raising the service's penetration rate by almost 10 percentage points, climbing to 33% at the end of 2012.

## Employees

At the end of 2012, BFA's headcount stood at 2 267 Employees, which corresponds to 4% annual growth.

## Commercial network

BFA continued to pursue the strategy of expanding the distribution network, with special emphasis on the Luanda province. 9 new branches were opened since December 2011.

**Customers**

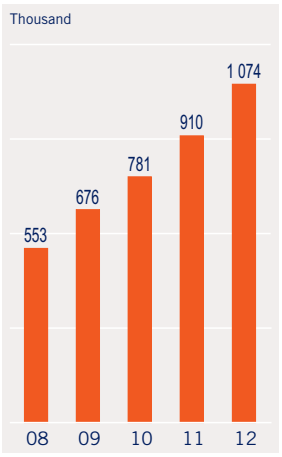



*Chart 27*

**Subscribers of homebanking services**

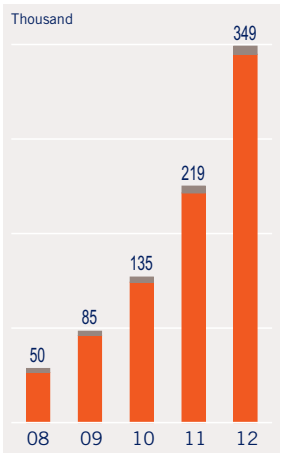



*Chart 28*

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

## CAMPAIGNS

### 1 in 800 thousand

This institutional campaign's objective was promoting the Bank's product range and the strong ability to attract Customers and foster loyalty. Service quality is the core message throughout the campaign.

To reinforce BFA's image as a bank which satisfies its Customers' and potential Customers' aspirations and needs and which offers innovative services.

### Angola Investe

With a view to fostering the development of micro, small and medium-size companies (MSME's), the Angolan government conceived a programme entitled "Angola Investe" which is founded on the partnership with the market's commercial banks.

BFA was one of the Banks which signed two memoranda of understanding with the Ministry of the Economy and with the Ministry of Finance which envisage the creation of the Subsidised Loans Line and the Public Guarantee Mechanisms.

The financing line of the "Angola Investe" programme has as its main objective financing the investment projects of MSME's with subsidised interest backed by public guarantees.

This financing line contemplates specific activities of the agricultural and industrial sectors and the manufacturing sector's support services.

## BFA OIL & GAS DESK

Angola's economic growth is based on the development of the oil and gas industry and this sector's importance in the coming years will continue to be crucial. For this reason, BFA is strongly committed to endowing its entire operational structure with the capacity to respond to the needs of companies in the oil and gas sector.

The new law governing the foreign exchange regime for the oil sector, which prescribes the implementation of alterations to be made between October 2012 and October 2013, encompasses all the oil and gas concessions in Angola and gives expression to the Angolan government's objective to internalise the capital flows generated by Angola's crude oil industry and to fortify the domestic banking system.

As a form of servicing this sector's Customers, BFA organised its structure based on three fundamental pillars:

- specialised personalised service;
- operating efficiency;
- solidity and security.

### Specialised service

A new Corporate centre was created in June – the Oil & Gas Desk – with a team dedicated exclusively to companies in the oil and gas sector and which is at their disposal for presenting solutions which respond to Clients' needs and requirements. The Bank's goal is to guarantee an appropriate interlocutor available to assist and resolve matters that arise throughout the relationship with BFA.

### Operating efficiency

In order to foster operating efficiency, BFA created conditions so that the transactional needs of companies in the oil and gas sector can be satisfied in the most automated way possible, focusing on the efficiency and speed in the execution of operations, maintaining high levels of security by way of its Internet Banking service: BFA Net Empresas.

### Solidity and security

BFA is currently the 2nd biggest private bank in Angola, with expressive balance-sheet strength indicators. It is the only Angolan bank integrated in the World Trade Program of the IFC, the World Bank's arm for the private sector. It continually invests in the security and quality of processes, systems and functionalities of its online channels so as to ensure greater automation, simplification, speed and security in the handling of the operations solicited by its Clients.

## EMEA Finance Magazine – Best Bank in Angola 2012

The magazine EMEA Finance honoured Banco de Fomento Angola for the 3rd time with the award "Best Bank in Angola" in 2012, for its performance and the consistency of its results.

The distinction had as requirements market share, growth of the commercial area, the diversity of products, results and strategy. Targeted at the financial community in Europe, Middle East and Africa, EMEA Finance analyses and classifies the performance of each country's main banks.

## The Banker Awards – Bank of the year 2012

The Banker magazine rated Banco de Fomento Angola as Bank of the Year, an award which confirms the bank's growth, expertise and credibility during its 19-year presence in the Angolan market.

## BCI – BANCO COMERCIAL E DE INVESTIMENTOS

BCI's total assets grew by 21% relative to 2011, to be situated at 1 772 M.€. At the end of 2012 BCI was Mozambique's second largest bank by volume of assets, with a 27.3% share of the Mozambican banking system.

### Deposits

The deposits taken from Customers recorded in 2012, when measured in euro, 20% growth, climbing to 1 279 M.€. The bank's market share in deposits was situated at 28.2% at the end of the year, which represents a gain in share (+0.6 p.p.) *vis-à-vis* the figure registered at the end of 2011.

### Loans

The loan portfolio stood at 939 M.€ – up 3% when valued in euro. The loan portfolio's moderate growth is explained by rigorous lending policy and balance-sheet management, namely with respect to liquidity and the loans-to-deposits ratio. BCI's market share in the loan segment was situated in December 2012 at 30.2%.

### Distribution network

In 2012 BCI opened 8 new branches. Accordingly, the bank had a total of 128 distribution points in December, of which 116 were traditional branches, 7 business centres and 5 exclusive centres. On the other hand, and echoing BCI's commitment to the expansion of electronic banking, the ATM and POS network increased by 29 units (+10%) and 1 402 units (+57%), respectively. At the end of the year, the bank boasted 320 ATM and 3 862 POS. The bank's Customer base rose to 564 thousand (38% growth), who were served by a total of 1 906 Employees.

**Banco Comercial e de Investimentos**
Selected indicators

Amounts in M.€

| | 2011 | 2012 | Δ% |
|---|---|---|---|
| Net total assets | 1 467 | 1 772 | 21% |
| Loans to Customers (net) | 908 | 939 | 3% |
| Customer deposits | 1 062 | 1 279 | 20% |
| Shareholders' equity | 117 | 130 | 12% |
| Employees (no.) | 1 703 | 1 906 | 12% |
| Branches (no.) | 120 | 128 | 7% |
| ATM machines (no.) | 291 | 320 | 10% |
| POS (no.) | 2 460 | 3 862 | 57% |
| Customers (thousand) | 409 | 564 | 38% |

*Table 19*

**Customer loans**

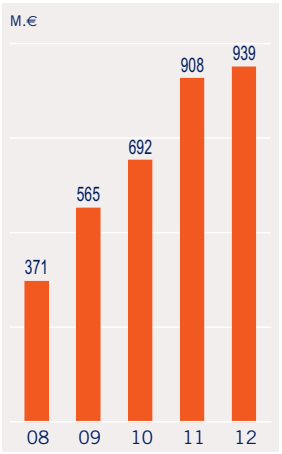



*Chart 29*

**Customer deposits**

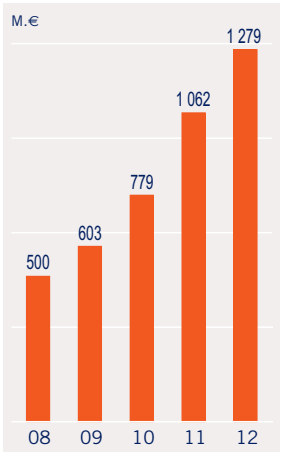



*Chart 30*

## MOZAMBIQUE FINANCIAL SERVICES DIVISION

On 1 January 2012, Banco BPI formerly created the Mozambique Financial Services Division based in Lisbon, and whose specific purpose and mission is the promotion, canvassing and execution of financial advisory mandates, and the organisation and mounting of structured financing, with special focus on Mozambique. The Financial Services Division's remit has now been extended to undertake the monitoring of Banco BPI's the loan and guarantees portfolio in African countries, which at the end of 2012 totalled 49.5 M.€, of which around 7.6 M.€ was contracted during 2012.

This division essentially resulted from the detachment from the Project Finance Division of the group of Employees who in the past few years have devoted their efforts to servicing the Mozambican market (and other African markets).

## ESTABLISHMENT OF BPI MOÇAMBIQUE

The management of the process involving the creation of an investment company in Maputo subject to Mozambican law was also entrusted by the Mozambique Financial Services Division – BPI Moçambique, dedicated to the provision of services in the area of financial consultancy and the structuring of medium / long-term finance in Mozambique and surrounding countries. The project entails the transformation of BPI Dealer, S.A., formed in 1999, with the redefinition of its business object. At the end of 2012, final authorisation was awaited for the transformation of BPI Dealer, S.A., while the physical premises of the future BPI Moçambique's office are in the refurbishment stage of construction. It is expected that BPI Moçambique can commence its operations by the end of June 2013.

BPI Moçambique, in the conduct of its business, will seek coordination with Banco BPI's relevant specialist areas in Portugal, notably with the Mozambique Financial Services Division, the Office for Africa, the Business Development Unit (Angola) and the Research Department, as well as with BCI in Mozambique.

These developments seek to reinforce the Bank's commitment to the Mozambican market, complementing the current presence and keeping pace with Mozambique's growth and the ambitious investment projected for the coming years.

# Financial review

## OVERVIEW OF CONSOLIDATED RESULTS

BPI recorded a consolidated net profit of 249.1 M.€ in 2012. The return on consolidated average shareholders' equity (ROE) was 12.9%.

Domestic activity's contribution to consolidated net profit in 2012 amounted to 162.6 M.€. The ROE on domestic operations, to which 82% of the Group's average capital was allocated, was situated at 10.2%.

International operations, which primarily refer to the business conducted in Angola through BFA, contributed 86.5 M.€ to consolidated net profit. The ROE from international operations, to which the remaining 18% of the Group's average capital was allocated, was situated at 25.2%.

It should be noted that the previous year's consolidated net loss of 284.9 M.€ was due to non-recurring factors which generated an overall negative impact of 400.8 M.€[1].

Consolidated cash flow (after taxation) was 588.4 M.€ in 2012, which corresponded to a 27% improvement relative to the preceding year.

**Consolidated net profit**

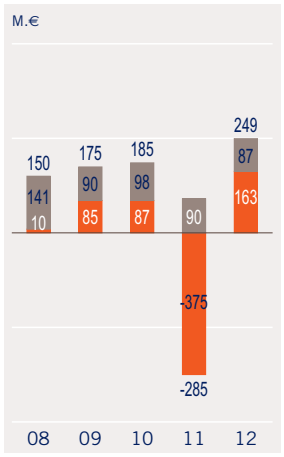



*Chart 31*

**Return on Shareholders' equity (ROE)**

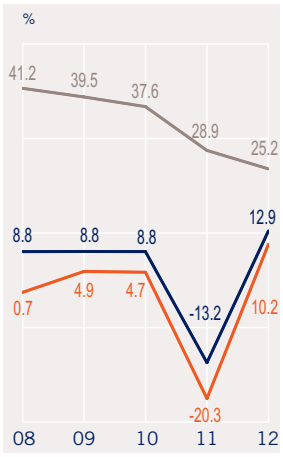



*Chart 32*

**Net profit, efficiency and profitability**

Amounts in M.€

| | 2011 | 2012 | | |
|---|---|---|---|---|
| | Consolidated | Domestic activity | International activity | Consolidated |
| Net profit | (284.9) | 162.6 | 86.5 | 249.1 |
| Net profit per share[2] | (0.284) | 0.141 | 0.075 | 0.216 |
| Cash flow after taxation | 463.2 | 471.1 | 117.2 | 588.4 |
| Net operating revenue | 1 020.1 | 1 018.2 | 311.8 | 1 330.0 |
| Net operating revenue per Employee[3] (thousands of euro) | 112 | 154 | 142 | 151 |
| Operating costs / net operating revenue[4] | 67.2% | 50.1% | 41.4% | 48.1% |
| Operating costs / net operating revenue, excluding non-recurring impacts[5] | 64.4% | 71.0% | 41.4% | 62.1% |
| Average total assets | 43 645.1 | 39 488.9 | 5 748.7 | 44 423.0 |
| Return on average total assets (ROA) | (0.4%) | 0.4% | 3.0% | 0.8% |
| Average shareholders' equity | 2 153.9 | 1 588.0 | 343.1 | 1 931.1 |
| Return on average shareholders' equity (ROE)[6] | (13.2%) | 10.2% | 25.2% | 12.9% |

*Table 20*

1) The negative impact of 400.8 M.€ resulted mainly from the partial transfer of the pension funds and pension liabilities to the Social Security (-70.9 M.€), the recognition of impairments on the exposure to Greek public debt (-419.8 M.€) and early-retirement costs (-28.4 M.€), which were only partially offset by non-recurrent gains on the repurchase of liabilities (81.0 M.€) and the gains associated with the contribution in specie to the pension fund of the 11% shareholding in Viacer (59.9 M.€).
2) 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 and through cash injection in August 2012 (200 M.€).
3) Number of Employees of the companies which are consolidated in full.
4) Operating costs as percentage of net operating revenue.
5) Excluding non-recurring impacts on both costs and revenues.
6) In calculating ROE, revaluation reserves are excluded from shareholders' equity.

**Domestic operations**
The operating profit derived from domestic operations rose by 365.9 M.€ in 2012 to 507.9 M.€.

This increase is attributable to:

- 302.8 M.€ increase in revenues, benefiting in particular from the 182.9 M.€ increase in profits from financial operations (trading) arising from the gains realised on the repurchase of liabilities and the sale of Portuguese public debt.

- 63.0 M.€ decrease in operating costs (-11.0%). Operating costs represented 50% of net operating revenue in 2012.

Loan impairments increased from 135.4 M.€[1] in 2011 to 254.4 M.€ in 2012. Impairments in 2012 (net of recoveries) represented 0.91% of the loan portfolio compared with an average indicator for the last 10 years of 0.27%.

Nonetheless, total impairments and provisions (net of recoveries) record a decrease from 403 M.€, to 275.3 M.€, bearing in mind that in 2011 total impairments included charges of 513.6 M.€[2] for Greek public debt in the portfolio.

Impairments and provisions (net of recoveries) absorbed 54% of operating profit in 2012, with the result that profit before taxation stood at 232.6 M.€.

The contribution from domestic operations to consolidated net profit, which includes the effect of corporate income tax (average rate of 35% in 2012), was 162.6 M.€.

**International operations**
The operating profit from international operations was down 5%. Given that the costs / income ratio is 41%, the 2.3% increase in income (+7.0 M.€) permitted offsetting about half of the 14.8% increase in costs (+16.6 M.€).

The upward trend in costs reflects the ongoing expansion of BFA's operational structure in Angola, and includes in 2012 the impact of the dollar's rise against the euro, given that part of the costs, namely salaries are indexed to the dollar.

Impairments, net of recoveries, represented 8% of operating profit in 2012.

The contribution from international operations to consolidated net profit, which corresponds to the appropriation of 50.1% of BFA's and 30% of BCI's net profit (equity accounted) amounted to 86.5 M.€ (-3.9% than in 2011).

1) Excluding 68.3 M.€ of impairment charges booked in 2011 for Greek sovereign debt exposure and recorded under the caption "Loan provisions and impairments".
2) The total loss recognised by BPI in 2011 from Greek sovereign debt exposure was 559.7 M.€ (before tax): 46.1 M.€ recorded under the caption "Technical result from insurance contracts", 68.3 M.€ recorded under the caption "Loan provisions and impairments" and 445.3 M.€ recorded under the caption "Other impairments and provisions".

## Consolidated income statement

Amounts in M.€

| | | Domestic activity[4] | | | International activity[5] | | | Consolidated | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2011 | 2012 | Δ% | 2011 | 2012 | Δ% | 2011 | 2012 | Δ% |
| Net interest income (narrow sense) | 1 | 345.3 | 368.7 | 6.7% | 198.0 | 180.3 | (8.9%) | 543.3 | 548.9 | 1.0% |
| Other income[1] | 2 | 33.4 | 32.6 | (2.5%) | | 1.1 | n.m. | 33.4 | 33.7 | 0.7% |
| **Net interest income** *[= 1 + 2]* | 3 | **378.8** | **401.3** | **5.9%** | **198.0** | **181.3** | **(8.4%)** | **576.8** | **582.6** | **1.0%** |
| Technical result from insurance contracts | 4 | (30.1) | 23.0 | 176.4% | | | | (30.1) | 23.0 | 176.4% |
| Commissions and other fees (net) | 5 | 253.6 | 281.9 | 11.2% | 43.4 | 50.4 | 16.2% | 297.0 | 332.3 | 11.9% |
| Profits from financial operations | 6 | 142.8 | 325.7 | 128.1% | 63.4 | 75.7 | 19.3% | 206.2 | 401.4 | 94.6% |
| Operating income and charges | 7 | (29.7) | (13.7) | 54.0% | (0.0) | 4.4 | n.m. | (29.7) | (9.3) | 68.8% |
| **Net operating revenue** *[= Σ 3 to 7]* | 8 | **715.4** | **1 018.2** | **42.3%** | **304.8** | **311.8** | **2.3%** | **1 020.1** | **1 330.0** | **30.4%** |
| Personnel costs[2] | 9 | 325.2 | 318.5 | (2.1%) | 52.9 | 62.8 | 18.7% | 378.1 | 381.3 | 0.8% |
| Outside supplies and services[2] | 10 | 179.8 | 176.3 | (1.9%) | 48.2 | 53.5 | 10.9% | 228.1 | 229.8 | 0.8% |
| Depreciation of fixed assets | 11 | 25.6 | 20.4 | (20.5%) | 11.2 | 12.7 | 13.2% | 36.8 | 33.1 | (10.2%) |
| Operating costs, excluding non-recurring items *[= Σ 9 to 11]* | 12 | 530.6 | 515.2 | (2.9%) | 112.4 | 129.0 | 14.8% | 643.0 | 644.2 | 0.2% |
| Non-recurring costs / (gains)[3] | 13 | 42.7 | (4.9) | (111.5%) | | | | 42.7 | (4.9) | (111.5%) |
| **Operating costs** *[= 12 + 13]* | 14 | **573.3** | **510.3** | **(11.0%)** | **112.4** | **129.0** | **14.8%** | **685.7** | **639.3** | **(6.8%)** |
| **Operating profit** *[= 8 - 14]* | 15 | **142.0** | **507.9** | **257.6%** | **192.4** | **182.8** | **(5.0%)** | **334.4** | **690.7** | **106.5%** |
| Recovery of loans written-off | 16 | 17.5 | 12.8 | (26.6%) | 2.8 | 2.7 | (5.2%) | 20.3 | 15.5 | (23.6%) |
| Loan provisions and impairments | 17 | 203.8 | 254.4 | 24.9% | 9.4 | 14.9 | 59.5% | 213.2 | 269.4 | 26.4% |
| Other impairments and provisions | 18 | 492.0 | 33.7 | (93.2%) | 6.0 | 3.1 | (48.6%) | 498.1 | 36.8 | (92.6%) |
| **Profits before taxes** *[= 15 + 16 - 17 - 18]* | 19 | **(536.3)** | **232.6** | **143.4%** | **179.9** | **167.5** | **(6.9%)** | **(356.5)** | **400.1** | **212.3%** |
| Corporate income tax | 20 | (147.6) | 81.9 | 155.5% | 6.4 | 6.4 | (0.1%) | (141.2) | 88.3 | 162.5% |
| Equity-accounted results of subsidiaries | 21 | 21.5 | 13.6 | (37.0%) | 6.9 | 10.3 | 48.5% | 28.4 | 23.8 | (16.2%) |
| Minority interests | 22 | 7.7 | 1.7 | (78.3%) | 90.4 | 84.8 | (6.1%) | 98.0 | 86.5 | (11.8%) |
| **Net profit** *[= 19 - 20 + 21 - 22]* | 23 | **(374.9)** | **162.6** | **143.4%** | **90.0** | **86.5** | **(3.9%)** | **(284.9)** | **249.1** | **187.5%** |
| **Cash flow after taxation** *[= 23 + 11 + 17 + 18]* | 24 | **346.6** | **471.1** | **35.9%** | **116.6** | **117.2** | **0.5%** | **463.2** | **588.4** | **27.0%** |

*Table 21*

1) Unit linked gross margin, income from securities (variable yield) and commissions related to deferred cost (net).
2) Excluding non-recurring impacts.
3) Non-recurring impacts:
In 2011: (i) early-retirements costs of 39.9 M.€ and (ii) costs with the auditors of the Special Inspections Programme covering the loan portfolio (SIP) of 2.8 M.€;
In 2012: a net gain of 4.9 M.€ which was due to (i) early-retirements costs of 30.2 M.€, (ii) costs with Ministry of Finance consultants for the Recapitalization Plan and Bank of Portugal consultants on the inspections of the loan portfolio of 3.6 M.€ and (iii) recognition of a 38.7 M.€ gain resulting from changes in calculating the death subsidy, following the publication of Decree Law 133 / 2012 of 27 June.

**Geographical segmentation of the BPI Group's domestic activity**

4) The domestic activity comprises the commercial banking activity conducted in Portugal, the provision of banking services to non-residents abroad – namely to Portuguese emigrant communities, and those of the Madrid branch –, the activities relating to investment banking – conducted by Banco Português de Investimento –, private equity, asset management and insurance.
5) International operations comprise the activity conducted by Banco Fomento Angola, 50.1% held and consolidated in full, as well as well as the activity of Banco Comercial e de Investimentos (BCI) in Mozambique, for which BPI results appropriation results from the 30% shareholding held (equity accounted), 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 2012 from Banco Fomento Angola amounted to 79.7 M.€, from BCI was 9.4 M.€, from BPI Dealer Mozambique was -0.6 M.€ and from BPI Capital África was -2.0 M.€.

## A SOUND FINANCIAL SITUATION

*Consolidated*

At 31 December 2012, Banco BPI presents adequate capitalisation, good risk indicators, full cover of the pension funds' liabilities, a loans / deposits ratio which already complies with the indicative limit applicable as from 2014, and minimal net medium and long-term debt refinancing needs.

### Adequate capitalisation

**According to Bank of Portugal rules**

Core tier I[1] capital stood at 3.7 th.M.€ at the end of 2012. This figure corresponded to 15% of the risk-weighted assets, which represented a surplus capital of 1.2 th.M.€ *vis-à-vis* the minimum 10% required for Portuguese banks at the close of 2012.

**According to the recommendation of the European Banking Authority (EBA)**

The core tier I ratio envisaged in the Recommendation of the European Banking Authority (EBA), which takes into the valuation of the sovereign debt held at 30 September 2011 at market prices ruling on that date, stood at 9.8% at the end of 2012, which represented a surplus capital of 203 M.€ relative to the 9% minimum ratio.

**Revaluation of the EBA's temporary buffer**

If the EBA's temporary buffer was revalued on the basis of the situation at 31 December 2012, the respective value would decrease by 613 M.€. Accordingly, the level of core tier I capital at the end of 2012 (3.7 thousand M.€) would represent a surplus capital of 816 M.€ relative to the minimum ratio prescribed by the EBA.

### Balanced funding and liquidity

Balance sheet funding is stable and the liquidity position balanced:

- improvement in the commercial liquidity gap by virtue of the 3.4% decrease in the consolidated loan portfolio while deposits remained stable;
- the transformation of deposits into loans ratio according to Bank of Portugal Instruction 23 / 2011 was 106% at the end of 2012, with the result that BPI complies with the maximum indicative ratio of 120% for Portuguese banks in 2014.
- the amount of resources obtained by BPI from the ECB was 4.2 th.M.€ (9.4% of assets) at the end of 2012. These resources are fully allocated to funding a portfolio of Eurozone public-debt bonds of 6.9 th.M.€, of which 3.3 th.M.€ is short-term debt (Portuguese Treasury Bills). At the end of 2012, ECB resources financed 61% of that portfolio;
- the Bank also had assets capable of being transformed into immediate liquidity in operations with the ECB of 5 463 M.€;
- the medium and long-term refinancing needs in the next few years are minimal: 506 M.€ from 2013 till 2018. It should also be noted that in 2019 the repayment will take place of 3 th.M.€ of public-debt bonds held by BPI in its portfolio.

**Core tier I ratio**

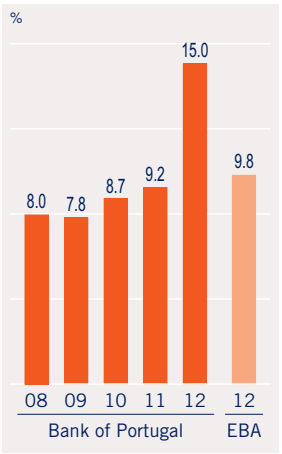



*Chart 33*

**Loans-to-deposits ratio**

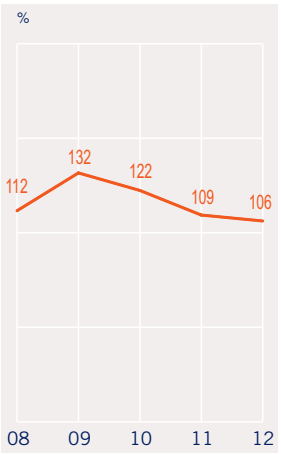



*Chart 34*

1) Essentially shareholders' equity and minority interests (excluding preference shares) and 1.2 th.M.€ of contingent convertible subordinated bonds subscribed by the Portuguese State under the Bank Recapitalisation Plan.

## Quality of assets

BPI continues to present good loan-quality indicators:

- the ratio of loans in arrears for more than 90 days was 3.2%;
- the credit-at-risk ratio was 4.2%;
- the accumulated impairments for loans with instalments in default[1] and guarantees (real or personal) covered 82% of the total exposure to the aforesaid loans, that is, loans in arrears for more than 30 days and associated loans not yet due;
- the cost of credit risk reflected in the income statement represented 0.92% of the loan portfolio;
- the gross value of repossessed properties was 162.3 M.€ and was 39.1% covered by impairments.

The On-site Inspections Programme covering the exposure of eight Portuguese banks to the construction and real-estate development sectors in Portugal and Spain identified in BPI's case a need to increase impairments by 0.4 M.€ with reference to September 2012. BPI's loan portfolio valued under the Programme amounted to roughly 2.4 th.M.€[2].

## Full cover of pension liabilities

At the end of 2012, the liabilities for retirement and pensioners' liabilities to be borne by BPI (937 M.€) were covered to the extent of 105% by the pension funds.

**Capital, assets quality and pension liabilities** Amounts in M.€

| | 2011 | 2012 | | |
|---|---|---|---|---|
| | Consolidated | Domestic activity | International activity | Consolidated |
| **Capital** | | | | |
| Shareholders' equity and minority interests | 822 | 1 443 | 618 | 2 061 |
| Core tier I capital[3] | 2 321 | | | 3 684 |
| Total own funds[3] | 2 349 | | | 3 675 |
| Risk weighted assets[3] | 25 152 | | | 24 512 |
| Core tier I ratio[3] | 9.2% | | | 15.0% |
| Core tier I ratio (EBA) | - | | | 9.8% |
| **Funding and liquidity** | | | | |
| Loans-to-deposits ratio[3] | 109.1% | 129.2% | 20.5% | 106.2% |
| ECB funding / Total assets | 4.2% | 10.6% | | 9.4% |
| ECB funding / Eurozone sovereign bond portfolio | 55.7% | 60.8% | | 60.8% |
| **Assets quality** | | | | |
| Loans in arrears for more than 90 days / Loans to Customers | 2.4% | 3.1% | 4.6% | 3.2% |
| Credit at risk / Loans to Customers[3,4] | 3.2% | 4.1% | 6.5% | 4.2% |
| Net credit loss[5] | 0.43% | 0.91% | 1.07% | 0.92% |
| **Pension liabilities** | | | | |
| Employee pension liabilities | 836 | 937 | | 937 |
| Cover of pension obligations[6] | 100% | 105% | | 105% |

*Table 22*

1) In addition, BPI had impairment allowances of 309.4 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 104%.
2) In 2011 BPI's domestic operations' loan portfolio (roughly 95% of the total consolidated portfolio) was already subjected to an overall inspection, carried out within the ambit of the Financial Assistance Programme for Portugal which confirmed that the impairments recorded by BPI for the portfolio were adequate.
3) According to Bank of Portugal Instruction 23 / 2011.
4) 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 interest and other charges overdue) and insolvency situations still not contemplated in loans in arrears for more than 90 days.
5) Loan impairments in the year, after deducting recoveries of loans in arrears written-off (in the income statement) as % of the Customer loans average portfolio.
6) Pension fund assets include contributions made at the beginning of the following year (37.9 M.€ at the beginning of 2012 and 0.5 M.€ at the beginning of 2013).

## Consolidated balance sheet

Amounts in M.€

| | | | 2011 | 2012 | Δ% |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash, deposits at central banks and deposits and loans to credit institutions | | *1* | 3 867.5 | 3 433.5 | (11.2%) |
| Loans and advances to Customers | | *2* | 28 318.3 | 27 345.5 | (3.4%) |
| Financial assets held for dealing | | *3* | 937.5 | 1 111.6 | 18.6% |
| Financial assets available for sale | | *4* | 6 778.1 | 10 252.9 | 51.3% |
| Investments held to maturity | | *5* | 766.2 | 445.3 | (41.9%) |
| Investments in associated companies and jointly controlled entities | | *6* | 179.2 | 202.3 | 12.8% |
| Other | | *7* | 2 109.1 | 1 773.5 | (15.9%) |
| **Total assets** | *[= Σ 1 to 7]* | *8* | **42 955.9** | **44 564.6** | **3.7%** |
| **Liabilities and shareholders' equity** | | | | | |
| Resources of central banks | | *9* | 2 499.2 | 4 270.9 | 70.9% |
| Credit institutions' resources | | *10* | 2 071.5 | 2 568.4 | 24.0% |
| Customer resources and other loans | | *11* | 24 671.3 | 24 621.1 | (0.2%) |
| Debts evidenced by certificates | | *12* | 6 692.0 | 3 787.6 | (43.4%) |
| Technical provisions | | *13* | 2 625.2 | 2 255.4 | (14.1%) |
| Financial liabilities associated to transferred assets | | *14* | 1 414.6 | 1 591.0 | 12.5% |
| Contingent convertible subordinated bonds | | *15* | - | 1 200.3 | - |
| Other subordinated loans and participating bonds | | *16* | 214.5 | 156.3 | (27.1%) |
| Other | | *17* | 1 945.3 | 2 052.9 | 5.5% |
| Shareholders' equity attributable to BPI Shareholders | | *18* | 469.4 | 1 708.0 | 263.9% |
| Minority interests | | *19* | 353.0 | 352.7 | (0.1%) |
| **Total shareholders' equity and minority interests** | *[= 18 + 19]* | *20* | **822.4** | **2 060.6** | **150.6%** |
| **Total liabilities and shareholders' equity** | *[= Σ 9 to 19]* | *21* | **42 955.9** | **44 564.6** | **3.7%** |
| Note: bank guarantees | | *22* | 2 540.7 | 2 390.4 | (5.9%) |
| Off-balance sheet Customer resources[1] | | *23* | 2 645.9 | 2 913.4 | 10.1% |

*Table 23*

## Consolidated balance sheet structure in 2012

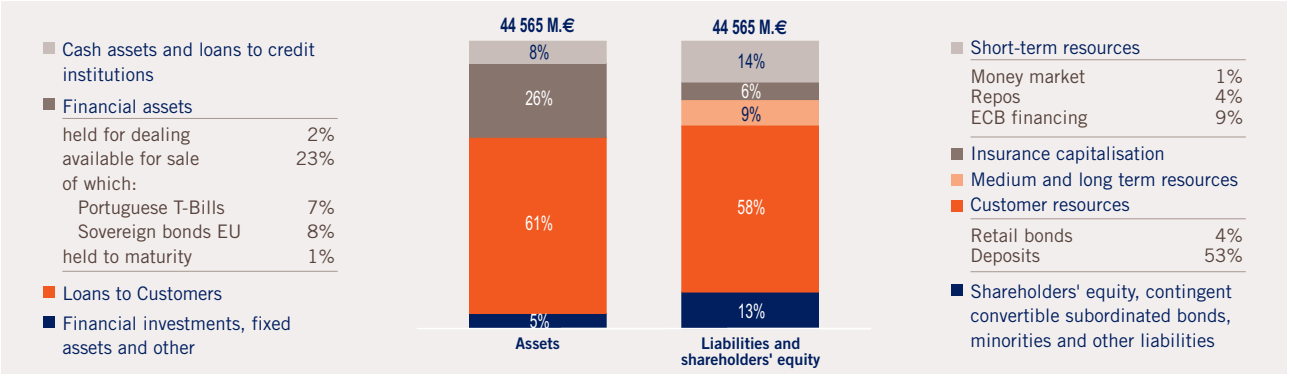



*Chart 35*

1) Unit trust funds, PPR, PPA, and BPI Suisse assets under management. Amounts deducted of fund units held in the portfolios of the Group's banks.

## GROUP CAPITAL

### ACCOUNTING SHAREHOLDERS' EQUITY

Accounting shareholders' equity and minority interests was 2 061 M.€ at the end of 2012, and corresponded to:

- shareholders' equity attributable to BPI Shareholders of 1 708 M.€;
- minority interests of 353 M.€, corresponding in essence to Unitel's 49.9% shareholding in BFA (293.7 M.€) and the preference shares issued by BPI Capital Finance (51.0 M.€).

The 1 238 M.€ increase in shareholders' equity and minority interests in 2012 is chiefly explained by:

- profit generated in the year of 335.6 M.€, of which 249.1 M.€ attributable to BPI Shareholders and 86.5 M.€ attributable to minority interests;
- the positive change in the fair value reserve of 753.3 M.€. This change is explained by the higher value of the public-debt bonds (chiefly Portuguese) and of companies held in the portfolio of available-for-sale financial assets as a consequence of the significant fall in the respective yields on the secondary market;
- cash proceeds of 200 M.€ from the capital increase subscribed by Shareholders in August;
- and, with a negative impact, the payment of dividends by BFA to Unitel (64.2 M.€) relating to 2011.

**Shareholders' equity and minorities interests trend in 2012**

Amounts in M.€

| | | Shareholders' equity attributable to BPI Shareholders | Minority interests | Total |
|---|---|---|---|---|
| **Shareholders' equity and minority interests at 31 Dec. 11** | *1* | **469.4** | **353.0** | **822.4** |
| BFA dividends paid to minorities interests | *2* | | (64.2) | (64.2) |
| Net profit | *3* | 249.1 | 86.5 | 335.6 |
| Proceeds from the capital increase | *4* | 200.0 | | 200.0 |
| Change in the fair value reserve, net of deferred taxes | *5* | 753.3 | | 753.3 |
| Actuarial variances, net of deferred taxes | *6* | 22.0 | | 22.0 |
| Other | *7* | 14.2 | (22.7) | (8.5) |
| *[= Σ 2 to 7]* | *8* | **1 238.6** | **(0.4)** | **1 238.3** |
| **Shareholders' equity and minority interests at 31 Dec. 12** *[= 1 + 8]* | *9* | **1 708.0** | **352.7** | **2 060.6** |

*Table 24*

### CAPITAL RATIOS

**According to Bank of Portugal rules**

The core tier I capital ratio (in accordance with Bank of Portugal rules) was situated at 15.0% at the end of 2012 versus the 10% minimum ratio required for Portuguese banks.

Core tier I capital increased by 1 363 M.€ (5.6% of risk-weighted assets) in 2012. This increase is primarily explained by the following factors:

With positive impact:

- increase in regulatory capital of 1.4 th.M.€ stemming from the execution of the Bank's Recapitalisation Plan. This increase resulted from (1) a 200 M.€ capital increase subscribed for by the Shareholders and (2) a contingent convertible subordinated bond issue subscribed for by the State in the amount of 1 300 M.€, which was subsequently reduced to 1 200 M.€ through the early repayment of 100 M.€ in December;
- internal capital generation which translated into retained earnings of 280.6 M.€, of which 249.1 M.€ is attributable to BPI Shareholders and 31.4 M.€ to minority interests[1].

1) Corresponds to 85.3 M.€ relating to minority shareholders' interests in net profit for the year (excluding preference share dividends), after deducting dividends of 53.8 M.€ to be distributed by BFA to Unitel relating to the 2012 financial year.

With negative impact:

- the recognition of the partial transfer of the pension funds to the Social Security (261.8 M.€) which took place at the end of 2011 and which, according to Bank of Portugal regulations, was only written off from core capital on 30 June 2012.

For its part, the 640 M.€ decrease in risk-weighted assets, which gave rise to a positive impact of 0.4 p.p. on the core tier I ratio is mainly explained by the contraction in the domestic operations loan portfolio.

**Own funds requirements ratio**
Calculated according to the Bank of Portugal rules

Amounts in M.€

| | | | 2011 | 2012 |
|---|---|---|---|---|
| **Accounting shareholders' equity attributable to BPI Shareholders** | | *1* | **469.4** | **1 708.0** |
| Minority interests, excluding preference shares | | *2* | 280.0 | 294.6 |
| Contingent convertible subordinated bonds | | *3* | - | 1 200.0 |
| Dividends attributable to BPI Shareholders | | *4* | - | - |
| BFA dividends attributable to minority interests | | *5* | (62.5) | (53.8) |
| | *[Σ 1 to 5]* | *6* | 686.9 | 3 148.8 |
| Exclusion of: | | | | |
| Impact of the partial transfer of pension liabilities to the Social Security | | *7* | 261.8 | |
| Actuarial deviations from pension liabilities that remain in the bank without impact in core tier I | | *8* | 117.2 | 69.5 |
| Fair value reserve in bonds, net of deferred taxes[1] | | *9* | 1 241.4 | 490.4 |
| Positive fair value reserve in equities[2] | | *10* | (25.1) | (23.6) |
| Revaluation reserves of fixed assets included in tier II | | *11* | (8.5) | (8.5) |
| Other adjustments | | *12* | 8.0 | (3.4) |
| | *[Σ 7 to 12]* | *13* | 1 594.8 | 524.3 |
| Inclusion of: | | | | |
| Intangible fixed assets | | *14* | (9.6) | (14.0) |
| Deferred adjustments resulting from the transition to IAS / IFRS[3] | | *15* | 48.5 | 24.7 |
| | *[Σ 14 to 15]* | *16* | 39.0 | 10.7 |
| **Core tier I** | *[= 6 + 13 + 16]* | *17* | **2 320.7** | **3 683.8** |
| Preference shares | | *18* | 53.4 | 51.3 |
| Deduction of participating interests in credit institutions and insurance companies | | *19* | (101.6) | (91.4) |
| **Basis own funds** | *[= 17 + 18 + 19]* | *20* | **2 272.5** | **3 643.7** |
| **Complementary own funds** | | *21* | **76.9** | **30.9** |
| of which, complementary own funds before deductions | | *22* | 184.7 | 125.5 |
| of which, deduction of participating interests in credit institutions and insurance companies | | *23* | (101.6) | (91.4) |
| of which, other deductions | | *24* | (6.1) | (3.2) |
| **Total own funds** | *[= 20 + 21]* | *25* | **2 349.4** | **3 674.6** |
| **Risk-weighted assets** | | *26* | **25 152.2** | **24 511.8** |
| **Core tier I ratio** | *[= 17 / 26]* | *27* | **9.2%** | **15.0%** |
| Tier I ratio | *[= 20 / 26]* | *28* | 9.0% | 14.9% |
| Own funds requirements ratio | *[= 25 / 26]* | *29* | 9.3% | 15.0% |

Note: The Core capital, of 3 683.8 M.€ at the end of 2012, comprises shareholders' equity and minority interests (excluding preference shares) and the contingent convertible subordinated bonds (1.2 th.M.€) subscribed by the State under the Recapitalisation Plan, to which the following adjustments are made:
- addition of unrealised losses on bonds available for sale (490 M.€), which in accordance with Bank of Portugal regulations are not deducted from regulatory capital;
- addition of negative actuarial variances accommodated in the prudential corridor (69.5 M.€).

*Table 25*

1) 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 from 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.
2) 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 2012 the amount added to complementary own funds was 10.6 M.€, corresponding to 45% of 23.6 M.€).
3) The impacts of the transition to IAS / IFRS are being recognised in own funds until 2014, including.

**According to the Recommendation of the European Banking Authority (EBA)**

At the end of 2012, the core tier I capital ratio envisaged in the European Banking Authority's Recommendation – which considers the valuation of the sovereign debt portfolio as at 30 September 2011 at prices ruling on that date – stood at 9.8%, corresponding to a capital surplus of 203 M.€ when compared to the 9% minimum ratio laid down for Portuguese banks.

**Own funds requirements**

By source

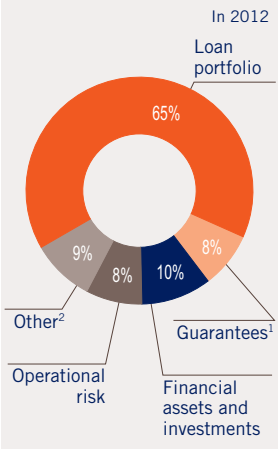



*Chart 36*

**Core tier I ratio**

At 31 December 2012

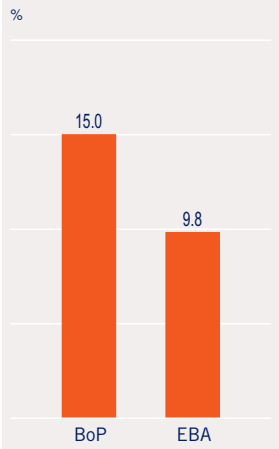



*Chart 37*

**Core tier I ratio**

According to the EBA rules — Amounts in M.€

| | 30 Jun. 12 | 31 Dec. 12 |
|---|---|---|
| **Core tier I (Bank of Portugal)** | **3 640** | **3 684** |
| Deductions of shareholdings in credit institutions and insurance | (91) | (91) |
| Temporary capital needs | | |
| EBA temporary sovereign buffer | (1 359) | (1 359) |
| Amount recognised in the P&L account (Greece) | 175 | 175 |
| Temporary capital needs | (1 184) | (1 184) |
| **Core tier I (EBA)** | **2 365** | **2 409** |
| Risk weighted assets | 25 186 | 24 512 |
| **Core tier I ratio (EBA)** | **9.4%** | **9.8%** |

*Table 26*

On 13 March 2013, Banco BPI made an early repayment of 200 M.€ of the contingent convertible subordinated bonds after having obtained the Bank of Portugal's authorisation.

With this redemption, the amount of contingent convertible subordinated bonds held by the Portuguese State was reduced to 1 000 M.€.

## EBA'S RECAPITALISATION EXERCISE AND BPI'S RECAPITALISATION PLAN

**Result of the recapitalisation exercise proposed by the European Banking Authority**

Banco BPI was one of the 71 European banks subjected to the recapitalisation exercise proposed by the European Banking Authority, the results of which were announced in December 2011. The exercised was designed to assess the capital needs of European Union banks so that they can attain a minimum core tier I capital ratio of 9% with effect from 30 June 2012, including a temporary and exceptional capital buffer which reflects the valuation at market prices as at 30 September 2011 of sovereign debt exposure.

In the case of BPI, a need to increase capital by 1 389 M.€ was identified, resulting almost entirely from the exposure to sovereign debt, including the revaluation of interest-rate hedging derivatives, as at 30 September 2011 (1 359 M.€), namely Portuguese sovereign debt (989 M.€, of which 708 M.€ refers to bonds held in the portfolio and 281 M.€ relates to loans extended to Local Authorities). Of the shortfall identified, 175 M.€ referring to the exposure to Greek sovereign debt was already addressed in 2011 given that BPI recognised in its results impairment losses from this exposure. Hence, the temporary capital increase prescribed for BPI was 1 184 M.€ (*versus* the 1 359 M.€ initially identified).

**BPI's Recapitalisation Plan**

In 2012, Banco BPI executed the Recapitalisation Plan which resulted in raising its core tier I capital by 1.5 thousand M.€ and which entailed:

- the issue of 1.5 th.M.€ of core tier I capital instruments (contingent convertible subordinated bonds) subscribed by the Portuguese State on 29 June 2012. This amount was reduced in August to 1.3 th.M.€ by using the proceeds from the capital increase referred to in the following indent in the repurchase from the Portuguese State of the aforesaid instruments, as envisaged in the Recapitalisation Plan.
- the 200 M.€ capital increase reserved for Shareholders, concluded on 10 August.

1) Includes facilities.
2) Liquid assets, tangible fixed assets, other assets, derivatives and market risks.

## RECALCULATION OF THE TEMPORARY CAPITAL BUFFER FOR SOVEREIGN DEBT EXPOSURE

In the recapitalisation exercise proposed by the European Banking Authority, as outlined in the previous box, a temporary capital need for the exposure to sovereign debt with reference to 30 September 2011 of 1 184 M.€ was identified for BPI, including the revaluation of the interest-rate hedging derivatives.

EBA maintained unchanged up till the present date the temporary capital buffer required.

In the meantime, since the reference date for the EBA's exercise (30 September 2011) up till the end of 2012, Banco BPI's exposure to sovereign risk has changed and the unrealised losses on these assets have decreased appreciably:

- BPI had a portfolio of 1 030 M.€ (nominal value) in Portuguese treasury bonds which were redeemed in June 2012, in accordance with the respective redemption plan. A temporary capital buffer of 69 M.€ (which still remains) was identified in the EBA exercise for these securities (including hedging derivatives);
- the unrealised losses on the remaining Portuguese Treasury Bonds (including hedging derivatives) which BPI held at 30 September 2011 declined by 272 M.€, reflecting the fall in yields observed on the secondary debt market;
- the loan exposure to Local Authorities decreased from 1 058 M.€ in September 2011 to 913 M.€ in December 2012. Applying to the exposure in December 2012 the average haircuts by maturity estimated by BPI based on market prices at 31 December 2012, a temporary capital buffer of 131 M.€ is arrived at, or 150 M.€ less than the capital required by the EBA;
- BPI acquired during the course of 2012 Portuguese public-debt securities (Treasury Bonds and Treasury Bills) which, at the end of the year, presented unrealised gains of 76 M.€;
- the unrealised losses on Italian and Irish public-debt bonds (including hedging derivatives) decreased by 22 M.€ and 25 M.€, respectively, reflecting the decline in the respective yields on the secondary market.

The recalculation of the capital requirements for sovereign debt with reference to the positions held and the market prices of those assets at the end of 2012 would result in temporary capital needs of 570 M.€, which is 613 M.€ less than the EBA's temporary buffer, which would therefore permit, in addition to the early redemption of 300 M.€ of contingent convertible subordinated bonds made on 4 December 2012 and on 13 March 2013, the immediate repayment of a further 613 M.€.

**Recalculation of the temporary capital buffer for sovereign debt exposure**

Amounts in M.€

| | | 30 Sep. 11 | | | | 31 Dec. 12 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Nominal value | EBA temporary capital buffer[1] | | | Nominal value | Recalculation of the temporary capital buffer[1] | | |
| | | | Securities | Derivatives | Total | | Securities | Derivatives | Total |
| **Sovereign debt (after taxes)** | | | | | | | | | |
| Portugal | *1* | 2 766 | (582) | (125) | (708) | 5 454 | (88) | (203) | (292) |
| Of which: | | | | | | | | | |
| Treasury bonds – bought before 31 Dec. 11 | | 2 732 | (582) | (125) | (708) | 1 702 | (163) | (203) | (367) |
| Treasury bonds – bought in 2012 | | - | - | - | - | 410 | 62 | | 62 |
| Treasury bills | | 34 | - | - | - | 3 342 | 14 | | 14 |
| Italy | *2* | 975 | (66) | (73) | (139) | 975 | 9 | (126) | (117) |
| Ireland | *3* | 355 | (37) | (19) | (56) | 355 | 6 | (36) | (31) |
| Greece | *4* | 480 | (136) | (39) | (175) | - | - | - | - |
| *[Σ 1 to 4]* | *5* | **4 576** | **(822)** | **(256)** | **(1 078)** | **6 784** | **(74)** | **(366)** | **(439)** |
| Local governments | *6* | 1 058 | | | (281) | 913[2] | | | (131) |
| **Capital buffer for sovereign risk exposures** *[= 5 + 6]* | *7* | | | | **(1 359)** | | | | **(570)** |
| Amount recognised in results (Greece) | *8* | | | | 175 | | | | - |
| **Temporary capital needs** *[= 7 + 8]* | *9* | | | | **(1 184)** | | | | **(570)** |

1) Includes the impact of interest rate risk hedging.

2) Exposures as at 31 December 2012 and applying average haircuts per maturity estimated by BPI based on 31 December 2012 market prices.

*Table 27*

## RESULTS FROM DOMESTIC OPERATIONS

In 2012, the **BPI Group's domestic operations** generated a net profit of 162.6 M.€. The return on average shareholders' equity allocated (ROE) was 10.2%.

**Domestic commercial banking** activity contributed 153.7 M.€[1] to profit. The ROE on commercial banking activity, to which 97.6% of the average capital employed in domestic operations was allocated, stood at 9.9%.

**BPI's investment banking** activity, characterised by a minimal capital consumption, contributed with 5.4 M.€[1] to net profit, corresponding to a ROE of 20.1%. For their part, the contribution from **participating interests** was 3.5 M.€[1].

**Domestic activity net profit**

*Chart 38*

**Return on Shareholders' equity on domestic operations**

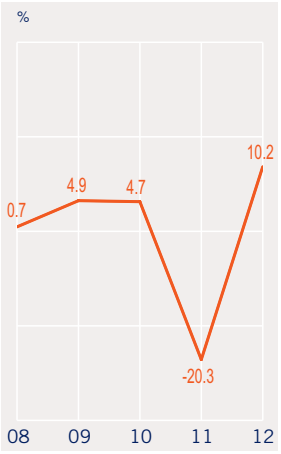



*Chart 39*

**ROE by business area in 2012**

Amounts in M.€

| | | | Domestic activity | | | |
|---|---|---|---|---|---|---|
| | | | Commercial banking | Investment banking | Participating interests and other | Total |
| **Average risk weighted assets** | | *1* | **21 383.1** | **372.0** | **158.2** | **21 913.3** |
| Capital allocated | | *2* | 1 427.7 | 61.5 | 98.8 | 1 588.0 |
| Capital reallocation | | *3* | 121.9 | (34.6) | (87.3) | |
| **Adjusted shareholders' equity for ROE calculation** | *[= 2 + 3]* | *4* | **1 549.5** | **27.0** | **11.5** | **1 588.0** |
| Net profit | | *5* | 152.2 | 5.9 | 4.6 | 162.6 |
| Adjustment to profit due to capital reallocation | | *6* | 1.5 | (0.4) | (1.1) | |
| **Net profit (adjusted)** | *[= 5 + 6]* | *7* | **153.7** | **5.4** | **3.5** | **162.6** |
| **ROE** | *[= 7 / 4]* | *8* | **9.9%** | **20.1%** | **30.2%** | **10.2%** |

*Table 28*

**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, 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) Contribution adjusted by capital reallocation between the business areas integrating the domestic operations.

Operating profit from domestic operations (before impairments and provisions) increased by 365.9 M.€ to 507.9 M.€ in 2012.

The improvement in profit can be attributed to:

- the increase in revenues by 302.8 M.€ (+42.3%). Contributing to this trend was above all the higher profits from financial operations, up 182.9 M.€, reflecting the gains realised on the repurchase of liabilities and the sale of public debt. Net interest income and commissions posted growth rates of 5.9% (+22.5 M.€) and 11.2% (+28.3 M.€), respectively;

- the reduction in operating costs (as reported) by 63.0 M.€ (11.0%). Excluding non-recurring costs[1], operating costs decreased by 15.4 M.€ (-2.9%).

Also contributing to the positive behaviour of profit before taxation (+768.9 M.€) was the 403.0 M.€ decrease in impairment charges and provisions (net of recoveries).

The trend in impairments and provisions is explained:

- by the 123.7 M.€ increase in impairment charges (net of recoveries) for loans to Customers from 118.0 M.€[2] in 2011 to 241.6 M.€ in 2012. The loan impairments (net of recoveries) represented 0.91% of the loan portfolio in 2012, which compares with an average indicator over the last 10 years of 0.27% (0.42% in 2011).

- by the 526.7 M.€ decrease in other impairment charges and provisions, from 560.4 M.€ in 2011 to 33.7 M.€ in 2012, bearing in mind that in 2011 513.6 M.€[3] was set aside for impairment charges relating to Greek sovereign debt held in the portfolio. It should be noted that in 2012 Banco BPI sold the entire exposure to Greek sovereign debt.

In 2012, impairment charges and provisions (net of recoveries) absorbed 54% of operating profit.

The amount provided for corporate income tax was 81.9 M.€ in 2012 – this figure includes the extraordinary surcharge levied on the banking sector in Portugal[4] of 13.9 M.€ (15.3 M.€ in 2011).The average tax rate[5] was situated at 35% in 2012.

Net profit earned from domestic operations was 162.6 M.€, recovering from a loss of 374.9 M.€ incurred in 2011, while after-tax cash flow amounted to 471.1 M.€, which corresponds to a 36% rise relative to 2011.

1) Non-recurring impacts:
In 2011: (i) early-retirements costs of 39.9 M.€ and (ii) costs with the auditors of the Special Inspections Programme covering the loan portfolio (SIP) of 2.8 M.€;
In 2012: a net gain of 4.9 M.€ which was due to (i) early-retirements costs of 30.2 M.€, (ii) costs with Ministry of Finance consultants for the Recapitalization Plan and Bank of Portugal consultants on the inspections of the loan portfolio of 3.6 M.€ and (iii) recognition of a 38.7 M.€ gain resulting from changes in calculating the death subsidy, following the publication of Decree Law 133 / 2012 of 27 June.
2) Excluding 68.3 M.€ of impairment charges booked in 2011 for Greek sovereign debt exposure and recorded under the caption "Loan provisions and impairments".
3) The total loss recognised by BPI in 2011 from Greek sovereign debt exposure was 559.7 M.€ (before tax): 46.1 M.€ recorded under the caption "Technical result from insurance contracts", 68.3 M.€ recorded under the caption "Loan provisions and impairments" and 445.3 M.€ recorded under the caption "Other impairments and provisions".
4) 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.
5) Relation between corporate income tax and profit before tax.

**Domestic activity income statement**

Amounts in M.€

| | | | 2011 | 2012 | Δ% |
|---|---|---|---|---|---|
| Net interest income (narrow sense) | | *1* | 345.3 | 368.7 | 6.7% |
| Other income[1] | | *2* | 33.4 | 32.6 | (2.5%) |
| **Net interest income** | *[= 1 + 2]* | *3* | **378.8** | **401.3** | **5.9%** |
| Technical result from insurance contracts | | *4* | (30.1) | 23.0 | 176.4% |
| Commissions and other fees (net) | | *5* | 253.6 | 281.9 | 11.2% |
| Profits from financial operations | | *6* | 142.8 | 325.7 | 128.1% |
| Operating income and charges | | *7* | (29.7) | (13.7) | 54.0% |
| **Net operating revenue** | *[= Σ 3 to 7]* | *8* | **715.4** | **1 018.2** | **42.3%** |
| Personnel costs[2] | | *9* | 325.2 | 318.5 | (2.1%) |
| Outside supplies and services[2] | | *10* | 179.8 | 176.3 | (1.9%) |
| Depreciation of fixed assets | | *11* | 25.6 | 20.4 | (20.5%) |
| Operating costs, excluding non-recurring items | *[= Σ 9 to 11]* | *12* | 530.6 | 515.2 | (2.9%) |
| Non-recurring costs / (gains) | | *13* | 42.7 | (4.9) | (111.5%) |
| **Operating costs** | *[= 12 + 13]* | *14* | **573.3** | **510.3** | **(11.0%)** |
| **Operating profit** | *[= 8 - 14]* | *15* | **142.0** | **507.9** | **257.6%** |
| Recovery of loans written-off | | *16* | 17.5 | 12.8 | (26.6%) |
| Loan provisions and impairments | | *17* | 203.8 | 254.4 | 24.9% |
| Other impairments and provisions | | *18* | 492.0 | 33.7 | (93.2%) |
| **Profits before taxes** | *[= 15 + 16 - 17 -18]* | *19* | **(536.3)** | **232.6** | **143.4%** |
| Corporate income tax | | *20* | (147.6) | 81.9 | 155.5% |
| Equity-accounted results of subsidiaries | | *21* | 21.5 | 13.6 | (37.0%) |
| Minority interests | | *22* | 7.7 | 1.7 | (78.3%) |
| **Net profit** | *[= 19 - 20 + 21 - 22]* | *23* | **(374.9)** | **162.6** | **143.4%** |
| **Cash flow after taxation** | *[= 23 + 11 + 17 + 18]* | *24* | **346.6** | **471.1** | **35.9%** |

*Table 29*

1) Unit linked gross margin, income from securities (variable yield) and commissions related to deferred cost (net).
2) Excluding non-recurring impacts.

## BALANCE SHEET

The domestic operations balance sheet mainly reflects the commercial banking business carried on in Portugal. At the end of 2012, Customer loans represent 66% of assets while Customer resources constitute the chief source of balance sheet funding.

Balance-sheet Customer resources (excluding capitalisation insurance) funded 77.9% of loans. The Customer resources aggregate in the balance sheet (excluding capitalisation insurance), medium and long-term debt and shareholders' equity represented 99% of Customer loans.

The Bank has a portfolio of available-for-sale financial assets totalling 8.4 th.M.€ (21% of assets). This portfolio essentially corresponds to sovereign debt (6.9 th.M.€) and corporate bonds (1.1 th.M.€).

The sovereign-debt portfolio is composed of Portuguese short-term debt securities – Treasury Bills – (3.3 th.M.€), Portuguese medium and long-term debt (2.2 th.M.€) and that of other Euro area countries (1.4 th.M.€). This portfolio's funding, itself fully discountable at the ECB, is provided in large part by resources obtained from the ECB (4.2 th.M.€).

At the end of 2012, the Bank had assets eligible for ECB funding of 11 783 M.€ (figures net of price appreciation and haircuts). Taking into account the portfolio's utilisations on that date[1], the Bank had available 5 463 M.€ of those assets capable of being transformed into additional funding from the ECB, which represented 14% of total assets deployed in domestic operations.

In the next few years, the Bank has minimal net resource needs for medium and long-term debt refinancing, taking into consideration maturities as well as the redemptions of bonds held in the available-for-sale assets portfolio. The debt refinancing needs, net of bond redemptions from 2013 till 2018, total 506 M.€. In 2019 there will be a significant freeing up of liquidity through the redemption of 3 thousand M.€ of medium and long-term bonds held by BPI in its portfolio.

**Domestic activity balance sheet structure in 2012**

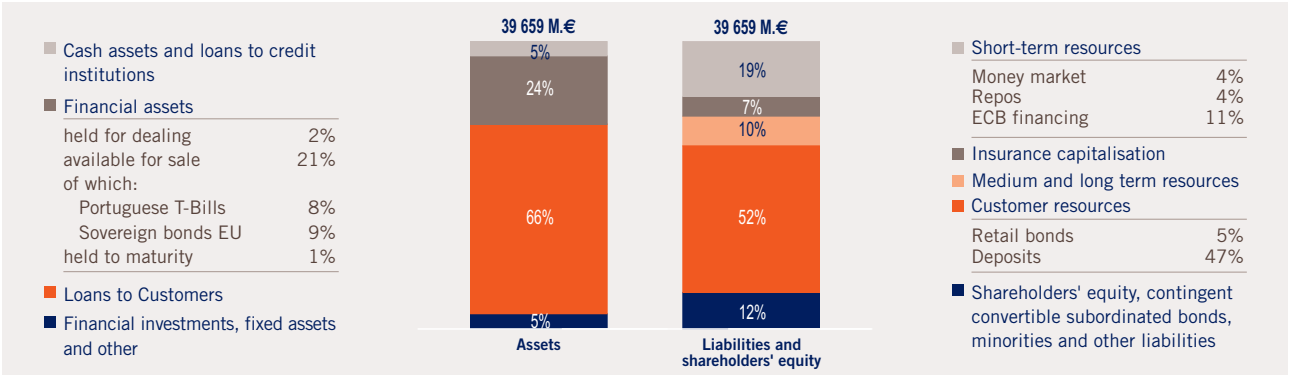



*Chart 40*

1) In repo operations, as collateral for others liabilities and for funding from the ECB.

## Customer loans

The Customer loans portfolio relating to domestic operations contracted by 1 034 M.€ (-3.8%) in 2012.

The loan portfolio's behaviour was however influenced by the repurchase in 2012 of 35% of the equity pieces[1] of mortgage-loan securitisation issues which led to the recognition in the balance sheet of loans of 0.8 th.M.€. Adjusted for that repurchase operation, the year-on-year decrease in the domestic operations' loan portfolio was 1 800 M.€ (-6.4%).

**Loans to Customers**
2008 to 2012

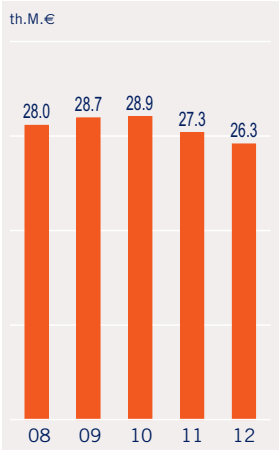



*Chart 41*

**Loan portfolio**
Breakdown in 2012

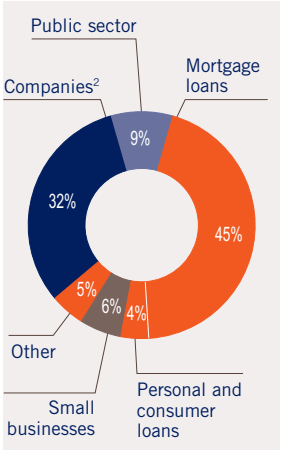



*Chart 42*

**Customer loans portfolio**

Amounts in M.€

| | | 2011 | 2012 | Δ% |
|---|---|---|---|---|
| **Corporate banking** | | | | |
| Large companies | *1* | 2 782.8 | 2 503.7 | (10.0%) |
| Medium-sized companies | *2* | 3 125.0 | 2 798.6 | (10.4%) |
| *[= Σ 1 to 2]* | *3* | **5 907.9** | **5 302.2** | **(10.3%)** |
| **Project Finance – Portugal** | *4* | **1 225.3** | **1 201.3** | **(2.0%)** |
| **Madrid branch** | | | | |
| Project Finance | *5* | 799.1 | 749.6 | (6.2%) |
| Corporates | *6* | 1 173.5 | 1 000.5 | (14.7%) |
| *[= Σ 5 to 6]* | *7* | **1 972.6** | **1 750.1** | **(11.3%)** |
| **Public Sector** | | | | |
| Central Administration | *8* | 128.1 | 115.1 | (10.1%) |
| Regional and local administrations | *9* | 1 096.9 | 916.5 | (16.4%) |
| State Corporate Sector – in the budget perimeter | *10* | 343.4 | 189.8 | (44.7%) |
| State Corporate Sector – outside the budget perimeter | *11* | 803.3 | 909.9 | 13.3% |
| Other institutional | *12* | 94.8 | 76.7 | (19.1%) |
| *[= Σ 8 to 12]* | *13* | **2 466.5** | **2 208.0** | **(10.5%)** |
| **Individuals and Small Businesses Banking** | | | | |
| Mortgage loans to individuals | *14* | 11 354.1 | 11 739.0 | 3.4% |
| Consumer credit / other purposes | *15* | 744.3 | 677.7 | (8.9%) |
| Credit Cards | *16* | 176.1 | 162.3 | (7.9%) |
| Car financing | *17* | 316.7 | 230.3 | (27.3%) |
| Small businesses | *18* | 1 955.3 | 1 576.8 | (19.4%) |
| *[= Σ 14 to 18]* | *19* | **14 546.5** | **14 386.0** | **(1.1%)** |
| **BPI Vida[3]** | *20* | **452.5** | **771.1** | **70.4%** |
| **Loans in arrears net of impairments** | *21* | **62.9** | **151.9** | **141.4%** |
| **Other** | *22* | **663.4** | **492.5** | **(25.8%)** |
| **Total** *[= 3 + 4 + 7 + 13 + Σ 19 to 22]* | *23* | **27 297.7** | **26 263.2** | **(3.8%)** |
| Note: | | | | |
| Securitised loans written off from the balance sheet | *24* | 765.8 | | (100.0%) |
| Guarantees | *25* | 2 400.4 | 2 072.7 | (13.7%) |

*Table 30*

1) Greater subordination tranches of the loan securitisation operations. With the acquisition of 35% of the equity pieces, BPI now bears the whole of the risk / benefit associated with those operations.
2) Loans to companies and project finance in Portugal and at the Madrid branch.
3) Securitised loans held by BPI Vida (fully consolidated) and which is allocated to cover the capitalisation insurance issued by that Group subsidiary.

The contraction of the loan portfolio was transversal to all Customer segments, reflecting the retraction in demand motivated by the significant shrinking of public and private consumption and investment, in line with the maintenance of stringent criteria in the granting of loans.

The corporate loans portfolio in Portugal decreased 10.3% (-606 M.€). Meanwhile, BPI played a key role in companies accessing the capital market through the issue of bonds as an alternative means of bank finance. Of the total amount of 2 075 M.€ of issues realised since December 2011, BPI placed 1 128 M.€, which corresponded to 54% of that total.

The Madrid branch's loan portfolio contracted 11.3% (-223 M.€). This trend can be ascribed to the maturity of syndicated loans extended to Spanish companies and BPI's decision not to take part in new project finance operations in the international market.

The public sector and the State business sector's loan portfolio posted a year-on-year decline of 10.5% (-258 M.€). It is worth mentioning that within the scope of the agreed partial transfer of the pension funds' assets and liabilities to the Social Security, the Portuguese State undertook to acquire from the Bank an amount of loans granted to public entities of 0.7 th.M.€, an operation which has not yet materialised.

Loans to individuals and small businesses were down 160 M.€ (-1.1%). The behaviour of the mortgage-loan portfolio, with year-on-year growth of 3.4% (+385 M.€), was influenced by the balance sheet recognition of 0.8 th.M.€ of loans stemming from the aforementioned repurchase of securitised loans. On a comparable basis, mortgage loans contracted by 3.1% (-377 M.€). For its part, the segment of loans to small businesses slumped by 19% (-379 M.€).

## Customer resources

Customer deposits at the close of 2012 totalled 18.5 th.M.€, which corresponds to a 2.6% year-on-year decline (-492.3 M.€).

The aggregate of deposits and bonds placed with Customers decreased by -8.5% (-1.9 th.M.€) when compared with 2011. The trend in these resources should however take into account the placing by the bank with its Customer base of an amount of 1.1 th.M.€ of bonds issued by Portuguese companies during 2012.

Total Customer resources which, besides the abovementioned resources carried in the balance sheet, also include the capitalisation insurance under the management of BPI Vida and off-balance sheet resources (unit trust funds, PPR and PPA and financial assets under BPI Suisse's management) registered an 8.2% decrease in 2012.

**Customer resources**
2008 to 2012

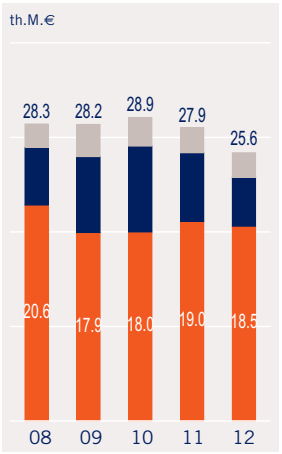



*Chart 43*

Off-balance sheet
Other on-balance sheet
Deposits

**Customer resources**
Breakdown in 2012

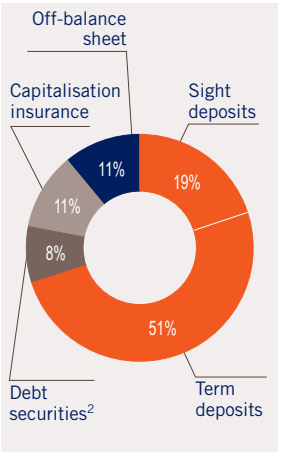



*Chart 44*

**Total Customer resources**

Amounts in M.€

| | | | 2011 | 2012 | Δ% |
|---|---|---|---|---|---|
| **On-balance sheet resources** | | | | | |
| Deposits | | | | | |
| Sight deposits | | *1* | 5 142.0 | 5 011.2 | (2.5%) |
| Term and savings deposits | | *2* | 13 880.4 | 13 519.0 | (2.6%) |
| | *[= 1 + 2]* | *3* | 19 022.5 | 18 530.2 | (2.6%) |
| Bonds placed with Customers[1] | | *4* | 3 344.7 | 1 941.7 | (41.9%) |
| **Subtotal** | *[= 3 + 4]* | *5* | **22 367.1** | **20 471.9** | **(8.5%)** |
| Insurance capitalisation and PPR (BPI Vida e Pensões) | | *6* | 3 205.0 | 2 723.7 | (15.0%) |
| **On-balance sheet resources** | *[= 5 + 6]* | *7* | **25 572.1** | **23 195.5** | **(9.3%)** |
| Unit trust funds, PPR and PPA[2] | | *8* | 2 645.9 | 2 913.4 | 10.1% |
| **Off-balance sheet resources** | *[= 8]* | *9* | **2 645.9** | **2 913.4** | **10.1%** |
| Corrections for double counting[3] | | *10* | (308.8) | (498.2) | 61.3% |
| **Total Customer resources[4]** | *[= 7 + 9 + 10]* | *11* | **27 909.2** | **25 610.8** | **(8.2%)** |
| Note: | | | | | |
| Corporate bonds issues placed by BPI | | *12* | 52.0 | 1 127.6 | |

*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.

## Securities and financial investments portfolio

The securities and financial investments portfolio, which includes in addition to available-for-sale financial assets, those held for trading[1] and the portfolio of held-to-maturity investments and participating interests, amounted to 9 959.7 M.€.

The available-for-sale financial assets portfolio was valued at 8 393.2 M.€ at market values at the end of 2012.

The following were the most salient aspects of the evolution of the available-for-sale financial assets portfolio in 2012:

- redemption in June of a Portuguese treasury bonds issue with an acquisition cost of 1 079 M.€;
- acquisition up till September (above all during the 2nd quarter) of a portfolio of Portuguese Treasury Bonds of 1.1 th.M.€ (acquisition cost), with an average yield of about 12%. This portfolio was mostly disposed of by the end of 2012, generating pre-tax gains of 170.3 M.€. It should be noted that the securities held at the end of 2012 (582 M.€, market value) were fully disposed of in January 2013;
- the acquisition of a Portuguese treasury bills portfolio, the balance of which totalled 3.3 th.M.€ at the end of 2012. This portfolio was constituted during the first half of the year using resources obtained from the ECB in the special 3-year financing operations realised in December 2011 and February 2012. In the fourth quarter, the treasury bills portfolio was bolstered by the application of part of the cash flow derived from the abovementioned sale of Treasury Bonds.

**Financial assets available-for-sale portfolio**

Amounts in M.€

| | | 31 Dec. 11 | | 31 Dec. 12 | |
|---|---|---|---|---|---|
| | | Acquisition cost | Book value | Acquisition cost | Book value |
| Sovereign debt | | | | | |
| Portugal | *1* | 2 973.1 | 2 068.3 | 5 470.4 | 5 493.7 |
| Of which: | | | | | |
| Treasury bonds – bought before 31 Dec. 11 | | 2 885.4 | 1 980.0 | 1 806.4 | 1 589.5 |
| Treasury bonds – bought in 2012 | | | | 423.0 | 581.9 |
| Treasury bills | | 87.7 | 88.2 | 3 241.0 | 3 322.3 |
| Italy | *2* | 1 003.5 | 864.7 | 1 003.5 | 1 020.1 |
| Ireland | *3* | 357.3 | 298.0 | 357.3 | 371.9 |
| *[= Σ 1 to 3]* | *4* | 4 334.0 | 3 231.0 | 6 831.3 | 6 885.7 |
| Corporate bonds | *5* | 1 207.0 | 1 074.0 | 1 100.0 | 1 135.3 |
| Equities | *6* | 139.2 | 110.2 | 126.9 | 93.2 |
| Other | *7* | 163.6 | 171.2 | 289.0 | 279.1 |
| **Total** *[= Σ 4 to 7]* | *8* | **5 843.7** | **4 586.5** | **8 347.2** | **8 393.2** |

*Table 32*

1) The balance sheet caption "Financial assets held for dealing and at fair value through the income statement" includes the following securities:
- equities (184 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 2012, that fund had an allocated capital of 57 M.€, of which 86% was held by BPI, with the result that it was consolidated in full;
- BPI Vida e Pensões' securities portfolio (432 M.€) associated with the portfolio of capitalisation insurance commercialised by that subsidiary;
- derivative instruments at fair value (329 M.€). These essentially correspond to interest rate swaps and options incorporated into structured issues, classified as "embedded derivates" and which for accounting purposes are separated from the respective base contract.

## INCOME

Net operating revenue from domestic operations climbed by 42.3% (+302.8 M.€) in 2012, reflecting the 182.9 M.€ increase in profits from financial operations – these are essentially due to gains from the repurchase of liabilities and gains realised on the sale of bonds –, the 11.2% growth in commissions (+28.3 M.€) and the 5.9% increase in net interest income (+22.5 M.€).

### Net interest income

Net interest income was 5.9% higher in 2012. The intermediation margin was penalised by the deterioration of the interest margin on Customer resources as a consequence of the higher average cost of time deposits and the average margin's contraction on sight deposits, and by the negative volume effect resulting from the smaller loan portfolio. Even so, the intermediation margin continues to benefit from the gradual adjustment of spreads on new loans; however, this adjustment permitted only partially mitigating those negative effects.

The positive trend in net interest income can be ascribed to the acquisition of a new Portuguese public-debt portfolio, mostly during the 1st half of 2012. This portfolio's contribution more than offset the cost of contingent convertible subordinated bonds issued in June 2012 (8.5% interest rate in the 1st year).

**Trend in net interest income**

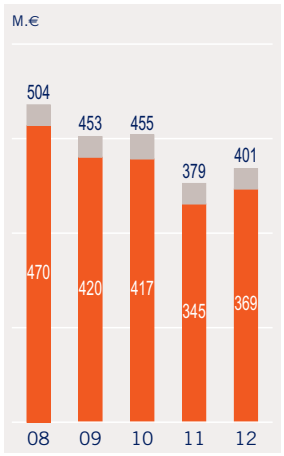



*Chart 45*

Other income
Net interest income (narrow sense)

**Loans and deposits spread**
Quarterly average interest rates

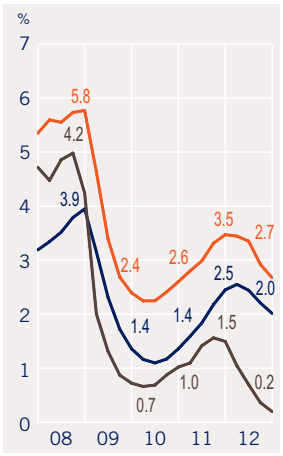



*Chart 46*

Loans
Deposits
Euribor 3-months

**Average interest rates on remunerated assets and liabilities**

Amounts in M.€

| | | 2011 | | | 2012 | | |
|---|---|---|---|---|---|---|---|
| | | Average balance | Interest | Average interest rate | Average balance | Interest | Average interest rate |
| Loans to Customers | | | | | | | |
| Companies, institutionals and project finance | 1 | 12 055.8 | 416.9 | 3.5% | 10 973.2 | 409.6 | 3.7% |
| Mortgage loans | 2 | 11 062.6 | 243.9 | 2.2% | 11 442.0 | 221.9 | 1.9% |
| Other loans to individuals | 3 | 1 241.1 | 84.7 | 6.8% | 1 106.8 | 78.0 | 7.1% |
| Loans to small businesses | 4 | 2 165.9 | 87.3 | 4.0% | 1 757.7 | 74.6 | 4.2% |
| Other | 5 | 937.2 | 28.3 | 3.0% | 788.3 | 1.4 | 0.2% |
| [= Σ 1 to 5] | 6 | 27 462.6 | 861.1 | 3.1% | 26 068.0 | 785.5 | 3.0% |
| Customer resources[1] | 7 | 20 271.5 | 410.9 | 2.0% | 20 762.3 | 473.3 | 2.3% |
| Other income and costs | 8 | | (104.9) | | | 56.5 | |
| **Narrow net interest income** [= 6 - 7 + 8] | 9 | | **345.3** | | | **368.7** | |
| Interest-earning assets[2] | 10 | 33 740.1 | | | 34 267.2 | | |
| Interest-bearing liabilities[2] | 11 | 34 930.0 | | | 34 921.1 | | |
| **Unitary interest margin** [= 9 / 10] | 12 | | | **1.02%** | | | **1.08%** |
| Intermediation margin (= interest rate on loans – interest rate on Customer resources) [= 6 - 7] | 13 | | | 1.11% | | | 0.73% |
| Net interest income as % of ATA | 14 | | | 0.87% | | | 0.93% |
| Euribor 3 months (annual average) | 15 | | | 1.39% | | | 0.57% |
| Euribor 3 months (3 month moving average) | 16 | | | 1.34% | | | 0.73% |

*Table 33*

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".

The unit intermediation margin declined by 0.38 p.p. to 0.73% in 2012.

In this respect, the following explanatory factors are worth noting:

With negative impact:

- the increase in the average remuneration on time deposits from 1.17 p.p. above Euribor in 2011 to 1.85 p.p. in 2012 (+0.7 p.p.). From the end of the 1st quarter, the margin on time deposits was situated at an interval of close to 1.9%. The resilience of the deposit base in the national banking system, echoing depositors' confidence, in tandem with the higher levels of households' savings (despite the drop in disposable income), which were in large measure channelled to debt repayment (above all housing), and the imposition by the Bank of Portugal of capital penalisations for time deposits with excessive remuneration, contributed nonetheless to contain the escalating competitive pressure on capturing these types of resources.

- the contraction of the average margin on sight deposits, from 1.28 p.p. in 2011 to 0.49 p.p. in 2012, a direct consequence of the fall in market interest rates. Indeed, the climate of low market interest rates observed since 2008 has kept net interest income under pressure, in absolute terms, by way of the narrowing of the unit margin on sight deposits.

With positive impact:

- the continuation of the adjustment to lending spreads, which is reflected in the improvement of 0.34 p.p. in the portfolio's average contractual spread[1] to 1.98%. This adjustment is attributable to the application of the ruling spreads on the renewal of the portfolio's loan operations in the companies segment, and in new operations contracted for all the other segments. The average spread in the corporate, project finance and public sector segments rose by 0.66 p.p. to 2.64%, whilst in the mortgage-loan segment the increase was 0.07 p.p. to 0.87%.

The acquisition of Portuguese public debt in 2012 enabled the bank to offset the lower interest margin earned from operations with Customers and the costs of 55.9 M.€ borne in 2012 with the contingent convertible subordinated bonds:

- the acquisition of a portfolio of treasury bills, financed by recourse to ECB funding, the average of which was 2.1 th.M.€ in 2012. This portfolio generated interest income of 78 M.€. Taking into consideration the portfolio's respective financing cost[2], the contribution to net interest income was 60 M.€. At the end of 2012, this portfolio totalled 3.3 th.M.€ and the average purchase yield was 3.5%;

- a portfolio of treasury bonds acquired primarily in the 2nd quarter (balance of 1.0 th.M.€ at the end of June in terms of acquisition cost) with an average purchase yield of around 12%. During the 4th quarter of 2012 and already in January 2013, the Bank disposed of all these securities. This portfolio generated interest income of 76 M.€.

1) Spreads relative to benchmarks, on the respective repricing dates.
2) Cost of resources obtained from the ECB in the two extraordinary 3-year liquidity-supply operations which took place in December 2011 and February 2012.

## Commissions

Commissions and other net fees were 11.2% higher (+28.3 M.€) in 2012. Contributing to this increase were primarily the commissions earned from the mounting and placing of corporate bond issues realised during 2012 (32.6 M.€), which compensated for the 15% decline in commissions from asset management (-7.0 M.€).

**Commissions and other fees (net)** Amounts in M.€

| | | 2011 | 2012 | Δ% |
|---|---|---|---|---|
| **Commercial banking** | | | | |
| Cards | *1* | 64.8 | 63.7 | (1.7%) |
| Loans and guarantees | *2* | 45.4 | 42.9 | (5.6%) |
| Securities market operations | *3* | 6.8 | 39.4 | 481.7% |
| Intermediation of insurance products | *4* | 38.4 | 39.0 | 1.5% |
| Deposits and related services | *5* | 25.8 | 24.9 | (3.4%) |
| Securitised loans | *6* | 8.8 | 9.1 | 2.9% |
| Banking services | *7* | 4.9 | 4.2 | (14.4%) |
| Other | *8* | (1.7) | 0.4 | n.m. |
| *[= Σ 1 to 8]* | *9* | **193.2** | **223.5** | **15.7%** |
| **Asset management** | *10* | **46.8** | **39.8** | **(14.9%)** |
| **Investment Banking** | | | | |
| Brokerage and placing | *11* | 11.8 | 15.5 | 31.8% |
| Corporate finance | *12* | 1.7 | 2.1 | 19.9% |
| Other | *13* | 0.1 | 1.0 | n.m. |
| *[= Σ 11 to 13]* | *14* | **13.6** | **18.6** | **36.6%** |
| **Total** *[= 9 + 10 + 14]* | *15* | **253.6** | **281.9** | **11.2%** |

*Table 34*

Commissions derived from commercial banking and investment banking were up +15.7% and +36.6% respectively, benefiting from the commissions earned by the bank from the mounting and placing of corporate bond issues (27.2 M.€ in commercial banking and 5.5 M.€ in investment banking).

The lower asset management commissions are explained by the decrease in the average amount of managed assets when compared to the preceding year. It should be noted however that the amount of assets under management has recorded a positive trend since 2012 beginning (+10% change in the year), inverting the downward trend observed up till then. This behaviour is explained by the higher value of the securities held in the portfolios and to a lesser extent by the subscriptions (net of redemptions) to bond and money market funds.

## Profits from financial operations

The profits from financial operations totalled 325.7 M.€ in 2012, essentially corresponding to: (i) gains of 170.3 M.€ realised on the sale of part of the Portuguese Treasury Bonds portfolio acquired in 2012 and (ii) net gains of 122.0 M.€ relating to liability repurchase operations and gains on bonds.

In 2011, profits from financial operations amounted to 142.8 M.€. This figure included gains of 108.8 M.€ from the repurchase of own bonds.

**Profits from financial operations** Amounts in M.€

| | | 2011 | 2012 | Δ M.€ |
|---|---|---|---|---|
| **Operations at fair value** | | | | |
| Equities[1] | *1* | 5.2 | 8.1 | +2.9 |
| Interest rate | *2* | 1.1 | 10.5 | +9.4 |
| Structures products[2] | *3* | 2.9 | 1.1 | (1.8) |
| Hedge funds | *4* | (1.7) | 0.3 | +2.0 |
| Currency[3] | *5* | 7.7 | 8.1 | +0.4 |
| Repurchase of liabilities and other gains in bonds | *6* | 118.8 | 125.5 | +6.7 |
| *[= Σ 1 to 6]* | *7* | **134.0** | **153.6** | **+19.7** |
| **Available for sale assets** | | | | |
| Equities | *8* | 0.1 | 0.4 | +0.3 |
| Bonds | *9* | 0.3 | 173.5 | +173.2 |
| Other | *10* | (0.0) | (4.9) | (4.8) |
| *[= Σ 8 to 10]* | *11* | **0.3** | **169.0** | **+168.7** |
| **Subtotal** *[= 7 + 11]* | *12* | **134.3** | **322.6** | **+188.4** |
| **Financial income from pensions[4]** | | | | |
| Expected pension funds return | *13* | 128.9 | 48.9 | (80.0) |
| Interest cost | *14* | (120.4) | (45.8) | +74.6 |
| *[= 13 + 14]* | *15* | **8.5** | **3.1** | **(5.5)** |
| **Total** *[= 12 + 15]* | *16* | **142.8** | **325.7** | **+182.9** |

*Table 35*

1) Gains associated with a portfolio of long-short equities and an arbitrage portfolio of PSI-20 futures.
2) 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.
3) Currency gains resulting from the exchange rate margin on operations effected by the commercial network with Customers.
4) The financial net income with pensions corresponds to the difference between the pension funds' expected income and the interest cost of the liabilities. The financial net income with pensions in 2011 and 2012 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. It will be recalled that at the end of 2011 the bank transferred part of the Employees' pension liabillities (60% of total liabilities) and of the funds'assets, which explains the decrease in the captions "Fund's expected income" and "Interest cost".

### Other operating gains and losses

The caption "other operating gains / (losses)", with a negative balance of 13.7 M.€ in 2012 essentially refers to the cost items: annual contributions to the Deposit Guarantee Fund (-4.3 M.€); subscriptions and donations (-3.9 M.€) and taxes (-4.6 M.€).

In 2011, the figure of -29.7 M.€, included, besides last year's figures for the abovementioned captions, negative non-recurrent impacts of 41.2 M.€ which resulted from (i) cost of the transfer of pension liabilities to the Social Security (-100 M.€), (ii) gain from the contribution in specie to the Pension Fund of the 11% equity stake in Viacer (66 M.€) and (iii) costs associated with the Investor Compensation Scheme (-7 M.€).

**Other operating gains and losses** Amounts in M.€

| | | 2011 | 2012 | Δ M.€ |
|---|---|---|---|---|
| Contributions to the deposit guarantee fund | *1* | (3.5) | (4.3) | (0.8) |
| Subscriptions and donations | *2* | (3.9) | (3.9) | +0.0 |
| Taxes | *3* | (6.2) | (4.6) | +1.5 |
| Sale of own tangible assets | *4* | 9.7 | (0.1) | (9.8) |
| Change in the VAT pro rata[1] | *5* | 13.8 | (0.6) | (14.4) |
| Transfer of pension liabilities to the Social Security | *6* | (99.7) | | +99.7 |
| Contribution in kind to the pension fund (Viacer) | *7* | 65.5 | | (65.5) |
| Investor Indemnity System | *8* | (7.1) | | +7.1 |
| Other | *9* | 1.6 | (0.1) | (1.7) |
| **Total** *[= Σ 1 to 9]* | *10* | **(29.7)** | **(13.7)** | **+16.0** |

*Table 36*

## OPERATING COSTS

Operating costs – personnel costs, outside supplies and services and depreciation and amortisation – decreased by 11.0% in 2012. This trend was influenced in part by non-recurring costs which corresponded to:

- in 2012, a net gain of 4.9 M.€ resulting from (i) 30.2 M.€ in early-retirement costs, (ii) costs of 3.6 M.€ relating to Ministry of Finance consultants for the Recapitalisation Plan and to Bank of Portugal consultants in the loan portfolio inspections and (iii) gains of 38.7 M.€ resulting from changes to the calculation of the death subsidy in the wake of the publication of Decree Law 133 / 2012 of 27 June;
- in 2011, (i) costs of 39.9 M.€ with early retirements and (ii) costs of 2.8 M.€ with auditors of the Special Inspections Programme covering the loan portfolio.

Operating costs, excluding non-recurring costs, were down 2.9% (-15.4 M.€) in 2012.

Costs in 2012 (excluding non-recurrent) reflect an annual saving of 77 M.€, when compared with the figure observed in 2007. This behaviour mirrors the implementation by the Bank of the operating structure's rationalisation measures immediately after the first signs appeared of the international financial crisis in 2007, involving a downsizing of the branch network and the workforce deployed in activity in Portugal, coupled with rigorous cost control.

The indicator "operating costs as a percentage of net operating revenue" was situated at 50.1% in 2012. Excluding non-recurrent impacts on both costs and income, this indicator was situated at 71.0%.

**Operating costs** Amounts in M.€

| | | 2011 | 2012 | Δ% |
|---|---|---|---|---|
| Personnel costs[2] | *1* | 325.2 | 318.5 | (2.1%) |
| Outside supplies and services[2] | *2* | 179.8 | 176.3 | (1.9%) |
| **Operating costs before depreciation and amortisation** *[= 1 + 2]* | *3* | **505.0** | **494.8** | **(2.0%)** |
| Depreciation of fixed assets | *4* | 25.6 | 20.4 | (20.5%) |
| **Operating costs, excluding non-recurring items** *[= 3 + 4]* | *5* | **530.6** | **515.2** | **(2.9%)** |
| Non-recurring costs / (gains) | *6* | 42.7 | (4.9) | (111.5%) |
| **Operating costs** *[= 5 + 6]* | *7* | **573.3** | **510.3** | **(11.0%)** |
| Efficiency ratio[3] | *8* | 80.1% | 50.1% | |
| Efficiency ratio excl. non-recurring items[4] | *9* | 76.5% | 71.0% | |

*Table 37*

1) In 2011 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 non-recurring costs.
3) Operating costs (personnel costs, outside supplies and services and depreciation) as percentage of net operating revenue.
4) Excluding non-recurring impacts on both costs and revenues.
Non-recurring impacts in revenues in 2012:
(i) 170.3 M.€ of realised capital gains on the sale of Portuguese treasury bonds and (ii) net gains of 122.0 M.€ with the repurchase of liabilities and other bond associated results.

## Personnel costs

Personnel costs, excluding non-recurring costs, decreased 2.1% (-6.7 M.€) in 2012, which resulted principally:

- from the 6.3% reduction in the average staff headcount in domestic activity, reflecting in part the execution of an early-retirement programme which resulted in 166 departures in 2012 and 251 departures in the 2nd half of 2011;
- the zero increase in the fixed component of remuneration within the ambit of the revision of the salary scales in Portugal laid down in the banking sector's Vertical Collective Employment Agreement (Portuguese initials ACTV).

These effects offset the 2.0 M.€ increase in variable remuneration[1] and the 8.9 M.€ higher costs related to long-service awards.

The rise in long-service award costs[2] is essentially explained by non-recurrent impacts which resulted:

- from the Executive Committee's decision to bring forward the payment to all Employees of a proportional part of the long-service award envisaged in the ACTV to the service rendered until 31 December 2012, which gave rise to an impact on personnel costs of 1.0 M.€;
- from the change in the actuarial assumptions used for calculating the present value of the long-service liabilities, which resulted in a 2.5 M.€ increase in liabilities which was recognised as a cost of the year;
- from now taking into consideration in the calculation of the present value of liabilities the Social Security charge to be borne by the Bank, which resulted in liabilities increasing by 5.4 M.€ (recognised as a cost of the year).

**Net operating revenue and operating costs**

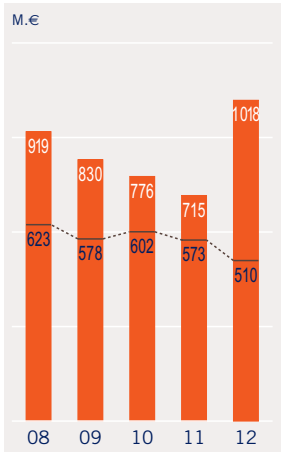



*Chart 47*

Net operating revenue
Operating costs

**Personnel costs**

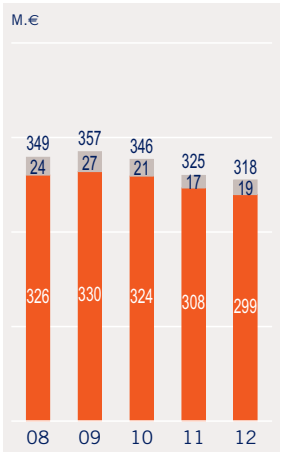



*Chart 48*

Variable remunerations
Fixed remunerations, social charges and pension costs

**Personnel costs** Amounts in M.€

| | | 2011 | 2012 | Δ% |
|---|---|---|---|---|
| **Remunerations** | | | | |
| Fixed remunerations | 1 | 223.6 | 214.8 | (3.9%) |
| Variable remunerations[3] | 2 | 17.0 | 19.1 | 12.0% |
| Other[4] | 3 | 9.2 | 16.5 | 79.9% |
| **Remunerations** *[= Σ 1 to 3]* | 4 | **249.9** | **250.4** | **0.2%** |
| Pension costs and social charges[5] | 5 | 75.3 | 68.0 | (9.7%) |
| **Remunerations, pension costs and social charges** *[= 4 + 5]* | 6 | **325.2** | **318.5** | **(2.1%)** |
| Costs with early retirements | 7 | 39.9 | 30.2 | (24.3%) |
| Changes to the pensions plan – death subsidy | 8 | | (38.7) | |
| **Total** *[= Σ 6 to 8]* | 9 | **365.1** | **310.0** | **(15.1%)** |

*Table 38*

1) The amount of variable remuneration in 2012 of 19.1 M.€ is significantly below the amount of 55.3 M.€ awarded in 2007.
2) In terms of the Collective Employment Agreement for the banking sector, the payment of a long-service award (bonus) is due, in the month in which Employees complete 15, 25 and 30 years of service in the banking sector, of an amount equal respectively to one, two or three months of their actual monthly compensation (in the year of the award). The BPI Group recognises in the balance sheet a liabilitiy for the granting of the long-service ward corresponding to the present value of the benefits calculated using the "Project Unit Credit" actuarial method. The Bank recognises annually in the income statement the respective current cost, interest costs and gains / (losses) resulting from the alterations to the benefit conditions.
3) As regards the 2011 and 2012 financial years variable remuneration was not awarded to the Executive Committee members of the Board of Directors'.
4) Includes bonuses and motivation incentives for the commercial network, long service awards, cost of loans to Employees and others.
5) Includes current service cost, other Employer's contributions and the amortisation of changes to pension plan conditions. In 2011 the actuarial and financial deviations began to be recognised directly in shareholders' equity.

## Employees' pension obligations

At 31 December 2012, the present value of the liabilities which the Bank continues to bear was 937.1 M.€.

The Employees' pension funds' net assets amounted to 987.4 M.€ which covered the funding of 105.4% of pension liabilities.

### Pension funds' income

In 2012, the Bank's pension funds posted a return of 20.0%, more than the pension fund income assumption of 5.5%, which originated a positive actuarial variance of 113.3 M.€. Up till the end of 2012, the actual return earned by Banco BPI's pension fund since its creation in 1991 was 9.0% per annum on average, while over the past ten, five and three years the actual annual return was 6.9%, 0.8% and 4.8%, respectively.

**Pension liabilities**

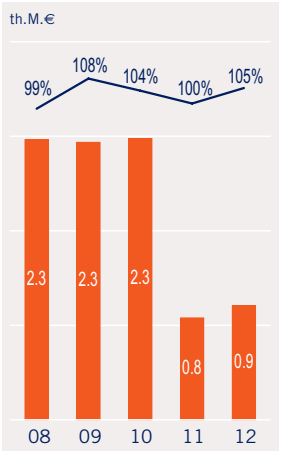



*Chart 49*

**Banco BPI pension funds' assets**
At 31 December 2012

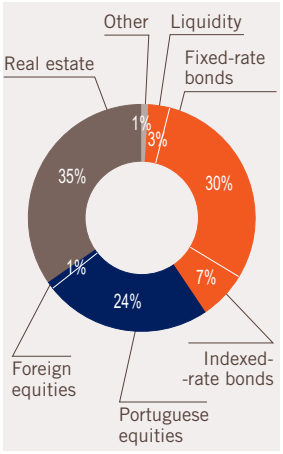



*Chart 50*

**Employees' pension liabilities and pension funds**

Amounts in M.€

| | | 31 Dec. 11 | | | 31 Dec. 12 |
|---|---|---|---|---|---|
| | | Before transfer to Social Security | Impact transf. to Social Security | After transfer to Social Security | |
| Pension liabilities | *1* | 2 109.4 | (1 273.6) | 835.8 | 937.1 |
| Pension funds[1] | *2* | 2 212.4 | (1 373.2) | 839.1 | 987.4 |
| Financing surplus | *3* | 103.0 | | 3.4 | 50.3 |
| **Financing of pension liabilities** | *4* | **104.9%** | | **100.4%** | **105.4%** |
| Total prudential corridor | *5* | 312.8 | (191.1) | 121.7 | 97.1 |
| Total actuarial deviations[2] | *6* | (316.7) | + 193.7 | (123.0) | (89.4) |
| Deviations impacting regulatory capital (outside the corridor) | *7* | (8.6) | + 2.8 | (5.8) | 0.0 |
| Pension funds return | *8* | (7.2%) | | | 20.0% |

*Table 39*

### Financial and actuarial assumptions

At the end of 2012, BPI reduced the discount rates by 1 p.p. (from 5.83% to 4.83% for current Employees and from 5.00% to 4.00% in the case of retirees[3]) and the growth rate for pensions from 1.25% to 1.00%.

These alterations jointly explain in essence a negative actuarial variance (increase in liabilities) of 98.2 M.€.

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

1) Includes contributions made at the beginning of the following year (37.9 M.€ at the beginning of 2012 and 0.5 M.€ at the beginning of 2013).
2) At the end of 2011, BPI adopted the method of recognizing actuarial gains and losses directly in shareholders' equity (OCI – Other Comprehensive Income), in accordance with the revision of IAS19 which becomes mandatory from 1 Jan. 2013. The negative actuarial deviations at the end of 2011, of 316.7 M.€ (193.7 M.€ relative to the pension liabilities that where transferred to Social Security and 123.0 M.€ relative to the pension liabilities that remained in the bank), and at the end of 2012, of 89.4 M.€, are deducted to shareholders' equity.
3) The value of the pension liabilities which result from the utilisation of the discount rates referred to for the population of current Employees and retirees at 31 December 2011 and 2012 is similar to that arrived at had a single discount rate of 5.5% and 4.5%, respectively, been utilised for the entire population.

**Actuarial and financial assumptions**

| | Dec. 10 | Jun. 11 | Dec. 11 | Jun. 12 | Dec. 12 |
|---|---|---|---|---|---|
| Discount rate – current Employees | 5.25% | 5.50% | 5.83% | 5.83% | 4.83% |
| Discount rate – retirees | 5.25% | 5.50% | 5.00% | 5.00% | 4.00% |
| Pensionable salary increase rate | 3.00% | 3.00% | 2.00% | 2.00% | 1.50%[1] |
| Pension increase rate | 1.75% | 1.75% | 1.25% | 1.25% | 1.00% |
| Pension fund income rate | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% |
| Mortality table | TV 73 / 77 – M – 1 year[2]<br>TV 88 / 90 – W – 1 year[2] | | | | |

*Table 40*

### Actuarial variances

At 31 December 2012, the total value of negative actuarial variances was 89.4 M.€ and is fully encompassed in the prudential corridor and therefore does not give rise to any impact on own funds.

The 33.6 M.€ decrease in actuarial variances relative to December 2011 is mainly explained by the positive variance in the fund's actual income *vis-à-vis* the assumed income, which offset the negative impact of the change in actuarial assumptions.

### Liabilities for the Directors' complementary pension plan

At 31 December 2012, the liabilities for the complementary pension plan for Directors totalled 35.1 M.€ and were 100% covered by the pension fund[3].

## IMPAIRMENTS AND PROVISIONS

Impairment charges in the year, net of recoveries of loans previously written off, amounted to 275.3 M.€ in 2012 and corresponded to:

- loan impairments (net of recoveries) of 241.6 M.€;
- impairments for other purposes of 33.7 M.€. This figure includes charges of 14.8 M.€ for foreclosure fixed properties and repossessed equipment under loan recovery operations and 10.6 M.€ for the participating units held in the Recovery Fund, FCR[4].

In 2011, the value of impairment charges for the year, net of recoveries, of 678.3 M.€, essentially corresponded to loan impairments of 118.0 M.€[5] and for the exposure to Greek public debt of 513.6 M.€[5].

**Total impairments net of recoveries**
As % of net operating profit

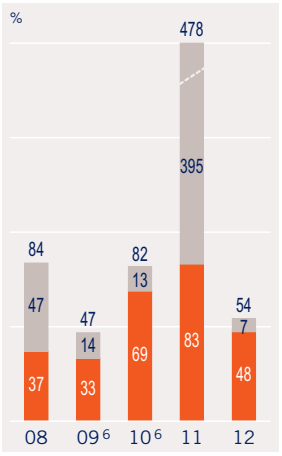



*Chart 51*

Other purposes
Loans

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

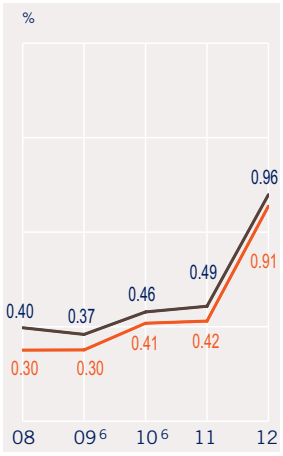



*Chart 52*

Loan impairments
Net credit loss

1) Up till the first half of 2012, inclusive, the estimated salary increases due to compulsory promotions for long service and seniority payments was taken into account by the Bank in the rate of increase of pensionable salaries used for calculating pension liabilities. Effective from the end of 2012, the compulsory promotions for long service and the projection of seniority payments began to be taken into consideration separately, directly in the future salary estimates. Consequently, the growth rate for pensionable salaries was adjusted accordingly (2.0% to 1.5%). This change did not result in a decrease in liabilities for past services.
2) 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.
3) Including a contribution of 2.5 M.€ transferred to the pension fund in the beginning of 2013.
4) At the end of 2012, the Bank held 104 M.€ in participating units in the Recovery Fund, FCR.
5) Additionally, a 46.1 M.€ loss was recorded in the caption "Technical result from insurance contracts", and therefore the total loss recognised in 2011 with Greek sovereign debt exposure was 559.7 M.€ (before tax).
6) 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.

## Customer loan impairments

The net credit loss, which corresponds to the amount of loan impairments (254.4 M.€) net of loan recoveries (12.8 M.€), amounted to 241.6 M.€ in 2012. The net loan loss in 2012 represented 0.91% of the loan portfolio's average balance. This indicator's average value in the previous ten years was 0.27%.

The companies segment recorded the biggest deterioration in net credit loss (+ 93 M.€ when compared with 2011), while the segment's indicator as a percentage of the loan portfolio rose from 0.39% in 2011 to 1.28% to 2012. At the end of 2012, the accumulated impairments in the balance sheet covered 83% of credit-at-risk in this segment.

As regards mortgage loans, the 35.7 M.€ increase in impairments (net of recoveries) is explained in large part by the charges made (23.9 M.€) which resulted from the annual review of the factors used by the statistical model for evaluating collective impairments. The credit-at-risk cover by impairment allowances in the balance sheet increased from 38% in 2011 to 44% in 2012, not taking into account the amount of real guarantees[1].

**Loan impairments**

Amounts in M.€

| | | 2011 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Impairments | As % of loan portfolio[2] | Impairments net of recoveries | As % of loan portfolio[2] | Impairments | As % of loan portfolio[2] | Impairments net of recoveries | As % of loan portfolio[2] |
| Corporate banking, institutional banking and project finance | 1 | 51.9 | 0.43% | 46.9 | 0.39% | 142.7 | 1.30% | 139.9 | 1.28% |
| Individuals and small businesses | | | | | | | | | |
| Mortgage loans | 2 | 34.4 | 0.30% | 33.3 | 0.29% | 70.5 | 0.60% | 69.0 | 0.58% |
| Loans to individuals – other purposes | 3 | 14.0 | 1.09% | 9.2 | 0.72% | 17.3 | 1.51% | 12.9 | 1.12% |
| Loans to small businesses | 4 | 35.5 | 1.63% | 28.9 | 1.33% | 23.5 | 1.34% | 19.4 | 1.11% |
| *[= Σ 2 to 4]* | 5 | 83.9 | 0.56% | 71.5 | 0.48% | 111.4 | 0.76% | 101.3 | 0.69% |
| Other | 6 | (0.4) | (0.04%) | (0.4) | (0.05%) | 0.4 | 0.05% | 0.4 | 0.04% |
| **Total** *[= 1 + 5 + 6]* | 7 | **135.4** | **0.49%** | **118.0** | **0.42%** | **254.4** | **0.96%** | **241.6** | **0.91%** |

*Table 41*

1) The loan-to-value ratio for the mortgage loan portfolio at the end of 2012 was 50%.
2) Average performing loan portfolio.

## EQUITY-ACCOUNTED RESULTS OF SUBSIDIARIES

The contribution of equity-accounted subsidiaries to the profit from domestic activity was 13.6 M.€ in 2012.

The contribution of the subsidiaries in the insurance area – Allianz Portugal and Cosec – was 10.8 M.€ and represented some 80% of the total contribution from equity-accounted subsidiaries.

The drop in the profit from equity-accounted subsidiaries when compared with the previous year is mainly explained:

- by the smaller contribution from Allianz Portugal (-3.9 M.€);
- by the participating interest in Viacer now being recorded in the portfolio of available-for-sale financial assets with effect from the end of 2011, as a consequence of the smaller interest held. In 2011 the equity-accounted profit of this subsidiary was 3.5 M.€, while in 2012 the bank recorded dividends received from Viacer of 1.6 M.€.

**Equity-accounted results of subsidiaries** Amounts in M.€

| | | | 2011 | 2012 | Δ% |
|---|---|---|---|---|---|
| Allianz Portugal | | *1* | 12.2 | 8.3 | (31.9%) |
| Cosec | | *2* | 2.9 | 2.5 | (13.8%) |
| | *[= 1 + 2]* | *3* | 15.1 | 10.8 | (28.4%) |
| Viacer | | *4* | 3.5 | | (100.0%) |
| Finangeste | | *5* | 0.8 | 0.0 | (94.8%) |
| Unicre | | *6* | 1.8 | 2.4 | 28.7% |
| Other | | *7* | 0.3 | 0.3 | 2.6% |
| **Total** | *[= Σ 3 to 7]* | *8* | **21.5** | **13.6** | **(37.0%)** |

*Table 42*

## MINORITY INTERESTS

Minority shareholders' interests in net profit from domestic operations amounted to 1.7 M.€ in 2012 (7.7 M.€ in 2011). This figure essentially refers to the non-cumulative dividend from the preference shares issued by BPI Capital Finance[1] (balance sheet value of 51.0 M.€ in 31 December 2012).

The decrease in minority interests in net profit from 7.7 M.€ in 2011 to 1.7 M.€ in 2012 is explained by the repurchase operation of those preference shares effected in December 2011, which obtained a 77% acceptance rate of the shares which were the object of the offer.

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 86.5 M.€ in 2012 (90.0 M.€ in 2011).

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

- Banco de Fomento Angola's (BFA) contribution of 79.7 M.€, relating to the appropriation of 50.1% of its individual net profit (which fell by 6.1% relative to 2011);
- Banco Comercial e de Investimentos's (BCI) contribution, relating to the appropriation of 30% of its individual net profit (recognised using the equity method), was 9.4 M.€, which corresponds to a 48.5% year-on-year increase.

The return on average capital allocated to international activity was situated at 25.2% in 2012.

**International activity net profit**

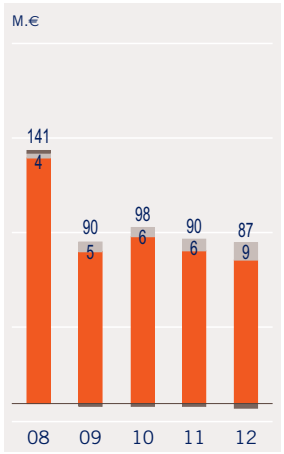



*Chart 53*

**BFA individual net profit appropriation**

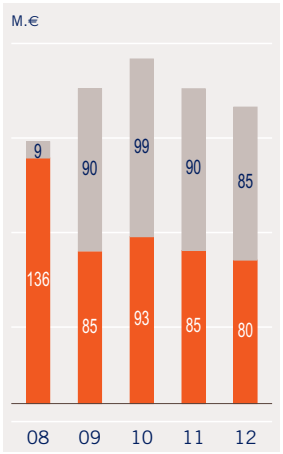



*Chart 54*

**International activity income statement**

Amounts in M.€

| | | 2011 | 2012 | Δ% |
|---|---|---|---|---|
| Net interest income (narrow sense) | 1 | 198.0 | 180.3 | (8.9%) |
| Net commission relating to amortised cost | 2 | | 1.1 | |
| **Net interest income** *[= 1 + 2]* | 3 | **198.0** | **181.3** | **(8.4%)** |
| Commissions and other fees (net) | 4 | 43.4 | 50.4 | 16.2% |
| Profits from financial operations | 5 | 63.4 | 75.7 | 19.3% |
| Operating income and charges | 6 | (0.0) | 4.4 | s.s. |
| **Net operating revenue** *[= Σ 3 to 6]* | 7 | **304.8** | **311.8** | **2.3%** |
| Personnel costs | 8 | 52.9 | 62.8 | 18.7% |
| Outside supplies and services | 9 | 48.2 | 53.5 | 10.9% |
| Depreciation of fixed assets | 10 | 11.2 | 12.7 | 13.2% |
| **Operating costs** *[= Σ 8 to 10]* | 11 | **112.4** | **129.0** | **14.8%** |
| **Operating profit** *[= 7 - 11]* | 12 | **192.4** | **182.8** | **(5.0%)** |
| Recovery of loans written-off | 13 | 2.8 | 2.7 | (5.2%) |
| Loan provisions and impairments | 14 | 9.4 | 14.9 | 59.5% |
| Other impairments and provisions | 15 | 6.0 | 3.1 | (48.6%) |
| **Profits before taxes** *[= 12 + 13 - 14 - 15]* | 16 | **179.9** | **167.5** | **(6.9%)** |
| Corporate income tax | 17 | 6.4 | 6.4 | (0.1%) |
| Equity-accounted results of subsidiaries | 18 | 6.9 | 10.3 | 48.5% |
| Minority interests | 19 | 90.4 | 84.8 | (6.1%) |
| **Net profit** *[= 16 - 17 + 18 - 19]* | 20 | **90.0** | **86.5** | **(3.9%)** |
| **Cash flow after taxation** *[= 20 + 10 + 14 + 15]* | 21 | **116.6** | **117.2** | **0.5%** |

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 2.2 and 3.

*Table 43*

## INCOME

Net operating revenue from international activity (BFA's operations) grew 2.3% (7.0 M.€) in 2012.

### Net interest income

The 8.4% drop in net interest income was chiefly due to:

- the decline in the average remuneration earned from the securities portfolio by virtue of the fall in the issues' (of securities) placing interest rates floated by the Central Bank and by the Angolan State during the course of the year;
- the negative price effect resulting from the lower average rate earned on Customer loans.

Meanwhile, those effects were partially compensated by:

- positive volume effect resulting from the larger loan (+8.8% in terms of average balance) and securities portfolios (+11.1% in terms of average balance).
- positive effect of the lower rate at which Customer resources are remunerated.

**Net operating revenue**

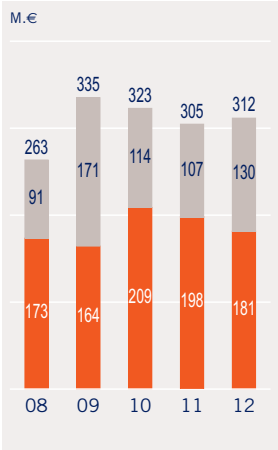



*Chart 55*

**Net interest income generation in 2012[1]**

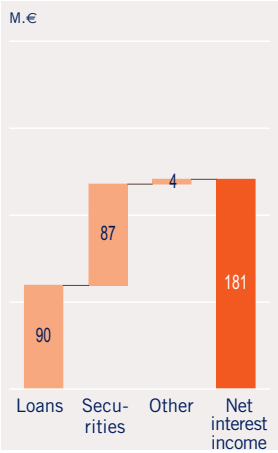



*Chart 56*

**Factors influencing the trend in net interest income from BFA**

Amounts in M.€

| | | 2011 | | | 2012 | | | Change in net interest income | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Volume effect and residual effect | | | Rate effect | Total |
| | | Average balance | Average rate | Interest (income / costs) | Average balance | Average rate | Interest (income / costs) | Volume effect | Residual effect | Total | | |
| **Interest-earning assets** | | | | | | | | | | | | |
| Placements with credit institutions | *1* | 940.7 | 2.4% | 22.2 | 1 373.3 | 2.1% | 28.6 | 10.2 | (1.2) | 9.0 | (2.6) | 6.4 |
| Loans to Customers | *2* | 1 034.2 | 10.9% | 112.2 | 1 124.8 | 9.9% | 110.9 | 9.8 | (0.9) | 8.9 | (10.3) | (1.4) |
| Financial assets | *3* | 1 886.1 | 9.3% | 174.5 | 2 094.6 | 6.0% | 125.2 | 19.3 | (6.8) | 12.5 | (61.7) | (49.3) |
| Other | *4* | | | 9.0 | | | 6.6 | | | | | (2.4) |
| **Interest-earning assets[2]** *[= Σ 1 to 4]* | *5* | **3 861.0** | **8.2%** | **317.9** | **4 592.7** | **5.9%** | **271.3** | **39.3** | **(8.9)** | **30.4** | **(74.7)** | **(46.6)** |
| **Interest-bearing liabilities** | | | | | | | | | | | | |
| Customer deposits | *6* | 4 161.5 | 2.8% | 115.1 | 4 951.7 | 1.8% | 88.6 | 21.9 | (7.7) | 14.1 | (40.6) | (26.4) |
| Other interest-bearing liabilities | *7* | 41.5 | 3.1% | 1.3 | 9.0 | 0.3% | 0.0 | (1.0) | 0.9 | (0.1) | (1.2) | (1.3) |
| Other | *8* | | | 3.6 | | | 2.4 | | | | | (1.2) |
| **Interest-bearing liabilities[2]** *[= Σ 6 to 8]* | *9* | **4 203.0** | **2.9%** | **120.0** | **4 960.7** | **1.8%** | **91.0** | **20.8** | **(6.8)** | **14.1** | **(41.8)** | **(28.9)** |
| **Net interest income (narrow sense)** *[= 5 - 9]* | *10* | | | **198.0** | | | **180.3** | **18.5** | **(2.2)** | **16.4** | **(32.9)** | **(17.7)** |
| Average spread (between interest-earning assets and interest-bearing liabilities) | *11* | | 5.4% | | | 4.1% | | | | | | |

*Table 44*

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

## Commissions

Commissions and other fees in 2012 totalled 50.4 M.€, which corresponds to a 16.2% increase (+7.0 M.€) relative to 2011, mainly explained by the increase in commissions associated with sight deposits and loan and guarantees' commissions.

**Commissions and other fees (net)** Amounts in M.€

| | | 2011 | 2012 | Δ% |
|---|---|---|---|---|
| Banking services | 1 | 21.7 | 21.4 | (1.6%) |
| Deposits and related services | 2 | 15.2 | 17.8 | 16.6% |
| Loans and guarantees | 3 | 4.7 | 8.2 | 75.7% |
| Other | 4 | 1.8 | 3.1 | 71.2% |
| **Total** [Σ 1 to 4] | 5 | **43.4** | **50.4** | **16.2%** |

*Table 45*

## Profits from financial operations

In 2012, profits from financial operations were up 19.3% to 75.7 M.€. This figure is mostly composed of currency gains earned from commercial operations with Customers.

## OPERATING COSTS

Operating costs rose by 14.8% in 2012. The continued expansion of the distribution network in Angola, which grew by around 6% in 2012, and the associated larger workforce, with a 6.9% rise in the average number of Employees, constitutes the prime factors behind the higher costs.

**Net operating revenue and operating costs**

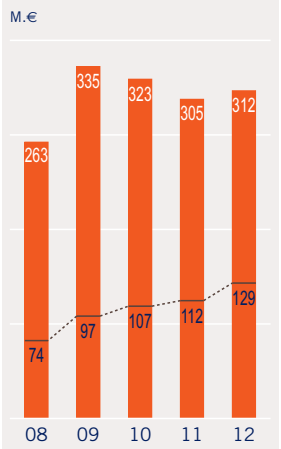



*Chart 57*

**Operating costs as % of net operating revenue**

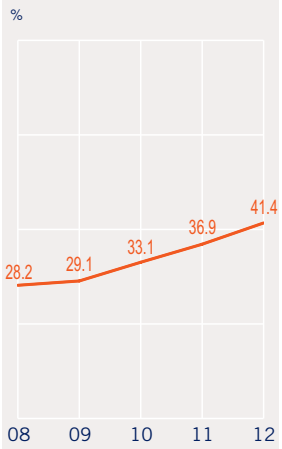



*Chart 58*

Net operating revenue
Operating costs

Personnel costs, which include the effect of the US dollar's appreciation against the EUR (+8.4% in 2012) – given that in Angola salaries are indexed to the dollar – rose 18.7% in 2012. Outside supplies and services and depreciation and amortisation posted increases of 10.9% and 13.2%, respectively.

The indicator "operating costs as a percentage of net operating revenue" was situated at 41.4% in 2012.

**Operating costs** Amounts in M.€

| | | 2011 | 2012 | Δ% |
|---|---|---|---|---|
| Personnel costs | 1 | 52.9 | 62.8 | 18.7% |
| Outside supplies and services | 2 | 48.2 | 53.5 | 10.9% |
| **Operating costs, before depreciation and amortisation** [= 1 + 2] | 3 | **101.2** | **116.3** | **15.0%** |
| Depreciation and amortisation | 4 | 11.2 | 12.7 | 13.2% |
| **Operating costs** [= 3 + 4] | 5 | **112.4** | **129.0** | **14.8%** |
| Efficiency ratio[1] | 6 | 36.9% | 41.4% | |

*Table 46*

## LOAN IMPAIRMENTS AND PROVISIONS

Loan impairments in the year amounted to 14.9 M.€, 5.6 M.€ more than in 2011.

The increased impairment charges are due to:

- charges of 4.4 M.€ directly associated with the loan portfolio's expansion, given that BFA booked impairments corresponding to 3% (on average) of new loans advanced. In 2011 reversals of 7.7 M.€ were recorded owing to the smaller loan portfolio.
- decrease in impairment charges for specific loan default situations from 17.1 M.€ in 2011 to 10.5 M.€ in 2012.

Loan impairments, net of recoveries (2.7 M.€), amounted to 12.2 M.€. Loan impairments net of recoveries represented 1.07% of the average loan portfolio (0.62% in 2011).

1) Operating costs as percentage of net operating revenue.

At the end of 2012, BFA had a ratio of Customer loans in arrears for more than 90 days of 4.6% (5.9% in 2011). The cover for loans in arrears for more than 90 days by accumulated loan provisions in the balance sheet climbed from 126% in 2011 to 149% at the end of 2012.

**Total impairments net of recoveries**
As % of net operating profit

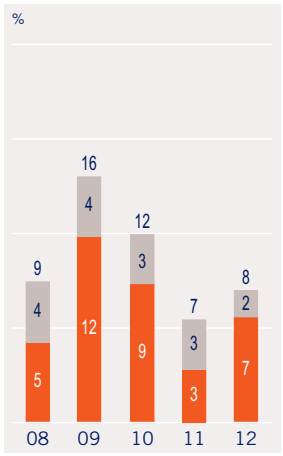



*Chart 59*

**Equity-accounted results of subsidiaries**
2008 to 2012

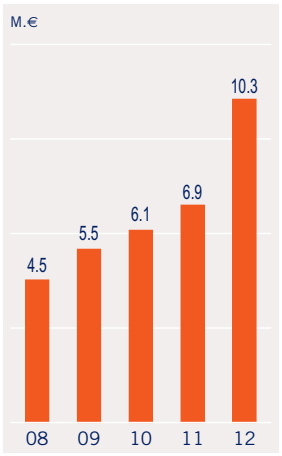



*Chart 60*

Other purposes
Loans

**Loan impairments**

| | | 2011 | | 2012 | |
|---|---|---|---|---|---|
| | | M.€ | As % of loan portfolio[1] | M.€ | As % of loan portfolio[1] |
| Loan impairments | *1* | 9.4 | 0.89% | 14.9 | 1.31% |
| (-) Recoveries of loans in arrears written off | *2* | 2.8 | 0.27% | 2.7 | 0.24% |
| **Loan impairments net of recoveries** *[= 1 - 2]* | *3* | **6.5** | **0.62%** | **12.2** | **1.07%** |

*Table 47*

## RESULTS OF EQUITY-ACCOUNTED SUBSIDIARIES

The equity-accounted results – which correspond to the appropriation of the net profit attributable to the 30% shareholding in BCI in Mozambique – grew by 48.5% to 10.3 M.€[2].

The behaviour of BCI's net profit reflects the banking business's robust growth, underpinned by the distribution network's expansion and the attendant larger workforce.

Total assets rose by 21%, deposits and loans expanded by 20% and 3%, respectively, while the number of Customers increased by 38% to 564 thousand.

## MINORITY INTERESTS

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

BPI recognised 84.8 M.€ of minority interests in BFA's net profit in 2012.

1) Average preforming 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 2012, BCI's contribution was 9.4 M.€, up 48.5% on the previous year's contribution.

## BALANCE SHEET

In international activity, the Bank has an extremely liquid balance sheet, with Customer resources (5 268 M.€) funding 88% of assets. At the close of 2012, Customer resources together with own resources funded virtually all the assets.

This liquidity is applied in lending (18% of assets), in securities issued by the Angolan central bank and by the Angolan treasury with maturities of up to one year (9%), in Angolan Treasury bonds (25%) and in central bank deposits (22%). The investment of surplus liquidity in dollars is carried out on the interbank market (20%).

The high utilisation of the American dollar in the Angolan market (the national currency is the kwanza) explains why the greater part of the 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 2012**

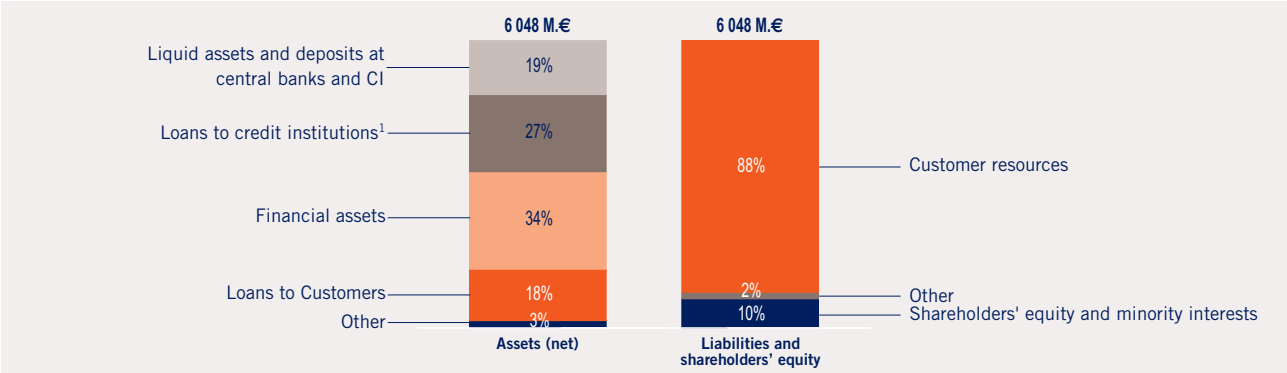



*Chart 61*

## Customer loans

BFA's Customer loans portfolio expanded 6.0% (+61.7 M.€) in 2012, with BFA maintaining a selective approach in the granting of loans and stringent criteria in risk evaluation.

Loans to companies rose by 5.8% (+37.7 M.€) while loans to individuals were up 7.2% (+27.4 M.€), founded above all on the expansion of consumer loans, while the home loan book remained unchanged.

The growth in the loan portfolio was noted in the portfolio component expressed in kwanzas, growing by 341 M.€, while the component expressed in USD fell by 278 M.€ (-40%). As a result, the weight of the portfolio component expressed in kwanzas climbed to 60.8% at the end of 2012 from 31.1% in 2011.

**Loans to Customers**
2008 to 2012

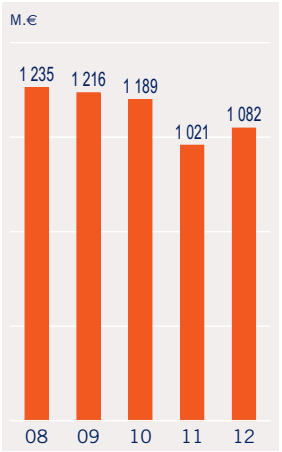



*Chart 62*

**Loan portfolio**
Breakdown in 2012

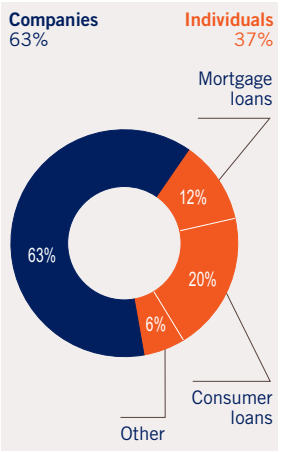



*Chart 63*

1) Includes reverse repo operations with the Angolan Central Bank (7% of total assets).

**Customer loans portfolio** Amounts in M.€

| | | 2011 | 2012 | Δ% |
|---|---|---|---|---|
| **Loans to companies** | 1 | **644.9** | **682.5** | **5.8%** |
| **Loans to individuals** | | | | |
| Housing loans | 2 | 128.8 | 128.7 | (0.0%) |
| Consumer loans | 3 | 194.2 | 215.5 | 11.0% |
| Other | 4 | 59.0 | 65.1 | 10.4% |
| *[= Σ 2 to 4]* | 5 | **382.0** | **409.4** | **7.2%** |
| Loans in arrears | 6 | 66.4 | 55.2 | (16.8%) |
| Loan impairments | 7 | (77.1) | (72.9) | (5.5%) |
| Interests and other | 8 | 4.5 | 8.0 | 78.1% |
| **Total** *[= 1 + Σ 5 to 8]* | 9 | **1 020.6** | **1 082.3** | **6.0%** |
| Guarantees | 10 | 140.2 | 317.7 | 126.6% |

*Table 48*

## Customer resources

BFA's resources portfolio posted a 10.8% expansion in 2012. Sight deposits represent more than half of the resources taken from Customers.

**Total Customer resources** Amounts in M.€

| | | 2011 | 2012 | Δ% |
|---|---|---|---|---|
| Sight deposits | 1 | 2 404.8 | 2 808.6 | 16.8% |
| Term and savings deposits | 2 | 2 350.9 | 2 459.1 | 4.6% |
| **Total** *[= 1 + 2]* | 3 | **4 755.7** | **5 267.7** | **10.8%** |

*Table 49*

The kwanza-denominated component of deposits increased by 402 M.€ (+23.6%), the component in dollars was 61 M.€ higher (+2.1%) and the remaining change was recorded in deposits expressed in other currencies.

In December 2012, roughly 56% of Customer deposits were expressed in dollars (60% in 2011), 40% in kwanzas and 4% in other currencies.

**Customer resources**
2008 to 2012

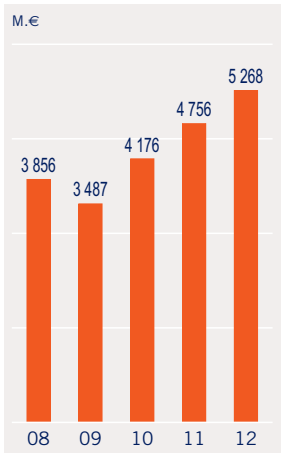



*Chart 64*

**Customer resources**
Breakdown in 2012

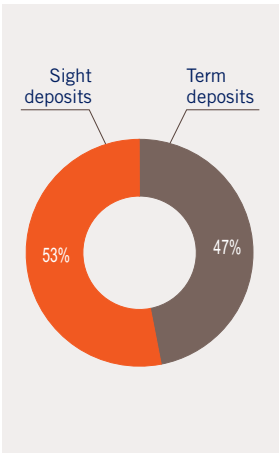



*Chart 65*

## Securities and financial investments portfolio

The financial assets portfolio is composed of short-term securities, with maturities of up to one year, expressed in kwanzas and issued by Banco Nacional de Angola (Central Bank Bonds – CBB) and by the State (Treasury Bills), and Angolan Treasury Bonds with maturities ranging from 1 to 6 years.

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

The securities portfolio amounted to 2013.5 M.€ at the close of 2012 (-8.6% relative to 2011).

**Securities and financial investments portfolio** Amounts in M.€

| | | 2011 | 2012 | Δ% |
|---|---|---|---|---|
| Short-term securities | | | | |
| Central Bank bonds (TBC) | 1 | 784.3 | 273.2 | (65.2%) |
| Angolan Treasury Bills (BT) | 2 | 310.9 | 245.5 | (21.0%) |
| *[= 1 + 2]* | 3 | **1 095.2** | **518.7** | **(52.6%)** |
| Angolan Treasury Bonds (OT) | 4 | 1 107.2 | 1 492.0 | 34.7% |
| Other | 5 | 0.7 | 2.8 | 284.4% |
| *[= Σ 3 to 5]* | 6 | **2 203.1** | **2 013.5** | **(8.6%)** |
| Financial investments[1] | 7 | 35.0 | 38.9 | 11.3% |
| **Total** *[= 6 + 7]* | 8 | **2 238.1** | **2 052.4** | **(8.3%)** |

*Table 50*

**Portfolio of Angolan Treasury Bills and TBC**

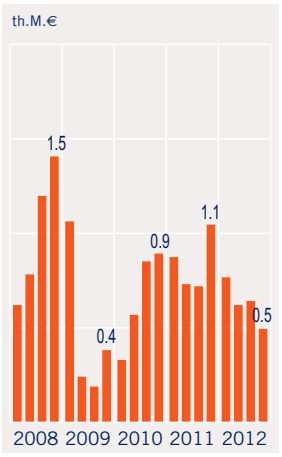



*Chart 66*

**Portfolio of Angolan Treasury Bonds**

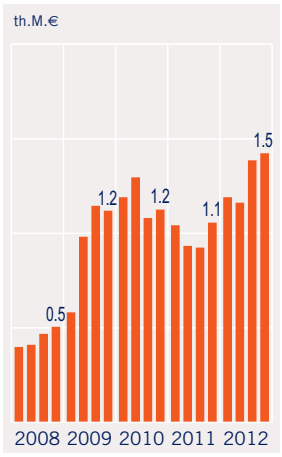



*Chart 67*

1) Value of the equity-accounted 30% shareholding in BCI.

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

| | 31 Dec. 11 | 31 Dec. 12 |
|---|---|---|
| Net operating revenue and results of equity accounted subsidiaries / ATA | 2.4% | 3.0% |
| Profit before taxation and minority interests / ATA | (0.8%) | 1.0% |
| Profit before taxation and minority interests / average shareholders' equity (including minority interests) | (20.5%) | 30.2% |
| Personnel costs / net operating revenue and results of equity accounted subsidiaries[1] | 36.1% | 25.3% |
| Operating costs / net operating revenue and results of equity accounted subsidiaries[1] | 61.6% | 45.0% |
| Loans in arrears for more than 90 days + doubtful loans / loan portfolio (gross) | 2.5% | 3.3% |
| Loans in arrears for more than 90 days + doubtful loans, net of accumulated loan impairments / loan portfolio (net) | 0.3% | 0.4% |
| Credit at risk[2] | 3.2% | 4.2% |
| Credit at risk[2], net of accumulated loan impairments / loan portfolio (net) | 1.1% | 1.4% |
| Own funds requirements ratio | 9.3% | 15.0% |
| Basis own funds ratio (tier I) | 9.0% | 14.9% |
| Core tier I ratio | 9.2% | 15.0% |
| Loans (net) to deposits ratio | 109% | 106% |

*Table 51*

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 interest and other charges overdue) and insolvency situations still not contemplated in loans in arrears for more than 90 days.

ATA = Average total assets.

# 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<br>**DACR** and **DF**: external rating identification for debt securities and for credit to financial institutions<br>**DRC**: Rating for Corporates, Small Businesses, Project Finance and Institutional Clients<br>**Rating Committee**: Rating for large Corporates and Institutional Clients<br>**DRCP**: Expert System for loans to Individuals<br>**DACR**: exposure to derivatives<br>**DACR**: analysis of overall exposure to credit risk | **CECA**, **CERG**: overall strategy<br>**CECA**, **CERC**: approval of substantial operations<br>**Credit Board**, **DRC**, **DBI**, **DRCP**, **DF**: approval of operations | **CA** (with CRF advisory)<br>**CECA**, **CERC**, **Credit Board**, **DRC**, **DRCP**, **DACR**, **DF**: limits<br>**CECA**, **CACI**, **CERC**, **CERG**, **Credit Board**, **DACR**, **DO**, **Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control | **DRCE**: Companies<br>**DRCP**: Individuals and Small Businesses | **CECA**, **CERG**, **CERC**, **DCPE**, **DACR**, **All other Divisions** |
| **Country risk** | **DF**: analysis of individual country risk with recourse to external ratings and analyses<br>**DACR**: analysis of overall exposure | **CECA** and **CERG**: overall strategy<br>**DF**, **DA**, **DIAPE**: operations | **CA** (with CRF advisory)<br>**CECA**, **CACI**, **CERG**, **DACR**, **DC**, **Internal and external Auditors**[1], **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<br>**DF**, **DA**, **DIAPE**: operations | **CA** (with CRF advisory)<br>**CECA**, **CERG**, **DACR**, **DF**, **DA**: limits<br>**CECA**, **CACI**, **CERG**, **DACR**, **DC**, **Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control | | |
| **Liquidity risk** | **DF**, **DA**, **DIAPE**: individual risk analysis of liquidity, by instrument<br>**DACR**: analysis of overall liquidity risk | **CECA** and **CERG**: overall strategy | **CA** (with CRF advisory)<br>**CECA**, **CACI**, **CERG**, **DACR**, **DC**, **Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control | | |
| **Operating risks** | **DACR**: analysis of overall exposure<br>**DORG** and **all the Divisions**: identification of critical points | **CECA**: overall organisation<br>**CRO**<br>**DORG**: regulations | **CECA**, **CERG**, **DORG**, **DACR**: regulation and limits<br>**CECA**, **CACI**, **DORG**, **DACR**, **DC**, **Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control | **DJ**, **DAI**, **DO**, **Commercial Divisions** | **CECA**, **DORG**[2] |
| **Legal and compliance risks** | **DJ**, **DC**<br>**DC**: compliance risk analysis | **CECA**: compliance | **CECA**, **CACI**, **DJ**, **DC**, **Internal and external Au - ditors**[1], **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); **CRO** – Comité de Risco Operacional (Operating Risk Committee); **DA** – Departamento de Acções (Equity Department); **DACR** – Direcção de Análise e Controlo de Riscos (Risk Analysis and Control Division); **DAI** – Direcção de Auditoria e Inspecção (Audit and Inspection Division); **DC** – Direcção de Compliance (Compliance Division); **DCPE** – Direcção de Contabilidade, Planeamento e Estatística (Accounting, Planning and Statistics 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).

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 auditors[1] 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 in 2012

| Risk classes | | Value (M.€)[2] | % of portfolio amount | One-year default probability[3] |
|---|---|---|---|---|
| E1 | *1* | 195.1 | 2.3% | 0.2% |
| E2 | *2* | 603.4 | 7.2% | 0.3% |
| E3 | *3* | 942.6 | 11.2% | 0.3% |
| E4 | *4* | 1 315.2 | 15.6% | 0.3% |
| E5 | *5* | 1 208.3 | 14.3% | 0.6% |
| E6 | *6* | 924.0 | 11.0% | 1.1% |
| E7 | *7* | 757.9 | 9.0% | 2.5% |
| E8 | *8* | 966.1 | 11.5% | 6.1% |
| E9 | *9* | 312.4 | 3.7% | 11.8% |
| E10 | *10* | 338.8 | 4.0% | 21.8% |
| Without rating | *11* | 130.0 | 1.5% | 3.6% |
| ED1 | *12* | 104.9 | 1.2% | 55.8% |
| ED2 | *13* | 38.0 | 0.5% | 83.3% |
| ED3 (default) | *14* | 595.3 | 7.1% | 100.0% |
| **Total** *[= Σ 1 to 14]* | *15* | **8 431.9** | **100.0%** | **4.0%** |

*Table 52*

The average default probability of the companies' portfolio from a one-year perspective weighted by the amount of liabilities stood at 4.0% at 31 December 2012. The loss on each operation in default in this segment is on average 34.7%, 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 1.4% 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) Includes bonds, bank guarantees and commercial paper of the corporate segment and excludes without-recourse factoring operations 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. The DPs presented are point-in-time and hence not comparable with those published in previous years as they were through-the-cycle.

**Internal rating of project finance**
Breakdown of exposure by risk classes in 2012

| Risk classes | | Value (M.€) | % of portfolio amount |
|---|---|---|---|
| Strong | 1 | 244.6 | 14.4% |
| Good | 2 | 1 587.8 | 62.6% |
| Satisfactory | 3 | 525.0 | 8.9% |
| Weak | 4 | 336.6 | 11.5% |
| Default | 5 | 76.8 | 2.6% |
| **Total** *[= Σ 1 to 5]* | 6 | **2 770.8** | **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 4.4% and 62.6%, 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 46% and the sector concentration index at 10%. 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 (1.9%). 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 6 years while the peak of default probabilities in their lifespan is situated at 2 years).

**Default probabilities of loans to individuals in 2012**

| Risk classes | Probability of default within a year[1,2,3] | Loss given default | Expected loss |
|---|---|---|---|
| Mortgage loans | 1.90% | 16.6% | 0.32% |
| Personal loans | 3.30% | 33.6% | 1.11% |
| Motor car finance | 1.95% | 22.5% | 0.44% |
| Credit cards | 1.30% | 48.5% | 0.63% |

*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.
3) The DPs presented are point-in-time.

**Loan-to-value ratio in housing loans**
At 31 December 2012

| | Dec. 2012 |
|---|---|
| New loans contracted[1] | 56% |
| Housing loan portfolio | 50% |
| Loans in default (more than 90 days) | 74% |

*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 portfolio[2]**

Amounts in M.€

| | 2011 | % | 2012 | % |
|---|---|---|---|---|
| AAA | 1.5 | 0.0% | 0.8 | 0.0% |
| AA | 10.0 | 0.2% | 10.9 | 0.1% |
| A | 1 125.9 | 17.5% | 203.1 | 2.1% |
| BBB | 1 046.9 | 16.3% | 2 157.1 | 22.2% |
| BB | 2 124.0 | 33.0% | 5 411.0 | 55.7% |
| B | 23.5 | 0.4% | 36.5 | 0.4% |
| CCC | 28.7 | 0.4% | 36.8 | 0.4% |
| CC | 124.1 | 1.9% | 3.8 | 0.0% |
| C | | | 0.0 | 0.0% |
| Without rating | 638.9 | 9.9% | 635.0 | 6.5% |
| Commercial paper with guarantees from credit institutions | 89.9 | 1.4% | 103.4 | 1.1% |
| Commercial paper without guarantees | 1 214.9 | 18.9% | 1 110.3 | 11.4% |
| **Total** | **6 428.2** | **100.0%** | **9 708.7** | **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 41 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 577 M.€ (gross amount) to 282 M.€ (net amount, after set off and collateralisation) at the end of 2012.

**Current credit risk – substitution value of derivatives by type of counterparty[3]**

Amounts in M.€

| | 2011 | % | 2012 | % |
|---|---|---|---|---|
| **Over-the-counter market** | **242.2** | **100.0%** | **282.4** | **100.0%** |
| Financial institutions | 19.2 | 7.9% | 5.7 | 2.0% |
| Other financial intermediaries | 3.8 | 1.6% | 2.2 | 0.8% |
| Local and administrative public sector | 0.4 | 0.2% | 0.8 | 0.3% |
| Companies | 214.5 | 88.5% | 271.3 | 96.1% |
| Unit trust funds and pension funds | 0.01 | 0.0% | | |
| Individuals | 4.4 | 1.8% | 2.4 | 0.9% |
| **Regulated markets** | **0.01** | **0.0%** | | |
| Stock Exchange | 0.01 | 0.0% | | |
| **Total** | **242.3** | **100.0%** | **282.4** | **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 2012.
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 both Inspection Programs covering the loan portfolio carried out in 2011 and 2012.

The following are the main overdue loans, cost of risk and impairment cover ratios:

- **ratio of loans in arrears (+ 90 days)**: at the end of 2012, the ratio of loans in arrears for more than 90 days stood at 3.2% on a consolidated basis. In domestic operations (96% of the consolidated loan portfolio) this ratio stood at 3.1% and in international operations (in Angola), which represents 4% of the consolidated loan portfolio, it was 4.6%.

- **Credit-at-risk ratio (Bank of Portugal Instruction 23 / 2011[1])**: credit-at-risk according to the Bank of Portugal's definition corresponded to 4.2% of the consolidated gross loan portfolio at the end of 2012. In domestic operations, this ratio stood at 4.1% and in international activity (in Angola) it was situated at 6.5%.

- **Net credit loss**: impairment charges for the year, after deducting loan recoveries, represented 0.92% of the loan portfolio in 2012.

- **Impairments cover**: accumulated impairment allowances in the balance sheet for loans with defaulting instalments[2] and collaterals (real and personal) guaranteed 82% 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.

- **Impairment allowances for foreclosed fixed properties**: accumulated impairment allowances for foreclosed fixed properties covered 39% of the respective gross balance sheet value (162.3 M.€). The net balance sheet value of those fixed properties was 98.9 M.€, which compares with a market value for the same properties of 169.9 M.€.

**Ratio of loans in arrears**

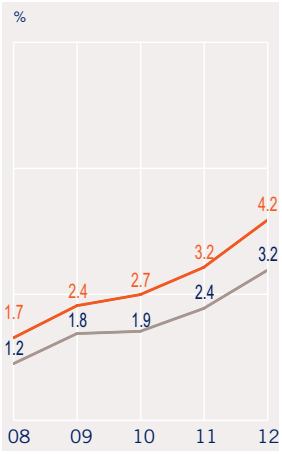



*Chart 68*

— 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

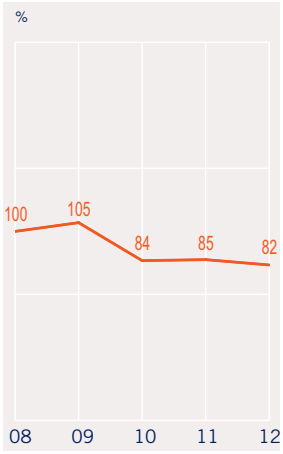



*Chart 69*

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

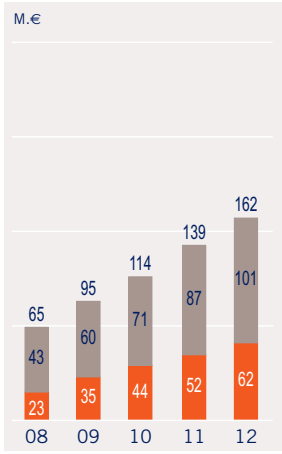



*Chart 70*

Impairments coverage

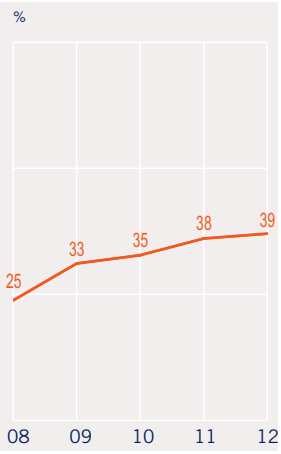



*Chart 71*

Other
Housing loans

1) Credit-at-risk according to the Bank of Portugal's definition, in addition to loans in arrears for more than 90 days, also includes the associated loans falling due, restructured loans and insolvency situations.
2) In addition, BPI had impairment allowances of 309.4 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 104%.

### Inspection Programmes covering the loan portfolio

The On-Site Inspections Programme – covering the exposure of the 8 biggest Portuguese banks to the construction and real-estate development sectors in Portugal and Spain, carried out in 2012 – identified the need for Banco BPI to reinforce its impairment allowances by a mere 0.4 M.€ with reference to 30 September 2012, which was done in the 4th quarter. The said Programme evaluated a portfolio totalling some 2.4 th.M.€.

In turn, the Special Inspections Programme (SIP) covering the loan portfolio, executed in 2011 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 was adequate. The analysis carried out covered 95% of BPI's total consolidated loan portfolio.

**Loans to Customers in arrears and loan impairments**

Amounts in M.€

| | | 2011 | | | 2012 | | |
|---|---|---|---|---|---|---|---|
| | | Domestic activity | International activity | Consolidated | Domestic activity | International activity | Consolidated |
| Customer loan portfolio (gross) | 1 | 27 896.8 | 1 097.8 | 28 994.5 | 26 973.4 | 1 155.2 | 28 128.6 |
| **Loans in arrears, falling due loans and impairments** | | | | | | | |
| Loans in arrears for more than 90 days | 2 | 621.9 | 64.7 | 686.6 | 838.8 | 53.0 | 891.9 |
| Loans in arrears for more than 90 days and doubtful loans[1,2] | 3 | 635.8 | 64.7 | 700.4 | 847.9 | 53.0 | 900.9 |
| Credit at risk[1,3] | 4 | 825.6 | 98.3 | 923.9 | 1 082.2 | 74.9 | 1 157.2 |
| Loans in arrears for more than 30 days | 5 | 662.0 | 66.4 | 728.4 | 862.2 | 55.2 | 917.4 |
| Loan impairments (accumulated in the balance sheet) | 6 | 561.7 | 81.2 | 642.9 | 745.4 | 79.1 | 824.4 |
| **Ratios (as % of total loans)** | | | | | | | |
| Loans in arrears for more than 90 days as % of loan portfolio [= 2 / 1] | 7 | 2.2% | 5.9% | 2.4% | 3.1% | 4.6% | 3.2% |
| Loans in arrears for more than 90 days and doubtful loans as % of loan portfolio[1,2,4] | 8 | 2.3% | 5.9% | 2.5% | 3.2% | 4.6% | 3.3% |
| Loans in arrears for more than 90 days and doubtful loans, net of accumulated impairments, as % of net loan portfolio[1,4] | 9 | 0.4% | (1.2%) | 0.3% | 0.5% | (1.8%) | 0.4% |
| Credit at risk as % of loan portfolio[1,3,4] | 10 | 3.0% | 9.0% | 3.2% | 4.1% | 6.5% | 4.2% |
| Credit at risk, net of accumulated impairments, as % of net loan portfolio[1,4] | 11 | 1.1% | 2.1% | 1.1% | 1.5% | 0.2% | 1.4% |
| Loans in arrears for more than 30 days as % of loan portfolio [= 5 / 1] | 12 | 2.4% | 6.1% | 2.5% | 3.2% | 4.8% | 3.3% |
| Loan impairments (accumulated in the balance sheet) as % of loan portfolio [= 6 / 1] | 13 | 2.0% | 7.4% | 2.2% | 2.8% | 6.8% | 2.9% |
| Loan impairments as % of loans in arrears for more than 90 days [= 6 / 2] | 14 | 90.3% | 125.6% | 93.6% | 88.9% | 149.1% | 92.4% |
| Write-offs | 15 | 71.8 | 14.4 | 86.3 | 65.5 | 15.9 | 81.3 |
| Recovery of loans and interests in arrears written-off | 16 | 17.5 | 2.8 | 20.3 | 12.8 | 2.7 | 15.5 |

*Table 58*

The entry of new loans into default (for more than 90 days) in 2012, 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 279.7 M.€, which corresponded to 1.01% 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 interest and other charges overdue) 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 15.5 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 264.2 M.€, which corresponded to 0.95% of the average loan portfolio.

In domestic operations, the entries of new defaulting loans, net of recoveries, represented 0.99% of the average loan portfolio and in international operations the indicator was 0.13%.

Net credit loss, measured as the loan impairment charges after deducting arrear loan recoveries in the year, amounted to 253.9 M.€ in 2012. Impairments net of recoveries represented 0.92% of the average performing loan portfolio in 2012 (0.91% in domestic activity and 1.07% in international activity).

**Net credit loss[1]**
As % of the average performing loan portfolio

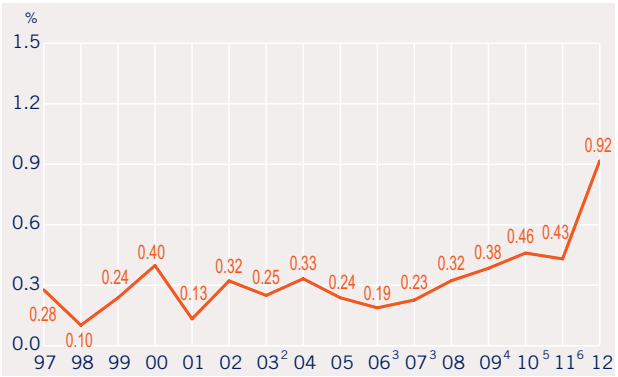



*Chart 72*

**Credit loss and cost of risk**

Amounts in M.€

| | | Domestic activity | | International activity | | Consolidated | |
|---|---|---|---|---|---|---|---|
| | | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| **Performing loan portfolio (average balance)** | 1 | **27 836.2** | **26 545.8** | **1 054.2** | **1 141.3** | **28 890.4** | **27 687.1** |
| **Change in loans in arrears** | | | | | | | |
| Increase in loans in arrears (for more than 90 days) adjusted by write-offs | 2 | 162.2 | 275.5 | 33.8 | 4.2 | 195.9 | 279.7 |
| as percentage of loan portfolio (average balance) [= 2 / 1] | 3 | 0.58% | 1.04% | 3.20% | 0.37% | 0.68% | 1.01% |
| – Recovery of loans and interests in arrears written-off | 4 | 17.5 | 12.8 | 2.8 | 2.7 | 20.3 | 15.5 |
| **= 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 | **144.7** | **262.7** | **30.9** | **1.5** | **175.6** | **264.2** |
| as percentage of loan portfolio (average balance) [= 5 / 1] | 6 | 0.52% | 0.99% | 2.93% | 0.13% | 0.61% | 0.95% |
| **Net credit loss** | | | | | | | |
| Loan impairments[6] | 7 | 135.4 | 254.4 | 9.4 | 14.9 | 144.8 | 269.4 |
| as percentage of loan portfolio (average balance) [= 7 / 1] | 8 | 0.49% | 0.96% | 0.89% | 1.31% | 0.50% | 0.97% |
| – Recovery of loans and interests in arrears written-off | 9 | 17.5 | 12.8 | 2.8 | 2.7 | 20.3 | 15.5 |
| **= Net credit loss** [= 7 - 9] | 10 | **118.0** | **241.6** | **6.5** | **12.2** | **124.5** | **253.9** |
| as percentage of loan portfolio (average balance) [= 10 / 1] | 11 | 0.42% | 0.91% | 0.62% | 1.07% | 0.43% | 0.92% |

*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 credit-at-risk ratio according to Bank of Portugal Instruction 23 / 2011 stood at 4.2% at the end of 2012, on a consolidated basis (4.1% in domestic operations and 6.5% in international operations).

Impairments coverage of credit-at-risk was 71%, without considering the collaterals coverage (69% in domestic operations and 106% in international operations).

The following table presents the ratio of credit at risk 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**

| | | 2011 | | | 2012 | | |
|---|---|---|---|---|---|---|---|
| | | Loan portfolio (gross), as % of total | Credit at risk | Impairments accumulated in the balance sheet | Loan portfolio (gross), as % of total | Credit at risk | Impairments accumulated in the balance sheet |
| **Domestic activity** | | | | | | | |
| Corporate banking, institutional banking and project finance | *1* | 41% | 2.6% | 2.2% | 40% | 4.2% | 3.5% |
| Individuals and small businesses banking | | | | | | | |
| Mortgage loans | *2* | 41% | 2.9% | 1.1% | 44% | 3.4% | 1.5% |
| Loans to individuals – other purposes | *3* | 4% | 3.2% | 3.2% | 4% | 4.1% | 3.9% |
| Loans to small businesses | *4* | 7% | 7.0% | 6.1% | 6% | 9.5% | 8.0% |
| *[= Σ 2 to 4]* | *5* | 52% | 3.5% | 2.0% | 54% | 4.2% | 2.4% |
| Other | *6* | 2% | 0.6% | 0.2% | 2% | 1.4% | 0.2% |
| *[=1 + 5 + 6]* | *7* | **96%** | **3.0%** | **2.0%** | **96%** | **4.1%** | **2.8%** |
| **International activity** | *8* | **4%** | **9.0%** | **7.4%** | **4%** | **6.5%** | **6.8%** |
| **Total** *[= 7 + 8]* | *9* | **100%** | **3.2%** | **2.2%** | **100%** | **4.2%** | **2.9%** |

*Table 60*

At the end of 2012, total loans in arrears (instalments of principal and interest in arrears more than 30 days) amounted to 917.4 M.€ while the part not yet due in those loan operations amounted to 508.1 M.€.

In average terms, total arrear loans and associated instalments not yet due were 82% covered by the value of real guarantees (656.8 M.€) and individual impairment allowances constituted for these loans (515.0 M.€).

**Loans in arrears and falling due loans**
At 31 December 2012

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* | 409.4 | 310.5 | 719.9 | 656.8 | 212.7 |
| Loans without collateral | *2* | 508.0 | 197.6 | 705.6 | | 302.3 |
| *[= 1 + 2]* | *3* | **917.4** | **508.1** | **1 425.5** | **656.8** | **515.0** |

*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 2012, BPI held in its portfolio loan-foreclosure properties with a gross balance sheet value of 162.3 M.€. Of this figure, 61.5 M.€ refers to repossessed properties relating to home loans, and 100.8 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 63.4 M.€, which corresponded to 39% of their gross balance sheet carrying value. Accordingly, the net balance sheet carrying value of these properties was 98.9 M.€, which compares with a market value of the same properties of 169.9 M.€.

**Property repossessed from loans recoverage**

Amounts in M.€

| | | 2011 | | | 2012 | | |
|---|---|---|---|---|---|---|---|
| | | Housing | Other | Total | Housing | Other | Total |
| Gross value | *1* | 52.1 | 87.1 | 139.2 | 61.5 | 100.8 | 162.3 |
| Impairments | *2* | 19.6 | 33.9 | 53.6 | 26.7 | 36.7 | 63.4 |
| **Net value** | *[= 1 - 2]* | *3* | **32.4** | **53.2** | **85.6** | **34.9** | **64.0** | **98.9** |
| Market value | *4* | 65.1 | 98.8 | 163.9 | 75.3 | 94.6 | 169.9 |

*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 |
|---|---|---|
| AD ≤ 1 year | 25% | 25% |
| 1 year < AD ≤ 2 years | 50% | 50% |
| 2 years < AD ≤ 3 years | 75% | 75% |
| AD > 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 < AD ≤ 5 years | 30% GV |
| AD > 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 2012

Amounts in M.€

| Country | Rating | Gross exposure | Personal guarantees | Tangible guarantees | Exposure net of guarantees |
|---|---|---|---|---|---|
| **Countries from group I** | | | | | |
| Euro Zone | | 4 972 | 9 | (406) | 4 575 |
| | *AAA* | 608 | 1 | (10) | 599 |
| | *AA* | 679 | (1) | (41) | 637 |
| | *BBB* | 3 668 | 9 | (355) | 3 323 |
| | *B* | 0 | | | 0 |
| | *CCC* | 16 | | | 16 |
| Other EU countries | | 523 | 4 | (74) | 453 |
| | *AAA* | 522 | 4 | (74) | 452 |
| | *A* | 1 | | | 1 |
| Switzerland | *AAA* | 190 | 4 | (3) | 190 |
| USA | *AAA* | 49 | | (4) | 45 |
| Other | | 14 | | (0) | 13 |
| Offshores | | 59 | | (4) | 55 |
| | | **5 806** | **17** | **(492)** | **5 331** |
| **Countries from group II** | | | | | |
| Brazil | *BBB* | 47 | | (1) | 46 |
| Trade Finance | | 6 | | | 6 |
| Sovereign debt | | 0 | | | 0 |
| Other | | 41 | | (1) | 39 |
| Angola | *BB* | 391 | (157) | (10) | 224 |
| Trade Finance | | 91 | | | 91 |
| Other | | 299 | (157) | (10) | 132 |
| Russia | *BBB* | 40 | | | 40 |
| Kazakhstan | *BBB* | 1 | | | 1 |
| Turkey | *BB* | 7 | | | 7 |
| Mexico | *BBB* | 65 | | (0) | 65 |
| Mozambique | *B* | 26 | 1 | (1) | 27 |
| Venezuela | *B* | 17 | | (4) | 13 |
| Cape Verde | *B* | 67 | (63) | | 4 |
| South Africal | *BBB* | 15 | | (9) | 6 |
| Other | | 4 | 1 | (0) | 5 |
| | | **680** | **(217)** | **(25)** | **438** |
| **Subsidiaries** | | | | | |
| Angola (BFA) | | 295 | | | 295 |
| Mozambique (BCI) | | 39 | | | 39 |
| | | **334** | | | **334** |
| **Total** | | **6 820** | **(200)** | **(517)** | **6 103** |

*Table 65*

**Country risk exposure**
Exposure net of guarantees at 31 December 2012

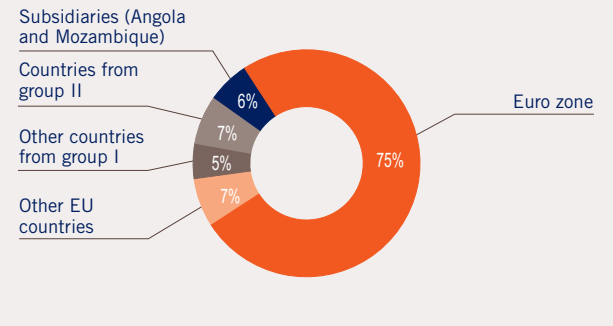



*Chart 73*

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.

## 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.

### 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 books[1]** Amounts in M.€

| | 2011 | | 2012 | |
|---|---|---|---|---|
| | Average VaR | Maximum VaR | Average VaR | Maximum VaR |
| Interest rate risk | 0.7 | 8.3 | 1.6 | 8.1 |
| Currency risk | 0.3 | 1.4 | 0.9 | 2.0 |
| Equities risk | 0.5 | 2.6 | 1.0 | 3.9 |
| Commodities risk | | 0.01 | | 0.02 |

*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 2012, the repricing gap (of interest rates) accumulated up to 1 year was 5 296 M.€.

**Interest rate risk[2]**

Structural position, at 31 December of 2012 Amounts in M.€

| | 1 year | 2 years | 5 years | 7 years | 15 years | Total |
|---|---|---|---|---|---|---|
| Accumulated gap | 5 296 | 5 627 | 5 135 | 5 260 | 5 358 | 5 400 |

*Table 67*

The Bank is structurally exposed to the risk of a fall in interest rates. A classical stress test to a 100 b.p. change in interest rates points to a loss in net interest income of 73.4 M.€[3].

## 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 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. The positions in the remaining currencies are of minor significance. A stress test to the structural position (depreciation of 30% in Kwanza and 20% in the remaining currencies) reveals a capital at risk of 110 M.€.

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.
3) This standard test entails the simulation of a 100-basis points drop in the rates of assets and liabilities sensitive to the interest rate on the repricing date and taking into account a one-year time horizon.

**Foreign exchange rate risk**
Structural position, at 31 December of 2012

Amounts in M.€

| Type of financial instrument | Assets and liabilities by currency | | | | |
|---|---|---|---|---|---|
| | EUR | USD | AKZ | Other | Total |
| **Assets** | | | | | |
| Cash and deposits at central banks | 220 | 537 | 506 | 6 | 1 269 |
| Amounts owed by credit institutions repayable on demand | 398 | 22 | 4 | 30 | 453 |
| Financial assets held for dealing and at fair value through profit and loss | 886 | 62 | 153 | 10 | 1 112 |
| Financial assets available for sale | 8 926 | 1 216 | 780 | 0 | 10 923 |
| Loans and advances to credit institutions | 774 | 432 | 504 | 1 | 1 711 |
| Loans and advances to Customers | 25 864 | 672 | 658 | 151 | 27 345 |
| Investments held to maturity | 445 | | | | 445 |
| Hedging derivatives | 272 | 2 | | 6 | 281 |
| Other assets | 33 | 120 | 4 | 1 | 157 |
| | **37 819** | **3 064** | **2 609** | **205** | **43 697** |
| **Liabilities** | | | | | |
| Resources of central banks | 4 253 | 17 | | | 4 271 |
| Financial liabilities held for dealing | 338 | 2 | | 0 | 340 |
| Credit institutions' resources | 2 287 | 280 | 0 | 2 | 2 568 |
| Clients' resources and other loans | 18 178 | 4 101 | 2 131 | 212 | 24 621 |
| Debts evidenced by certificates | 3 583 | 142 | | 63 | 3 788 |
| Financial liabilities associated to transferred assets | 1 591 | | | | 1 591 |
| Hedging derivatives | 797 | 18 | | 0 | 815 |
| Provisions | 104 | 32 | 1 | 1 | 138 |
| Technical provisions | 2 255 | | | | 2 255 |
| Contingent convertible subordinated bonds | 1 200 | | | | 1 200 |
| Other subordinated debt | 156 | | | | 156 |
| | **34 743** | **4 591** | **2 132** | **279** | **41 745** |
| Forward currency operations | (1 688) | 1 607 | (5) | 136 | 50 |
| Structural position | | 20 | 319 | 53 | |
| Stress test[1] | | **4** | **96** | **11** | **110** |

*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.

### Liquidity and funding

Liquidity management continued to be one of the main priorities in 2012. BPI pursued a balanced situation throughout the year:

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.

- in the intermediation business with Customers, Customer resources (retail deposits and bonds) constitute the principal source of funding, representing 78% and 94% of the domestic operations' and consolidated loan portfolio, respectively;
- the Bank had a portfolio of public debt from Eurozone countries valued at 6.9 th.M.€, at the end of the year, of which 3.3 th.M.€ are Portuguese short-term public-debt securities. Funding of this portfolio, which itself is totally discountable at the ECB, is in large part derived from 3-year resources obtained from the ECB (4.2 th.M.€);
- the portfolio of assets eligible for funding from the Eurosystem totalled 11.8 th.M.€ at the end of the year. Of that amount, the amount not yet utilised and therefore capable of being converted into immediate liquidity at the ECB was 5.5 th.M.€;
- the refinancing needs of medium and long-term debt maturing in the next few years are minimal: 506 M.€ from 2013 till 2018. It should also be noted that in 2019 there will be a significant release of liquidity with the redemption of 3 th.M.€ of medium and long-term bonds held by BPI in portfolio.

### Background in 2012

At the close of 2012, the European financial markets reflected a strong aversion to risk. The decisions relating to the restructuring of Greek debt and to the major banks' recapitalisation – with the requirement to constitute a temporary capital buffer to cover unrealised losses on public-debt positions – bolstered the interconnection between banks and the sovereigns, notably in the peripheral countries. As a consequence, we once again witnessed a retraction in liquidity on the interbank markets, comparable with that observed in 2008 and manifested in the widening of the spread between Euribor and Eonia to levels close to that year's highs.

Between the end of 2011 and the beginning of 2012, the ECB took a series of measures with a view to supplying the necessary liquidity to a financial system that is more fragmented than ever: in December 2011 and in January 2012 it realised two extraordinary 3-year liquidity-injection operations (LTRO) which, in aggregate, placed 975 th.M.€ on the market; in January 2012 it cut from 2% to 1% the compulsory minimum reserves coefficient, which translated into an additional liquidity injection in the order of 100 thousand M.€; between the end of 2011 and the beginning of 2012 it relaxed the criteria for accepting collateral, lowering the minimum rating levels acceptable for securitised debt and allowing, under certain conditions, the delivery of bank loans without individual rating; in July 2012, it cut from 1% to 0.75% of the main refinancing rate, with the 1-day marginal refinancing rate falling to 1.5% and the deposit rate to 0%.

The conjugation of these measures permitted the interbank markets to stabilise during the first half of the year but sentiment only really reversed direction from July onwards, when the ECB president made an assertive declaration assuring that the ECB is disposed to do everything that is necessary to preserve the euro and has the conditions to do so within the mandate attributed to it.

Against this backdrop, the conditions for Portuguese banks to access market funding during the first half of 2012 remained identical to those prevailing in 2011: the short-term repo market continued to function without interruptions but with relatively high rates (close to the ECB's refinancing rate) while the interbank funding remained closed.

Meanwhile, in the second half of the year, there was an improvement in liquidity on the interbank and repo markets which enabled Portuguese banks to increase the utilisation of these funding sources.

### Short-term gap

BPI's short-term funding Gap (domestic activity) changed from -3.9 th.M.€ in December 2011 to -7.5 th.M.€ in December 2012. The chief factors explaining this behaviour were:

- acquisition in 2012 of a portfolio of Portuguese short-term debt of 3.2 th.M.€, funded by way of resources procured from the ECB;
- acquisition in 2012, in particular during the 2nd quarter, of a portfolio of Portuguese public debt of 1.1 th.M.€, totally discountable at the ECB. This

portfolio was partially sold during the 4th quarter (balance of 0.4 th.M.€ at the end of 2012 in terms of acquisition cost), with the bank having made gains of 170 M.€;

- the issue of contingent convertible subordinated bonds (1.2 th.M.€[1]) subscribed for by the State pursuant to the Portuguese banking system's recapitalisation line;
- negative change in the commercial Gap of 0.8 th.M.€. The commercial Gap's behaviour should, however, take into account the bank's placing with its Customer base of an amount of 1.1 th.M.€ of bonds issued by Portuguese companies during 2012, a figure which represented 54% of the total amount of issues;
- repurchase of 0.4 th.M.€ of own debt – mortgage bonds and home-loan securitisations;
- own debt redemptions of 1.9 th.M.€ which in large part were compensated by the redemption of bonds held by BPI in portfolio (1.3 th.M.€).

**Trend in short-term funding GAP** — Amounts in M.€

| | |
|---|---|
| **GAP at 31 Dec. 11** | **(3 893)** |
| Change in commercial liquidity GAP | (824) |
| Reduction of the minimum cash reserve coefficient | 200 |
| Redemption of own debt | (1 911) |
| Own debt repurchase | (400) |
| Redemption of bonds held | 1 291 |
| Acquisition of Treasury Bonds | (1 128) |
| Sale of Treasury Bonds | 1 008 |
| Change in Treasury Bills portfolio | (3 233) |
| Capital increase (proceeds) | 200 |
| Issue of contingent convertible subordinated bonds | 1 200 |
| **GAP at 31 Dec. 12** | **(7 490)** |

*Table 69*

At the end of 2012, short-term funding was broken down as follows:

- net debtor position on the money market of 1.6 th.M.€ and security repos of 1.7 th.M.€. The improved liquidity on the interbank and repo markets during the second half of the year was responsible for the higher funding raised by this means (+1.1 th.M.€ relative to the end of 2011);
- funding from the ECB of 4.2 th.M.€.

**Financing of short term liquidity position** — Amounts in M.€

| | | | 2011 | 2012 |
|---|---|---|---|---|
| **Short term lending** | | | | |
| Loans to credit institutions | | *1* | 152 | 72 |
| | *[= 1]* | *2* | **152** | **72** |
| **Short term borrowing** | | | | |
| Money market | | *3* | (1 073) | (1 644) |
| Repos | | *4* | (1 143) | (1 713) |
| | *[= 3 + 4]* | *5* | **(2 216)** | **(3 357)** |
| Euro commercial paper | | *6* | (29) | (20) |
| Funding from the ECB (net of deposits)[2] | | *7* | (1 800) | (4 186) |
| | *[= Σ 5 to 7]* | *8* | **(4 045)** | **(7 562)** |
| **Total short term gap** | *[= 1 + 8]* | *9* | **(3 893)** | **(7 490)** |

*Table 70*

## Own debt repurchase operations

In 2012, BPI carried out three public repurchase operations of own debt – mortgage bonds and housing – loan securitisations originated by it – which permitted the repurchase of 400 M.€ (issue price realisation value) at prices significantly below par.

**Own debt repurchase operations (public offers) in 2012**

| Issue | Security | Date | Price | Amount acquired (M.€) |
|---|---|---|---|---|
| Douro RMBS 1, 2 and 3[3] | Housing loans securitization | Jan.12 | [4] | 149 |
| OH BPI 2015 | Mortgage bonds | Feb.12 | 85% | 76 |
| Douro RMBS 1, 2 and 3 | Housing loans securitization | Apr.12 | [5] | 77 |

*Table 71*

## ECB funding

The Bank took part in two extraordinary liquidity-injection operations carried out in December 2011 and February 2012, in which the Bank raised 4 000 M.€ (2 000 M.€ in each).

These resources were allocated to the financing of the public-debt securities portfolio held by the Bank.

1) Amount of 1 300 M.€, which was subsequently reduced to 1 200 M.€ through the early repayment of 100 M.€ made in December.
2) 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.€.
3) Securitisations originated by BPI and placed on the market.
4) Prices according to the tranches, with a maximum of 65%.
5) Prices according to the tranches, with a maximum of 75%.

## Portfolio of assets eligible for Eurosystem funding

At the end of 2012, BPI had at its disposal a portfolio of assets eligible for the Eurosystem worth 11 783 M.€ (figures net of price appreciation and haircuts).

Taking into account the portfolio utilisations on that date for repo operations, for the collateralisation of various obligations and for funding from the ECB, BPI had at its disposal the means to raise additional funding from the ECB of 5 463 M.€.

**Assets eligible for the Eurosystem** — Amounts in M.€

| | | 2011 | 2012 |
|---|---|---|---|
| **Total eligible assets**[1] | *1* | **6 974** | **11 783** |
| of which: assets given as collateral[2] | *2* | 1 257 | 2 087 |
| **Net eligible assets** *[= 1 - 2]* | *3* | **5 717** | **9 696** |
| Used as collateral in funding with ECB | *4* | 2 300 | 4 233 |
| **Available eligible assets** *[= 3 - 4]* | *5* | **3 417** | **5 463** |

*Table 72*

The expansion of the portfolio of eligible assets during 2012 reflects:

- the inclusion of a portfolio of bank loans, in accordance with the facility possibility permitted during 2012;
- a new issue of mortgage bonds retained following the issue's redemption which matured in July 2012 and which had been floated on the market;
- the acquisitions of Portuguese public debt and the rebound in security prices in general relative to the end of 2011.

**Assets eligible for the Eurosystem funding**

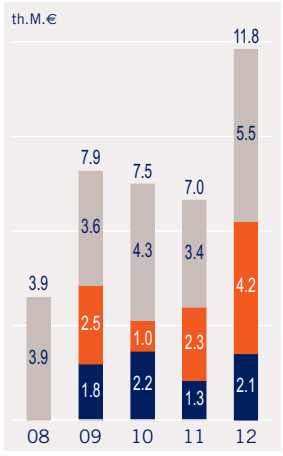



*Chart 74*

Available assets (not used)
Assets used in:
Financing with ECB
Repo operations

**Net financing with the ECB**

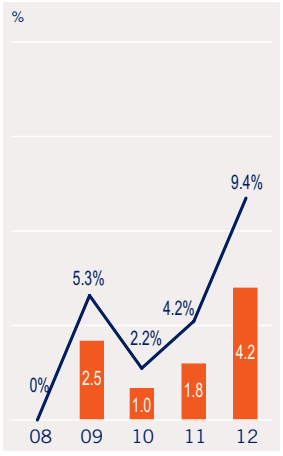



*Chart 75*

Net financing with the ECB (th.M.€)
as % of consolidated total assets

## Prospects for the background of the liquidity situation in 2013

The extraordinary 3-year funding operations are repayable early, every week, commencing in January 2013. On the first date possible, the financial system repaid a total of 138 th.M.€ but liquidity remains high. In fact, despite the improved sentiment prevailing in the second half of 2012 and in January 2013, the European banks appear to want to advance slowly in reducing the surplus liquidity levels that they are holding.

BPI did not repay any portion of the funding that it obtained via the LTRO in January and February 2013.

As for 2013, the Bank's medium and long-term refinancing needs are only 69 M.€, which amount is more than offset by the 143 M.€ of redemptions from the portfolio's securities.

The refinancing of medium and long-term debt needs arising between 2014 and 2018 are not material: 0.6 th.M.€. It is also worth noting that in 2019 there will be a significant release of liquidity with the redemption of 3 th.M.€ of medium and long-term bonds held by BPI in portfolio.

**BPI medium and long-term debt repayments net of bonds portfolio redemptions**

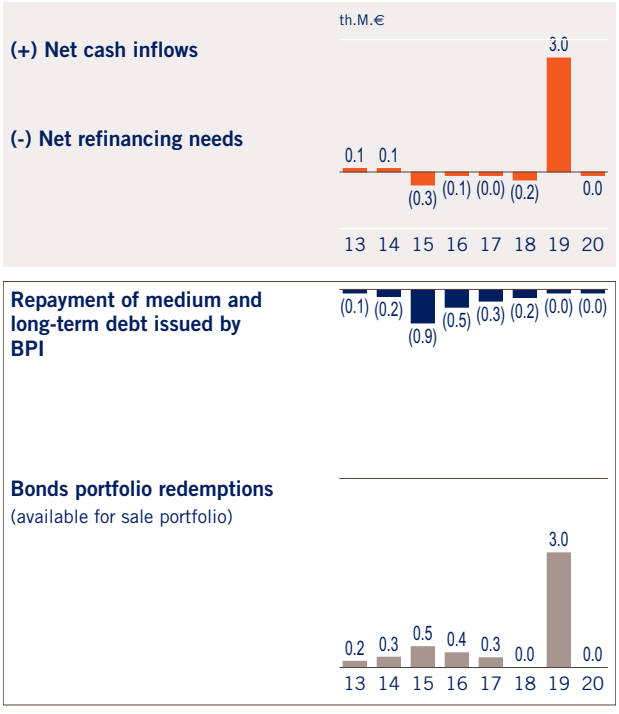



*Chart 76*

1) Total assets eligible for the Eurosystem funding, net of price appreciation and haircuts and before utilisation.
2) Assets given as collateral to entities other than the ECB.

On 13 March 2013, Banco BPI effected the early repayment of 200 M.€ of the contingent convertible subordinated bonds after having obtained the Bank of Portugal's authorisation.

With this redemption, the amount of contingent convertible subordinated bonds which are held by the Portuguese State was reduced to 1 000 M.€.

The Bank should continue to redeem this issue ahead of schedule in advance to the extent that the EBA's rules allow it and the relevant authorities authorise this.

## OPERATIONAL RISKS

### Management process

Operational risk, defined as the risk of incurring 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 inherent to the activities of all institutions.

The BPI Group has implemented procedures for the management of operational risk with the object of identifying, evaluating and managing the most important operational risks, thereby seeking to safeguard the security and efficiency of the service provided to the Customer.

The management of operational risk is in the first instance the responsibility of the Executive Committee of the Board of Directors, and is operationally delegated to the Operational Risk Committee. This Committee periodically approves and reviews the principles for the identification, evaluation, control, monitoring and mitigation of operational risk as a specific risk category.

The management model adopted is based on a self-evaluation system of the risks associated with processes and in the decentralised recording of occurrences (irregularities), carried out directly by the areas where this self-same risk occurs. Each Division appoints local operational risk managers, responsible for the identification of operational risks and for prescribing the mitigating measures.

The Operational Risk Management area integrated in the Organisation Division, besides ensuring compliance with the governance model instituted, coordinates the local operational risk managers, providing the support necessary for the implementation of the respective procedures.

### 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, the BPI Group presented the following distribution in 2012[1]:

**Losses associated with the occurrence of operational risk in 2012**
Breakdown by frequency

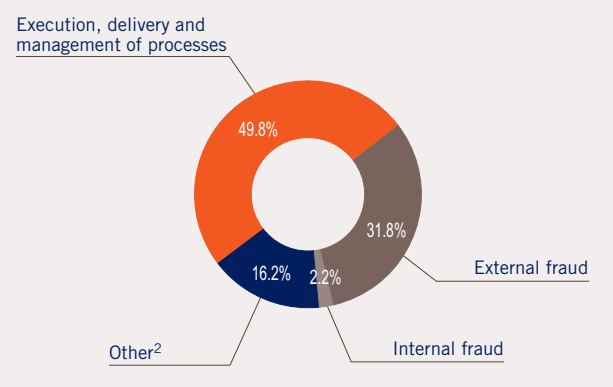



*Chart 77*

The financial impact distribution by risk type of occurrence was the following[1]:

**Losses associated with the occurrence of operational risk in 2012**
Breakdown by loss amount

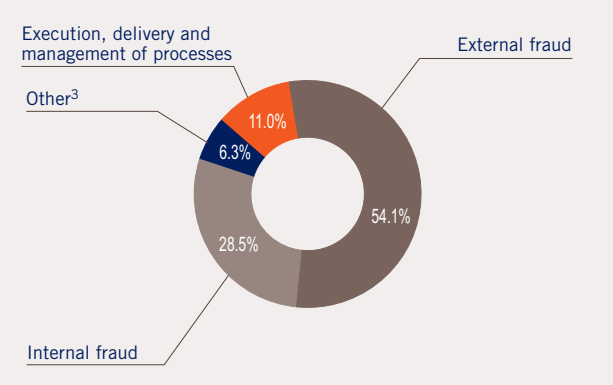



*Chart 78*

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.
2) Clients, products and commercial practices (4.2%), damages to physical assets (5.5%), disturbance in commercial activities and system failure (6.4%) and employment and on-the-job safety practices (0.1%).
3) Clients, products and commercial practices (1.7%), damages to physical assets (4.3%), disturbance in commercial activities and system failure (0.04%) and employment and on-the-job safety practices (0.3%).

### Business continuity

In conformity with the supervisory entities' recommendations, a series of policies and procedures of Business Continuity Management are established which aim to ensure the maintenance of BPI's continuous functioning, or – should this be totally impossible – to guarantee the timely recovery of business activity, minimising the impact on business.

The BPI Group's Management of Business Continuity is the direct responsibility of the Executive Committee of the Board of Directors and is vested in specific bodies: at central level in the Business Continuity Committee and in a permanent area of the Management of Business Continuity and, at each one of the Group's bodies, in persons specifically designated who undertake the identification of the critical activities and the implementation of the contingency plans which guarantee the provision of these activities 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 the computer and communication systems, assuring the Bank's functioning even under contingency conditions.

In 2012, the Business Continuity Plans which support the Group's critical activities were reviewed, optimised and tested. A significant effort was made to reinforce the support means for contingency situations (alternative premises, emergency communications, equipment).

In the two trials carried out for the restoration of the computer systems with recourse to alternative technological platforms, significant gains were registered in recovery times (Disaster Recovery Plan).

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.

### 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.

## 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 2012, 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 2012.

### 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, Private Banking and Private Equity) and asset management (unit trust fund management, pension funds and capitalisation insurance).

*DR – Financial and business structure, page 11.*

#### 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 2012.

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.

*DR – Presentation of the report, page 5; Financial review, page 54; Risk Management, page 88.*

#### 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" and "International activity", the activity carried out in 2012 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 35; Bancassurance, page 43; Asset Management, page 44; Investment banking, page 46; International activity, page 49; Financial review, page 54; NFS – 3. Segment reporting, page 139.*

**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" and "International activity", the activity carried out in 2012 is described for each business area.

*DR – Domestic commercial banking, page 35; Bancassurance, page 43; Asset Management, page 44; Investment banking, page 46; International activity, page 49; Background to operations, page 25; Financial review, page 54; Risk management, page 88.*

**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 88;*
*NFS – 4.48 Financial risks, page 199 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 88;*
*NFS – 4.48 Financial risks, page 199 and following;*
*CGovR – 4. Risk management, page 297.*

**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 in 2012.

*DR – Financial Review, page 54.*

**9. Breakdown of the "write-downs" / losses by types of products and instruments affected by the period of turbulence**
Banco BPI participated in the Greek sovereign debt exchange offer (Private Sector Involvement) as part of the 2nd financial assistance programme for Greece agreed to with the EU and the IMF, with the transaction occurring on 12 March 2012.

The impact of that transaction was recognised in 2011 accounts. Given that the 2011 Annual Report had not yet been submitted to the Board of Directors for approval at that date, in the terms provided for under "IAS 10 – Events occurring after the balance sheet date" the Exchange Offer of bonds representing Greek public debt corresponded to an "event occurring after the balance sheet date giving place to adjustments", which entailed the recognition of the respective impacts already in the 2011 fiscal year.

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 2011[1], 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 and in Note "4.48 – Financial risks" is given additional information on the exposure to sovereign debt.

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.

*NFS – 4.5. Available-for-sale financial assets, page 150, 4.7. Loans to Customers, page 156, 4.20. Provisions and impairments, page 177, 4.40. net gains / losses from financial operations, page 193; 4.48 Financial risks, page 199.*

**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.

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.

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 crisis on the economies and markets.

*DR – Financial review, page 54; Background to operations, page 25.*

**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 2012 financial statements relative to the previous year are presented in the "Financial review" chapter.

*DR – Financial review, page 54.*

**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 2012.

*DR – Financial review, page 54;*
*NFS – 4.5 Financial assets available for sale, page 150; 4.7 Loans and advances to Customers, page 156; 4.40 Net income on financial operations, page 193; 4.20 Provisions and impairment losses, page 177.*

**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 326.*

**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 88;*
*NFS – 4.48 Financial risks, page 199 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 72 and 82.*

**IV. EXPOSURE TYPES AND LEVELS AFFECTED BY THE TURBULENT PERIOD**

**16. Nominal value (or amortised cost) and fair value of exposures**

n 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 2012.

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 199 and following; 4.5 Financial assets available for sale, page 150.*

**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 88.*

**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 88;*
*NFS – 4.48 Financial risks, page 199; 4.5 Financial assets available for sale, page 150; and 4.7 Loans and advances to Customers, page 156.*

**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 71 and 86.*

**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 2012, 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 2012, BPI exposure to mono-line insurers amounted to 9 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 available-for-sale assets and in securitised loans portfolio (notes to the financial statements 2.3.3 and 2.3.4, respectively).

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 128; 2.3.3. Financial assets available for sale, page 129; 2.3.4 Loans and other receivables, page 130; 4.19 Financial liabilities relating to transferred assets, page 174.*

**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 2012.

*NFS – 4.48 Financial risks, page 199 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 128 and 4.48 Financial risks, page 199 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 325.*

DR – Directors' Report; NFS – Notes to the financial statements; CGovR – Corporate governance report.

# Rating

Following the announcement of Banco BPI's Recapitalisation Plan, the bank's individual ratings were revised upwards. The short and long-term ratings were reaffirmed and have remained stable since that time. In the first half of 2012, the ratings were downgraded, penalised by the Portuguese Republic's downgrades.

The following developments took place during 2012 on the ratings front:

- S&P revised downwards, on 14 February, the long-term rating attributed to BPI from BB+ to BB-, with negative outlook, a change that was also influenced by the change in revision methodology. The short-term B rating was reaffirmed. In July, S&P reaffirmed the long and short-term ratings given to BPI and revised upwards the individual rating grade (standalone credit profile) by one notch to bb-, incorporating the effects of the recapitalization plan;
- on 28 March, Moody's revised downwards BPI's long-term rating from Ba2 to Ba3 with negative Outlook, and maintained the short-term grade at Not-prime;
- on 17 July, the Fitch rating agency revised upwards BPI's individual rating (viability rating) by five notches to bb-, having reaffirmed the long and short-term ratings, with negative outlook.

The current long-term ratings given to BPI by Moody's and Fitch are the same as those attributed to the Republic, whereas in the case of Standard & Poor's, BPI's rating is 1 notch below that of the Republic. The Outlook for the ratings given to BPI is negative.

| Fitch Ratings | | Moody's | | Standard & Poor's | |
|---|---|---|---|---|---|
| **Banco BPI[1]** | | **Banco BPI[2]** | | **Banco BPI[3]** | |
| Credit rating (LT / ST) | BB+ / B | Credit rating (LT / ST) | Ba3 / Not prime | Credit rating (LT / ST) | BB- / B |
| Outlook | Negative | Outlook | Negative | Outlook | Negative |
| Viability rating | bb- | Financial strength (BFSR) | E+ | Stand-alone credit profile (SACP) | 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 | | ▪ Public sector | Baa3 | ▪ Mortgage | A- |
| (LT / ST) | BB+ / B | Non-collateralised senior debt | Ba3 | ▪ Public sector | BB- |
| Subordinated debt | B+ | Subordinated debt | B2 | Non-collateralised senior debt | BB- |
| Commercial paper | B | Subordinated junior debt | B3 | Subordinated debt | B- |
| Preference shares | CCC | Other short-term debt | Not prime | Subordinated junior debt | CCC- |
| | | Preference shares | Caa1 (hyb) | 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 / Not prime | Long term / Short term | BB / B |
| Outlook | Negative | Outlook | Negative | Outlook | Stable[4] |

*Figure 3*

1) Rating decision on 25 November 2011. On the 17th July 2012, Fitch Ratings reaffirmed BPI credit rating notations (LT / ST), with a negative Outlook and revised upward the stand-alone credit rating notation (viability rating).
2) Rating decision on 28 March 2012.
3) Rating decision on 14 February 2012. On the 11th July 2012, Standard & Poor's reaffirmed BPI credit rating notations (LT / ST), with a negative Outlook and revised upward the stand-alone credit rating notation (standalone credit profile).
4) On the 6th March 2013, Standard & Poor's revised upward the Outlook for the Portuguese Republic, from negative to stable, keeping unchanged the credit rating notations (LT / ST) at BB / B.

# Proposed appropriation of net profit

## PROPOSED APPLICATION OF THE 2012 RESULTS

Whereas:

a) Banco BPI, S.A. reported the consolidated net profit of € 249 134 796.00 and an individual net profit of € 177 478 106.02, for the financial year of 2012;
b) Banco BPI' s Long Term Dividend Policy, adopted at the General Meeting of Shareholders held on 19 April 2007, provides for the payment of annual dividends, upon motion to be submitted by the Board of Directors to the General Meeting, usually not below 40% of net profit reported in the consolidated accounts for the year to which it refers, unless exceptional circumstances dictate, at the Board of Directors' reasonable discretion, the proposal for the lower dividend payment;
c) The Policy outlined in the previous paragraph is temporarily limited by the provisions set forth in the Recapitalisation Plan, paragraph 6.4., approved at the General Meeting of 27 June 2012, in which the Board referred that neither dividends nor reserves will be distributed until all hybrid instruments to be issued in the recapitalisation are fully repaid, as well as by the provisions set forth in paragraph 11.1. A) of the Terms and Conditions of core tier I Capital Instruments subscribed by the State, approved by Order No. 8840-A / 2012 of the Minister of State and Finance (hereinafter referred to the Terms and Conditions and Contingent Convertible Subordinated Notes, respectively);
d) Equally relevant for this motion is that what stems from paragraph 11.1. (B) (i) of the Terms and Conditions, subject to the conditions outlined in paragraph 11.4. of said Terms and Conditions, (which include Banco de Portugal's previous consent), the duty to invest the profit for the year, net of amounts required to transfer to legal reserves and to cover losses carried forward, in the repurchase of Contingent Convertible Subordinated Notes;
e) As publicly announced, on 4 December 2012 and, more recently, on 13 March 2013, the Bank repurchased Contingent Convertible Subordinated Notes amounting to, respectively, 100 million euro and 200 million euro;
f) When assessing the compatibility of such repurchases with the level of equity capital of the Bank and its core tier I ratio, the results of the Bank for the year 2012 were considered;
g) The Bank considers, therefore, that the duty set out in d) is already accomplished;
h) In light of the provisions set forth in the preceding sub-paragraphs, the Board of Directors of the Bank considers that it is its duty to submit to the Shareholders that total profit of the consolidated for the financial year 2012 be transferred to reserves, therefore increasing its own funds;
i) Banco BPI's net worth, as shown in its individual balance sheet for the year ended on 31 December 2012, included in the report and accounts considered under Item 1 on the Agenda of the abovementioned General Meeting, includes negative retained earnings of € 25 294 434.78, deriving from the amortisation of IAS transition impacts in 2012.

The Board of Directors proposes that net profit for the year 2012 of Banco BPI's individual accounts be applied as follows:

| | |
|---|---|
| Legal reserve | 17 747 810.60 euro |
| Negative retained earnings coverage | 25 294 434.78 euro |
| Free reserve | 134 435 860.64 euro |
| Total | 177 478 106.02 euro |

The Board of Directors

# Final acknowledgements

The background to the Bank's operations in 2012 was characterised, as described in several chapters of this Report, by the deterioration in the domestic economic climate, well illustrated in the steep drop in domestic demand and the worsening unemployment situation which soared to almost three times above the average for the last 20 years. This economic behaviour was caused above all by the budgetary correction measures imposed by the adjustment programme negotiated with the IMF, the ECB and the European Commission, in force since the second half of 2011.

The organisation and management of the Bank's capitalisation and funding programme, which entailed the State's subscription of contingent convertible bonds, constituted, due to its exceptional nature, one of the main priorities in the conduct of the Bank's affairs during the past year, accompanied by the indispensable attention paid to defending and broadening the Customer base and to stimulating commercial innovation in priority segments, amongst which financing for companies, and in particular for SMEs.

In June, as a result of the sale of the position which Banco Itaú held in BPI's capital, Mr. Carlos da Camara Pestana, vice-chairman of the Board of Directors and member of the remuneration and financial risks committees, ceased his functions on these bodies. Mr. Carlos da Camara Pestana's preparation, intellect, experience and prestige will remain indelibly stamped in BPI's history, to which he made an incalculable contribution which merits our sincere tribute and acknowledgment.

In the context of the particularly difficult panorama outlined, the Board expresses its gratitude for the cooperation received from the Authorities, the hard work and professionalism of our Employees and the loyalty of our Customers.

Lisbon, 15 March 2013

The Board of Directors

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# Consolidated financial statements

## CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2012 AND 2011

(Translation of balance sheets originally issued in Portuguese – note 5)
(Amounts expressed in thousands of euro)

| | Notes | 31 Dec. 12 | | | 31 Dec. 11 |
|---|---|---|---|---|---|
| | | Amounts before impairment, depreciation and amortisation | Impairment, depreciation and amortisation | Net | Net |
| **ASSETS** | | | | | |
| Cash and deposits at central banks | 4.1 | 1 269 365 | | 1 269 365 | 1 145 118 |
| Deposits at other credit institutions | 4.2 | 453 438 | | 453 438 | 384 768 |
| Financial assets held for trading and at fair value through profit or loss | 4.3 / 4.4 | 1 111 646 | | 1 111 646 | 937 490 |
| Financial assets available for sale | 4.5 | 10 336 603 | 83 721 | 10 252 882 | 6 778 125 |
| Loans and advances to credit institutions | 4.6 | 1 711 679 | 952 | 1 710 727 | 2 337 591 |
| Loans and advances to Customers | 4.7 | 28 128 630 | 783 157 | 27 345 473 | 28 318 264 |
| Held to maturity investments | 4.8 | 445 298 | | 445 298 | 766 190 |
| Hedging derivatives | 4.4 | 280 737 | | 280 737 | 279 843 |
| Other tangible assets | 4.9 | 726 382 | 515 693 | 210 689 | 225 108 |
| Intangible assets | 4.10 | 100 566 | 86 549 | 14 017 | 9 557 |
| Investments in associated companies and jointly controlled entities | 4.11 | 202 255 | | 202 255 | 179 244 |
| Tax assets | 4.12 | 617 692 | | 617 692 | 903 529 |
| Other assets | 4.13 / 4.26 | 715 464 | 65 102 | 650 362 | 691 090 |
| **Total assets** | | **46 099 755** | **1 535 174** | **44 564 581** | **42 955 917** |
| **LIABILITIES** | | | | | |
| Resources of central banks | 4.14 | | | 4 270 918 | 2 499 197 |
| Financial liabilities held for trading | 4.15 / 4.4 | | | 340 164 | 454 238 |
| Resources of other credit institutions | 4.16 | | | 2 568 421 | 2 071 520 |
| Resources of Customers and other debts | 4.17 | | | 24 621 139 | 24 671 328 |
| Debt securities | 4.18 | | | 3 787 627 | 6 691 953 |
| Financial liabilities relating to transferred assets | 4.19 | | | 1 590 984 | 1 414 597 |
| Hedging derivatives | 4.4 | | | 814 983 | 661 904 |
| Provisions | 4.20 | | | 138 398 | 128 188 |
| Technical provisions | 4.21 | | | 2 255 364 | 2 625 181 |
| Tax liabilities | 4.22 | | | 120 176 | 32 943 |
| Contingent convertible subordinated bonds | 4.23 | | | 1 200 279 | |
| Other Subordinated debt and participating bonds | 4.24 | | | 156 331 | 214 491 |
| Other liabilities | 4.25 / 4.26 | | | 639 153 | 667 989 |
| **Total liabilities** | | | | **42 503 937** | **42 133 529** |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Subscribed share capital | 4.27 | | | 1 190 000 | 990 000 |
| Share premium account | 4.28 | | | | 128 432 |
| Other equity instruments | 4.29 | | | 8 558 | 8 030 |
| Revaluation reserves | 4.30 | | | (507 614) | (1 251 533) |
| Other reserves and retained earnings | 4.31 | | | 786 175 | 900 312 |
| (Treasury shares) | 4.29 | | | (18 272) | (21 020) |
| Consolidated net income of the BPI Group | 4.46 | | | 249 135 | (284 871) |
| **Shareholders' equity attributable to the shareholders of BPI** | | | | **1 707 982** | **469 350** |
| Minority interests | 4.32 | | | 352 662 | 353 038 |
| **Total shareholders' equity** | | | | **2 060 644** | **822 388** |
| **Total liabilities and shareholders' equity** | | | | **44 564 581** | **42 955 917** |
| **OFF BALANCE SHEET ITEMS** | | | | | |
| Guarantees given and other contingent liabilities | 4.7 / 4.33 | | | 2 390 359 | 2 540 652 |
| Of which: | | | | | |
| [Guarantees and sureties] | | | | [2 185 640] | [2 378 533] |
| [Others] | | | | [204 719] | [162 119]] |
| Commitments | 4.33 | | | 2 546 845 | 2 716 999 |

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 2012 AND 2011

(Translation of statements of income originally issued in Portuguese – note 5)
(Amounts expressed in thousands of euro)

| | Notes | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|---|
| Interest and similar income | | 1 879 695 | 2 004 810 |
| Interest and similar expenses | | (1 330 777) | (1 461 486) |
| **Financial margin (narrow sense)** | 4.34 | **548 918** | **543 324** |
| Gross margin on unit links | 4.35 | 2 671 | 3 800 |
| Income from equity instruments | 4.36 | 3 481 | 1 644 |
| Net commission relating to amortised cost | 4.37 | 27 525 | 28 003 |
| **Financial margin** | | **582 595** | **576 771** |
| Technical result of insurance contracts | 4.38 | 23 012 | (30 122) |
| Commissions received | | 330 378 | 296 113 |
| Commissions paid | | (44 285) | (46 903) |
| Other income, net | | 46 211 | 47 776 |
| **Net commission income** | 4.39 | **332 304** | **296 986** |
| Gain and loss on operations at fair value | | 229 292 | 197 357 |
| Gain and loss on assets available for sale | | 169 014 | 321 |
| Interest and financial gain and loss with pensions | 4.26 | 3 067 | 8 547 |
| **Net income on financial operations** | 4.40 | **401 373** | **206 225** |
| Operating income | | 16 574 | 108 629 |
| Operating expenses | | (20 173) | (131 236) |
| Other taxes | | (5 673) | (7 106) |
| **Net operating income** | 4.41 | **(9 272)** | **(29 713)** |
| **Operating income from banking activity** | | **1 330 012** | **1 020 147** |
| Personnel costs | 4.42 | (372 779) | (418 013) |
| General administrative costs | 4.43 | (233 413) | (230 846) |
| Depreciation and amortisation | 4.9 / 4.10 | (33 074) | (36 846) |
| **Overhead costs** | | **(639 266)** | **(685 705)** |
| Recovery of loans, interest and expenses | | 15 530 | 20 324 |
| Impairment losses and provisions for loans and guarantees, net | 4.20 | (269 385) | (213 158) |
| Impairment losses and other provisions, net | 4.20 | (36 773) | (498 060) |
| **Net income before income tax** | | **400 118** | **(356 452)** |
| Income tax | 4.44 | (88 294) | 141 191 |
| Earnings of associated companies (equity method) | 4.45 | 23 816 | 28 415 |
| **Global consolidated net income** | | **335 640** | **(186 846)** |
| Income attributable to minority interests | 4.32 | (86 505) | (98 025) |
| **Consolidated net income of the BPI Group** | 4.46 | **249 135** | **(284 871)** |
| | | | |
| **Earnings per share (in euro)** | | | |
| Basic | | 0.216 | (0.284) |
| Diluted | | 0.214 | (0.282) |

The accompanying notes form an integral part of these statements.

The Accountant

The Board of Directors

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## FOR YEARS ENDED 31 DECEMBER 2012 AND 2011

| | 31 Dec. 12 | | |
|---|---|---|---|
| | Attributable to shareholders of the BPI Group | Attributable to minority interests | Total |
| **Consolidated net income** | **249 135** | **86 505** | **335 640** |
| Foreign exchange translation differences | (9 400) | (5 543) | **(14 943)** |
| Revaluation reserves of financial assets available for sale: | | | |
| Revaluation of financial assets available for sale | 1 211 348 | | **1 211 348** |
| Tax effect | (349 477) | | **(349 477)** |
| Transfer to income resulting from sales | (167 438) | | **(167 438)** |
| Tax effect | 48 340 | | **48 340** |
| Transfer to income resulting from impairment recognized in the period | 14 827 | | **14 827** |
| Tax effect | (4 281) | | **(4 281)** |
| Actuarial deviations | 32 691 | | **32 691** |
| Tax effect | (10 700) | | **(10 700)** |
| Valuation of assets of associated companies | 29 776 | | **29 776** |
| Tax effect | (8 520) | | **(8 520)** |
| **Income not included in the consolidated statements of income** | **787 166** | **(5 543)** | **781 623** |
| **Consolidated comprehensive income** | **1 036 301** | **80 962** | **1 117 263** |

The Accountant

| | 31 Dec. 11 | | |
|---|---|---|---|
| | Attributable to shareholders of the BPI Group | Attributable to minority interests | Total |
| | **(284 871)** | **98 025** | **(186 846)** |
| | 5 007 | (1 552) | **3 455** |
| | | | |
| | (1 175 061) | | **(1 175 061)** |
| | 349 149 | | **349 149** |
| | (79) | | **(79)** |
| | (45) | | **(45)** |
| | 402 601 | | **402 601** |
| | (116 231) | | **(116 231)** |
| | (62 802) | | **(62 802)** |
| | 18 210 | | **18 210** |
| | (8 563) | | **(8 563)** |
| | 2 869 | | **2 869** |
| | **(584 945)** | **(1 552)** | **(586 497)** |
| | **(869 816)** | **96 473** | **(773 343)** |

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 2012 AND 2011

| | Subscribed share capital | Share premium account | Other equity instruments | Revaluation reserves |
|---|---|---|---|---|
| **Balance at 31 December 2010** | **900 000** | **441 306** | **9 894** | **(716 874)** |
| Impact of the change in accounting policy (note 2) | | | | |
| **Balance at 1 January 2011 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 to minority interests | | | | |
| Dividends paid on preference shares | | | | |
| Variable Remuneration Program (RVA) | | | (1 864) | |
| Sale / purchase of treasury shares | | | | |
| Sale / purchase of preference shares | | | | |
| Consolidation of BPI Alternative Fund | | | | |
| Consolidation of BPI Obrigações Mundiais Fund (ex-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)** |
| Appropriation of net income for 2011 to reserves | | | | |
| Use of share premium account to cover negative retained earnings | | (128 432) | | |
| Share capital increase | 200 000 | | | |
| Dividends paid to minority interests | | | | |
| Dividends paid on preference shares | | | | |
| Variable Remuneration Program (RVA) | | | 528 | |
| Sale / purchase of treasury shares | | | | |
| Sale / purchase of preference shares | | | | |
| Consolidation of BPI Alternative Fund | | | | |
| Consolidation of BPI Obrigações Mundiais Fund (ex-BPI Taxa Variável Fund) | | | | |
| Comprehensive income for 2012 | | | | 743 919 |
| Other | | | | |
| **Balance at 31 December 2012** | **1 190 000** | | **8 558** | **(507 614)** |

The Accountant

(Translation of statements originally issued in Portuguese – note 5)
(Amounts expressed in thousands of euro)

| Other reserves and retained earnings | Treasury shares | Net income | Minority interests | Shareholders' equity |
|---|---|---|---|---|
| **649 153** | **(21 699)** | **184 796** | **517 372** | **1 963 948** |
| (181 311) | | 383 | | (180 928) |
| **467 842** | **(21 699)** | **185 179** | **517 372** | **1 783 020** |
| 185 179 | | (185 179) | | |
| (90 000) | | | | |
| 312 874 | | | | |
| | | | (57 287) | (57 287) |
| | | | (7 237) | (7 237) |
| | 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** |
| (284 871) | | 284 871 | | |
| 128 432 | | | | |
| | | | | 200 000 |
| | | | (64 181) | (64 181) |
| | | | (1 319) | (1 319) |
| | 2 748 | | | 3 276 |
| (1 752) | | | | (1 752) |
| 747 | | | (2 065) | (1 318) |
| | | | (3 105) | (3 105) |
| | | | (10 668) | (10 668) |
| 43 247 | | 249 135 | 80 962 | 1 117 263 |
| 60 | | | | 60 |
| **786 175** | **(18 272)** | **249 135** | **352 662** | **2 060 644** |

The accompanying notes form an integral part of these statements.

The Board of Directors

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Operating activities** | | |
| Interest, commissions and similar income received | 2 712 437 | 2 995 410 |
| Interest, commissions and similar expenses paid | (1 525 462) | (1 754 708) |
| Recovery of loans and interest in arrears | 15 530 | 20 324 |
| Payments to personnel and suppliers | (629 013) | (664 267) |
| Net cash flow from income and expenses | 573 492 | 596 759 |
| Decrease (increase) in: | | |
| Financial assets held for trading, available for sale and held to maturity | (1 716 410) | 1 088 694 |
| Loans and advances to credit institutions | 617 822 | (889 872) |
| Loans and advances to Customers | 1 456 422 | 1 474 372 |
| Other assets | (121 096) | (246 792) |
| Net cash flow from operating assets | 236 738 | 1 426 402 |
| Increase (decrease) in: | | |
| Resources of central banks and other credit institutions | 2 235 577 | (1 403 017) |
| Resources of Customers | (418 843) | 991 746 |
| Financial liabilities held for trading | (114 075) | 192 746 |
| Other liabilities | 161 656 | 201 097 |
| Net cash flow from operating liabilities | 1 864 315 | (17 428) |
| Contributions to the pension funds | (40 695) | (1 375) |
| Income tax paid | (31 411) | (12 122) |
| | **2 602 439** | **1 992 236** |
| **Investing activities** | | |
| Purchase of other tangible assets and intangible assets | (35 314) | (40 005) |
| Sale of other tangible assets | 414 | 183 |
| Dividends received and other income | 20 071 | 25 156 |
| | **(14 829)** | **(14 666)** |

The accompanying notes form an integral part of these statements.

(Translation of statements originally issued in Portuguese – note 5)
(Amounts expressed in thousands of euro)

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Financing activities** | | |
| Liability for assets not derecognised | (587 955) | (155 644) |
| Issuance of contingent convertible subordinated bonds | 1 500 000 | |
| Redemption of contingent convertible subordinated bonds | (300 000) | |
| Issuance of debt securities and subordinated debt | 937 395 | 1 999 448 |
| Redemption of debt securities | (3 567 324) | (2 646 737) |
| Purchase and sale of own debt securities and subordinated debt | (282 040) | (914 121) |
| Purchase and sale of preference shares | (1 015) | (109 807) |
| Interest on contingent convertible subordinated bonds | (55 581) | |
| Interest on debt securities and subordinated debt | (173 865) | (222 667) |
| Increase in subscribed share capital | | |
| Nominal value | 200 000 | |
| Dividends paid on preference shares | (1 319) | (7 237) |
| Dividends distributed to minority interests | (64 181) | (57 287) |
| Purchase and sale of treasury shares | 1 523 | (318) |
| | **(2 394 362)** | **(2 114 370)** |
| Net increase (decrease) in cash and equivalents | 193 248 | (136 800) |
| Cash and equivalents at the beginning of the year | 1 529 469 | 1 666 269 |
| **Cash and equivalents at the end of the year** | **1 722 717** | **1 529 469** |

The accompanying notes form an integral part of these statements.

**The Accountant**

Alberto Pitôrra

**The Board of Directors**

*Chairman* Artur Santos Silva

*Deputy-Chairman* 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
Herbert Walter
Ignacio Alvarez-Rendueles
Isidro Fainé Casas
José Pena do Amaral
Juan Maria Nin
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# Notes to the consolidated financial statements as of 31 December 2012 and 2011

(Unless otherwise indicated, all amounts are expressed in thousands of euro – th. euro)
(These notes are a translation of notes originally issued in Portuguese – note 5)

## 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 2012 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 Angola, S.A. which operates as a commercial bank in Angola.

In 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).

In 2012 the BPI Group reduced its participation in Fundo BPI Taxa Variável – Fundo de Investimento Aberto de Obrigações de Taxa Variável (Fundo BPI Taxa Variável), a fund managed by BPI Gestão de Activos, to a participation of less than 50%. According to the Group's accounting policy, the investment funds are consolidated only if the Group has control, i.e., when the Group holds more than 50% of the participating units. Thus, the participation in this fund was reclassified to the financial assets available for sale portfolio, and is no longer recorded in accordance with the full consolidation method. In December 2012 Fundo BPI Taxa Variável changed its name to BPI Obrigações Mundiais – Fundo de Investimento Aberto (Fundo BPI Obrigações Mundiais).

In 2012 TC Turismo Capital – SCR, S.A. and Aicep Capital were merged by incorporation into Inovcapital – Sociedade de Capital de Risco, S.A., the corporate name of which was changed to Portugal Capital Ventures – Sociedade de Capital de Risco, S.A. The BPI Group ceased to have participations of 25% in TC Turismo Capital – SCR, S.A. and 4.4% in Inovcapital – Sociedade de Capital de Risco, S.A. and now has a 6.4% participation in Portugal Capital Ventures, that has been recorded in the financial assets available for sale portfolio.

In 2012 the BPI Group dissolved and liquidated Ulissipair ACE, a consortium of companies, 50% of which was held by Banco Português de Investimento, S.A.

The vehicles through which the Bank's loan securitisation operations are 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 2012 the BPI Group was made up of the following companies:

| | Head Office | Share-holders' equity | Total assets | Net income (loss) for the year | Direct partici-pation | Effective partici-pation | Consolidation / Recognition method |
|---|---|---|---|---|---|---|---|
| **Banks** | | | | | | | |
| Banco BPI, S.A. | Portugal | 1 131 153 | 44 461 403 | 177 478 | | | |
| Banco Português de Investimento, S.A. | Portugal | 66 910 | 2 409 204 | 6 291 | 100.00% | 100.00% | Full consolid. |
| Banco Comercial e de Investimentos, S.A.R.L. | Mozambique | 129 641 | 1 771 643 | 32 145 | 29.70% | 30.00% | Equity Method |
| Banco de Fomento Angola, S.A. | Angola | 588 534 | 6 023 612 | 165 979 | 50.08% | 50.10% | Full consolid. |
| Banco BPI Cayman, Ltd. | Cayman Islands | 156 245 | 211 728 | 1 440 | | 100.00% | Full consolid. |
| **Specialised loan companies** | | | | | | | |
| BPI Locação de Equipamentos, Lda. | Portugal | 6 159 | 6 585 | 1 692 | 100.00% | 100.00% | Full consolid. |
| **Asset management companies and dealers** | | | | | | | |
| BPI Dealer – Sociedade Financeira de Corretagem (Moçambique), S.A.R.L. | Mozambique | (540) | 467 | (615) | 13.50% | 92.65% | Full consolid. |
| BPI Gestão de Activos – Gestão de Fundos de Investimento Mobiliários, S.A | Portugal | 18 996 | 32 728 | 8 455 | 100.00% | 100.00% | Full consolid. |
| BPI – Global Investment Fund Management Company, S.A. | Luxembourg | 775 | 1 424 | 310 | 100.00% | 100.00% | Full consolid. |
| BPI (Suisse), S.A. | Switzerland | 5 025 | 6 682 | 2 080 | | 99.90% | Full consolid. |
| BPI Alternative Fund: Iberian Equities Long / Short Fund | Portugal | 57 177 | 73 883 | 3 129 | | 86.23% | Full consolid. |
| **Venture capital companies** | | | | | | | |
| BPI Private Equity – Sociedade de Capital de Risco, S.A. | Portugal | 26 994 | 30 426 | 373 | 100.00% | 100.00% | Full consolid. |
| Inter-Risco – Sociedade de Capital de Risco, S.A. | Portugal | 1 042 | 2 249 | 584 | | 49.00% | Equity Method |
| **Insurance companies** | | | | | | | |
| BPI Vida e Pensões – Companhia de Seguros, S.A. | Portugal | 200 037 | 3 007 278 | 29 146 | 100.00% | 100.00% | Full consolid. |
| Cosec – Companhia de Seguros de Crédito, S.A. | Portugal | 49 188 | 105 843 | 5 001 | 50.00% | 50.00% | Equity Method |
| Companhia de Seguros Allianz Portugal, S.A. | Portugal | 230 437 | 1 150 164 | 23 728 | 35.00% | 35.00% | Equity Method |
| **Others** | | | | | | | |
| BPI Capital Finance Ltd.[1] | Cayman Islands | 53 560 | 53 567 | 1 272 | 100.00% | 100.00% | Full consolid. |
| BPI Capital Africa (Proprietary) Limited | South Africa | (978) | 978 | (1 904) | | 100.00% | Full consolid. |
| BPI, Inc. | U.S.A. | 1 096 | 4 151 | 7 | 100.00% | 100.00% | Full consolid. |
| BPI Madeira, SGPS, Unipessoal, S.A. | Portugal | 152 869 | 154 728 | 31 | 100.00% | 100.00% | Full consolid. |
| Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A. | Portugal | 81 020 | 84 841 | 133 | 32.78% | 32.78% | Equity Method |
| Unicre – Instituição Financeira de Crédito, S.A. | Portugal | 84 566 | 305 060 | 11 255 | 20.65% | 21.01% | Equity Method |

Note: Unless otherwise indicated, all amounts are as of 31 December 2012 (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) 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.

## 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 2012, were as follows:

- IFRS 7 – Financial Instruments: Disclosures – Transfer of financial assets (amendment): 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. Implementation of these changes did not have significant impact on the financial statements presented.

At 31 December 2012 the following standards (new and revised) and interpretations, already endorsed by the European Union, were available for early adoption:

- IAS 1 – Presentation of Financial Statements – Presentation of captions in the Statement of Comprehensive Income (amendment): this standard was revised to clarify the presentation of the various captions included in the Statement of Comprehensive Income, making it possible to distinguish which balances of these captions can subsequently be reclassified to the statement of income. These amendments are mandatory for years beginning on or after 1 July 2012.

- IAS 12 – Income Taxes – Recovery of Deferred Tax Assets (amendment) – this amendment establishes a presumption that the recovery of investment property measured at fair value in accordance with IAS 40 will be made through sale. This amendment is mandatory for years beginning on or after 1 January 2013.

- IAS 19 – Employee Benefits (amendment) – this standard was amended to include several changes relating to: (i) the recognition of actuarial gains and losses due to differences between the assumptions used in the determination of liabilities and the expected return on assets and the actual amounts, as well as gains and losses due to changes in the actuarial and financial assumptions during the year, by corresponding entry to shareholders' equity; (ii) a single interest rate must be used for liabilities and plan assets; (iii) the difference between the actual return on the plan's assets and the single rate used must be recorded as actuarial gains and losses; (iv) costs recognized in the statement of income correspond only to the current service cost and net interest expense. New requirements in terms of financial statement disclosures were also introduced. This amendment is mandatory for years beginning on or after 1 January 2013.

- IAS 27 – Separate Financial Statements (amendment): this standard was amended to restrict the scope of IAS 27 to separate financial statements. This amendment is mandatory for years beginning on or after 1 January 2014.

- IAS 28 – Investments in Associates and Jointly Controlled Entities (amendment): changes were made to this standard to ensure consistency with the new standards adopted, especially the IFRS 11 – Joint Arrangements. This amendment is mandatory for years beginning on or after 1 January 2014.

- IAS 32 – Financial Instruments: Presentation (amendment): this standard was amended to clarify certain aspects relating to the diversity of the application of offsetting requirements. This amendment is mandatory for years beginning on or after 1 January 2014.

- IFRS 7 – Financial Instruments: Disclosures (amendment): this standard was amended to require additional disclosures for financial instruments, namely information regarding those subject to netting and similar agreements. This amendment is mandatory for years beginning on or after 1 January 2013.

- IFRS 10 – Consolidated Financial Statements: this standard establishes the requirements for the presentation of consolidated financial statements by the parent company replacing, on this matter, IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. This standard also introduces new requirements concerning the definition of control and the determination of the consolidation perimeter. This standard is of mandatory application for years beginning on or after 1 January 2014.

- IFRS 11 – Joint Arrangements: this standard replaces IAS 31 – Joint Ventures and SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Developers and excludes the possibility of using the proportional consolidation method for recording joint ventures. This standard is of mandatory application for years beginning on or after 1 January 2014.

- IFRS 12 – Disclosure of Interests in Other Entities: this standard establishes a new set of disclosures relating to an entity's interests in subsidiaries, joint agreements, associates and unconsolidated entities. This standard is of mandatory application for years beginning on or after 1 January 2014.

- IFRS 13 – Fair Value Measurement: this standard replaces the existing guidance in the various standards regarding fair value measurement. This standard is applied when another standard requires or permits fair value measurements or disclosures. This standard is of mandatory application for years beginning on or after 1 January 2013.

These standards, although endorsed by the European Union, were not adopted by the BPI Group at 31 December 2012 because their application is not yet mandatory. Significant impact is not expected on the financial statements as a result of adopting these standards.

## B) MAIN ACCOUNTING POLICIES

The following accounting policies are applicable to the consolidated financial statements of the BPI Group.

### 2.1. Change made in 2011 to the accounting policy for recording actuarial deviations

As mentioned in note 2.7, up to 30 June 2011, inclusive, the BPI Group used the corridor method to recognise actuarial 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 assumptions and differences between the actuarial assumptions used and the actual amounts were recognised on the balance sheet caption OTHER ASSETS or OTHER LIABILITIES and a corridor was 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. On 31 December 2011 Banco BPI changed its accounting policy for the recognition of actuarial deviations relating to 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 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. Therefore, Banco BPI adopted early an accounting policy defined in the current version of IAS 19, which will become mandatory with the new version of IAS 19, 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 deviations in 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 Corporation 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 deviations were recorded in Shareholders' equity.

Bank of Portugal Notice 2 / 2012, of 10 January establishes that the accumulated actuarial 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 recognised as a cost, within the limits mentioned above.

Retrospective application of the accounting policy for recognising actuarial 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 deviations as of 1 January 2010 | (205 891) | | (205 891) |
| Actuarial 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 recognised 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 recognised 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.

In its asset management business, the BPI Group manages assets held by investment funds, the participating units of which are owned by third parties. The financial statements of the investment funds are not included in the consolidation perimeter of the BPI Group, except when the Group has control over the investment funds, namely when it holds more than 50% of the participating units, in which case they are consolidated using the full consolidation method.

Consolidated net income is the sum of the individual net results 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 recognised;
- 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 recognised, 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 2.3.8).

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 amortised 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 recognised, the previously recognised 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 recognised 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.

At 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 recognised 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 2.3.8. 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.

Gains and losses on the sale of loans to Customers on a definitive basis are recognized in net income on financial operations in the caption GAIN AND LOSS ON THE SALE OF LOANS AND ADVANCES TO CUSTOMERS. These gains or losses correspond to the difference between the sale price and the book value of those assets, net of impairment losses.

Loans designated as hedged assets are valued as explained in note 2.3.8. 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.

***Securitised credit not derecognised***
The Bank does not derecognise 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 derecognised 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 securitised loan portfolio are accrued over the period of the credit operation.

Amounts received relating to securitisation 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 securitisation 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. Impairment losses relating to exposures of over 500 th. euro included in the Private individuals and small business segment are also determined on an individual basis.

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 difference between the book value and 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 2.3.8 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 Debt Securities and Other Subordinated debt.

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 2.3.8. 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 the 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. Contingent convertible subordinated bonds

Under the Recapitalisation Plan for reinforcing core tier I own funds, so as to comply with the minimum ratios defined by European Banking Authority and the Bank of Portugal, in June 2012 Banco BPI has issued financial instruments eligible as core tier I own funds (contingent convertible subordinated bonds), which were subscribed for by the Portuguese State (notes 4.23, 4.27 and 4.50).

Considering its features, defined in Law 63-A / 2008 of 24 November re-published by Law 4 / 2012 of 11 January (Bank Recapitalisation Law), Ministerial Order 150-A / 2012 of 17 May and in the Terms and Conditions established in Order 8840-A / 2012, of the Portuguese Minister of State and Finance of 28 June 2012 and the requirements of International Financial Reporting Standards, namely IAS 32, these financial instruments were recorded by the BPI Group as financial liabilities, since:

- it has been established that the par value of these instruments bears interest, which must be paid by the Issuer in cash or in shares of the Issuer, otherwise the instruments will be converted into shares of the Issuer in accordance with Section 8 of the above mentioned Terms and Conditions;

- the instruments should be repurchased by Banco BPI from the Portuguese State up to the end of 29 June 2017, otherwise they will be converted into shares of the Issuer;

- the conversion referred to in the preceding paragraphs will be made through the delivery of a number of shares that cannot be determined prior to the occurrence of the event that determines the conversion, since (i) as defined in the Conversion Price contained in Section 1.1. of the above mentioned Terms and Conditions, the price depends on the listed / market value of the shares in the period prior to the occurrence of such event and (ii) the determination of the number of shares is based on the Conversion Price.

Contingent convertible subordinated bonds are valued at amortised cost, using the effective interest rate method.

### 2.3.8. 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, the hedging derivative 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.

### 2.3.9. 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 capitalised 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; (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 Bank's pension fund assets was made entirely in cash.

The Bank transferred ownership of the assets under the following conditions: (i) up to 31 December 2011, the amount equivalent to 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, 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 recognised in the statement of income.

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 low risk bonds with similar terms to those of the related pension liability. The current economic situation and sovereign debt crisis in Southern of Europe have caused volatility and disruption in the debt market in the Eurozone, with the abrupt reduction of market yields on corporate bonds with better ratings and also a reduction in the available portfolio of these bonds. In order to maintain the representativeness of the discount rate in these circumstances, on 31 December 2012 Banco BPI incorporated in its determination, information on interest rates that can be obtained on bonds of the Eurozone universe and that it considers to have high quality in terms of credit risk. 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 2011. In 2012 the BPI Group changed the actuarial assumptions as of 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 assumptions, as well as differences between the actuarial 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. CHANGE MADE IN 2011 TO THE ACCOUNTING POLICY FOR RECORDING ACTUARIAL DEVIATIONS, 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 started 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 (100%) 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 could have been financed through the application of an amortisation plan of uniform instalments 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 could have been 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 did not apply 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)

Under the Collective Labour Agreement (Acordo Colectivo de Trabalho) for the banking sector there is a commitment to pay Employees a long service premium in the month in which they reach 15, 25 and 30 years of good and effective service in the banking sector, corresponding, respectively, to one, two and three months of their effective monthly remuneration (in the year the premium is attributed).

In December 2012, Banco BPI made an advanced payment of the proportional part of the long service premium for the anniversary in progress, relating to the 15, 25 and 30 years of banking service, corresponding to the period of good and effective service in the banking sector at 31 December 2012.

In the subsequent years, the BPI Group will continue to follow the requirements of the Collective Labour Agreement for the banking sector as regards the long service premium, meaning it will pay the long service premium in the years in which the Employees complete 15, 25 and 30 years of good and effective service in the banking sector, less the amounts already paid at 31 December 2012.

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 acções – RVA) (IFRS 2)

The share-based payment program (Remuneração Variável em Acções – 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 90$^{th}$ 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.

As set forth in the Recapitalisation Plan (notes 4.23, 4.27 and 4.50), during the Portuguese State investment period, the members of Banco BPI's Executive Commission will not be paid any variable remuneration. Nonetheless, the Remuneration Committee may continue to evaluate annually the performance of the members of the Executive Commission of the Board of Directors and determine the amount of the variable remuneration to which they would be entitled under the rules established in the Remuneration Policy approved in the Shareholders General Meeting of April 2011. However, payment of the variable remuneration will depend on the decision of the Remuneration Committee in office when the Portuguese State investment has been fully repaid.

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 were exempt from corporate income tax up to 31 December 2011, in accordance with article 33 of the Statute of Tax Benefits. Under the provisions of article 34 of the Statute, for the purpose of applying this exemption, at least 85% of the taxable income of Banco BPI's global operations was 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. As from 1 January 2012 Banco BPI's total net income became subject to the general Corporation Income Tax regime.

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 recognised;
- deferred tax liabilities relating to all distributable net income of Banco Comercial e de Investimentos are recognised.

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 recognised on an accruals basis. Fees received 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 recognised 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, discount rates 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 2012 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 | Inter segment operations | **Total** | Angola | Others | **Total** | | |
| **ASSETS** | | | | | | | | | | |
| Cash and deposits at central banks | 233 053 | 165 | | | 233 218 | 1 036 147 | | 1 036 147 | | 1 269 365 |
| Loans and advances to other credit institutions repayable on demand | 518 207 | 77 887 | 4 703 | (222 421) | 378 376 | 94 472 | 7 | 94 479 | (19 417) | 453 438 |
| Financial assets held for trading and at fair value through profit or loss | 862 043 | 127 621 | | (31 832) | 957 832 | 153 753 | 61 | 153 814 | | 1 111 646 |
| Financial assets available for sale | 8 306 461 | 37 383 | 47 517 | 1 861 | 8 393 222 | 1 859 660 | | 1 859 660 | | 10 252 882 |
| Loans and advances to credit institutions | 2 129 309 | 2 116 581 | 2 894 | (3 057 305) | 1 191 479 | 1 622 650 | 637 | 1 623 287 | (1 104 039) | 1 710 727 |
| Loans and advances to Customers | 26 137 119 | 147 839 | | (21 794) | 26 263 164 | 1 082 309 | | 1 082 309 | | 27 345 473 |
| Held to maturity investments | 443 280 | 30 289 | | (28 271) | 445 298 | | | | | 445 298 |
| Hedging derivatives | 284 304 | 389 | | (3 956) | 280 737 | | | | | 280 737 |
| Other tangible assets | 78 782 | 1 713 | 1 | | 80 496 | 129 675 | 518 | 130 193 | | 210 689 |
| Intangible assets | 11 835 | 50 | | | 11 885 | 2 129 | 3 | 2 132 | | 14 017 |
| Investment in associated companies and jointly controlled entities | 80 653 | | 82 711 | | 163 364 | | 38 891 | 38 891 | | 202 255 |
| Tax assets | 614 509 | 4 091 | (1 007) | | 617 593 | 10 | 89 | 99 | | 617 692 |
| Other assets | 714 510 | 32 088 | 383 | (104 519) | 642 462 | 26 660 | 194 | 26 854 | (18 954) | 650 362 9 |
| **Total assets** | **40 414 065** | **2 576 096** | **137 202** | **(3 468 237)** | **39 659 126** | **6 007 465** | **40 400** | **6 047 865** | **(1 142 410)** | **44 564 581** |
| **LIABILITIES** | | | | | | | | | | |
| Resources of central banks | 4 270 918 | | | | 4 270 918 | | | | | 4 270 918 |
| Financial liabilities held for trading | 341 601 | 28 017 | | (29 454) | 340 164 | | | | | 340 164 |
| Resources of other credit institutions | 5 846 931 | 34 006 | 25 240 | (2 215 307) | 3 690 870 | 96 | 911 | 1 007 | (1 123 456) | 2 568 421 |
| Resources of Customers and other debts | 18 162 190 | 2 229 409 | | (1 084 609) | 19 306 990 | 5 314 149 | | 5 314 149 | | 24 621 139 |
| Debt securities | 3 823 024 | 12 | | (35 409) | 3 787 627 | | | | | 3 787 627 |
| Financial liabilities relating to transferred assets | 1 591 811 | | | (827) | 1 590 984 | | | | | 1 590 984 |
| Hedging derivatives | 815 880 | | | (897) | 814 983 | | | | | 814 983 |
| Provisions | 104 455 | 215 | | | 104 670 | 33 728 | | 33 728 | | 138 398 |
| Technical provisions | 2 111 112 | 144 252 | | | 2 255 364 | | | | | 2 255 364 |
| Tax liabilities | 108 521 | 4 778 | (1 219) | | 112 080 | 8 035 | 61 | 8 096 | | 120 176 |
| Contingent convertible subordinated bonds | 1 200 279 | | | | 1 200 279 | | | | | 1 200 279 |
| Other subordinated debt and participating bonds | 218 248 | 3 842 | | (65 759) | 156 331 | | | | | 156 331 |
| Other liabilities | 570 650 | 46 988 | 3 432 | (35 975) | 585 095 | 70 957 | 2 055 | 73 012 | (18 954) | 639 153 |
| **Total liabilities** | **39 165 620** | **2 491 519** | **27 453** | **(3 468 237)** | **38 216 355** | **5 426 965** | **3 027** | **5 429 992** | **(1 142 410)** | **42 503 937** |
| **SHAREHOLDERS' EQUITY** | | | | | | | | | | |
| Shareholders' equity attributable to the shareholders of BPI | 1 197 301 | 76 698 | 109 749 | | 1 383 748 | 286 821 | 37 413 | 324 234 | | 1 707 982 |
| Minority interest | 51 144 | 7 879 | | | 59 023 | 293 679 | (40) | 293 639 | | 352 662 |
| **Total shareholders' equity** | **1 248 445** | **84 577** | **109 749** | | **1 442 771** | **580 500** | **37 373** | **617 873** | | **2 060 644** |
| **Total liabilities and shareholders' equity** | **40 414 065** | **2 576 096** | **137 202** | **(3 468 237)** | **39 659 126** | **6 007 465** | **40 400** | **6 047 865** | **(1 142 410)** | **44 564 581** |
| | | | | | | | | | | |
| **Investments made in:** | | | | | | | | | | |
| Property | 7 | | | | 7 | 9 279 | 94 | 9 373 | | 9 380 |
| Equipment and other tangible assets | 3 607 | 127 | | | 3 734 | 15 737 | 270 | 16 007 | | 19 741 |
| Intangible assets | 4 809 | 6 | | | 4 815 | 1 378 | | 1 378 | | 6 193 |

The BPI Group's income statement for the year ended 31 December 2012, 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)** | **370 777** | **(52)** | **(2 069)** | | **368 656** | **180 347** | **(85)** | **180 262** | | **548 918** |
| Gross margin on unit links | 806 | 1 865 | | | 2 671 | | | | | 2 671 |
| Income from equity instruments | 1 633 | 102 | 1 746 | | 3 481 | | | | | 3 481 |
| Net commission relating to amortised cost | 26 474 | | | | 26 474 | 1 051 | | 1 051 | | 27 525 |
| **Financial margin** | **399 690** | **1 915** | **(323)** | | **401 282** | **181 398** | **(85)** | **181 313** | | **582 595** |
| Technical result of insurance contracts | 22 739 | 273 | | | 23 012 | | | | | 23 012 |
| Commission received | 283 891 | 40 651 | | (24 088) | 300 454 | 30 995 | 179 | 31 174 | (1 250) | 330 378 |
| Commission paid | (53 617) | (9 112) | (1) | 24 088 | (38 642) | (6 886) | (7) | (6 893) | 1 250 | (44 285) |
| Other income, net | 19 974 | 86 | | | 20 060 | 26 151 | | 26 151 | | 46 211 |
| **Net commission income** | **250 248** | **31 625** | **(1)** | | **281 872** | **50 260** | **172** | **50 432** | | **332 304** |
| Gain and loss on operations at fair value | 144 467 | 9 166 | 1 | | 153 634 | 75 658 | | 75 658 | | 229 292 |
| Gain and loss on assets available for sale | 168 495 | 10 | 499 | | 169 004 | 10 | | 10 | | 169 014 |
| Interest and financial gain and loss with pensions | 2 919 | 147 | 1 | | 3 067 | | | | | 3 067 |
| **Net income on financial operations** | **315 881** | **9 323** | **501** | | **325 705** | **75 668** | | **75 668** | | **401 373** |
| Operating income | 10 401 | 316 | | | 10 717 | 5 807 | 50 | 5 857 | | 16 574 |
| Operating expenses | (19 380) | (343) | (4) | | (19 727) | (444) | (2) | (446) | | (20 173) |
| Other taxes | (4 031) | (614) | (1) | | (4 646) | (1 009) | (18) | (1 027) | | (5 673) |
| **Net operating expenses** | **(13 010)** | **(641)** | **(5)** | | **(13 656)** | **4 354** | **30** | **4 384** | | **(9 272)** |
| **Operating income from banking activity** | **975 548** | **42 495** | **172** | | **1 018 215** | **311 680** | **117** | **311 797** | | **1 330 012** |
| Personnel costs | (290 330) | (19 485) | (172) | | (309 987) | (60 720) | (2 072) | (62 792) | | (372 779) |
| General administrative costs | (169 003) | (10 872) | (38) | | (179 913) | (52 927) | (573) | (53 500) | | (233 413) |
| Depreciation and amortisation | (19 045) | (1 352) | (1) | | (20 398) | (12 586) | (90) | (12 676) | | (33 074) |
| **Overhead costs** | **(478 378)** | **(31 709)** | **(211)** | | **(510 298)** | **(126 233)** | **(2 735)** | **(128 968)** | | **(639 266)** |
| Recovery of loans, interest and expenses | 12 799 | 30 | | | 12 829 | 2 701 | | 2 701 | | 15 530 |
| Impairment losses and provisions for loans and guarantees, net | (254 065) | (384) | | | (254 449) | (14 936) | | (14 936) | | (269 385) |
| Impairment losses and other provisions, net | (32 719) | (114) | (841) | | (33 674) | (3 099) | | (3 099) | | (36 773) |
| **Net income before income tax** | **223 185** | **10 318** | **(880)** | | **232 623** | **170 113** | **(2 618)** | **167 495** | | **400 118** |
| Income tax | (78 068) | (4 024) | 204 | | (81 888) | (5 540) | (866) | (6 406) | | (88 294) |
| Earnings of associated companies (equity method) | 8 305 | | 5 249 | | 13 554 | | 10 262 | 10 262 | | 23 816 |
| **Global consolidated net income** | **153 422** | **6 294** | **4 573** | | **164 289** | **164 573** | **6 778** | **171 351** | | **335 640** |
| Income attributable to minority interest | (1 232) | (433) | | | (1 665) | (84 886) | 46 | (84 840) | | (86 505) |
| **Consolidated net income of the BPI Group** | **152 190** | **5 861** | **4 573** | | **162 624** | **79 687** | **6 824** | **86 511** | | **249 135** |
| Cash flow after taxes | 458 019 | 7 711 | 5 415 | | 471 145 | 110 308 | 6 914 | 117 222 | | 588 367 |

The BPI Group's balance sheet as of 31 December 2011 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 | Inter segment operations | **Total** | Angola | Others | **Total** | | |
| **ASSETS** | | | | | | | | | | |
| Cash and deposits at central banks | 223 705 | 199 | | | 223 904 | 921 214 | | 921 214 | | 1 145 118 |
| Loans and advances to other credit institutions repayable on demand | 659 825 | 92 082 | 4 417 | (415 651) | 340 673 | 66 773 | 50 | 66 823 | (22 728) | 384 768 |
| Financial assets held for trading and at fair value through profit or loss | 831 832 | 143 252 | | (49 099) | 925 985 | 11 437 | 68 | 11 505 | | 937 490 |
| Financial assets available for sale | 4 514 534 | 29 203 | 41 532 | 1 212 | 4 586 481 | 2 191 644 | | 2 191 644 | | 6 778 125 |
| Loans and advances to credit institutions | 3 438 111 | 2 730 212 | 2 892 | (4 090 013) | 2 081 202 | 1 075 209 | 626 | 1 075 835 | (819 446) | 2 337 591 |
| Loans and advances to Customers | 27 190 928 | 126 583 | | (19 858) | 27 297 653 | 1 020 611 | | 1 020 611 | | 28 318 264 |
| Held to maturity investments | 840 079 | 55 212 | | (129 101) | 766 190 | | | | | 766 190 |
| Hedging derivatives | 282 355 | 259 | | (2 771) | 279 843 | | | | | 279 843 |
| Other tangible assets | 95 363 | 2 027 | 1 | | 97 391 | 127 393 | 324 | 127 717 | | 225 108 |
| Intangible assets | 7 752 | 69 | | | 7 821 | 1 730 | 6 | 1 736 | | 9 557 |
| Investment in associated companies and jointly controlled entities | 65 468 | | 78 822 | | 144 290 | | 34 954 | 34 954 | | 179 244 |
| Tax assets | 900 523 | 3 158 | (240) | | 903 441 | 6 | 82 | 88 | | 903 529 |
| Other assets | 771 970 | 34 295 | 739 | (136 620) | 670 384 | 20 681 | 25 | 20 706 | | 691 090 |
| **Total assets** | **39 822 445** | **3 216 551** | **128 163** | **(4 841 901)** | **38 325 258** | **5 436 698** | **36 135** | **5 472 833** | **(842 174)** | **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 | | (35 480) | 454 238 | | | | | 454 238 |
| Resources of other credit institutions | 5 807 482 | 27 559 | (43 287) | (2 878 099) | 2 913 655 | 39 | | 39 | (842 174) | 2 071 520 |
| Resources of Customers and other debts | 18 683 548 | 2 845 976 | | (1 658 177) | 19 871 347 | 4 799 981 | | 4 799 981 | | 24 671 328 |
| Debt securities | 6 841 269 | 36 | | (149 352) | 6 691 953 | | | | | 6 691 953 |
| Financial liabilities relating to transferred assets | 1 418 177 | | | (3 580) | 1 414 597 | | | | | 1 414 597 |
| Hedging derivatives | 662 811 | 18 | | (925) | 661 904 | | | | | 661 904 |
| Provisions | 92 825 | 103 | | | 92 928 | 35 260 | | 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) | | 24 518 | 8 425 | | 8 425 | | 32 943 |
| Other subordinated debt and participating bonds | 276 613 | 6 297 | | (68 419) | 214 491 | | | | | 214 491 |
| Other liabilities | 611 485 | 56 147 | 3 868 | (47 869) | 623 631 | 43 268 | 1 090 | 44 358 | | 667 989 |
| **Total liabilities** | **39 845 332** | **3 125 485** | **(41 276)** | **(4 841 901)** | **38 087 640** | **4 886 973** | **1 090** | **4 888 063** | **(842 174)** | **42 133 529** |
| **SHAREHOLDERS' EQUITY** | | | | | | | | | | |
| Shareholders' equity attributable to the shareholders of BPI | (76 183) | 69 848 | 169 439 | | 163 104 | 271 207 | 35 039 | 306 246 | | 469 350 |
| Minority interest | 53 296 | 21 218 | | | 74 514 | 278 518 | 6 | 278 524 | | 353 038 |
| **Total shareholders' equity** | **(22 887)** | **91 066** | **169 439** | | **237 618** | **549 725** | **35 045** | **584 770** | | **822 388** |
| **Total liabilities and shareholders' equity** | **39 822 445** | **3 216 551** | **128 163** | **(4 841 901)** | **38 325 258** | **5 436 698** | **36 135** | **5 472 833** | **(842 174)** | **42 955 917** |
| | | | | | | | | | | |
| **Investments made in:** | | | | | | | | | | |
| Property | 65 | | | | 65 | 7 859 | | 7 859 | | 7 924 |
| Equipment and other tangible assets | 8 125 | 285 | | | 8 410 | 17 270 | 404 | 17 674 | | 26 084 |
| Intangible assets | 4 319 | 51 | | | 4 370 | 1 619 | 9 | 1 628 | | 5 998 |

The BPI Group's income statement for the year 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** | | **543 324** |
| 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** | | **576 771** |
| 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 | (1 526) | 296 113 |
| Commission paid | (60 907) | (11 987) | (3) | 29 803 | (43 094) | (5 335) | | (5 335) | 1 526 | (46 903) |
| Other income, net | 21 928 | 82 | | | 22 010 | 25 766 | | 25 766 | | 47 776 |
| **Net commission income** | **227 325** | **26 247** | **(3)** | | **253 569** | **43 407** | **10** | **43 417** | | **296 986** |
| Gain and loss on operations at fair value | 127 937 | 6 018 | | | 133 955 | 63 402 | | 63 402 | | 197 357 |
| Gain and loss on assets available for sale | 310 | | | | 310 | 11 | | 11 | | 321 |
| Interest and financial gain and loss with pensions | 8 490 | 56 | 1 | | 8 547 | | | | | 8 547 |
| **Net income on financial operations** | **136 737** | **6 074** | **1** | | **142 812** | **63 413** | | **63 413** | | **206 225** |
| Operating income | 41 306 | 243 | 65 470 | | 107 019 | 1 610 | | 1 610 | | 108 629 |
| Operating expenses | (128 699) | (1 809) | (1) | | (130 509) | (725) | (2) | (727) | | (131 236) |
| Other taxes | (4 340) | (1 840) | (1) | | (6 181) | (925) | | (925) | | (7 106) |
| **Net operating expenses** | **(91 733)** | **(3 406)** | **65 468** | | **(29 671)** | **(40)** | **(2)** | **(42)** | | **(29 713)** |
| **Operating income from banking activity** | **614 749** | **37 465** | **63 169** | | **715 383** | **304 751** | **13** | **304 764** | | **1 020 147** |
| Personnel costs | (342 826) | (22 108) | (169) | | (365 103) | (52 159) | (751) | (52 910) | | (418 013) |
| General administrative costs | (171 022) | (11 481) | (93) | | (182 596) | (47 826) | (424) | (48 250) | | (230 846) |
| Depreciation and amortisation | (24 314) | (1 332) | (1) | | (25 647) | (11 139) | (60) | (11 199) | | (36 846) |
| **Depreciation and amortisation** | **(538 162)** | **(34 921)** | **(263)** | | **(573 346)** | **(111 124)** | **(1 235)** | **(112 359)** | | **(685 705)** |
| Recovery of loans, interest and expenses | 17 471 | 3 | | | 17 474 | 2 850 | | 2 850 | | 20 324 |
| Impairment losses and provisions for loans and guarantees, net | (204 191) | 400 | | | (203 791) | (9 367) | | (9 367) | | (213 158) |
| Impairment losses and other provisions, net | (486 293) | (2 813) | (2 920) | | (492 026) | (6 034) | | (6 034) | | (498 060) |
| **Net income before income tax** | **(596 426)** | **134** | **59 986** | | **(536 306)** | **181 076** | **(1 222)** | **179 854** | | **(356 452)** |
| Income tax | 153 004 | (1 035) | (4 368) | | 147 601 | (5 897) | (513) | (6 410) | | 141 191 |
| Earnings of associated companies (equity method) | 12 294 | | 9 211 | | 21 505 | | 6 910 | 6 910 | | 28 415 |
| **Global consolidated net income** | **(431 128)** | **(901)** | **64 829** | | **(367 200)** | **175 179** | **5 175** | **180 354** | | **(186 846)** |
| Income attributable to minority interest | (7 202) | (466) | | | (7 668) | (90 357) | | (90 357) | | (98 025) |
| **Consolidated net income of the BPI Group** | **(438 330)** | **(1 367)** | **64 829** | | **(374 868)** | **84 822** | **5 175** | **89 997** | | **(284 871)** |
| Cash flow after taxes | 276 468 | 2 378 | 67 750 | | 346 596 | 111 362 | 5 235 | 116 597 | | 463 193 |

## 4.1. Cash and deposits at central banks

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Cash | 367 092 | 319 814 |
| Demand deposits at the Bank of Portugal | 19 367 | 36 496 |
| Demand deposits at foreign central banks | 882 821 | 788 490 |
| Accrued interest | 85 | 318 |
| | **1 269 365** | **1 145 118** |

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 1% 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.

The caption DEMAND DEPOSITS AT FOREIGN CENTRAL BANKS includes deposits made by Banco de Fomento Angola in Banco Nacional de Angola (BNA) to comply with Angola's requirements for the maintenance of minimum cash reserves. These deposits do not bear interest. Compulsory cash reserves are currently calculated under the terms of BNA Instruction 2 / 2011 of 28 April and must be held in kwanzas and other currencies, depending on the currency of the liabilities which serve as a base for determining the amount, and must be maintained during the period they refer to. At 31 December 2012 and 2011, the requirement to maintain compulsory cash reserves was calculated by application of a 20% rate to the mathematical average of the eligible liabilities in kwanzas and 15% rate to mathematical average of the eligible liabilities in other currencies.

## 4.2. Deposits at other credit institutions

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Domestic credit institutions** | | |
| Demand deposits | 3 684 | 2 877 |
| Cheques for collection | 77 607 | 97 799 |
| Other | 994 | 1 800 |
| **Foreign credit institutions** | | |
| Demand deposits | 366 594 | 277 871 |
| Cheques for collection | 4 558 | 4 322 |
| Accrued interest | 1 | 99 |
| | **453 438** | **384 768** |

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. 12 | 31 Dec. 11 |
|---|---|---|
| **FINANCIAL ASSETS HELD FOR TRADING** | | |
| **Debt Instruments** | | |
| Bonds issued by Portuguese government entities | 3 712 | 3 387 |
| Bonds issued by foreign government entities | 153 801 | 23 031 |
| Bonds issued by other Portuguese entities | | |
| Non-subordinated debt | 4 833 | 1 960 |
| Bonds issued by other foreign entities | | |
| Non-subordinated debt | 3 970 | 14 760 |
| Subordinated debt | 189 | 3 524 |
| | **166 505** | **46 662** |
| **Equity instruments** | | |
| Shares issued by Portuguese entities | 108 913 | 96 063 |
| Shares issued by foreign entities | 58 944 | 51 600 |
| | **167 857** | **147 663** |
| **Other securities** | | |
| Participating units issued by Portuguese entities | 152 | |
| Participating units issued by foreign entities | 85 | 92 |
| | **237** | **92** |
| | **334 599** | **194 417** |
| **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS** | | |
| **Debt Instruments** | | |
| Bonds issued by Portuguese government entities | 119 435 | 72 805 |
| Bonds issued by foreign government entities | 89 164 | 81 648 |
| Bonds issued by other Portuguese entities | | |
| Non-subordinated debt | 19 015 | 21 241 |
| Bonds issued by foreign financial entities | 744 | 730 |
| Bonds issued by other foreign entities | | |
| Non-subordinated debt | 51 298 | 60 294 |
| Subordinated debt | 1 685 | 2 082 |
| | **281 341** | **238 800** |
| **Equity instruments** | | |
| Shares issued by Portuguese entities | 489 | 403 |
| Shares issued by foreign entities | 21 993 | 21 973 |
| | **22 482** | **22 376** |
| **Other securities** | | |
| Participating units issued by Portuguese entities | 12 426 | 11 936 |
| Participating units issued by foreign entities | 131 771 | 127 387 |
| | **144 197** | **139 323** |
| | **448 020** | **400 499** |
| **DERIVATIVE INSTRUMENTS WITH POSITIVE FAIR VALUE (NOTE 4.4)** | **329 027** | **342 574** |
| | **1 111 646** | **937 490** |

This caption includes the following assets hedging capitalisation insurance products issued by BPI Vida e Pensões:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Debt instruments | | |
| Of public entities | 208 599 | 154 453 |
| Other entities | 72 742 | 84 362 |
| Equity instruments | 6 186 | 5 919 |
| Other securities | 144 197 | 139 323 |
| Derivative instruments with positive fair value | 286 | 747 |
| | **432 010** | **384 804** |

In 2011, in compliance with indications received from the Portuguese Insurance Institute (Instituto de Seguros de Portugal), BPI Vida e Pensões reclassified the securities included in the capitalisation 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 and in the first half of 2012, 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. 12 | | | 31 Dec. 11 | | |
|---|---|---|---|---|---|---|
| | Notional value[1] | Book value | | Notional value[1] | Book value | |
| | | Assets | Liabilities | | Assets | Liabilities |
| **Exchange rate contracts** | | | | | | |
| Futures | 239 448 | | | 239 448 | | |
| Options | | | | 1 087 | 6 | |
| Exchange forwards and swaps | 1 816 008 | 1 172 | 112 | 1 266 768 | 1 329 | 487 |
| **Interest rate contracts** | | | | | | |
| Futures | 184 067 | 29 | 113 | 92 568 | 1 172 | 6 |
| Options | 594 164 | 5 333 | 5 545 | 965 982 | 7 992 | 7 578 |
| Swaps | 7 527 215 | 285 208 | 286 338 | 8 561 116 | 228 439 | 221 283 |
| **Contracts over shares** | | | | | | |
| Futures | 33 924 | 15 | 55 | 38 378 | 5 | 239 |
| Swaps | 221 830 | 2 837 | 13 367 | 235 541 | 6 663 | 2 724 |
| Options | 177 680 | 1 124 | 253 | 219 316 | 1 934 | 429 |
| **Contracts over other underlying items** | | | | | | |
| Futures | 185 687 | | | 165 204 | | |
| **Others** | | | | | | |
| Options[2] | 1 198 581 | 32 415 | 33 210 | 1 566 524 | 94 412 | 94 562 |
| Others[3] | 2 157 136 | | 938 | 2 346 662 | | 590 |
| **Overdue derivatives** | | 894 | | | 622 | |
| | **14 335 740** | **329 027** | **339 931** | **15 698 594** | **342 574** | **327 898** |

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. 12 | | | 31 Dec. 11 | | |
|---|---|---|---|---|---|---|
| | 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 |
| **Interest rate contracts** | | | | | | |
| Futures | 137 358 | 350 | 248 | 1 981 482 | 450 | 5 727 |
| Swaps | 15 467 042 | 244 327 | 778 369 | 17 073 707 | 234 657 | 604 522 |
| **Contracts over shares** | | | | | | |
| Swaps | 298 384 | 764 | 4 370 | 366 449 | 46 | 9 546 |
| **Contracts over credit events** | | | | | | |
| Swaps | 15 164 | 33 | 1 | 48 730 | 272 | 588 |
| **Contracts over other underlying items** | | | | | | |
| Swaps | 32 786 | 3 808 | 540 | 72 976 | 4 212 | 1 333 |
| **Others** | | | | | | |
| Options[2] | 622 712 | 31 455 | 31 455 | 716 726 | 40 186 | 40 186 |
| | **16 573 446** | **280 737** | **814 983** | **20 305 905** | **279 843** | **661 904** |

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, 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 2012 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** | **1 787 487** | **17 019** | **11 502** | | | **1 816 008** |
| Forwards | 118 276 | 10 403 | 6 264 | | | 134 943 |
| Swaps | 1 669 211 | 6 616 | 5 238 | | | 1 681 065 |
| **Interest rate contracts** | **1 967 935** | **1 789 663** | **4 166 741** | **9 847 797** | **5 816 285** | **23 588 421** |
| Swaps | 1 943 094 | 1 742 958 | 4 106 245 | 9 408 144 | 5 793 816 | 22 994 257 |
| Options | 24 841 | 46 705 | 60 496 | 439 653 | 22 469 | 594 164 |
| **Contracts over indexes and shares** | **376 185** | **64 868** | **79 694** | **177 022** | **125** | **697 894** |
| Swaps | 257 431 | 37 753 | 79 694 | 145 336 | | 520 214 |
| Options | 118 754 | 27 115 | | 31 686 | 125 | 177 680 |
| **Contracts over credit events** | | **5 924** | **9 240** | | | **15 164** |
| Swaps | | 5 924 | 9 240 | | | 15 164 |
| **Contracts over other underlying items** | **2 947** | **6 712** | **10 369** | **12 758** | | **32 786** |
| Swaps | 2 947 | 6 712 | 10 369 | 12 758 | | 32 786 |
| **Others** | **231 293** | **191 277** | **242 391** | **2 985 026** | **328 442** | **3 978 429** |
| Options | 231 293 | 191 277 | 190 059 | 880 222 | 328 442 | 1 821 293 |
| Others | | | 52 332 | 2 104 804 | | 2 157 136 |
| | **4 365 847** | **2 075 463** | **4 519 937** | **13 022 603** | **6 144 852** | **30 128 702** |
| **Organized markets** | | | | | | |
| **Exchange rate contracts** | **239 448** | | | | | **239 448** |
| Futures | 239 448 | | | | | 239 448 |
| **Interest rate contracts** | **58 425** | **83 000** | **121 000** | **59 000** | | **321 425** |
| Futures | 58 425 | 83 000 | 121 000 | 59 000 | | 321 425 |
| **Contracts over indexes and shares** | **33 924** | | | | | **33 924** |
| Futures | 33 924 | | | | | 33 924 |
| **Contracts over other underlying items** | **95 008** | **63 893** | **26 786** | | | **185 687** |
| Futures | 95 008 | 63 893 | 26 786 | | | 185 687 |
| | **426 805** | **146 893** | **147 786** | **59 000** | | **780 484** |
| | **4 792 652** | **2 222 356** | **4 667 723** | **13 081 603** | **6 144 852** | **30 909 186** |

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 2012 the distribution of derivative operations, by counterparty, was as follows:

| 31 Dec. 12 | Notional value[1] | Net exposure[2] | % of notional value |
|---|---|---|---|
| **Over-the-counter market** | **26 150 273** | **282 436** | **97.1%** |
| OTC with financial institutions | 22 074 952 | 5 700 | 82.0% |
| OTC with other financial intermediaries | 1 666 716 | 2 177 | 6.2% |
| OTC with local and administrative public sector | 15 342 | 784 | 0.1% |
| OTC with companies | 2 280 410 | 271 347 | 8.5% |
| OTC with investment / pension funds | 85 752 | | 0.3% |
| OTC with Individuals | 27 101 | 2 428 | 0.1% |
| **Regulated markets** | **780 484** | | **2.9%** |
| Stock exchange | 780 484 | | 2.9% |
| | **26 930 757** | **282 436** | **100.0%** |

1) Does not include embedded derivatives and other options in the amount of 3 978 429 th. euro.
2) Amount of exposure considering netting agreements and collaterals.

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 companies | 2 735 772 | 214 460 | 8.7% |
| OTC with investment / pension funds | 113 851 | 10 | 0.4% |
| 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 2012 the distribution of derivative operations, by counterparty external rating, was as follows:

| 31 Dec. 12 | Notional value[1] | Gross exposure[2] | Exposure considering netting[3] | Net exposure[4] |
|---|---|---|---|---|
| **Over-the-counter market (OTC)** | | | | |
| AA- | 803 469 | 13 504 | 9 416 | |
| A+ | 1 508 790 | 6 471 | | |
| A | 6 839 660 | 155 578 | 90 467 | 888 |
| A- | 3 711 010 | 44 079 | 3 843 | 1 190 |
| BBB+ | 41 083 | 777 | 471 | 46 |
| BBB | 910 400 | 13 928 | 2 242 | 1 922 |
| BBB- | 8 076 588 | 48 686 | 9 580 | 450 |
| BB+ | 68 088 | 10 273 | 6 641 | 471 |
| BB- | 28 168 | 1 330 | 1 330 | 330 |
| B+ | 7 500 | 403 | 403 | 403 |
| N.R. | 4 155 517 | 281 607 | 278 488 | 276 736 |
| | **26 150 273** | **576 635** | **402 881** | **282 436** |
| **Traded on the stock exchange** | | | | |
| Futures[5] | 780 484 | | | |
| | **780 484** | | | |
| | **26 930 757** | **576 635** | **402 881** | **282 436** |

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 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 3 978 429 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 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 | | | |
| | **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 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.

## 4.5. Financial assets available for sale

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Debt instruments** | | |
| Bonds issued by Portuguese government entities | 5 493 710 | 2 068 275 |
| Bonds issued by foreign government entities | 3 249 288 | 3 354 008 |
| Bonds issued by other Portuguese entities | | |
| Non-subordinated debt | 79 826 | 152 001 |
| Bonds issued by other foreign entities | | |
| Non-subordinated debt | 303 848 | 295 366 |
| Subordinated debt | 753 087 | 628 200 |
| Impairment | (1 501) | (1 530) |
| | **9 878 258** | **6 496 320** |
| **Equity instruments** | | |
| Shares issued by Portuguese entities | 59 063 | 75 708 |
| Impairment | (27 933) | (26 968) |
| Quotas | 46 335 | 48 161 |
| Shares issued by foreign entities | 36 180 | 31 884 |
| Impairment | (18 156) | (18 221) |
| | **95 489** | **110 564** |
| **Other securities** | | |
| Participating units issued by Portuguese entities | 289 922 | 170 130 |
| Impairment | (15 068) | (3 571) |
| Participating units issued by foreign entities | 1 535 | 960 |
| | **276 389** | **167 519** |
| **Loans and other receivables** | 22 722 | 22 105 |
| Impairment | (19 976) | (18 383) |
| | **2 746** | **3 722** |
| Overdue bonds | 1 087 | 1 077 |
| Impairment on overdue bonds | (1 087) | (1 077) |
| | **10 252 882** | **6 778 125** |

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.

On 21 February 2012 the terms of the agreement on the private sector involvement in the restructuring of the Greek Government debt were announced, resulting in the exchange of the securities held by the BPI Group and recorded in the loans to Customers portfolio at 31 December 2011 for new securities issued by Greece. Considering the existence of an active market, the new securities received were recorded in the Financial assets available for sale portfolio. In the first half of 2012, the BPI Group recognized impairment losses of 16 102 th. euro on securities issued by Greece recorded in the Financial assets available for sale portfolio, which were all sold in the second half of 2012. At the time of sale, impairment of 2 443 th. euro was used and the remaining amount was annulled (notes 4.7, 4.20 and 4.48).

The accounting impact relating to the restructuring of Greek Government debt in 2012 and 2011 is shown in note 4.48 EXPOSURE TO SOVEREIGN DEBT.

The changes in impairment losses and provisions in 2012 and 2011 are shown in note 4.20.

At 31 December 2012 this caption was made up as follows:

| 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 |
| **SECURITIES** | | | | | | | | |
| **Debt instruments** | | | | | | | | |
| **Issued by Portuguese entities** | | | | | | | | |
| ***Portuguese public debt*** | | | | | | | | |
| *Treasury bills* | | | | | | | | |
| BILHETES DO TESOURO-CZ-17.05.2013 | 185 804 000 | 1.00 | 0.99 | 181 052 | 184 643 | 929 | | |
| BILHETES DO TESOURO-CZ-18.01.2013 | 87 624 000 | 1.00 | 1.00 | 86 651 | 87 570 | 38 | | |
| BILHETES DO TESOURO-CZ-18.10.2013 | 92 353 000 | 1.00 | 0.98 | 86 616 | 90 852 | 1 562 | | |
| BILHETES DO TESOURO-CZ-19.07.2013 | 579 393 000 | 1.00 | 0.99 | 559 565 | 574 816 | 6 300 | | |
| BILHETES DO TESOURO-CZ-21.03.2014 | 241 684 000 | 1.00 | 0.97 | 231 217 | 234 023 | 928 | | |
| BILHETES DO TESOURO-CZ-21.06.2013 | 227 441 000 | 1.00 | 0.99 | 218 609 | 225 524 | 2 103 | | |
| BILHETES DO TESOURO-CZ-22.02.2013 | 388 500 000 | 1.00 | 1.00 | 369 935 | 387 840 | 1 987 | | |
| BILHETES DO TESOURO-CZ-22.03.2013 | 1 123 689 000 | 1.00 | 1.00 | 1 093 440 | 1 120 766 | 4 448 | | |
| BILHETES DO TESOURO-CZ-23.05.2014 | 432 856 000 | 1.00 | 0.96 | 413 885 | 416 299 | 1 056 | | |
| | | | | **3 240 970** | **3 322 333** | **19 351** | | |
| *Treasury bonds* | | | | | | | | |
| OT – 3.35% (15.10.2015) | 89 150 000 | 0.01 | 0.01 | 68 023 | 88 229 | 15 923 | | |
| OT – 4.2% (15.10.2016) | 102 500 000 | 0.01 | 0.01 | 75 748 | 101 819 | 21 804 | | |
| OT – 4.35% (16.10.2017) | 160 500 000 | 0.01 | 0.01 | 111 845 | 156 497 | 43 198 | | |
| OT – 5.45% – SETEMBRO – 1998 / 2013 | 150 000 | 0.01 | 0.01 | 150 | 155 | 2 | | |
| OT – 3.6% – 15.10.2014 | 1 441 000 | 0.01 | 0.01 | 1 348 | 1 456 | 58 | | |
| OT – 4.45% – 15.06.2018 | 30 000 000 | 0.01 | 0.01 | 21 815 | 28 553 | 5 394 | | |
| OT – 4.75% – 14.06.2019 | 1700 000 000 | 0.01 | 0.01 | 1 804 908 | 1 587 846 | (229 889) | (285 969) | |
| OT – 6.4% – 15.02.2016 | 188 250 000 | 0.01 | 0.01 | 145 574 | 206 822 | 43 405 | | |
| | | | | **2 229 411** | **2 171 377** | **(100 105)** | **(285 969)** | |
| ***Other residents*** | | | | | | | | |
| ***Non-subordinated debt*** | | | | | | | | |
| *Other bonds* | | | | | | | | |
| ANA – AEROP.PORTUGAL-TV-28.08.2013 | 50 000 000 | 50 000.00 | 50 687.50 | 50 000 | 51 390 | 688 | (701) | |
| CAIXA GERAL DE DEPOSITOS-8%-28.09.2015 | 5 296 000 | 1 000.00 | 1 078.10 | 5 388 | 5 819 | 336 | | |
| GALP-ENERGIA SGPS – TV – 20.05.2013 | 990 000 | 30 000.00 | 30 000.00 | 996 | 994 | (6) | | |
| PARPUBLICA – 3.5% – 08.07.2013 | 20 000 000 | 50 000.00 | 49 375.00 | 19 948 | 20 087 | (379) | (197) | |
| SEMAPA – 2006 / 2016 | 500 000 | 50 000.00 | 43 000.00 | 495 | 432 | (68) | | |
| SONAE DISTRIBUIÇÃO SETEMBRO – 2007 / 2015 | 1 100 000 | 10.00 | 10.00 | 1 100 | 1 104 | | | |
| | | | | **77 927** | **79 826** | **571** | **(898)** | |
| **Issued by non-residents** | | | | | | | | |
| ***By foreign government entities*** | | | | | | | | |
| *Bonds* | | | | | | | | |
| BILHETES DO TESOURO (Angola) | 20 236 456 | 7.91 | | 153 245 | 155 094 | | | |
| BUONI POLIENNALI DEL T-4.25%-01.09.2019 | 800 000 000 | 1 000.00 | 1 029.20 | 818 068 | 834 599 | 11 211 | (144 808) | |
| BUONI POLIENNALI DEL T-4.5%-01.03.2019 | 175 000 000 | 1 000.00 | 1 044.95 | 185 458 | 185 469 | 1 024 | (31 851) | |
| IRISH TREASURY-4%-15.01.2014 | 20 000 000 | 0.01 | 0.01 | 20 124 | 21 169 | 284 | (536) | |
| IRISH TREASURY-4.4%-18.06.2019 | 235 000 000 | 0.01 | 0.01 | 229 115 | 240 889 | 4 262 | (35 227) | |
| IRISH TREASURY-5.9%-18.10.2019 | 100 000 000 | 0.01 | 0.01 | 108 108 | 109 843 | 3 256 | (15 486) | |
| OBRIGAÇÕES DO TESOURO – AKZ (Angola) | 727 314 | 791.30 | | 680 216 | 1 111 061 | | | |
| OBRIGAÇÕES DO TESOURO – USD (Angola) | 70 264 | 158.26 | | 375 448 | 380 900 | | | |
| Títulos do Banco Central (Angola) | 27 000 000 | 7.91 | | 208 868 | 210 264 | | | |
| | | | | **2 778 650** | **3 249 288** | **20 037** | **(227 908)** | |
| **Other non-residents** | | | | | | | | |
| ***Non-subordinated debt*** | | | | | | | | |
| *Bonds* | | | | | | | | |
| ALROSA FINANCE SA-8.875%-17.11.2014 | 9 852 963 | 757.92 | 837.97 | 11 372 | 10 998 | 690 | (851) | |
| ALTADIS EMIS.FINANCE – 4% (11.12.2015) | 35 000 000 | 1 000.00 | 1 082.28 | 33 026 | 37 956 | 3 517 | (3 675) | |
| ATLANTES MORTGAGE – SR.1-CL.A (17.1.2036) | 1 248 412 | 24 968.23 | 20 637.77 | 1 089 | 1 033 | (216) | | |
| AVOCA CLO BV-SR-II.X-CL-A1-15.01.2020 | 378 242 | 472.80 | 466.32 | 369 | 375 | (2) | | |
| BANCA POPOLARE DI MILANO-TV-31.01.2014 | 500 000 | 1 000.00 | 967.00 | 494 | 484 | (15) | | |
| BARCLAYS BANK PLC-TV-25.05.2017 | 3 500 000 | 50 000.00 | 32 691.30 | 2 528 | 2 288 | (398) | | |
| CELF LOAN PART.BV-SR.2005-1X CL.A 2021 | 593 561 | 741.95 | 724.89 | 573 | 583 | (14) | | |
| CM BANCAJA FTA-SR.1 CL.A TV.(22.12.2036) | 95 481 | 4 774.05 | 4 501.31 | 82 | 90 | 6 | | |
| COSAN FINANCE LTD-7%-01.02.2017 | 15 158 405 | 757.92 | 865.92 | 14 998 | 17 758 | 2 308 | (3 527) | |
| COSIPA COMMERCIAL – 8.25% (14.06.2016) | 7 958 163 | 757.92 | 852.28 | 8 925 | 8 978 | 643 | (1 227) | |

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.) | | | | | | | | |
| DOLLAR DIVERS RI.F-6.55%(16.12.2013)-REG | 652 354 | 130.47 | 130.47 | 710 | 654 | (7) | | |
| DUCHESS-SR.V-X CL.B-TV.25.05.2021 | 800 000 | 1 000.00 | 900.00 | 742 | 720 | (44) | | |
| EIRLES TWO LIMITED-TV. PERP. | 800 000 | 100 000.00 | 80 000.00 | 794 | 644 | (160) | | |
| EURO-VIP / 1990 | 4 547 522 | 757.92 | 522.96 | 4 548 | 3 149 | 91 | | 1 501 |
| GAZ CAPITAL(GAZPROM)-6.212% (22.11.2016) | 24 632 409 | 757.92 | 847.45 | 24 547 | 27 703 | 2 943 | (4 430) | |
| HARVEST CLO-SR.II-X CL.A (21.05.2020) | 486 142 | 9 172.49 | 8 818.44 | 470 | 468 | (19) | | |
| KION MORTGAGE FIN SR.06-1 CL.A-15.07.51 | 119 934 | 1 873.97 | 1 178.35 | 119 | 76 | (43) | | |
| LAFARGE-4.25% (23.03.2016) | 30 000 000 | 1 000.00 | 1 039.50 | 29 529 | 32 173 | 1 611 | (3 998) | |
| LAFARGE-6.5%-15.07.2016 | 6 821 282 | 757.92 | 833.71 | 7 014 | 7 707 | 614 | (1 137) | |
| MAGRITTE FINANCE NV-SR.2004-CL.A(1.6.32) | 368 552 | 36 855.21 | 36 118.11 | 352 | 361 | (7) | | |
| ORION FINANCE PLC – T.V. (15.08.2040) | 65 559 | 2 185.30 | 2 054.18 | 62 | 62 | (1) | | |
| OTE PLC-4.625%-20.05.2016 | 25 000 000 | 50 000.00 | 43 875.00 | 24 912 | 22 650 | (3 028) | (2 845) | |
| PEMEX PROJ.FDG MAST.TR – 6.375% – 2016 | 28 000 000 | 1 000.00 | 1 158.75 | 29 881 | 33 169 | 3 401 | (3 602) | |
| PORTUGAL TELCM INT FIN-4.375% (24.3.2017) | 24 000 000 | 1 000.00 | 1 010.05 | 23 017 | 25 052 | 1 151 | (4 045) | |
| TELECOM ITALIA SPA -4.75% (19.05.2014) | 62 500 000 | 50 000.00 | 52 302.50 | 62 392 | 67 216 | 2 964 | (3 189) | |
| | | | | **282 545** | **302 347** | **15 985** | **(32 526)** | **1 501** |
| ***Subordinated debt*** | | | | | | | | |
| *Bonds* | | | | | | | | |
| ALLIANZ FINANCE BV-4.375% PERP. | 135 000 000 | 1 000.00 | 1 000.62 | 128 393 | 140 215 | 2 864 | (19 701) | |
| ALLIANZ FRANCE-4.625%-PERP | 20 000 000 | 1 000.00 | 992.50 | 19 503 | 20 367 | 35 | (1 880) | |
| AVOCA CLO SR.IV-X CL.B-TV.(18.02.2022) | 800 000 | 100 000.00 | 86 020.00 | 746 | 691 | (91) | | |
| AXA SA – 5.777% PERP/ SUB | 100 000 000 | 1 000.00 | 981.25 | 104 579 | 100 942 | (3 573) | (12 521) | |
| BANCO SABADELL-5.234%-PERPETUA | 50 000 | 50 000.00 | 27 875.00 | 49 | 29 | (22) | | |
| BAYER AG – 5% (29.07.2105) | 75 000 000 | 1 000.00 | 1 054.50 | 71 277 | 80 680 | 5 306 | (7 126) | |
| C8 CAPITAL SPV – 6.64% – PERPETUA | 49 264 817 | 757.92 | 560.86 | 49 058 | 36 456 | (12 755) | (4 554) | |
| CAJA AHORROS DE GALICIA-TV-PERPETUA | 50 000 | 50 000.00 | 7 500.00 | 50 | 8 | (42) | | |
| CIBELES FTYPME-SR.III-CL.BSA(26.11.2030) | 30 625 | 7 656.21 | 7 419.98 | 30 | 30 | (1) | | |
| CLARIS MILLESIME CDO-SR.1-CL.2 (10.06.24) | 500 000 | 500 000.00 | 327 300.00 | 450 | 328 | (138) | | |
| DONG A/S – 5.5% (29.06.3005) | 65 000 000 | 1.00 | 1.05 | 65 111 | 70 118 | 3 264 | (7 353) | |
| ELM BV (SWISS REIN CO) – TV – PERPETUA | 48 000 000 | 50 000.00 | 50 937.50 | 48 264 | 49 149 | 772 | (6 010) | |
| GENERALI FINANCE BV – 5.479% – PERPETUAS | 75 000 000 | 50 000.00 | 42 416.50 | 76 049 | 67 296 | (11 807) | (11 029) | |
| GRANITE MASTER-SR.2006-1A-CL.A5-20.12.54 | 840 429 | 152.81 | 149.60 | 830 | 823 | (18) | | |
| GRANITE MORTG.-TV(20.3.2044)-SR.04-1/2C | 500 000 | 100 000.00 | 87 901.10 | 499 | 440 | (60) | | |
| GRANITE MORTG.-TV(20.3.2044)-SR.04-1/2M | 500 000 | 100 000.00 | 91 461.50 | 499 | 457 | (43) | | |
| GRANITE MORTG.-TV(20.9.2044)-SR.04-3/2C | 153 488 | 383.72 | 336.29 | 152 | 135 | (19) | | |
| HARBOURMASTER CLO-S.4X-CL.A3(11.10.2019) | 500 000 | 1.00 | 0.73 | 491 | 366 | (130) | | |
| HARVEST CLO SA-SR.IX-CL.B2 (29.3.2017) | 750 000 | 250 000.00 | 234 125.00 | 745 | 705 | (48) | | |
| HENKEL KGAA – T.V. (25.11.2104) | 5 000 000 | 1 000.00 | 1 072.50 | 4 913 | 5 389 | 392 | (536) | |
| LUSITANO MTGE-SR.1-CL.D-TV (15.12.2035) | 200 000 | 100 000.00 | 33 210.00 | 198 | 67 | (134) | | |
| MADRID RMBS FTA-SR.06-1 CL.A2-22.06.2049 | 229 643 | 57 410.87 | 44 607.77 | 226 | 178 | (48) | | |
| OLD MUTUAL PLC-OB.PERPETUA | 25 000 000 | 1 000.00 | 923.75 | 24 769 | 23 289 | (1 700) | (2 561) | |
| OPERA FINANCE(DE)-SR.GER3 CL.B-25.1.2022 | 1 000 000 | 50 000.00 | 42 930.95 | 937 | 859 | (101) | | |
| PELICAN MORTGAGES-2/B (15.9.2036) | 290 000 | 10 000.00 | 4 800.00 | 286 | 139 | (151) | | |
| RHODIUM BV – SR.1X – CL.C (27.5.2084) | 800 000 | 100 000.00 | 35 000.00 | 785 | 281 | (520) | | |
| SIEMENS FINANCIERINGSMAT-5.25% 14.9.2066 | 50 000 000 | 1 000.00 | 1 109.84 | 50 896 | 56 269 | 5 119 | (6 688) | |
| VATTENFALL AB-TV. PERP. | 65 000 000 | 1 000.00 | 1 060.42 | 64 690 | 70 657 | 4 179 | (7 337) | |
| VINCI – 6.25% PERPETUAS | 25 000 000 | 50 000.00 | 53 037.50 | 25 098 | 26 724 | 1 476 | (2 621) | |
| | | | | **739 573** | **753 087** | **(7 994)** | **(89 917)** | |
| **Equity instruments** | | | | | | | | |
| **Issued by residents** | | | | | | | | |
| *Shares* | | | | | | | | |
| AGROGARANTE SA | 58 450 | 1.00 | 1.00 | 58 | 58 | | | |
| 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/ MODERNIZAÇAO 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 | | | | | | |
| BUCIQUEIRA SGPS | 8 | 5.00 | | 1 | 1 | | | |
| Cª AG.FONTE SANTA MONFORTINHO-D.SUB / E.98 | 10 | 5.00 | | | | | | |
| CADERNO VERDE – COMUNICAÇAO (C) | 134 230 | 1.00 | | 967 | | | | 967 |

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.) | | | | | | | | |
| CARAVELA GEST, SGPS, SA | 272 775 | 5.00 | | 1 895 | 167 | | | 1 729 |
| CARMO & BRAZ (C) | 65 000 | 4.99 | | | | | | |
| CIMPOR – CIM.DE PORTUGAL-SGPS | 3 565 | 1.00 | 3.46 | 7 | 12 | 6 | | |
| COIMBRAVITA – AGENCIA DESENV.REGIONAL | 15 000 | 4.99 | | 75 | | | | 75 |
| COMPª AURIFICIA – N | 1 186 | 7.00 | 1 111.30 | 25 | 1 318 | 1 294 | | |
| COMPª PRESTAMISTA PORTUGUEZA | 10 | 1.00 | | | | | | |
| COMPª.FIAÇAO E TECIDOS DE FAFE – P | 240 | 4.99 | | | | | | |
| COMUNDO-CONSORCIO MUNDIAL IMP.EXP. | 3 269 | 0.50 | | 6 | 2 | | | 4 |
| CONDURIL, SA | 184 262 | 5.00 | | 806 | 10 036 | 9 231 | | |
| CORTICEIRA AMORIM – SGPS | 127 419 | 1.00 | 1.60 | 315 | 204 | 130 | | 241 |
| DIGITMARKET-SIST.INF.-N | 4 950 | 1.00 | | 743 | | | | 743 |
| EIA-ENSINO INVESTIGAÇAO 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 PARTICIPAÇOES | 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 | 0.22 | 539 | 23 | | | 516 |
| GAP – SGPS | 548 | 4.99 | | 3 | 3 | | | |
| GARVAL – SOCIEDADE DE GARANTIA MUTUA | 2 263 480 | 1.00 | 1.00 | 2 263 | 2 263 | | | |
| 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 | 0.31 | 22 791 | 1 922 | | | 20 868 |
| INCAL-IND.E COM.DE ALIMENTAÇÃO | 2 514 | 1.13 | | 2 | 2 | | | |
| INTERSIS AUTOMAÇAO, 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 | 23 165 | 1.00 | 1.00 | 23 | 23 | | | |
| 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 | 20 097 | 5.00 | 4.20 | 73 | 84 | 11 | | |
| NEWPLASTICS | 1 445 | 1.00 | | 1 | 1 | | | |
| NORGARANTE – SOC.DE GARANTIA MUTUA | 66 570 | 1.00 | 1.00 | 67 | 67 | | | |
| NOTORIOUSWAY, SA | 2 500 | 1.00 | | 3 | 3 | | | |
| NUTROTON SGPS – C | 11 395 | 5.00 | 4.38 | 50 | 50 | | | |
| OFICINA DA INOVACAO | 10 000 | 5.00 | 6.96 | 50 | 70 | 29 | | 10 |
| PORTO DE CAVALEIROS, SGPS | 2 | 4.99 | | | | | | |
| PORTUGAL CAP. VENTURES-SOC.CAP.RISCO | 515 591 | 5.00 | 5.58 | 2 692 | 2 878 | 187 | | |
| PRIMUS-PROM.DESENVOL.REGIONAL,EMT,S.A. | 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 | | | | 8 |
| SAPHETY LEVEL – TRUSTED SERVICES | 5 069 | 1.00 | | 98 | | | | 98 |
| SDEM – SOC.DE DESENV.EMPR.MADEIRA,SGPS-N | 937 500 | 1.00 | 1.06 | 938 | 990 | 307 | | 255 |
| SENAL-SOC.NAC.DE PROMOÇÃO DE EMPRESAS-P | 450 | 0.50 | | | | | | |
| SIBS – SGPS, 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 | | | |

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.) | | | | | | | | |
| SOFID-SOC.P/ FIN.DES.-INST.FIN.CREDITO SA | 1 000 000 | 1.00 | 1.08 | 1 250 | 1 085 | | | 165 |
| SOMOTEL-SOC.PORTUGUESA DE MOTEIS | 1 420 | 2.50 | | | | | | |
| SONAE – SGPS | 36 868 | 1.00 | 0.69 | 69 | 25 | 11 | | 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 |
| TUROPA-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 | 2 852 | | |
| VNCORK SGPS | 151 | 1.00 | | | | | | |
| XELB-CORK – COM.E INDUSTRIA DE CORTIÇA | 87 | 4.99 | | | | | | |
| | | | | **45 008** | **31 130** | **14 059** | | **27 933** |
| *Quotas* | | | | | | | | |
| PROPAÇO – SOC.IMOB.DE PAÇO D'ARCOS | | 1.00 | | 1 | 1 | | | |
| VIACER – SOC.GEST.PART.SOCIAIS, SA | | 1.00 | | 48 160 | 46 334 | (1 826) | | |
| | | | | **48 161** | **46 335** | **(1 826)** | | |
| **Issued by non residents** | | | | | | | | |
| *Shares* | | | | | | | | |
| ALTITUDE SOFTWARE B.V. | 6 386 243 | 70 549.16 | | 13 810 | | | | 13 810 |
| AMSCO – USD | 1 807 | 757.92 | | 758 | | | | 758 |
| ARCO BODEGAS UNIDAS | 63 382 | 380 933.49 | | 4 399 | 1 086 | | | 3 313 |
| BVDA | | | | 227 | 228 | | | |
| CLUB FINANCIERO VIGO | 1 | 15 626.31 | | 18 | 12 | | | 6 |
| CREDIT LOGEMEN DEVELOPMENT | 20 | 70.00 | 70.00 | 1 | 1 | | | |
| EASDAQ NV | 100 | 1.42 | | 25 | | | | 25 |
| EMIS-EMPRESA INTERBANCÁRIA DE SERVIÇOS (CAPITAL) | | | | 1 674 | 1 629 | | | 45 |
| EUROPEAN INVESTMENT FUND | 9 | 1 000 000.00 | 1 161 110.24 | 9 410 | 10 450 | 1 040 | | |
| GROWELA CABO VERDE | 19 000 | 9.07 | | 172 | | | | 172 |
| IMC-INSTITUTO DO MERCADO DE CAPITAIS | | | | 423 | 423 | | | |
| INTERBANCOS | | | | | | | | |
| OSEO – SOFARIS | 13 | 107.89 | 107.89 | 2 | 2 | | | |
| S.W.I.F.T. | 78 | 125.00 | | 151 | 151 | | | |
| SOPHA(BFA E FESA) | | | | 3 | 3 | | | |
| THARWA FINANCE – MAD | 20 895 | | | 190 | 267 | 77 | | |
| UNIRISCO GALICIA | 80 | 1 202.02 | 1 006.00 | 96 | 80 | 11 | | 27 |
| VISA EUROPE LIMITED | 1 | 10.00 | | | | | | |
| VISA INC-CLASS C | 32 134 | 0.76 | 114.89 | | 3 692 | 3 692 | | |
| | | | | **31 359** | **18 024** | **4 820** | | **18 156** |
| **Others** | | | | | | | | |
| **Issued by residents** | | | | | | | | |
| *Participating units* | | | | | | | | |
| BPI OBRIGAÇÕES MUNDIAIS | 752 210 | 4.99 | 7.59 | 5 567 | 5 711 | 144 | | |
| 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 | 115 000 | 1 000.00 | 907.44 | 115 000 | 104 355 | | | 10 645 |
| FCR – INOVCAPITAL ACTEC | 50 | | 10 375.08 | 500 | 519 | 19 | | |
| FCR F-HITEC (ES VENTURES) | 10 | 50 000.00 | 46 064.20 | 500 | 461 | (39) | | |
| FCR INOVCAPITAL | 115 | 24 939.89 | 6 353.90 | 2 868 | 731 | | | 2 137 |
| FCR INOVCAPITAL VALOR | 40 | 24 939.89 | 8 565.78 | 998 | 343 | | | 655 |
| FCR-TURISMO CAPITAL(TC TUR. CAP. SCR) | 164 | 24 939.89 | 11 930.59 | 3 568 | 1 957 | 13 | | 1 624 |
| FUN.CAP.RISCO AICEP CAPITAL GLOBAL II | 40 | 4 987.98 | 5 657.50 | 200 | 226 | 34 | | 7 |
| FUN.CAP.RISCO AICEP CAPITAL GLOBAL-FIEP | 3 900 | 1 000.00 | 947.66 | 3 900 | 3 696 | (204) | | |
| FUNDO CAP. RISCO TURISMO INOVACAO CAT.B | 40 | 50 000.00 | 50 977.30 | 2 000 | 2 039 | 39 | | |

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 |
| *Participating units* (cont.) | | | | | | | | |
| FUNDO CARAVELA | 3 097 | 5 000.00 | 5 313.69 | 11 653 | 16 456 | 4 804 | | |
| FUNDO INTER-RISCO II – F.C.R.– CL.A | 7 500 | 5 000.00 | 4 815.36 | 37 500 | 36 115 | (1 385) | | |
| FUNDO REESTRUTURAÇÃO EMPRESARIAL FCR | 60 000 | 1 000.00 | | 60 000 | 60 000 | | | |
| IMOFOMENTO | 7 148 436 | | 5.47 | 39 400 | 39 128 | (272) | | |
| INEGI INSTITUTO DE ENGENHARIA MECANICA | 5 000 | | | 25 | 25 | | | |
| UNICAMPUS-FEIIF | 3 000 | 1 000.00 | 1 003.92 | 3 000 | 3 012 | 12 | | |
| | | | | **286 759** | **274 854** | **3 165** | | **15 068** |
| **Issued by non residents** | | | | | | | | |
| *Participating units* | | | | | | | | |
| FUNDO BPI-EUROPA | 23 405 | 0.01 | 10.43 | 171 | 244 | 73 | | |
| PORTUGAL VENTURE CAPITAL INITIATIVE-PVCI | 2 097 345 | 1.00 | 0.62 | 2 097 | 1 291 | (807) | | |
| | | | | **2 268** | **1 535** | **(734)** | | |
| **Loans and other receivables** | | | | | | | | |
| *Loans and shareholder's loans* | | | | | | | | |
| EMIS – EMPRESA INTERBANCÁRIA DE SERVIÇOS (SUPRIMENTOS) | | | | | 59 | | | 30 |
| GEIE | | | | | | | | 13 |
| INTERSIS | | | | | | | | 50 |
| MAXSTOR | | | | | | | | 972 |
| MORETEXTILE SGPS, SA | | | | | 1 040 | | | 10 005 |
| NEWPLASTIC | | | | | | | | 1 505 |
| PETROCER SGPS, LDA | | | | | 200 | | | |
| PROPACO-IMOBILIARIA DE PACO D'ARCOS | | | | | 1 393 | | | 3 788 |
| SAPHETY Level – Trusted Services SA | | | | | 54 | | | 154 |
| TAEM-PROCESSAMENTO ALIMENTAR | | | | | | | | 3 309 |
| VNCORK-SGPS,SA | | | | | | | | 150 |
| | | | | | **2 746** | | | **19 976** |
| **Overdue bonds** | | | | | | | | |
| GLITNIR BANKI HF-TV-24.05.2011 | | | | 487 | | | | 487 |
| KAUPTHING BANK HF-TX.VAR. (25.05.2010) | | | | 590 | | | | 590 |
| GEIE Gestão de Espaços de Incubação Empresarial, S.A. (suprimentos) | | | | 10 | | | | 10 |
| | | | | **1 087** | | | | **1 087** |
| | | | | **9 763 718** | **10 252 882** | **(32 671)** | **(637 218)** | **83 721** |

1) Net of impairment.
2) Amount recorded in REVALUATION RESERVES (note 4.30).

At 31 December 2012 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*** | | |
| *Bonds* | | |
| DOLLAR DIVERS RI.F-6.55%(16.12.2013)-REG | 652 354 | 654 |
| | | **654** |

## 4.6. Loans and advances to credit institutions

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Loans and advances to Bank of Portugal | 14 500 | 500 000 |
| Loans and advances to other Portuguese credit institutions | | |
| Very short term loans and advances | | 141 850 |
| Deposits | 50 000 | 3 000 |
| Securities | | 107 846 |
| Other loans | 34 800 | 30 017 |
| Securities purchased with resale agreements | | 15 412 |
| Other advances | 4 122 | 3 828 |
| Accrued interest | 650 | 3 193 |
| | **89 572** | **305 146** |
| Loans and advances to other foreign central banks | 435 756 | 247 246 |
| Loans and advances to other foreign financial entities | 2 541 | 64 430 |
| Loans and advances to other foreign credit institutions | | |
| Very short term loans and advances | 135 305 | 350 981 |
| Deposits | 23 746 | 35 347 |
| Loans | 40 | 11 230 |
| Securities purchased with resale agreements | | 122 967 |
| Other loans and advances | 1 005 629 | 691 535 |
| Accrued interest | 4 590 | 8 666 |
| | **1 607 607** | **1 532 402** |
| Correction of the amount of hedged assets | | 83 |
| Commission relating to amortised cost (net) | | (37) |
| | | **46** |
| | **1 711 679** | **2 337 594** |
| Impairment | (952) | (3) |
| | **1 710 727** | **2 337 591** |

The changes in impairment losses and provisions in 2012 and 2011 are shown in note 4.20.

## 4.7. Loans and advances to Customers

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Loans** | | |
| **Domestic loans** | | |
| Companies | | |
| Discount | 125 101 | 160 850 |
| Loans | 5 163 276 | 5 490 768 |
| Commercial lines of credit | 1 052 342 | 1 233 680 |
| Demand deposits – overdrafts | 325 973 | 415 704 |
| Invoices received – factoring | 536 779 | 777 982 |
| Finance leasing | 265 261 | 349 498 |
| Real estate leasing | 438 986 | 517 850 |
| Other loans | 23 628 | 18 792 |
| Loans to individuals | | |
| Housing | 11 743 141 | 11 359 068 |
| Consumer | 828 012 | 1 023 766 |
| Other loans | 550 503 | 571 571 |
| **Foreign loans** | | |
| Companies | | |
| Discount | 1 423 | 1 564 |
| Loans | 2 377 834 | 2 498 083 |
| Commercial lines of credit | 228 415 | 332 740 |
| Demand deposits – overdrafts | 26 571 | 26 607 |
| Invoices received – factoring | 1 040 | 2 555 |
| Finance leasing | 504 | 1 363 |
| Real estate leasing | 985 | 1 081 |
| Other loans | 293 771 | 296 315 |
| Loans to individuals | | |
| Housing | 161 429 | 162 516 |
| Consumer | 305 101 | 283 484 |
| Other loans | 77 889 | 75 710 |
| **Accrued interest** | 64 618 | 62 998 |
| | **24 592 582** | **25 664 545** |

(continues) ▷

(continuation)

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Securities** | | |
| Issued by Portuguese government entities | 199 863 | 199 785 |
| Issued by other Portuguese entities | | |
| Non subordinated debt securities | | |
| Bonds | 957 446 | 694 672 |
| Commercial paper | 1 181 053 | 1 227 081 |
| Issued by foreign government entities | | 185 427 |
| Issued by other foreign entities | | |
| Non subordinated debt securities | | |
| Bonds | 198 575 | 225 849 |
| Subordinated debt securities | 24 720 | 4 500 |
| Accrued interest | 13 671 | 31 666 |
| Deferred interest | (1 334) | (3 629) |
| | **2 573 994** | **2 565 351** |
| Correction of the amount of hedged assets | 49 156 | 35 888 |
| Commission relating to amortised cost (net) | (4 501) | 295 |
| | **27 211 231** | **28 266 079** |
| Overdue loans and interest | 917 399 | 728 436 |
| Loan impairment | (783 157) | (676 251) |
| | **27 345 473** | **28 318 264** |

The caption LOANS TO CUSTOMERS includes the following non-derecognised securitised assets:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Non-derecognised securitised assets[1] | | |
| Loans | | |
| Housing | 4 832 928 | 5 047 434 |
| Loans to SME's | 3 223 577 | 3 291 880 |
| Ceded risk / benefit | | (762 157) |
| Accrued interest | 17 727 | 21 732 |
| | **8 074 232** | **7 598 889** |

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 sale amount was recognised in the statement of income.

In 2012 Banco BPI repurchased the above bonds from the Banco BPI Pension Fund and so Banco BPI started recognising the full amount of the risk / benefit relating to the housing loans securitisation operations, resulting on an impact of 765 322 th. euro in the caption LOANS TO CUSTOMERS (of which 757 335 th. euro in performing loans). The effect of the repurchase was recognised in NET INCOME ON FINANCIAL OPERATIONS (note 4.40).

In 2011 Banco BPI made a loan securitisation operation for SME's totalling of 3 472 400 th. euro.

At 31 December 2012 and 2011 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:

- 5 701 444 th. euro and 5 423 645 th. euro, respectively, allocated as collateral to mortgage bonds;
- 660 991 th. euro and 530 848 th. euro, respectively, allocated as collateral to public sector bonds.

On 31 December 2011 the caption BONDS ISSUED BY FOREIGN GOVERNMENT ENTITIES refers to public debt securities issued by Greece. In 2012, under the agreement on the private sector involvement in the restructuring of Greek Government debt, these securities were exchanged for new securities issued by Greece, which were recorded in the caption FINANCIAL ASSETS AVAILABLE FOR SALE (notes 4.5 and 4.48). These securities were all sold in the second half of 2012.

The accounting impact relating to the restructuring of Greek Government debt in 2012 and 2011 is shown in note 4.48 EXPOSURE TO SOVEREIGN DEBT.

The securities portfolio includes the following assets to cover capitalisation insurance contracts issued by BPI Vida e Pensões:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Debt instruments | | |
| Issued by Portuguese government entities | 199 863 | 199 785 |
| Issued by other Portuguese entities | 380 005 | 67 565 |
| Issued by other foreign entities | 191 201 | 185 167 |
| | **771 069** | **452 517** |

The changes in impairment losses and provisions in 2012 and 2011 are presented in note 4.20.

The BPI Group's portfolio of loans and advances to Customers, guarantees given and impairment at 31 December 2012, by business sector, is made up as follows:

| | Loans[1] | | Overdue loans | | Guarantees given[2] | | Impairment[3] | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| **Residents** | | | | | | | | |
| Agriculture, animal production and hunting | 222 795 | 0.8 | 7 238 | 0.8 | 3 429 | 0.1 | 7 199 | 0.9 |
| Forestry and forest operations | 13 364 | | 746 | 0.1 | 1 088 | | 777 | 0.1 |
| Fishing | 71 619 | 0.3 | 29 | | 5 855 | 0.2 | 244 | |
| Mining | 132 933 | 0.5 | 1 275 | 0.1 | 5 387 | 0.2 | 1 340 | 0.2 |
| Beverage, tobacco and food | 570 611 | 2.1 | 11 302 | 1.2 | 47 574 | 2.0 | 15 165 | 1.8 |
| Textiles and clothing | 104 450 | 0.4 | 5 045 | 0.5 | 14 656 | 0.6 | 10 894 | 1.3 |
| Leather and related products | 23 226 | 0.1 | 1 067 | 0.1 | 1 321 | 0.1 | 1 259 | 0.2 |
| Wood and cork | 72 890 | 0.3 | 9 753 | 1.1 | 25 896 | 1.1 | 8 526 | 1.0 |
| Pulp, paper and cardboard and graphic arts | 286 331 | 1.1 | 5 021 | 0.5 | 4 941 | 0.2 | 6 230 | 0.8 |
| Coke, refined petroleum products and fuel pellets | 19 419 | 0.1 | | | 19 859 | 0.8 | 63 | |
| Chemicals, synthetic or artificial fibres, except pharmaceutical products | 105 799 | 0.4 | 873 | 0.1 | 4 971 | 0.2 | 752 | 0.1 |
| Base pharmaceutical products and pharmaceutical mixtures | 43 961 | 0.2 | 159 | | 1 957 | 0.1 | 273 | |
| Rubber and plastic materials | 68 918 | 0.3 | 1 515 | 0.2 | 9 648 | 0.4 | 1 563 | 0.2 |
| Other mineral non-metallic products | 239 351 | 0.9 | 2 101 | 0.2 | 24 345 | 1.0 | 4 219 | 0.5 |
| Metalworking industries | 230 083 | 0.8 | 8 615 | 0.9 | 33 608 | 1.4 | 10 369 | 1.2 |
| Computers, electronic, electrical and optical equipment | 113 204 | 0.4 | 1 756 | 0.2 | 21 493 | 0.9 | 2 516 | 0.3 |
| Transport equipment | 40 226 | 0.1 | 1 481 | 0.2 | 20 539 | 0.9 | 1 427 | 0.2 |
| Other manufacturing industries | 60 343 | 0.2 | 10 325 | 1.1 | 15 759 | 0.7 | 7 518 | 0.9 |
| Electricity, gas and water | 752 887 | 2.8 | 28 | | 70 249 | 2.9 | 544 | 0.1 |
| Water treatment and collection | 438 529 | 1.6 | 6 008 | 0.7 | 55 761 | 2.3 | 8 628 | 1.0 |
| Construction | 890 920 | 3.3 | 144 431 | 15.8 | 525 719 | 22.1 | 133 181 | 16.0 |
| Wholesale and retail trade; motor vehicle and motorcycle repairs | 1 771 375 | 6.5 | 85 580 | 9.3 | 264 994 | 11.1 | 96 891 | 11.7 |
| Transport and storage | 1 625 228 | 6.0 | 36 067 | 3.9 | 346 170 | 14.6 | 32 217 | 3.9 |
| Restaurants and hotels | 347 731 | 1.4 | 53 203 | 5.9 | 36 073 | 1.5 | 24 828 | 3.0 |
| Information and communication activities | 473 162 | 1.7 | 4 939 | 0.5 | 93 077 | 3.9 | 13 824 | 1.7 |
| Investment holding companies | 517 887 | 1.9 | 10 243 | 1.1 | 64 561 | 2.7 | 6 982 | 0.8 |
| Financial intermediation, except for insurance and pension funds | 356 643 | 1.3 | 28 016 | 3.1 | 50 926 | 2.1 | 23 549 | 2.8 |
| Insurance, reinsurance and pension funds, except for mandatory social security | 201 | | | | 2 426 | 0.1 | 9 | |
| Auxiliary activities to financial services and insurance | 146 914 | 0.5 | 322 | | 459 | | 7 212 | 0.9 |
| Real estate | 532 815 | 2.0 | 22 889 | 2.5 | 57 598 | 2.4 | 25 548 | 3.1 |
| Consulting, scientific, technical and similar activities | 361 311 | 1.3 | 9 931 | 1.1 | 91 958 | 3.8 | 18 666 | 2.2 |
| Administrative and support services | 163 506 | 0.6 | 5 375 | 0.6 | 17 453 | 0.7 | 10 267 | 1.2 |
| Public administration, defence and mandatory social security | 1 538 725 | 5.7 | 1 621 | 0.2 | 32 297 | 1.4 | 265 | |
| Education | 39 234 | 0.1 | 1 269 | 0.1 | 3 772 | 0.2 | 1 299 | 0.2 |
| Healthcare and welfare | 198 312 | 0.7 | 1 218 | 0.1 | 5 489 | 0.2 | 2 560 | 0.3 |
| Leisure, cultural and sports activities | 93 772 | 0.3 | 6 242 | 0.7 | 32 053 | 1.3 | 7 704 | 0.9 |
| Other service companies | 116 396 | 0.4 | 2 213 | 0.2 | 3 770 | 0.2 | 3 439 | 0.4 |
| Other companies[4] | 6 236 | | 324 | | 1 874 | 0.1 | 1 577 | 0.2 |
| Individuals | | | | | | | | |
| Housing loans | 11 775 792 | 43.6 | 307 943 | 33.7 | | | 180 937 | 21.9 |
| Others | 1 430 598 | 5.3 | 65 995 | 7.2 | 53 662 | 2.2 | 70 984 | 8.5 |
| **Non-residents** | | | | | | | | |
| Financial and credit institutions | 2 462 | | | | 29 312 | 1.2 | 160 | |
| Non-financial companies | 629 777 | 2.3 | 48 884 | 5.3 | 288 319 | 12.1 | 56 016 | 6.7 |
| Individuals | 459 685 | 1.7 | 6 357 | 0.7 | 61 | | 22 891 | 2.8 |
| | **27 089 621** | **100.0** | **917 399** | **100.0** | **2 390 359** | **100.0** | **830 512** | **100.0** |

1) Excluding overdue loans, securities and interest, accrued interest, correction of the amount of hedged assets and commission relating to amortised cost.
2) Includes guarantees and sureties, stand-by letters of credit, open documentary credits and surety bonds and indemnities.
3) Does not include 751 th. euro related to impairment on commitments to third parties.
4) Companies without a CAE code (Business Activity Classification – Classificação das Actividades Económicas).

The BPI Group's portfolio of loans and advances to Customers, guarantees given and impairment at 31 December 2011, by business sector, is made up as follows:

| | Loans[1] | | Overdue loans | | Guarantees given[2] | | Impairment[3] | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| **Residents** | | | | | | | | |
| Agriculture, animal production and hunting | 233 385 | 0.8 | 4 658 | 0.6 | 6 495 | 0.3 | 5 495 | 0.8 |
| Forestry and forest operations | 11 273 | | 691 | 0.1 | 704 | | 699 | 0.1 |
| Fishing | 72 939 | 0.3 | 26 | | 11 750 | 0.5 | 187 | |
| Mining | 156 707 | 0.6 | 1 064 | 0.1 | 12 692 | 0.5 | 1 140 | 0.2 |
| Beverage, tobacco and food | 579 187 | 2.1 | 8 762 | 1.2 | 43 531 | 1.7 | 7 351 | 1.0 |
| Textiles and clothing | 121 699 | 0.4 | 6 619 | 0.9 | 12 839 | 0.5 | 9 386 | 1.3 |
| Leather and related products | 22 682 | 0.1 | 1 106 | 0.2 | 482 | | 1 435 | 0.2 |
| Wood and cork | 80 027 | 0.3 | 7 266 | 1.0 | 31 173 | 1.2 | 8 097 | 1.1 |
| Pulp, paper and cardboard and graphic arts | 295 824 | 1.1 | 1 315 | 0.2 | 4 395 | 0.2 | 2 487 | 0.3 |
| Coke, refined petroleum products and fuel pellets | 117 116 | 0.4 | | | 22 339 | 0.9 | 175 | |
| Chemicals, synthetic or artificial fibres, except pharmaceutical products | 118 739 | 0.4 | 479 | 0.1 | 7 593 | 0.3 | 636 | 0.1 |
| Base pharmaceutical products and pharmaceutical mixtures | 38 195 | 0.1 | 18 | | 1 811 | 0.1 | 123 | |
| Rubber and plastic materials | 62 542 | 0.2 | 1 160 | 0.2 | 11 225 | 0.4 | 2 042 | 0.3 |
| Other mineral non-metallic products | 298 382 | 1.1 | 5 376 | 0.7 | 28 236 | 1.1 | 5 468 | 0.8 |
| Metalworking industries | 282 638 | 1.0 | 6 084 | 0.8 | 40 494 | 1.6 | 12 816 | 1.8 |
| Computers, electronic, electrical and optical equipment | 127 218 | 0.5 | 1 005 | 0.1 | 38 829 | 1.5 | 2 191 | 0.3 |
| Transport equipment | 45 369 | 0.2 | 1 218 | 0.2 | 29 543 | 1.2 | 1 028 | 0.1 |
| Other manufacturing industries | 92 265 | 0.3 | 6 532 | 0.9 | 18 574 | 0.7 | 9 304 | 1.3 |
| Electricity, gas and water | 816 212 | 2.9 | 30 | | 98 357 | 3.9 | 4 627 | 0.7 |
| Water treatment and collection | 459 148 | 1.6 | 893 | 0.1 | 74 627 | 2.9 | 1 106 | 0.2 |
| Construction | 929 589 | 3.3 | 143 204 | 19.7 | 658 301 | 25.9 | 120 581 | 17.0 |
| Wholesale and retail trade; motor vehicle and motorcycle repairs | 2 016 789 | 7.2 | 69 118 | 9.5 | 275 522 | 10.8 | 72 874 | 10.3 |
| Transport and storage | 1 642 663 | 5.8 | 4 402 | 0.6 | 366 048 | 14.4 | 10 448 | 1.5 |
| Restaurants and hotels | 402 430 | 1.4 | 26 535 | 3.6 | 57 180 | 2.3 | 15 000 | 2.1 |
| Information and communication activities | 490 037 | 1.7 | 2 274 | 0.3 | 78 679 | 3.1 | 6 873 | 1.0 |
| Investment holding companies | 398 210 | 1.4 | 2 857 | 0.4 | 64 873 | 2.6 | 2 064 | 0.3 |
| Financial intermediation, except for insurance and pension funds | 290 386 | 1.0 | 27 594 | 3.8 | 58 188 | 2.3 | 17 374 | 2.4 |
| Insurance, reinsurance and pension funds, except for mandatory social security | 984 | | | | 3 620 | 0.1 | 18 | |
| Auxiliary activities to financial services and insurance | 125 448 | 0.4 | 253 | | 440 | | 7 148 | 1.0 |
| Real estate | 593 276 | 2.1 | 8 289 | 1.1 | 71 086 | 2.8 | 18 453 | 2.6 |
| Consulting, scientific, technical and similar activities | 436 753 | 1.6 | 20 235 | 2.8 | 74 200 | 2.9 | 11 933 | 1.7 |
| Administrative and support services | 213 145 | 0.8 | 4 221 | 0.6 | 19 066 | 0.8 | 5 148 | 0.7 |
| Public administration, defence and mandatory social security | 1 963 277 | 7.0 | 489 | 0.1 | 34 772 | 1.4 | 61 754 | 8.7 |
| Education | 49 945 | 0.2 | 649 | 0.1 | 5 955 | 0.2 | 916 | 0.1 |
| Healthcare and welfare | 230 621 | 0.8 | 970 | 0.1 | 7 157 | 0.3 | 2 256 | 0.3 |
| Leisure, cultural and sports activities | 115 433 | 0.4 | 1 415 | 0.2 | 36 950 | 1.5 | 7 674 | 1.1 |
| Other service companies | 78 260 | 0.3 | 1 159 | 0.2 | 4 583 | 0.2 | 1 456 | 0.2 |
| Other companies[4] | 59 888 | 0.2 | 4 819 | 0.7 | 28 925 | 1.1 | 2 427 | 0.3 |
| Individuals | | | | | | | | |
| Housing loans | 11 392 829 | 40.5 | 233 680 | 32.1 | | | 123 002 | 17.3 |
| Others | 1 650 525 | 5.9 | 55 555 | 7.6 | 59 214 | 2.3 | 66 524 | 9.4 |
| **Non-residents** | | | | | | | | |
| Financial and credit institutions | 3 377 | | | | 556 | | 124 | |
| Non-financial companies | 590 688 | 2.1 | 58 819 | 8.1 | 139 476 | 5.5 | 58 158 | 8.2 |
| Individuals | 432 761 | 1.5 | 7 597 | 1.0 | 172 | | 22 912 | 3.2 |
| | **28 138 861** | **100.0** | **728 436** | **100.0** | **2 540 652** | **100.0** | **710 910** | **100.0** |

1) Excluding overdue loans, securities and interest, accrued interest, correction of the amount of hedged assets and commission relating to amortised cost.
2) Includes guarantees and sureties, stand-by letters of credit, open documentary credits and surety bonds and indemnities.
3) Does not include 350 th. euro related to impairment on commitments to third parties.
4) Companies without a CAE code (Business Activity Classification – Classificação das Actividades Económicas).

The caption SECURITIES at 31 December 2012 is made up as follows:

| Nature and type of security | Quantity | Cost | Gross book value | Impairment[4] |
|---|---|---|---|---|
| **SECURITIES** | | | | |
| **Debt instruments** | | | | |
| **EIssued by Portuguese entities** | | | | |
| ***Portuguese public debt*** | | | | |
| OT-TV-05.01.2021 | 50 000 000 | 49 999 | 50 889 | |
| REPUBLIC OF PORTUGAL-TV-14.01.2021 | 50 000 000 | 49 920 | 50 732 | |
| REPUBLICA DE PORTUGAL 3.75% – 29.01.2018 | 50 000 000 | 50 000 | 50 328 | |
| REPUBLICA PORTUGUESA – TV – 03.11.2015 | 50 000 000 | 49 943 | 50 193 | |
| | | **199 862** | **202 142** | |
| **Other residents** | | | | |
| ***Non-subordinated debt*** | | | | |
| *Bonds* | | | | |
| *Asset Backed Securities (ABS's)* | | | | |
| TAGUS-SOC.TIT.CREDITO-CL.A-12.02.2025 | 92 949 376 | 92 949 | 93 033 | |
| TAGUS-SOC.TIT.CREDITO-CL.B-12.02.2025 | 50 000 | 50 | 50 | |
| | | **92 999** | **93 083** | |
| *Other bonds* | | | | |
| ADP-AGUAS DE PORTUGAL,SGPS-TV-20.06.2022 | 43 400 000 | 43 400 | 43 415 | |
| ADP-AGUAS DE PORTUGAL,SGPS-TV-20.06.2022 | 6 600 000 | 6 600 | 6 601 | |
| BA GLASS I-SERV.GEST.INV.-TV-22.12.15 | 15 000 000 | 15 000 | 15 007 | |
| BANCO ESPIRITO SANTO SA5.875%-09.11.2015 | 21 000 000 | 20 943 | 21 122 | |
| BANIF – TAX.VAR. (30.12.2015)[1] | 11 800 000 | 11 800 | 11 800 | |
| BCP – 5.625% – 23.04.2014 | 7 100 000 | 7 052 | 7 328 | |
| BES-5.625%-05.06.2014 | 11 850 000 | 11 821 | 12 203 | |
| BRISA – 4.5% – 05.12.2016 | 4 700 000 | 4 392 | 4 407 | |
| BRISA CONCESSAO ROD.-6.25%-05.12.2014 | 25 000 000 | 25 000 | 25 109 | |
| BRISA-CONCESSAO R-4.797%-26.09.2013 | 18 467 000 | 18 303 | 18 536 | |
| CAIXA GERAL DE DEPóSITOS 5.625%-04.12.15 | 14 700 000 | 14 673 | 14 734 | |
| CAIXA GERAL DE DEPOSITOS-8%-28.09.2015 | 12 400 000 | 13 030 | 13 286 | |
| CELBI CELULOSE BEIRA IND.-TV(08.02.2015) | 75 000 000 | 75 000 | 75 463 | |
| CGD-5.125%-19.02.2014 | 500 000 | 502 | 524 | |
| EDIA SA-TV-30.01.2027 | 16 180 000 | 16 180 | 16 229 | |
| EDIA-EMP.DES.DO ALQUEVA – TV-11.08.2030 | 19 250 000 | 19 250 | 19 500 | |
| EDP FINANCE BV-4.75%-26.09.2016 | 4 900 000 | 4 855 | 4 916 | |
| GALP-ENERGIA SGPS – TV – 20.05.2013 | 38 010 000 | 37 929 | 38 154 | |
| GRUPO VISABEIRA SGPS-TV-13.07.2014 | 5 000 000 | 5 000 | 5 038 | |
| JMR – 2012 / 2015 | 100 000 000 | 100 000 | 100 213 | |
| JMR – 2012 / 2015 | 100 000 000 | 100 000 | 100 213 | |
| MOTA-ENGIL SGPS-TV-30.12.2016 | 20 000 000 | 20 000 | 20 000 | |
| POLIMAIA / 1989 – SR.C (AC.CRED.) | 7 | | | |
| PORTUGAL TELECOM SGPS,SA-6.25%-2016 | 50 000 000 | 50 005 | 51 341 | |
| REN-REDES ENERG.NAC.-TF(10.12.2013) | 16 900 000 | 17 096 | 17 173 | |
| SEMAPA – 2006 / 2016 2.ª | 50 000 000 | 50 000 | 50 070 | |
| Semapa TV (20.04.2016)[3] | 7 650 000 | 7 635 | 7 662 | |
| SONAE CAPITAL SGPS – TV – 17.01.2016 | 10 000 000 | 10 000 | 10 239 | |
| SONAE DISTRIBUIÇAO SETEMBRO – 2007 / 2015 | 32 300 000 | 32 300 | 32 407 | |
| SONAE DISTRIBUIÇAO SETEMBRO – 2007 / 2015 | 6 600 000 | 6 600 | 6 622 | |
| SONAECOM SGPS 2012 / 2015 | 20 000 000 | 20 000 | 20 453 | |
| ZON MULTIMEDIA 2010-2014 | 100 000 000 | 100 000 | 100 195 | |
| | | **864 366** | **869 960** | |
| *Commercial paper* | | 1 181 053 | 1 182 179 | 4 357 |
| | | **1 181 053** | **1 182 179** | **4 357** |
| **Issued by non residents** | | | | |
| ***Non-subordinated debt*** | | | | |
| *Bonds* | | | | |
| *Structured Investment Vehicles (SIV's)* | | | | |
| LINKS FINANCE CORP-TV-15.06.2017 | 3 031 681 | 3 032 | 3 032 | 3 032 |
| NIGHTINGALE FIN LTD-TV-06.06.2017 | 3 789 601 | 3 790 | 3 789 | 3 789 |
| | | **6 822** | **6 821** | **6 821** |
| *Asset Backed Securities (ABS's)* | | | | |
| GARANTI DIVERSIFIED-SR.2005-A-CL.1-2013 | 568 440 | 548 | 568 | |

1) 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).
2) 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).
3) Securities reclassified from the caption FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS in 2012, under the amendments to IAS 39 and IFRS 7, (notes 2 and 4.48).
4) Additionally, the Bank recorded collective impairment of 5 484 th. euro.

| Nature and type of security | Quantity | Cost | Gross book value | Impairment[4] |
|---|---|---|---|---|
| *Asset Backed Securities (ABS's)* (cont.) | | | | |
| HSBC BRAZIL-SR.2006-A-15.04.2016 | 8 179 221 | 7 686 | 7 989 | |
| RED & BLACK PRIME RUS-S07-1 CA-01.19.35 | 868 459 | 868 | 869 | |
| SARATOGA CLO I LTD-SR.2006-1X-CL-A2-2019 | 7 579 203 | 7 579 | 7 581 | |
| SARATOGA CLO I LTD-SR.2006-1X-CL-B-2019 | 2 273 761 | 2 274 | 2 275 | |
| VB DPR FIN CO-SR.2010-1A-CL.A-15.06.2014 | 853 086 | 821 | 841 | |
| VB DPR FIN CO-SR.2010-1A-CL.B-15.06.2014 | 2 300 106 | 2 231 | 2 274 | |
| VB DPR FIN.COMP.– SR.2006-1X – CL.E-2013 | 533 179 | 533 | 533 | |
| YAPI KREDIT FIN-SR.2010-CL.C-21.11.2014 | 2 400 001 | 2 311 | 2 362 | |
| | | **24 851** | **25 292** | |
| *Other bonds* | | | | |
| BANCO DE SABADELL SA 4.25% – 19.09.2014 | 7 900 000 | 7 900 | 7 994 | |
| BBVA SENIOR FINANCE-4.875%-23.01.2014 | 6 900 000 | 6 978 | 7 293 | |
| BIE BANK & TRUST LTD-4.20%-13.02.2013 | 75 000 000 | 75 000 | 76 155 | |
| BIE BANK & TRUST LTD-TV-13.02.2013 | 10 000 000 | 10 000 | 10 093 | |
| EDDYSTONE FIN.SR2006-1 CLA1B 19.04.2021[2] | 434 510 | 306 | 307 | |
| EDP FINANCE BV – 3.75% (22.06.2015) | 275 000 | 269 | 274 | |
| EDP FINANCE BV-3.25%-16.03.2015 | 3 950 000 | 3 883 | 3 985 | |
| EDP FINANCE BV-5.875%-01.02.2016 | 4 350 000 | 4 544 | 4 777 | |
| ENEL FINANCE INTL SA-4%-14.09.2016 | 6 700 000 | 6 910 | 6 989 | |
| GAS NATURAL CAPITAL-4.375%-02.11.2016 | 7 000 000 | 6 937 | 6 986 | |
| RED ELECTRICA FINAN.BV-3.5%-07.10.2016 | 7 000 000 | 6 948 | 7 005 | |
| REPSOL SA-4.25%-12.02.2016 | 6 800 000 | 6 934 | 7 238 | |
| SANTANDER INTL DEBT SA-4.375%-04.09.2014 | 7 000 000 | 7 080 | 7 179 | |
| TAMESIS SECURITIES-SR.1-CL.A-12.12.2034 | 2 386 813 | 2 037 | 2 037 | |
| TELECOM ITALIA SPA 8.25% – 21.03.2016 | 6 100 000 | 6 839 | 7 232 | |
| TELEFONICA EMISIONES-4.375% (02.02.2016) | 5 100 000 | 5 061 | 5 264 | |
| TETHRA SECURITIES-SR.1-CL.A-12.12.203 | 2 386 813 | 2 037 | 2 037 | |
| TEUTATES SECURITIES-SR.1-CL.A-12.12.2034 | 2 386 813 | 2 037 | 2 037 | |
| UNICREDIT SPA 4.375% 11.09.2015 | 4 700 000 | 4 780 | 4 843 | |
| | | **166 480** | **169 725** | |
| ***Subordinated debt*** | | | | |
| *Bonds* | | | | |
| B.FINANTIA INTL LTD-CAY-TV.(04.05.2015)[1] | 3 500 000 | 3 500 | 3 514 | |
| BANCO FINANTIA INTL LTD-TV-26.07.2017[1] | 8 500 000 | 8 500 | 8 538 | |
| BANCO FINANTIA INTL-TV. (28.07.2016)[1] | 4 000 000 | 4 000 | 4 018 | |
| BANIF FINANCE(CAY)-TV-29.12.2014[1] | 4 220 000 | 4 220 | 4 220 | |
| ESPIRITO SANTO INVST PLC-TV.(20.12.2015)[1] | 4 500 000 | 4 500 | 4 502 | |
| | | **24 720** | **24 792** | |
| | | | **2 573 994** | **11 178** |

1) 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).
2) 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).
3) Securities reclassified from the caption FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS in 2012, under the amendments to IAS 39 and IFRS 7, (notes 2 and 4.48).
4) Additionally, the Bank recorded collective impairment of 5 484 th. euro.

The impairment losses recorded in the Structured Investment Vehicles (SIV's) 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 2012 this analysis did not show impairment situations in other securities, other than those already recorded.

## 4.8 Held to maturity investments

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Debt instruments** | | |
| Bonds issued by other Portuguese entities | | |
| Non-subordinated debt | 160 650 | 278 946 |
| Subordinated debt | | 5 450 |
| Bonds issued by foreign government entities | 69 867 | 213 181 |
| Bonds issued by other foreign entities | | |
| Non-subordinated debt | 201 073 | 365 742 |
| Subordinated debt | 11 349 | 10 977 |
| Impairment | | (117 733) |
| Accrued interest | 2 359 | 9 627 |
| | **445 298** | **766 190** |

The portfolio of held to maturity investments includes assets to cover capitalisation insurance contracts issued by BPI Vida e Pensões.

The caption BONDS ISSUED BY FOREIGN GOVERNMENT ENTITIES at 31 December 2011 includes 153 275 th. euro relating to Greek Government debt. The caption IMPAIRMENT at that date refers to impairment recognised in 2011 relating to estimated losses on these securities. In 2012 the terms of the agreement on the private sector involvement in the restructuring of the Greek Government debt were announced, under which these securities were exchanged for new securities issued by Greece that were recorded in the FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS PORTFOLIO (notes 4.3 and 4.48). In the second half of 2012 the debt securities issued by Greece were all sold. The Greek warrants over Greece's GDP, with a book value of 336 th. euro at 31 December 2012, were maintained in the portfolio.

In 2011, 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 2012 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*** | | | | |
| *Bonds* | | | | |
| BANCO COMERCIAL PORTUGUES-TV-09.05.2014 | 13 500 000 | 12 614 | 12 621 | |
| BCP-TV-28.02.2013 | 27 300 000 | 27 241 | 27 268 | |
| BES-TV-08.05.2013 | 3 500 000 | 3 489 | 3 491 | |
| BES-TV-25.02.2013 | 6 000 000 | 5 996 | 6 003 | |
| CAIXA ECO MONTEPIO GERAL-TV-29.05.2013 | 8 150 000 | 8 110 | 8 113 | |
| CGD-5.125%-19.02.2014 | 10 000 000 | 10 139 | 10 582 | |
| PARPUBLICA – 3.5% – 08.07.2013 | 91 950 000 | 91 894 | 93 445 | |
| SEMAPA – TV (20.04.2016)[2] | 1 200 000 | 1 166 | 1 171 | |
| | | **160 649** | **162 694** | |
| **Issued by non residents** | | | | |
| ***Issued by foreign government entities*** | | | | |
| *Bonds* | | | | |
| BONOS Y OBLIG DEL ESTADO-TV-17.03.2015 | 60 000 000 | 59 935 | 59 949 | |
| SPAIN LETRAS DEL TESORO CZ – 15.03.2013 | 10 000 000 | 9 932 | 9 932 | |
| | | **69 867** | **69 881** | |
| **Issued by other non resident entities** | | | | |
| ***Non-subordinated debt*** | | | | |
| *Bonds* | | | | |
| BANCA CARIGE SPA-TV-07.06.2016[2] | 1 000 000 | 1 000 | 1 001 | |
| BANESTO FINANCIAL PLC-TV-11.01.2013 | 27 000 000 | 26 996 | 27 039 | |
| BANKINTER SA-TX.VR.-15-01-2013 | 22 500 000 | 22 500 | 22 556 | |
| BCP FINANCE BANK-TV-17.06.2013 | 2 000 000 | 1 985 | 1 986 | |
| CRITERIA CAIXA CORP.-4.125%-20.11.2014 | 14 800 000 | 14 773 | 14 841 | |
| GOLDMAN SACHS GROUP INC.-TV.(04.02.2013)[1] | 1 600 000 | 1 598 | 1 599 | |
| HSBC FINANCE CORP-TV. (05.04.2013)[1] | 3 400 000 | 3 389 | 3 393 | |
| IBERCAJA(CA.ZARAGOZA A.R.)TV-20.04.2018[1] | 6 000 000 | 5 967 | 5 974 | |
| IBERCAJA(CA.ZARAGOZA A.R.)TV-25.04.2019[1] | 8 400 000 | 8 400 | 8 409 | |
| IBERDROLA FINANZAS SAU-TV-08.02.2013 | 31 000 000 | 31 000 | 31 033 | |
| ING GROEP NV-TV. (11.04.2016)[1] | 3 900 000 | 3 778 | 3 781 | |
| ING VERZEKERINGEN NV – TV (18.09.2013)[1] | 4 000 000 | 3 975 | 3 975 | |
| MORGAN STANLEY-TV-29.11.2013[1] | 2 500 000 | 2 451 | 2 452 | |
| ROYAL BANK OF SCOTLAND-TV-08.06.2015[1] | 5 500 000 | 5 500 | 5 504 | |
| ROYAL BANK OF SCOTLAND-TV-08.06.2016[2] | 500 000 | 500 | 500 | |
| SANTANDER INTL DEBT SA-TV-18.01.2013 | 35 000 000 | 34 997 | 35 045 | |
| SANTANDER INTL DEBT-TV. (05.04.2013) | 2 500 000 | 2 498 | 2 500 | |
| TELECOM ITALIA SPA – TV – 19.07.2013 | 2 500 000 | 2 489 | 2 493 | |
| VODAFONE GROUP PLC-TV-06.06.2014 | 10 000 000 | 9 927 | 9 931 | |
| VODAFONE GROUP PLC-TV. (05.09.2013) | 17 383 000 | 17 350 | 17 358 | |
| | | **201 073** | **201 370** | |
| ***Subordinated debt*** | | | | |
| *Bonds* | | | | |
| CAM INTERNATIONAL-TV-26.04.2017[2] | 1 900 000 | 1 900 | 1 903 | |
| FORTIS BANK NEDERLAND NV-TV.(22.06.2015)[2] | 1 000 000 | 1 000 | 1 000 | |
| STANDARD CHARTERED BANK-TV-28.03.2018[1] | 8 500 000 | 8 449 | 8 450 | |
| | | **11 349** | **11 353** | |
| | | **373 071** | **445 298** | |

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).

## 4.9. Other tangible assets

The changes in other tangible assets in 2012 were as follows:

| | Gross | | | | | | Depreciation | | | | | | Net | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance at 31 Dec. 11 | Purchases | Sales and write-offs | Transfers and others | Foreign exchange differences | Balance at 31 Dec.12 | Balance at 31 Dec.11 | Depreciation for the year | Sales and write-offs | Transfers and others | Foreign exchange differences | Balance at 31 Dec.12 | Balance at 31 Dec.12 | Balance at 31 Dec.11 |
| Property | | | | | | | | | | | | | | |
| Property for own use | 130 653 | 8 262 | (4 491) | 4 844 | (2 468) | 136 800 | 24 318 | 2 318 | (292) | 43 | (215) | 26 172 | 110 628 | 106 335 |
| Other property | 314 | | (210) | | | 104 | 159 | 1 | (125) | | | 35 | 69 | 155 |
| Leasehold improvementss | 114 522 | 1 118 | (3 555) | 1 298 | (1 023) | 112 360 | 99 142 | 2 633 | (3 488) | (51) | (693) | 97 543 | 14 817 | 15 380 |
| | **245 489** | **9 380** | **(8 256)** | **6 142** | **(3 491)** | **249 264** | **123 619** | **4 952** | **(3 905)** | **(8)** | **(908)** | **123 750** | **125 514** | **121 870** |
| Equipment | | | | | | | | | | | | | | |
| Furniture and fixtures | 52 086 | 1 764 | (649) | (49) | (317) | 52 835 | 42 795 | 1 981 | (637) | (3) | (135) | 44 001 | 8 834 | 9 291 |
| Machinery and tools | 13 821 | 752 | (287) | 14 | (97) | 14 203 | 12 020 | 721 | (281) | 3 | (58) | 12 405 | 1 798 | 1 801 |
| Computer hardware | 187 311 | 3 013 | (2 654) | 846 | (596) | 187 920 | 173 131 | 8 682 | (2 631) | 19 | (466) | 178 735 | 9 185 | 14 180 |
| Interior installations | 161 255 | 1 564 | (3 162) | 1 012 | (194) | 160 475 | 109 023 | 10 591 | (2 960) | (13) | (88) | 116 553 | 43 922 | 52 232 |
| Vehicles | 9 542 | 2 559 | (1 092) | 15 | (266) | 10 758 | 6 490 | 2 041 | (1 066) | 2 | (166) | 7 301 | 3 457 | 3 052 |
| Security equipment | 27 288 | 774 | (380) | 148 | (138) | 27 692 | 21 806 | 1 329 | (377) | 2 | (56) | 22 704 | 4 988 | 5 482 |
| Other equipment | 746 | 5 | (118) | | (13) | 620 | 244 | 11 | (118) | (3) | (1) | 133 | 487 | 502 |
| | **452 049** | **10 431** | **(8 342)** | **1 986** | **(1 621)** | **454 503** | **365 509** | **25 356** | **(8 070)** | **7** | **(970)** | **381 832** | **72 671** | **86 540** |
| Tangible assets in progress | 13 533 | 9 308 | | (13 149) | (68) | 9 624 | | | | | | | 9 624 | 13 533 |
| Other tangible assets | 13 369 | 2 | (387) | 7 | | 12 991 | 10 204 | 274 | (367) | | | 10 111 | 2 880 | 3 165 |
| | **26 902** | **9 310** | **(387)** | **(13 142)** | **(68)** | **22 615** | **10 204** | **274** | **(367)** | | | **10 111** | **12 504** | **16 698** |
| | **724 440** | **29 121** | **(16 985)** | **(5 014)** | **(5 180)** | **726 382** | **499 332** | **30 582** | **(12 342)** | **(1)** | **(1 878)** | **515 693** | **210 689** | **225 108** |

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 | Balance at 31 Dec.11 | Balance at 31 Dec.10 Proforma | Depreciation for the year | Sales and write-offs | Transfers and others | Foreign exchange differences | Balance at 31 Dec.11 | Balance at 31 Dec.11 | Balance at 31 Dec.10 Proforma |
| Property | | | | | | | | | | | | | | |
| Property for own use | 155 281 | 7 163 | (31 353) | (526) | 88 | 130 653 | 39 032 | 2 196 | (14 797) | (2 176) | 63 | 24 318 | 106 335 | 116 249 |
| Other property | 455 | | (141) | | | 314 | 200 | 3 | (44) | | | 159 | 155 | 255 |
| Leasehold improvements | 118 612 | 761 | (5 075) | 363 | (139) | 114 522 | 99 971 | 4 196 | (5 059) | (1) | 35 | 99 142 | 15 380 | 18 641 |
| | **274 348** | **7 924** | **(36 569)** | **(163)** | **(51)** | **245 489** | **139 203** | **6 395** | **(19 900)** | **(2 177)** | **98** | **123 619** | **121 870** | **135 145** |
| Equipment | | | | | | | | | | | | | | |
| Furniture and fixtures | 50 674 | 1 428 | (347) | 300 | 31 | 52 086 | 41 039 | 2 043 | (345) | 2 | 56 | 42 795 | 9 291 | 9 635 |
| Machinery and tools | 14 011 | 346 | (559) | 17 | 6 | 13 821 | 11 782 | 785 | (555) | (1) | 9 | 12 020 | 1 801 | 2 229 |
| Computer hardware | 181 569 | 6 761 | (2 529) | 1 396 | 114 | 187 311 | 164 424 | 10 974 | (2 444) | (3) | 180 | 173 131 | 14 180 | 17 145 |
| Interior installations | 162 572 | 1 629 | (7 454) | 4 448 | 60 | 161 255 | 103 174 | 10 784 | (4 877) | (81) | 23 | 109 023 | 52 232 | 59 398 |
| Vehicles | 8 567 | 2 053 | (1 198) | 85 | 35 | 9 542 | 6 037 | 1 433 | (933) | (77) | 30 | 6 490 | 3 052 | 2 530 |
| Security equipment | 26 769 | 573 | (517) | 462 | 1 | 27 288 | 21 015 | 1 291 | (497) | (26) | 23 | 21 806 | 5 482 | 5 754 |
| Other equipment | 748 | 1 | | | (3) | 746 | 238 | 7 | | (1) | | 244 | 502 | 510 |
| | **444 910** | **12 791** | **(12 604)** | **6 708** | **244** | **452 049** | **347 709** | **27 317** | **(9 651)** | **(187)** | **321** | **365 509** | **86 540** | **97 201** |
| Tangible assets in progress | 16 250 | 13 284 | | (16 166) | 165 | 13 533 | | | | | | | 13 533 | 16 250 |
| Other tangible assets | 13 800 | 9 | (469) | 29 | | 13 369 | 10 319 | 302 | (413) | (4) | | 10 204 | 3 165 | 3 481 |
| | **30 050** | **13 293** | **(469)** | **(16 137)** | **165** | **26 902** | **10 319** | **302** | **(413)** | **(4)** | | **10 204** | **16 698** | **19 731** |
| | **749 308** | **34 008** | **(49 642)** | **(9 592)** | **358** | **724 440** | **497 231** | **34 014** | **(29 964)** | **(2 368)** | **419** | **499 332** | **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.

## 4.10. Intangible assets

The changes in intangible assets in 2012 were as follows:

| | Gross | | | | | | Amortization | | | | | Net | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance at 31 Dec.11 | Purchases | Sales and write-offs | Transfers and others | Foreign exchange differences | Balance at 31 Dec.12 | Balance at 31 Dec.11 | Amortiza-tion for the year | Sales and write-offs | Foreign exchange differences | Balance at 31 Dec.12 | Balance at 31 Dec.12 | Balance at 31 Dec.11 |
| Software | 60 371 | 1 700 | (76) | 3 236 | (115) | 65 116 | 56 770 | 2 457 | (75) | (63) | 59 089 | 6 027 | 3 601 |
| Other intangible assets | 30 553 | | (371) | | (38) | 30 144 | 27 834 | 35 | (371) | (38) | 27 460 | 2 684 | 2 719 |
| | **90 924** | **1 700** | **(447)** | **3 236** | **(153)** | **95 260** | **84 604** | **2 492** | **(446)** | **(101)** | **86 549** | **8 711** | **6 320** |
| Intangible assets in progress | 3 237 | 4 493 | | (2 424) | | 5 306 | | | | | | 5 306 | 3 237 |
| | **94 161** | **6 193** | **(447)** | **812** | **(153)** | **100 566** | **84 604** | **2 492** | **(446)** | **(101)** | **86 549** | **14 017** | **9 557** |

The changes in intangible assets in 2011 were as follows:

| | Gross | | | | | | Amortization | | | | | Net | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance at 31 Dec. 10 Proforma | Purchases | Sales and write-offs | Transfers and others | Foreign exchange differences | Balance at 31 Dec.11 | Balance at 31 Dec. 10 Proforma | Amortiza-tion for the year | Sales and write-offs | Foreign exchange differences | Balance at 31 Dec.11 | Balance at 31 Dec.11 | Balance at 31 Dec.10 Proforma |
| Software | 57 659 | 1 728 | (99) | 1 022 | 61 | 60 371 | 54 671 | 2 113 | (30) | 16 | 56 770 | 3 601 | 2 988 |
| Other intangible assets | 31 152 | 1 736 | (2 327) | | (8) | 30 553 | 29 446 | 719 | (2 327) | (4) | 27 834 | 2 719 | 1 706 |
| | **88 811** | **3 464** | **(2 426)** | **1 022** | **53** | **90 924** | **84 117** | **2 832** | **(2 357)** | **12** | **84 604** | **6 320** | **4 694** |
| Intangible assets in progress | 1 684 | 2 534 | | (981) | | 3 237 | | | | | | 3 237 | 1 684 |
| | **90 495** | **5 998** | **(2 426)** | **41** | **53** | **94 161** | **84 117** | **2 832** | **(2 357)** | **12** | **84 604** | **9 557** | **6 378** |

## 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. 12 | 31 Dec. 11 | 31 Dec. 12 | 31 Dec. 11 |
| Banco Comercial e de Investimentos, S.A.R.L. | 30.0 | 30.0 | 38 891 | 34 954 |
| Companhia de Seguros Allianz Portugal, S.A. | 35.0 | 35.0 | 80 654 | 63 937 |
| Cosec – Companhia de Seguros de Crédito, S.A. | 50.0 | 50.0 | 24 594 | 22 828 |
| Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A. | 32.8 | 32.8 | 26 560 | 26 858 |
| Inter-Risco – Sociedade de Capital de Risco, S.A. | 49.0 | 49.0 | 595 | 527 |
| TC Turismo Capital – SCR, S.A. | | 25.0 | | 1 530 |
| Unicre – Instituição Financeira de Crédito, S.A. | 21.0 | 21.0 | 30 961 | 28 610 |
| | | | **202 255** | **179 244** |

In 2012 TC Turismo Capital – SCR, S.A. and Aicep Capital were merged by incorporation into Inovcapital – Sociedade de Capital de Risco, S.A., the corporate name of which was changed to Portugal Capital Ventures – Sociedade de Capital de Risco, S.A. The BPI Group ceased to own the participations of 25% in TC Turismo Capital – SCR, S.A. and 4.4% in Inovcapital – Sociedade de Capital de Risco, S.A. and now holds a participation of 6.4% in Portugal Capital Ventures, which was recorded in the financial assets available for sale portfolio.

## 4.12. Tax assets

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Current tax assets** | | |
| Corporate income tax recoverable | 7 162 | 6 312 |
| Others | 2 047 | 2 463 |
| | **9 209** | **8 775** |
| **Deferred tax assets** | | |
| Due to temporary differences | 536 549 | 784 846 |
| Due to tax losses carried forward | 71 934 | 109 908 |
| | **608 483** | **894 754** |
| | **617 692** | **903 529** |

Details of DEFERRED TAX ASSETS are presented in note 4.44.

## 4.13. Other assets

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Debtors, other applications and other assets** | | |
| Debtors for future operations | 10 492 | 15 461 |
| Collateral accounts | 3 727 | 3 411 |
| Other aplications | 7 183 | 8 334 |
| VAT recoverable | 115 | 5 332 |
| Debtors for loan interest subsidy receivable | 6 811 | 7 688 |
| Other debtors | 129 068 | 156 805 |
| Overdue debtors and other applications | 432 | 337 |
| Impairment | (395) | (381) |
| **Other assets** | | |
| Gold | 49 | 61 |
| Other available funds and other assets | 814 | 814 |
| | **158 296** | **197 862** |
| **Tangible assets available for sale** | 169 397 | 145 725 |
| Impairment | (64 707) | (54 663) |
| | **104 690** | **91 062** |
| **Accrued income** | | |
| For irrevocable commitments assumed in relation to third parties | 226 | 255 |
| For banking services rendered to third parties | 2 484 | 2 944 |
| Other accrued income | 28 380 | 27 114 |
| | **31 090** | **30 313** |
| **Deferred expenses** | | |
| Insurance | 3 | 20 |
| Rent | 1 946 | 2 106 |
| Other deferred expenses | 7 313 | 7 374 |
| | **9 262** | **9 500** |
| **Liability for pensions and other benefits (note 4.26)** | | |
| Pension fund asset value | | |
| Pensioners and Employees | 986 874 | |
| Directors | 32 638 | |
| Past service liabilities | | |
| Pensioners and Employees | (937 090) | |
| Directors | (35 113) | |
| Others | (999) | |
| Changes in the pension plan conditions to be amortised | | |
| Others | 63 | 69 |
| | **46 373** | **69** |
| **Other accounts** | | |
| Foreign exchange transactions pending settlement | | 43 194 |
| Stock exchange transactions pending settlement | 17 761 | 1 963 |
| Non stock exchange transactions pending settlement | 21 393 | 1 057 |
| Operations on assets pending settlement | 261 497 | 316 070 |
| | **300 651** | **362 284** |
| | **650 362** | **691 090** |

The caption OTHER APPLICATIONS at 31 December 2012 and 2011 includes 4 019 th. euro and 7 456 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 2012 and 2011 includes 102 319 th. euro and 131 386 th. euro, respectively, relating to instalments receivable from the sale in 2008 of 49.9% of the share capital of Banco de Fomento Angola, S.A. 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 2012 were as follows:

| | Balance at 31 Dec. 11 | | | Acquisitions and transfers | Sales and write-offs | | Increase / Reversals of impairment | Balance at 31 Dec. 12 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross | Impairment | Net | | Gross | Impairment | | Gross | Impairment | Net |
| **Assets received in settlement of defaulting loans** | | | | | | | | | | |
| Real estate | 139 198 | (53 561) | 85 637 | 52 177 | (29 055) | 4 528 | (14 385) | 162 320 | (63 418) | 98 902 |
| Equipment | 2 151 | (838) | 1 313 | 4 001 | (3 451) | 236 | (423) | 2 701 | (1 025) | 1 676 |
| Others | 61 | (61) | | | | | | 61 | (61) | |
| **Other tangible assets** | | | | | | | | | | |
| Real estate | 4 315 | (203) | 4 112 | | | | | 4 315 | (203) | 4 112 |
| | **145 725** | **(54 663)** | **91 062** | **56 178** | **(32 506)** | **4 764** | **(14 808)** | **169 397** | **(64 707)** | **104 690** |

The changes in tangible assets available for sale in 2011 were as follows:

| | Balance at 31 Dec. 10 Proforma | | | Acquisitions 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** |

In 2011, the net amount of the caption ACQUISITIONS AND TRANSFERS includes 3 904 th. euro relating to tangible assets transferred from the caption PROPERTY FOR OWN USE (note 4.9).

The caption OTHER ACCRUED INCOME at 31 December 2012 and 2011 includes 19 607 th. euro and 18 575 th. euro, respectively, relating to accrued commission from participation on the results of insurance products (notes 2.15 and 4.39).

At 31 December 2012, 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 2012 and 2011 refers to the sale of securities only settled in the following month.

The caption NON STOCK EXCHANGE TRANSACTIONS PENDING SETTLEMENT at 31 December 2012 and 2011 refers to the sale of securities only settled in the following month.

At 31 December 2012 and 2011 the balance of the caption ASSET OPERATIONS PENDING ADJUSTMENT includes:

- 194 994 th. euro and 202 787 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 derecognised;
- 15 960 th. euro, relating to taxes to be regularized, 11 977 th. euro relating to taxes in litigation, paid under Decree-Law 248-A / 02 of 14 November;
- 11 410 th. euro and 12 419 th. euro, respectively, relating to housing loans pending settlement;
- 13 500 th. euro and 13 311 th. euro, respectively, relating to transfers under SEPA (Single Euro Payments Area).

The changes in impairment losses and provisions in 2012 and 2011 are shown in note 4.20.

## 4.14. Resources of central banks

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Resources of the Bank of Portugal | | |
| Deposits | 4 217 432 | 2 300 000 |
| Accrued interest | 33 073 | 879 |
| Resources of other central banks | | |
| Deposits | 20 323 | 196 817 |
| Accrued interest | 90 | 1 501 |
| | **4 270 918** | **2 499 197** |

In 2012 and in 2011, 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. 12 | 31 Dec. 11 |
|---|---|---|
| **Short selling** | | |
| Debt instruments | | |
| Bonds issued by foreign government entities | 233 | 126 340 |
| **Derivative instruments with negative fair value (note 4.4)** | 339 931 | 327 898 |
| | **340 164** | **454 238** |

## 4.16. Resources of other credit institutions

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Resources of Portuguese credit institutions** | | |
| Interbank money market | 150 000 | |
| Very short term resources | 11 369 | |
| Deposits | 109 266 | 52 251 |
| Loans | 35 | 36 |
| Debt securities sold with repurchase agreements | | 15 469 |
| Other resources | 7 174 | 6 211 |
| Accrued interest | 187 | 237 |
| | **278 031** | **74 204** |
| **Resources of foreign credit institutions** | | |
| Deposits of international financial organisations | 192 997 | 404 688 |
| Very short term resources | 57 979 | 7 878 |
| Deposits | 173 119 | 406 209 |
| Debt securities sold with repurchase agreements | 1 714 249 | 1 072 632 |
| Other resources | 140 881 | 98 767 |
| Accrued interest | 1 185 | 2 106 |
| | **2 280 410** | **1 992 280** |
| Correction of the amount of hedged liabilities | 10 505 | 8 793 |
| Commission relating to amortised cost | (525) | (3 757) |
| | **2 568 421** | **2 071 520** |

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. 12 | 31 Dec. 11 |
|---|---|---|
| Demand deposits | 7 811 054 | 7 535 773 |
| Term deposits | 15 745 657 | 15 913 407 |
| Savings deposits | 229 449 | 313 498 |
| Compulsory deposits | 7 210 | 9 785 |
| Cheques and orders payable | 75 776 | 49 365 |
| Other resources of Customers | 54 291 | 55 613 |
| Capitalisation insurance products – Unit links | 323 885 | 373 264 |
| Capitalisation insurance products – Guaranteed Rate and Guaranteed Retirement | 144 409 | 206 543 |
| Accrued interest | 185 564 | 186 726 |
| | **24 577 295** | **24 643 974** |
| Correction of the amount of hedged liabilities | 43 844 | 27 354 |
| | **24 621 139** | **24 671 328** |

The caption RESOURCES OF CUSTOMERS at 31 December 2012 included 414 394 th. euro and 104 507 th. euro, respectively, relating to deposits of investment funds and pension funds managed by the BPI Group (205 545 th. euro and 275 092 th. euro, respectively, at 31 December 2011).

## 4.18. Debt securities

This caption is made up as follows:

| | 31 Dec. 12 | | | | 31 Dec. 11 | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued | Repurchased | Balance | Average interest rate | Issued | Repurchased | Balance | Average interest rate |
| **Deposit certificates** | | | | | | | | |
| EUR | 9 | | 9 | 3.6% | 27 | | 27 | 3.5% |
| | **9** | | **9** | | **27** | | **27** | |
| **Commercial paper** | | | | | | | | |
| EUR | 19 889 | | 19 889 | 2.2% | 29 716 | | 29 716 | 2.8% |
| | **19 889** | | **19 889** | | **29 716** | | **29 716** | |
| **Covered bonds** | | | | | | | | |
| EUR | 4 325 000 | (2 752 600) | 1 572 400 | 1.6% | 4 525 000 | (1 909 500) | 2 615 500 | 2.7% |
| | **4 325 000** | **(2 752 600)** | **1 572 400** | | **4 525 000** | **(1 909 500)** | **2 615 500** | |
| **Fixed rate cash bonds** | | | | | | | | |
| EUR | 1 655 548 | (318 274) | 1 337 274 | 3.9% | 3 004 862 | (470 019) | 2 534 843 | 3.5% |
| CHF | 824 | (62) | 762 | 3.3% | 819 | (58) | 761 | 2.3% |
| USD | 147 579 | (29 438) | 118 141 | 3.6% | 150 487 | (20 315) | 130 172 | 2.8% |
| CAD | 23 046 | (1 945) | 21 101 | 4.5% | 22 910 | (3 000) | 19 910 | 3.3% |
| JPY | 35 208 | | 35 208 | 2.5% | 39 920 | | 39 920 | 2.5% |
| | **1 862 205** | **(349 719)** | **1 512 486** | | **3 218 998** | **(493 392)** | **2 725 606** | |
| **Variable rate cash bonds** | | | | | | | | |
| EUR | 212 000 | (101 050) | 110 950 | 1.2% | 1 087 217 | (487 633) | 599 584 | 2.5% |
| USD | 7 579 | (3 085) | 4 494 | 2.4% | 7 729 | | 7 729 | 3.0% |
| | **219 579** | **(104 135)** | **115 444** | | **1 094 946** | **(487 633)** | **607 313** | |
| **Variable income cash bonds** | | | | | | | | |
| EUR | 668 959 | (248 288) | 420 671 | | 828 209 | (304 529) | 523 680 | |
| USD | 56 465 | (38 461) | 18 004 | | 93 284 | (74 854) | 18 430 | |
| | **725 424** | **(286 749)** | **438 675** | | **921 493** | **(379 383)** | **542 110** | |
| | **7 152 106** | **(3 493 203)** | **3 658 903** | | **9 790 180** | **(3 269 908)** | **6 520 272** | |
| Accrued interest | | | 44 022 | | | | 80 076 | |
| Correction of the amount of hedged liabilities | | | 96 008 | | | | 111 119 | |
| Premiums and commission (net) | | | (11 306) | | | | (19 514) | |
| | | | **128 724** | | | | **171 681** | |
| | | | **3 787 627** | | | | **6 691 953** | |

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 issues 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 covered 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, two issues of mortgage bonds in 2011 and one issue of mortgage bonds in 2012.

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 2012 the amount of mortgage bonds issued by the BPI Group was 3 925 000 000 euro, split into 8 issues as follows:

| | OH – Series 5 | OH – Series 7 | OH – Series 8 | OH – Series 9 |
|---|---|---|---|---|
| Issue date | 28-05-2009 | 15-01-2010 | 12-02-2010 | 21-05-2010 |
| Nominal amount | EUR 175 000 000 | EUR 1 000 000 000 | EUR 200 000 000 | EUR 350 000 000 |
| ISIN | PTBB1XOE0006 | PTBB5JOE0000 | PTBB5WOE0003 | PTBBP6OE0023 |
| Maturity date | 28-05-2016 | 15-01-2015 | 12-02-2017 | 21-05-2025 |
| Rating (Moody's / S&P / Fitch) | Aaa / - / - | Aaa / AAA / AAA | Aaa / - / - | Aaa / - / - |
| Reimbursement | At maturity | At maturity | At maturity | At maturity |
| Interest payment frequency | Quarterly | Annual | Quarterly | Quarterly |
| Coupon | Euribor 3 m + 1.20% | 3.25% | Euribor 3 m + 0.84% | Euribor 3 m + 0.65% |
| Repurchases | - | EUR 152 600 000 | - | EUR 350 000 000 |

| | OH – Series 10 | OH – Series 11 | OH – Series 12 | OH – Series 13 |
|---|---|---|---|---|
| Issue date | 05-08-2010 | 25-01-2011 | 25-08-2011 | 20-07-2012 |
| Nominal amount | EUR 600 000 000 | EUR 200 000 000 | EUR 600 000 000 | EUR 800 000 000 |
| ISIN | PTBBQQOE0024 | PTBBPMOE0029 | PTBBWAOE0024 | PTBBR3OE0030 |
| Maturity date | 05-08-2020 | 25-01-2018 | 25-08-2021 | 20-07-2017 |
| Rating (Moody's / S&P / Fitch) | - / - / AAA | Aa1 / AA / AA+ | A3 / A+ / A- | Baa3 / 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 + 4.60% | Euribor 3 m + 0.65% | Euribor 3 m + 0.65% |
| Repurchases | EUR 600 000 000 | - | EUR 600 000 000 | EUR 800 000 000 |

At 31 December 2012 and 2011, the cover pool allocated to the mortgage bonds amounted to 5 793 116 th. euro and 5 798 469 th. euro, respectively, of which 701 444 th. euro and 5 423 645 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 2012 Banco BPI held two outstanding issues of bonds over the public sector amounting to 400 000 000 euro, as follows:

| | OSP – Series 1 | OSP – Series 2 |
|---|---|---|
| Issue date | 17-07-2008 | 30-09-2010 |
| Nominal amount | EUR 150 000 000 | EUR 250 000 000 |
| ISIN | PTBP14OE0006 | PTBBRHOE0024 |
| 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 2012 and 2011 the cover pool allocated to bonds over the public sector amounted to 686 846 th. euro and 672 298 th. euro, of which 660 991 th. euro and 530 848 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 return 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 maintains options contracts to hedge the risks of change in the cost incurred with these bonds.

The changes in the bonds issued by the BPI Group in 2012 were as follows:

| | Deposit certificates | Commercial paper | Covered bonds | Fixed rate bonds | Variable rate bonds | Variable income bonds | Total |
|---|---|---|---|---|---|---|---|
| Balance at 31 December 2011 | 27 | 29 716 | 2 615 500 | 2 725 606 | 607 313 | 542 110 | 6 520 272 |
| Bonds issued during the year | | 19 889 | 800 000 | 54 739 | | 62 767 | 937 395 |
| Bonds redeemed | (18) | (29 716) | (1 000 000) | (1 404 053) | (875 217) | (258 320) | (3 567 324) |
| Repurchases (net of resales) | | | (843 100) | 143 298 | 383 498 | 92 244 | (224 060) |
| Exchange difference | | | | (7 104) | (150) | (126) | (7 380) |
| **Balance at 31 December 2012** | **9** | **19 889** | **1 572 400** | **1 512 486** | **115 444** | **438 675** | **3 658 903** |

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) | | (1 208 994) | (524 515) | (317 784) | (2 052 332) |
| Repurchases (net of resales) | | | (649 750) | (317 459) | (21 950) | (94 474) | (1 083 633) |
| 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** |

Bonds issued by the BPI Group at 31 December 2012, by maturity date, are as follows:

| | Maturity | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015-2018 | > 2018 | Total |
| **Deposit certificates** | | | | | |
| EUR | 9 | | | | 9 |
| | **9** | | | | **9** |
| **Commercial paper** | | | | | |
| EUR | 19 889 | | | | 19 889 |
| | **19 889** | | | | **19 889** |
| **Covered bonds** | | | | | |
| EUR | | | 1 572 400 | | 1 572 400 |
| | | | **1 572 400** | | **1 572 400** |
| **Fixed rate bonds** | | | | | |
| EUR | 761 751 | 377 644 | 177 879 | 20 000 | 1 337 274 |
| CHF | 762 | | | | 762 |
| USD | 108 523 | 9 618 | | | 118 141 |
| CAD | 21 101 | | | | 21 101 |
| JPY | | | | 35 208 | 35 208 |
| | **892 137** | **387 262** | **177 879** | **55 208** | **1 512 486** |
| **Variable rate bonds** | | | | | |
| EUR | 10 950 | 100 000 | | | 110 950 |
| USD | 4 494 | | | | 4 494 |
| | **15 444** | **100 000** | | | **115 444** |
| **Variable income bonds** | | | | | |
| EUR | 260 422 | 121 543 | 38 706 | | 420 671 |
| USD | 3 380 | 1 698 | 12 926 | | 18 004 |
| | **263 802** | **123 241** | **51 632** | | **438 675** |
| **Total** | **1 191 281** | **610 503** | **1 801 911** | **55 208** | **3 658 903** |

Bonds issued by the BPI Group at 31 December 2011, by maturity date, are as follows:

| | Maturity | | | | | |
|---|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015-2018** | **> 2018** | **Total** |
| **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** |

## 4.19. Financial liabilities relating to transferred assets

This caption is made up as follows:

| | **31 Dec. 12** | **31 Dec. 11** |
|---|---|---|
| **Liabilities relating to assets not derecognised in securitisation operations (note 4.7)** | | |
| Loans | | |
| Housing loans | 4 996 234 | 5 169 563 |
| Loans to SME's | 3 385 632 | 3 509 032 |
| Liabilities held by the BPI Group | (6 790 808) | (6 492 311) |
| Risk / benefit on housing loans ceded | | (772 593) |
| Accrued costs | 2 898 | 4 141 |
| Commission relating to amortised cost (net) | (2 972) | (3 235) |
| | **1 590 984** | **1 414 597** |

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 sale amount was recognised in the statement of income. In 2012 Banco BPI repurchased from the Banco BPI Pension Fund the bonds sold and so Banco BPI started to recognise the full amount of the risk / benefit relating to the housing loan securitisation operations. The impact of the repurchase was recognised in the statement of income in 2012 (note 4.40).

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 | | n / a | n / a | Without guarantee | 0.10% |
| ■ Class B Notes | 23 322 | 0.78 | Baa3 / AAA / AAA | European Investment Fund | 0.08% |
| ■ Class C Notes | 24 000 | 2.28 | nr | Credit Securitisation Guarantee Fund | 1.00% |
| ■ Class D Notes | 5 010 | 2.28 | nr | Without guarantee | 2.00% |
| **Total of the issues** | **52 332** | | | | |
| Liabilities held by BPI Group | (29 010) | | | | |
| **Total** | **23 322** | | | | |

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 / Fixed rate |
|---|---|---|---|---|---|
| ■ Class A Notes | 1 819 400 | 1.99 | A / A | Without guarantee | 0.15% |
| ■ Class B Notes | 1 317 500 | 5.89 | nr | Without guarantee | 0.10% |
| ■ Class C Notes | | n / a | nr | Without guarantee | 0.10% |
| ■ Class D Notes | 196 400 | 5.89 | nr | Without guarantee | Residual interest |
| **Total of the issues** | **3 333 300** | | | | |
| Liabilities held by BPI Group | (3 333 300) | | | | |
| **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 | 453 744 | 6.56 | Ba1 / A- / A | 0.14% |
| ■ Class B Notes | 9 601 | 6.56 | Ba2 / BBB+ / A | 0.17% |
| ■ Class C Notes | 8 728 | 6.56 | B1 / BB- / BBB | 0.27% |
| ■ Class D Notes | 7 274 | 6.56 | B3 / B / BB | 0.47% |
| ■ Class E Notes | 7 670 | 6.56 | nr / nr / nr | Residual interest |
| **Total of the issues** | **487 017** | | | |
| Other funds | 3 | | | |
| Liabilities held by BPI Group | (89 726) | | | |
| **Total** | **397 294** | | | |

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 | 6 102 | 7.72 | Ba2 / A- / A | 0.05% |
| ■ Class A2 Notes | 616 746 | 7.72 | Ba2 / A- / A | 0.14% |
| ■ Class B Notes | 15 213 | 7.72 | Ba3 / BB / BBB | 0.17% |
| ■ Class C Notes | 9 868 | 7.72 | B2 / B / BB | 0.23% |
| ■ Class D Notes | 7 812 | 7.72 | B3 / B- / B | 0.48% |
| ■ Class E Notes | 7 869 | 7.72 | nr / nr / nr | Residual interest |
| **Total of the issues** | **663 610** | | | |
| Liabilities held by BPI Group | (229 489) | | | |
| **Total** | **434 121** | | | |

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 | 894 715 | 8.59 | Ba1 / A- / A | 0.16% |
| ■ Class B Notes | 22 939 | 8.59 | nr / B / BBB | 0.17% |
| ■ Class C Notes | 13 640 | 8.59 | nr / B- / BB | 0.23% |
| ■ Class D Notes | 11 780 | 8.59 | nr / B- / B | 0.48% |
| ■ Class E Notes | | n/a | nr / nr / nr | 0.50% |
| ■ Class F Notes | 1 251 | 8.59 | nr / nr / nr | Residual interest |
| **Total of the issues** | **944 325** | | | |
| Liabilities held by BPI Group | (208 004) | | | |
| **Total** | **736 321** | | | |

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 | 1 210 279 | 8.38 | A- / AA | 0.15% |
| ■ Class B Notes | 202 500 | 22.97 | nr / nr | 0.20% |
| ■ Class C Notes | 45 000 | 24.74 | nr / nr | 0.25% |
| ■ Class D Notes | 22 500 | 24.74 | nr / nr | Residual interest |
| **Total of the issues** | **1 480 279** | | | |
| Liabilities held by BPI Group | (1 480 279) | | | |
| **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 | 10.36 | A / AA | 0.20% |
| ■ Class B Notes | 301 000 | 25.62 | nr / nr | |
| ■ Class C Notes | 21 000 | 25.62 | 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 2012 were as follows:

| | Balance at 31 Dec. 11 | Increases | Decreases and reversals | Utilisation | Exchange differences and others | Balance at 31 Dec. 12 |
|---|---|---|---|---|---|---|
| **Impairment losses on loans and advances to credit institutions (note 4.6)** | 3 | 959 | | | (10) | 952 |
| **Impairment losses on loans and advances to Customers (note 4.7)** | 676 251 | 274 268 | (18 223) | (148 048) | (1 091) | 783 157 |
| **Impairment losses on financial assets available for sale (note 4.5)** | | | | | | |
| Debt instruments | 2 607 | 2 444 | (30) | (2 443) | 10 | 2 588 |
| Equity instruments | 45 189 | 970 | | (52) | (18) | 46 089 |
| Other securitites | 3 571 | 11 497 | | | | 15 068 |
| Loans and other receivables | 18 383 | 1 604 | | | (11) | 19 976 |
| **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 | 54 663 | 29 827 | (15 019) | (4 764) | | 64 707 |
| Debtors, other applications and other assets | 381 | 54 | (1) | (39) | | 395 |
| **Impairment losses and provisions for guarantees and commitments** | 35 009 | 13 340 | | | (243) | 48 106 |
| **Other provisions** | 93 179 | 4 836 | (368) | (7 110) | (245) | 90 292 |
| | **1 046 969** | **339 799** | **(33 641)** | **(280 189)** | **(1 608)** | **1 071 330** |

Utilisation of impairment losses on loans and advances to Customers in 2012 includes 78 234 th. euro of write-offs, 8 416 th. euro of loans sold, and 61 397 th. euro of impairment utilisation on sovereign debt securities issued by Greece under the agreement on the private sector involvement in the restructuring of Greek Government debt, the Bank receiving new Greek sovereign securities and utilising the impairment losses recorded in the second half of 2011 (note 4.48).

Utilization of Impairment losses on financial assets held to maturity in 2012 relates to the exchange of securities under the terms of the agreement on the private sector involvement in the restructuring of Greek Government debt, BPI Vida e Pensões having received the new securities issued by Greece and used the impairment on securities held to maturity recorded in the second half of 2011.

In the first half of 2012 the BPI Group recognized impairment losses of 16 102 th. euro for the new securities issued by Greece recorded in the Financial assets available for sale portfolio. In the second half of 2012 these securities were all sold. At the time of the sale, impairment of 2 443 th. euro was used and the remaining amount was annulled (note 4.5).

The accounting impact relating to the restructuring of Greek Government debt in 2012 and 2011 is shown in note 4.48 EXPOSURE TO SOVEREIGN DEBT.

The caption OTHER PROVISIONS at 31 December 2012 includes provisions for tax contingencies and litigation in progress.

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** | 382 | | | (371) | (8) | 3 |
| **Impairment losses on loans and advances to Customers** | 553 932 | 261 041 | (47 987) | (93 220) | 2 485 | 676 251 |
| **Impairment losses on financial assets available for sale** | | | | | | |
| Debt instruments | 2 558 | 401 085 | (487) | (400 549) | | 2 607 |
| Equity instruments | 42 158 | 3 007 | | | 24 | 45 189 |
| Other securitites | 3 221 | 350 | | | | 3 571 |
| Loans and other receivables | 5 283 | 13 100 | | | | 18 383 |
| **Impairment losses on financial assets held to maturity** | | | | | | |
| Debt instruments | | 117 733 | | | | 117 733 |
| **Impairment losses on other assets** | | | | | | |
| 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** |

Utilisation 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 of 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 (note 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.

## 4.21. Technical provisions

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Immediate Life Annuity / Individual | 5 | 5 |
| Immediate Life Annuity / Group | 27 | 42 |
| Family Savings | 38 | 43 |
| BPI New Family Savings | 1 167 097 | 1 454 899 |
| BPI Retirement Guaranteed | 112 092 | 105 954 |
| BPI Retirement Savings | 863 190 | 943 852 |
| BPI Non Resident Savings | 103 005 | 110 651 |
| Planor | 5 236 | 4 860 |
| PPR BBI Life | 3 394 | 3 662 |
| Savings Investment Plan / Youths | 1 187 | 1 123 |
| South PPR | 93 | 90 |
| | **2 255 364** | **2 625 181** |

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. 12 | 31 Dec. 11 |
|---|---|---|
| **Current tax liability** | | |
| Corporate income tax payable | 29 229 | 4 337 |
| Other | 1 132 | 767 |
| | **30 361** | **5 104** |
| **Deferred tax liability** | | |
| On temporary differences | 89 815 | 27 839 |
| | **89 815** | **27 839** |
| | **120 176** | **32 943** |

Details of the deferred tax liability are presented in note 4. 44.

## 4.23. Contingent convertible subordinated bonds

This caption is made up as follows:

| | 31 Dec. 12 | | | |
|---|---|---|---|---|
| | Issued | Repur-chased | Balance | Average interest rate |
| **Contingent convertible subordinated bonds** | | | | |
| EUR | 1 500 000 | (300 000) | 1 200 000 | 8.5% |
| | **1 500 000** | **(300 000)** | **1 200 000** | |
| Accrued interest | | | 279 | |
| | | | **1 200 279** | |

In the beginning of June 2012 Banco BPI's Board of Directors approved the Recapitalisation Plan for reinforcing core tier I own funds, in order to comply with the minimum ratios defined by the European Banking Authority and the Bank of Portugal (note 4.50).

The Recapitalisation Plan, in the amount of 1 500 000 th. euro, includes:

- a share capital increase of 200 000 th. euro, with shareholders' pre-emptive rights;
- the issuance of debt instruments eligible for own funds, subscribed for by the Portuguese State, in the amount of 1 300 000 th. euro.

On 29 June 2012 the Portuguese State subscribed for debt instruments eligible for core tier I own funds (contingent convertible subordinated bonds), in the amount of 1 500 000 th. euro. The features of these instruments are defined in Law 63-A / 2008 of 24 November as republished by Law 4 / 2012 of 11 January (Bank Recapitalisation Law), in Ministerial Order 150-A / 2012 of 17 May and in the Terms and Conditions established in Order 8840-A / 2012 of the Portuguese Minister of State and Finance of 28 June 2012. The investment period of the instrument is five years from the date of issue, and the Recapitalisation Plan of the Bank establishes partial repayments over the period of the instrument. On 10 August 2012 the Bank completed the capital increase of 200 000 th. euro, with shareholders' preemptive rights (note 4.27). The amount received was used in 13 August 2012 by the Bank to repay part of the contingent convertible subordinated bonds, the par value of which was reduced to 1 300 000 th. euro.

On 4 December 2012 the Bank reimbursed to the Portuguese State 100 000 th. euro relating to contingent convertible subordinated bonds, reducing the nominal amount to 1 200 000 th. euro.

The contingent convertible subordinated bonds bear interest payable half yearly, at an effective annual interest rate of 8.5% in the first year, increasing 0.25% per year in the first two years and 0.5% in each of the following years.

These instruments are convertible into Banco BPI shares on the occurrence of any one of the events listed in the Terms and Conditions established in Order 8840-A / 2012 of the Portuguese Minister of State and Finance of 28 June 2012. Briefly the conversion events are as follows:

- termination of the term of 5 years without the instruments having been fully repurchased (under Section 8.5. of the Terms and Conditions);
- occurrence of an event qualified as a material breach under Section 8.3. of the Terms and Conditions;
- occurrence of the event defined in Section 9.1. of the Terms and Conditions (viability event);
- occurrence of the event defined in Section 10 of the Terms and Conditions (regulatory event – the instrument is no longer qualified as core tier I) and the other alternatives provided for under this Section are not possible;
- occurrence of an event qualified as change in control under Section 9.2. of the Terms and Conditions;
- exclusion of Banco BPI shares from listing on a regulated market, under Section 9.2. of the Terms and Conditions.

If the conversion into Banco BPI shares referred to above occurs, it will be made through delivery of a number of shares that cannot be determined prior to the occurrence of the event that determines the conversion, since (i) the definition of the Conversion Price contained in Section 1.1. of the Terms and Conditions states that the price depends on the price / market value of the shares in the period prior to the occurrence of the event and (ii) the determination of the number of shares is made based on the Conversion Price.

The Terms and Conditions included an additional conversion event (if on 1 October 2012 the amount of instruments issued exceeds 1 300 000 th. euro), which will no longer occur because, as mentioned above, in August, 2012, Banco BPI repurchased 200 000 th. euro of these instruments, reducing on that date the amount to 1 300 000 th. euro.

## 4.24. Other Subordinated debt and participating bonds

This caption is made up as follows:

| | 31 Dec. 12 | | | | 31 Dec. 11 | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued | Repurchased | Balance | Average interest rate | Issued | Repurchased | Balance | Average interest rate |
| **OTHER SUBORDINATED DEBT** | | | | | | | | |
| **Perpetual bonds** | | | | | | | | |
| EUR | 420 000 | (360 000) | 60 000 | 1.7% | 420 000 | (360 000) | 60 000 | 2.9% |
| JPY | 66 015 | (66 015) | | 2.9% | 74 850 | (74 850) | | 0.3% |
| | **486 015** | **(426 015)** | **60 000** | | **494 850** | **(434 850)** | **60 000** | |
| **Other bonds** | | | | | | | | |
| EUR | 404 200 | (312 237) | 91 963 | 1.3% | 404 200 | (254 733) | 149 467 | 2.5% |
| JPY | 154 036 | (154 036) | | 2.8% | 174 651 | (174 651) | | 2.8% |
| | **558 236** | **(466 273)** | **91 963** | | **578 851** | **(429 384)** | **149 467** | |
| | **1 044 251** | **(892 288)** | **151 963** | | **1 073 701** | **(864 234)** | **209 467** | |
| **PARTICIPATING BONDS** | | | | | | | | |
| EUR | 28 081 | (23 962) | 4 119 | 1.2% | 28 081 | (23 486) | 4 595 | 2.4% |
| | **28 081** | **(23 962)** | **4 119** | | **28 081** | **(23 486)** | **4 595** | |
| Accrued interest | | | 200 | | | | 338 | |
| Correction of the amount of hedged liabilities | | | 51 | | | | 99 | |
| Premiums (net) | | | (2) | | | | (8) | |
| | | | **249** | | | | **429** | |
| | | | **156 331** | | | | **214 491** | |

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).

In 2012 Banco BPI repurchased part of the BPI Step-Up 16/04/2017 and BPI Rendimento Mais 2007 subordinated issuances (note 4.40).

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.

The changes in debt issued by the BPI Group in 2012 were as follows:

| | Perpetual bonds | Other bonds | Participating bonds | Total |
|---|---|---|---|---|
| Balance at 31 December 2011 | 60 000 | 149 467 | 4 595 | 214 062 |
| Repurchases (net of resales) | | (57 504) | (476) | (57 980) |
| Balance at 31 December 2012 | 60 000 | 91 963 | 4 119 | 156 082 |

The changes in debt issued by the BPI Group during 2011 were as follows:

| | Perpetual bonds | Other bonds | Participating bonds | Total |
|---|---|---|---|---|
| Balance at 31 December 2010 Proforma | 129 029 | 483 399 | 7 122 | 619 550 |
| Bonds redeemed | | (30 000) | | (30 000) |
| Repurchases (net of resales) | (74 850) | (317 515) | (2 527) | (394 892) |
| Exchange difference | 5 821 | 13 583 | | 19 404 |
| Balance at 31 December 2011 | 60 000 | 149 467 | 4 595 | 214 062 |

Perpetual and other bonds issued by the BPI Group at 31 December 2012 are made up as follows, by residual term to maturity:

| | Maturity | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015-2018 | > 2018 | Total |
| **Perpetual bonds** | | | | | |
| EUR[1] | 60 000 | | | | 60 000 |
| **Other bonds** | | | | | |
| EUR | 2 369 | | 89 594 | | 91 963 |
| **Total** | **62 369** | | **89 594** | | **151 963** |

1) In September 2012 the call option was not exercised, so these bonds now have a quarterly call option. In September 2012 the remuneration had a step-up due to the fact that the option was not exercised.

Perpetual and other bonds issued by the BPI Group at 31 December 2011 are made up as follows, by residual term to maturity:

| | Maturity | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015-2018 | > 2018 | Total |
| **Perpetual bonds** | | | | | | |
| EUR[1] | 60 000 | | | | | 60 000 |
| **Other bonds** | | | | | | |
| EUR | | 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.

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.

## 4.25. Other liabilities

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Creditors and other resources** | | |
| Creditors for futures operations | 5 419 | 6 510 |
| Consigned resources | 28 783 | 13 543 |
| Captive account resources | 7 670 | 6 798 |
| Subscription account resources | 23 | |
| Guarantee account resources | 12 670 | 15 090 |
| State administrative sector | | |
| Value Added Tax (VAT) payable | 7 274 | 5 482 |
| Tax withheld at source | 30 980 | 17 852 |
| Social Security contributions | 7 230 | 4 584 |
| Other | 175 | 282 |
| Contributions to other health systems | 1 420 | 1 432 |
| Creditors for factoring contracts | 8 401 | 14 177 |
| Creditors for the supply of assets | 2 810 | 7 623 |
| Contributions owed to the pension fund (note 4.26) | | |
| Pensioners and Employees | 500 | 37 888 |
| Directors | 2 475 | 2 806 |
| Other creditors | 167 064 | 119 078 |
| Deferred costs | (95) | (85) |
| | **282 799** | **253 060** |
| **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 | 366 | 303 |
| Personnel costs | 90 162 | 105 278 |
| General administrative costs | 35 535 | 32 041 |
| Contributions to the Investors Indemnity System | | 6 914 |
| Others | 2 598 | 2 123 |
| | **128 661** | **146 659** |
| **Deferred income** | | |
| On guarantees given and other contingent liabilities | 4 874 | 5 324 |
| Others | 4 650 | 4 589 |
| | **9 524** | **9 913** |
| **Other accounts** | | |
| Foreign exchange transactions pending settlement | 7 739 | |
| Liabilities pending settlement | 177 968 | 188 151 |
| Other operations pending settlement | 32 462 | 31 928 |
| | **218 169** | **220 079** |
| | **639 153** | **667 989** |

At 31 December 2012 the caption OTHER CREDITORS includes 59 400 th. euro relating to the unrealized subscribed capital of Fundo Reestruturação Empresarial, FCR.

At 31 December 2011 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.

At 31 December 2012 and 2011 the caption ACCRUED COSTS – PERSONNEL COSTS includes 21 188 th. euro and 24 031 th. euro, respectively, relating to long service premiums.

The main actuarial and financial assumptions used to calculate the long service premiums liability are as follows:

| | Assumptions | |
|---|---|---|
| | **31 Dec. 12** | **31 Dec. 11** |
| **Demographic assumptions:** | | |
| Mortality table[1] | TV 73 / 77-M – 1 year<br>TV 88 / 90-W – 1 year | TV 73 / 77-M – 1 year<br>TV 88 / 90-W – 1 year |
| **Financial assumptions:** | | |
| Discount rate | 4.50% | 5.50% |
| Salary growth rate[2] | 1.50% | 2.00% |

1) The life expectancy considered was one year greater than the mortality table used.
2) Up to the first half of 2012, inclusive, the estimated salary evolution, given the mandatory promotions due to antiquity and the seniority payments, were considered by the Bank in the pensionable salary growth rate used to calculate the pension liability. As from the end of 2012, the mandatory promotions due to antiquity and the seniority payments were considered autonomously, directly in the evolution of the estimated salaries. Thus, the pensionable salary growth rate was adjusted accordingly. This change did not cause a decrease in the past service liability.

The changes in the long service premiums liability in 2012 and 2011 were as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Long service premiums at the beginning of the year | 24 031 | 25 368 |
| Personnel costs: | | |
| Current service cost | 1 686 | 1 868 |
| Interest cost | 1 345 | 1 371 |
| Actuarial gains and losses | | |
| Changes in assumptions | 2 634 | (551) |
| Single Social Tax burden | 5 435 | |
| Others | (222) | (769) |
| Long service premium payments | (13 721) | (3 256) |
| **Long service premiums at the end of the year** | **21 188** | **24 031** |

In December 2012 Banco BPI made an advanced payment of the proportional part of the long service premium in progress, relating to the 15, 25 and 30 years of banking service corresponding to the time of good and effective service in the banking sector at 31 December 2012, in the amount of 11 035 th. euro (note 2.8).

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, which was paid in 2012.

The caption LIABILITIES PENDING SETTLEMENT at 31 December 2012 and 2011 includes:

- 72 274 th. euro and 75 429 th. euro, respectively, relating to electronic interbank transfer transactions;
- 47 266 th. euro and 31 292 th. euro, respectively, relating to loan securitisation fund transactions;
- 12 660 th. euro and 13 993 th. euro, respectively, relating to ATM / POS transactions to be settled with SIBS;

- 36 th. euro and 26 362 t euro, respectively, relating to transfers made through the "SPGT".

The caption OTHER OPERATIONS PENDING SETTLEMENT, at 31 December 2012 and 2011 includes:

- 34 203 th. euro and 26 202 th. euro, respectively, relating to transfers under SEPA (Single Euro Payment Area);

- 2 216 th. euro and 4 212 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 companies[1], 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.

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 corresponds 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 was made entirely in cash.

Transfer of ownership of the assets was carried out by the Bank under the following conditions: (i) in December 2011, the amount equivalent to 55% of the preliminary present value of the liability; (ii) in 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 2011 in the statement of income caption OPERATING GAINS AND LOSSES (note 4.41), as established in paragraph 61 of IAS 19. As a result of the final determination of the liability transferred to the Portuguese State and the corresponding total and definitive transmission of the Pension Funds' assets, differences in relation to the provisional amounts at the end of 2011 were determined, of which 1 542 t. in the amount of the liability and 1 688 th. euro in the value of the fund. The positive difference between these amounts, totalling 145 th. euro, was recorded in 2012 in the caption OPERATING GAINS AND LOSSES (note 4.41).

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 BPI Vida e Pensões pension plan was changed in accordance with the new Collective Labour Agreement (Contrato Colectivo de Trabalho – CCT) for the Portuguese Insurance Sector, signed in December 2011, and published in Labour and Employment Bulletin (Boletim do Trabalho e Emprego), n. 2, of 15 January 2012, the defined benefit plan ceasing to exist and a defined contribution plan being introduced. Therefore, the amount of the past service liability at 31 December 2011, relating to retirement pensions of current Employees, hired up to 22 June 1995, which was covered by clause 51, item 4 of the Collective Labour Agreement (the consolidated text of which was published in Labour and Employment Bulletin, n. 32, of 29 August 2008), that was fully funded, was converted into individual accounts of the Employees in 2012. This change does not apply to the pension liability under payment relating to Employees that at 31 December 2011 were retired or pre-retired.

1) Companies consolidated by the full consolidation method (Banco BPI, BPI Investimentos, BPI Gestão de Activos, BPI Private Equity and BPI Vida e Pensões).

The main actuarial assumptions used to calculate the pension liability are as follows:

| | Assumptions | | Actual | |
|---|---|---|---|---|
| | 31 Dec.12 | 31 Dec.11 | 31 Dec.12 | 31 Dec.11 |
| **Demographic assumptions:** | | | | |
| Mortality table[1] | TV 73 / 77 M – 1 year<br>TV 88 / 90 W –1 year | TV 73 / 77 M – 1 year<br>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 at Banco BPI[2] | | | - | - |
| Discount rate for current Employees | 4.83% | 5.83% | | |
| Discount rate for pensioners | 4.00% | 5.00% | | |
| Discount rate of the other companies | 4.50% | 5.50% | | |
| Pensionable salary increase rate[3] | 1.50% | 2.00% | 1.80%[4] | 1.72%[4] |
| Mandatory promotions due to antiquity and seniority payments effect | 0.50% | n.a.[5] | | |
| Pension increase rate | 1.00% | 1.25% | 0.00%[6] | 0.00%[6] |
| Pension fund income rate | | | | |
| Banco BPI | 5.50% | 5.50% | 20.25% | -7.25% |
| Other companies | 5.50% | 5.50% | 8.66% | -1.19% |

1) The life expectancy considered was one year greater than the mortality table used.
2) The amount of pension liabilities, resulting from the use of the discount rates shown in the table for current Employees and pensioners at 31 December 2012 and 2011, is similar to that which would be obtained if a single discount rate of 4.5% and 5.5%, respectively, were used for the entire population, on each of those dates.
3) Up to the first half of 2012, inclusive, the estimated salary evolution, given the mandatory promotions due to antiquity and the seniority payments, were considered by the Bank in the pensionable salary increase rate used to calculate the pension liability. As from the end of 2012, the mandatory promotions due to antiquity and the seniority payments were considered autonomously, directly in the evolution of the estimated salaries. Thus, the pensionable salary increase rate was adjusted accordingly. This change did not cause a decrease in the past service liability.
4) Calculated based on the changes in pensionable wages of the Employees working for Group companies in the beginning and end of the year (includes changes in remuneration levels, the effect of mandatory promotions due to antiquity and seniority payments and does not reflect new entrants and exits).
5) At 31 December 2011, the pensionable salary increase rate (2%) already includes the mandatory promotions due to antiquity and the seniority payments.
6) Corresponds to the ACTV table update rate.

The following assumptions were used to calculate the amount of the social security pension which, under the provisions of the Collective Labour Agreement (ACT), must be deducted from the pension established in the ACT:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Salary increase rate for purposes of calculating the Social Security pension[1] | 2.50% | 3.00% |
| Salary revaluation rate for purposes of calculating the Social Security pension | 1.00% | 2.00% |
| Social Security pension increase rate | 1.00% | 1.25% |
| Sustainability factor | Average increase in life expectancy of 0.1 years per year | |

1) Pensionable salary for Social Security includes all wages, while the pensionable salary under ACT consists only to the portion of the level base salary and seniority payments, with an estimated evolution of the total pensionable salary for Social Security larger than the pensionable salary under ACT.

At 31 December 2012 and 2011 the number of pensioners and Employees covered by the pension plans funded by the pension funds was as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Retired pensioners | 6 889 | 6 870 |
| Survivor pensioners | 1 231 | 1 184 |
| Current Employees | 6 142 | 6 387 |
| Former Employees (clauses 137 A and 140 of the ACTV) | 3 116 | 3 075 |
| | **17 378** | **17 516** |

The past service liability for pensioners and Employees of the BPI Group and respective coverage by the pension fund at 31 December 2012 and 2011 are as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Total past service liability | | |
| Liability for pensions under payment | 511 758 | 478 757 |
| Of which: [increase in the liability resulting from early retirements during the period] | [27 871] | [46 178] |
| Past service liability of current and former Employees | 425 332 | 357 010 |
| | **937 090** | **835 767** |
| Net assets of the pension funds | 986 874 | 801 250 |
| Contributions to be transferred to the pension fund | 500 | 37 888 |
| Excess / (Insufficient) cover | 50 284 | 3 371 |
| Degree of coverage | 105% | 100% |

On 31 December 2012 the Bank recorded in the caption OTHER LIABILITIES – CONTRIBUTIONS TO THE PENSION FUND (note 4.25) the amount of 500 th. euro relating to the contribution for 2012 made in 2013, after which the degree of coverage of the liability at that date will be 105%. Even without the above mentioned contribution the degree of coverage was already higher than 100%.

At 31 December 2011 the Bank recorded in the caption OTHER LIABILITIES – CONTRIBUTIONS TO THE PENSION FUND (note 4.25) the amount of 37 888 th. euro relating to the contribution for 2011 made in 2012, after which the degree of coverage of the liability at that date will be 100%.

Evolution of the degree of coverage of the liability in the last five years was as follows:

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Total past service liability | 937 090 | 835 767 | 2 306 127 | 2 274 641 | 2 298 177 |
| Net assets of the pension fund | 986 874 | 801 250 | 2 409 393 | 2 463 809 | 2 150 110 |
| Contributions to be transferred to the pension fund | 500 | 37 888 | 1 375 | 18 | 119 296 |
| Excess / (insufficient) cover | 50 284 | 3 371 | 104 641 | 189 186 | (28 771) |
| **Degree of coverage** | **105%** | **100%** | **105%** | **108%** | **99%** |

The changes in the present value of the past service liability in 2012 and 2011 were as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Liability at the beginning of the year | 835 767 | 2 306 127 |
| Current cost: | | |
| Of the BPI Group | 1 339 | 5 497 |
| Of the Employees | 3 543 | 3 534 |
| Interest cost | 44 022 | 118 711 |
| Actuarial (gain) and loss in the liability | 80 147 | (239 825) |
| Early retirements | 27 871 | 46 178 |
| Changes in the conditions of the Pension Plan – Death subsidy | (38 718) | |
| Pensions payable (estimate) | (18 310) | (130 860) |
| Partial transfer of retired and pensioners pension liabilities to the Social Security | 1 543 | (1 273 595) |
| Plan conversion of BPI Vida e Pensões | (114) | |
| **Liability at the end of the year** | **937 090** | **835 767** |

The legal framework of the death subsidy payable by the Social Security was amended by Decree-Law 133 / 2012 of 27 June, in force as from 1 July which established a maximum limit for the death subsidy. Since the banking sector death subsidy is a cost of the banks, and in accordance with the Banking Sector Collective Labour Agreement it is calculated in accordance with Social Security legislation, publication of Decree-Law 133 / 2012 determined a change in the conditions of the post-retirement benefit plan liability of Banco BPI. The impact of this change (38 718 th. euro) is fully recognised in the statement of income of the year in which the change occurred (note 4.42).

The changes in the pension funds in 2012 and 2011 were as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Net assets of the pension fund at the beginning of the year | 801 250 | 2 409 393 |
| Current cost: | | |
| Of the BPI Group | 37 888 | 66 876 |
| Of the Employees | 3 543 | 3 534 |
| Pension fund income (net) | 160 508 | (173 348) |
| Pensions paid by the pension funds | (17 716) | (131 957) |
| Partial transfer of retired personnel and pensioners' pension liabilities to the Social Security | 1 688 | (1 373 248) |
| Plan conversion of BPI Vida e Pensões | (287) | |
| **Net assets of the pension fund at the end of the year** | **986 874** | **801 250** |

In 2012 and 2011 the net assets of the Banco BPI Employees' Pension Fund were as follows[1]:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Liquidity | 2.8% | 15.9% |
| Fixed rate bonds | 29.5% | 20.3% |
| Indexed rate bonds | 6.5% | 7.2% |
| Portuguese shares | 24.3% | 27.3% |
| Foreign shares | 1.2% | |
| Real estate | 34.6% | 26.2% |
| Others | 1.2% | 3.2% |
| | **100.0%** | **100.0%** |

1) At 31 December 2011, includes total assets of the fund, including 606 052 th. euro transferred to the Portuguese State in the first half of 2012 in accordance with Decree-Law 127 / 2011 of 31 December.

Contributions to the Pension Funds in 2012 were paid in cash.

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 (note 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 (note 4.41).

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 2012 were as follows:

| | 31 Dec. 11 | Acquisitions | Changes in fair value | 31 Dec. 12 |
|---|---|---|---|---|
| Fair value of the plan assets: | | | | |
| Financial instruments issued by the BPI Group | | | | |
| Shares | 2 719 | 2 300 | 2 480 | 7 499 |
| Bonds | 60 088 | | (11) | 60 077 |
| | **62 807** | **2 300** | **2 469** | **67 576** |
| Premises used by the BPI Group | 223 856 | | (8 804) | 215 052 |
| | **286 663** | **2 300** | **(6 335)** | **282 628** |

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 | Acquisitions | 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** |

As mentioned in note 2.1 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 the defined benefit plans, ceasing to use the corridor method and started 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 deviations[1] from 2008 to 2012 were as follows:

| | |
|---|---|
| **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 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 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** | **(254 767)** |
| Adjustment in the ACTV Table below the estimate | 39 559 |
| Change in the actuarial 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)** |

(continues) ▷

(continuation)

| | |
|---|---|
| Of which: | |
| Deviation associated with the transferred liabilities | (193 538) |
| Deviation associated with the liabilities that remain with the Bank | (123 167) |
| **Amount at 31 December 2011 (note 4.31)[3]** | **(123 167)** |
| Adjustment in the ACTV Table below the estimate | 26 181 |
| Change in the actuarial assumptions | |
| Discount rate and pension increase rate | (98 212) |
| Others[4] | (9 026) |
| Deviation in pension fund income | 113 349 |
| Deviation in pensions paid | 597 |
| Others[5] | 885 |
| **Amount at 31 December 2012 (note 4.31)** | **(89 393)** |

1) Actuarial gains and losses due to differences between the actuarial assumptions and the amounts effectively realised and changes in the actuarial 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 Employees for which years of service in the Public Sector were recognised.
3) Excluding deviations relating to transferred liabilities.
4) Includes 7 426 th. euro relating to deviations caused by changes in the salary growth calculating methodology.
5) Includes (25) th. euro relating to BPI Vida e Pensões.

The consolidated financial statements as of 31 December 2012 and 2011 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 GAINS AND LOSSES (note 4.41) and PERSONNEL COSTS (note 4.42):

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Interest and financial gain and loss with pensions** | | |
| Interest cost | 44 022 | 118 711 |
| Expected fund income | (47 159) | (127 317) |
| | **(3 137)** | **(8 606)** |
| **Personnel costs** | | |
| Current service cost | 1 339 | 5 497 |
| Increase in liability for early retirements | 27 826 | 35 395 |
| Compensation due to early retirements | 2 390 | 4 513 |
| Change in the pension plan conditions | | |
| Death subsidy (note 4.42) | (38 718) | |
| Others | | 69 |
| | **(7 163)** | **45 474** |
| Operating (gains) / losses[1] | **(145)** | **99 652** |

1) Amount relating to the transfer to the Social Security of the liability for costs with the retirement and survivor pension liabilities of retired personnel and pensioners.

The Members of the Executive Board of Banco BPI, S.A. and the remaining Board Members of Banco Português de Investimento benefit from a supplementary retirement and survivor pension plan. At 31 December 2006 a pension fund was started to cover this liability.

The main actuarial assumptions used to calculate the pension liability were as follows:

| | Assumptions | | Actual | |
|---|---|---|---|---|
| | 31 Dec. 12 | 31 Dec. 11 | 31 Dec. 12 | 31 Dec. 11 |
| **Demographic assumptions:** | | | | |
| Mortality table[1] | TV 73 / 77 M – 1 year<br>TV 88 / 90 W – 1 year | TV 73 / 77 M – 1 year<br>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 | 4.50% | 5.50% | | |
| Pensionable salary increase rate | 1.00% | 1.25% | 0%[2] | 1.2%[2] |
| Pension increase rate[3] | 1.00% | 1.75% | 3.70% | 1.40% |
| Pension fund income rate | 5.50% | 5.50% | 9.05% | -1.14% |

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 2012 and 2011 the past service liability of this plan and respective coverage by the pension fund were as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Present value of the past service liability | | |
| Liability for pensions under payment | 16 636 | 15 962 |
| Past service liabilty relating to the current and former Directors | 18 477 | 15 179 |
| | **35 113** | **31 141** |
| Net assets of the pension fund | 32 638 | 28 335 |
| Contributions to be transferred to the pension fund | 2 475 | 2 806 |
| Degree of coverage | 100% | 100% |

On 31 December 2012 the Bank recorded in the caption OTHER LIABILITIES – CONTRIBUTIONS TO THE PENSION FUND (note 4.25) the amount of 2 475 th. euro relating to the contribution for 2012 made in 2013, after which the degree of coverage of liabilities in that date will be 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 made in 2012, after which the degree of coverage of liabilities in that date will be 100%.

The changes in the degree of coverage of the liabilities in the last five years were as follows:

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Total past service liability | 35 113 | 31 141 | 29 402 | 27 664 | 26 120 |
| Net assets of the pension fund | 32 638 | 28 335 | 29 477 | 26 564 | 23 871 |
| Contributions to be transferred to the pension fund | 2 475 | 2 806 | | 1 308 | 1 511 |
| Excess / (insufficient) cover | | | 75 | 208 | (738) |
| Degree of coverage | 100% | 100% | 100% | 101% | 97% |

The changes in the present value of the past service liability of the plan in 2012 and 2011 were as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Liability at the beginning of the year | 31 141 | 29 402 |
| Current service cost | 1 324 | 1 582 |
| Interest cost | 1 776 | 1 649 |
| Actuarial (gain) / loss in the liability | 2 174 | (994) |
| Pensions payable (estimate) | (1 302) | (875) |
| Others | | 377 |
| **Liability at the end of the year** | **35 113** | **31 141** |

The changes in the pension fund in 2012 and 2011 were as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Net assets of the pension fund at the beginning of the year | 28 335 | 29 477 |
| Contributions made | 2 806 | |
| Pension fund income (net) | 2 565 | (337) |
| Pensions paid by the pension fund | (1 068) | (805) |
| **Net assets of the pension fund at the end of the year** | **32 638** | **28 335** |

At 31 December 2012 and 2011 the net assets of the Banco BPI Directors' pension fund were as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Liquidity | 11.7% | 15.8% |
| Fixed rate bonds | 43.7% | 37.5% |
| Indexed rate bonds | 7.6% | 6.5% |
| Shares | 34.8% | 33.7% |
| Real estate | 1.7% | 2.2% |
| Others | 0.5% | 4.3% |
| | **100.0%** | **100.0%** |

Contributions to the pension funds in 2012 were paid in cash.

As mentioned in note 2.1 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 started 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 2008 to 2012 were as follows:

| | |
|---|---|
| **Amount at 31 December 2007** | **2 631** |
| Amortisation of deviations outside the corridor | (51) |
| Deviation in pension fund income | (3 148) |
| Change in actuarial 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 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** | **515** |
| Deviation in pension fund income | (1 927) |
| Change in actuarial assumptions | 994 |
| Deviation in pensions paid | 69 |
| **Amount at 31 December 2011 (note 4.31)** | **(349)** |
| Actuarial gains and (losses) | 859 |
| Deviation in pension fund income | (1 716) |
| Change in actuarial assumptions | 232 |
| Deviation in pensions paid | (458) |
| **Amount at 31 December 2012 (note 4.31)** | **(1 432)** |

The consolidated financial statements as of 31 December 2012 and 2011 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. 12 | 31 Dec. 11 |
|---|---|---|
| **Interest and financial gain and loss with pensions** | | |
| Interest cost | 1 776 | 1 649 |
| Expected fund income | (1 706) | (1 590) |
| | **70** | **59** |
| **Personnel costs** | | |
| Current service cost | 1 324 | 1 582 |
| Past service cost | | 377 |
| Change in the pension plan conditions | 5 | 94 |
| | **1 329** | **2 053** |

## 4.27. Share capital

On 27 April 2011 the Shareholders' General Meeting approved a 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 each by incorporation of reserves.

The Shareholders' General Meeting held on 31 May 2012 authorised Banco BPI's Board of Directors to do the following (valid for 18 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 between 120% and 80% 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; 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 80% 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).

On 27 June, 2012, the Shareholders' General Meeting approved the conversion of Banco BPI shares into shares with no par value.

On 10 July 2012, under the authority introduced into Banco BPI's Statutes at the Shareholders' General Meeting of 27 June 2012, the Board of Directors decided to increase share capital from 990 000 th. euro to 1 190 000 th. euro, in cash and with shareholders' pre-emptive rights, which decision was taken considering the Recapitalisation Plan approved in that Shareholders' General Meeting, aimed at reinforcing core tier I own funds, in order to comply with the minimum ratios defined by the European Banking Authority and the Bank of Portugal (notes 4.23 and 4.50). The share capital increase was made through the issuance of 400 million ordinary shares with no par value, at an issue price of 0.5 euro. The share capital increase was concluded on 10 August 2012, all the shares offered for subscription being fully subscribed for and so Banco BPI's share capital is now 1 190 000 th. euro represented by 1 390 000 nominative dematerialized ordinary shares, with no par value.

Also at the Shareholders' General Meeting held on 27 June 2012:

a) Under the framework of approval of the issuance of financial instruments eligible for core tier I own funds (Contingent Convertible Subordinated bonds), with a total par value of 1 500 000 th. euro, approval was given for the share capital increases deemed necessary on the occurrence of any conversion event established in the related Terms and Conditions (in accordance with Order 8840-A / 2012, of the Portuguese Minister of State and Finance of 28 June);

b) Authority was given to the Board of Directors to decide the capital increases necessary to realize the matter established in Section 6.4 of those Terms and Conditions relating to the payment in shares of the remuneration of the above mentioned instruments;

c) It was decided to suppress shareholders' pre-emptive rights in the subscription for the instruments referred to in a) and in the share capital increases referred to in b);

d) Authorisation was given to the Board of Directors to use Banco BPI's treasury shares to pay remuneration of the instruments referred to above.

## 4.28. Share premium account

The changes in the share premium account in 2011 and 2012 were as follows:

| | |
|---|---|
| **Proforma balance at 31 December 2010** | **441 306** |
| Use of share premiums to cover negative retained earnings | (312 874) |
| **Balance at 31 December 2011** | **128 432** |
| Use of share premiums to cover negative retained earnings | (128 432) |
| **Balance at 31 December 2012** | |

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 (note 4.31).

The Shareholder' General Meeting held on 31 May 2012 approved the use of share premiums of 128 432 th. euro to cover negative retained earnings (note 4.31).

In accordance with Ministerial Order 408 / 99 of 4 June, published in Diário da República – 1st 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. 12 | 31 Dec. 11 |
|---|---|---|
| **Other equity instruments** | | |
| Cost of shares to be made available to Group Employees | | |
| RVA 2008 | | 49 |
| RVA 2009 | 7 | 12 |
| RVA 2010 | 95 | 65 |
| RVA 2011 | 2 | 3 |
| RVA 2012 | 14 | |
| Costs of options not exercised (premiums) | | |
| RVA 2007 | 5 725 | 5 725 |
| RVA 2008 | 828 | 828 |
| RVA 2009 | 814 | 814 |
| RVA 2010 | 496 | 401 |
| RVA 2011 | 89 | 133 |
| RVA 2012 | 488 | |
| | **8 558** | **8 030** |
| **Treasury shares** | | |
| Shares to be made available to Group Employees | | |
| RVA 2008 | | 43 |
| RVA 2009 | 7 | 14 |
| RVA 2010 | 4 | 6 |
| RVA 2011 | 2 | |
| RVA 2012 | 40 | |
| Shares hedging RVA options | | |
| RVA 2007 | 11 348 | 14 619 |
| RVA 2008 | 3 045 | 3 045 |
| RVA 2009 | 3 147 | 3 147 |
| RVA 2010 | 118 | 146 |
| RVA 2011 | 133 | |
| RVA 2012 | 428 | |
| | **18 272** | **21 020** |

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 of 31 December 2012 and 2011 reflect 6 555 267 and 7 071 117 treasury shares, respectively, including 60 256 and 46 737 treasury shares to be made available under the RVA program for which ownership was transferred to the Employees on the grant date.

In 2012 and in 2011, the Bank recorded directly in shareholders' equity, gains of 1 179 th. euro and 867 th. euro, respectively, on the sale of treasury shares hedging the variable remuneration (RVA) program.

## 4.30. Revaluation reserves

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Revaluation reserves** | | |
| Reserves resulting from valuation to fair value of financial assets available for sale (note 4.5) | | |
| Debt instruments | | |
| Securities | (52 155) | (1 293 028) |
| Hedging derivatives | (637 218) | (460 053) |
| Equity instruments | 17 053 | 16 565 |
| Other | 2 431 | 7 890 |
| Reserve for foreign exchange difference on investments in foreign entities | | |
| Subsidiary or associated companies | (36 672) | (27 176) |
| Equity instruments available for sale | (4) | (100) |
| Legal revaluation reserve | 703 | 703 |
| | **(705 862)** | **(1 755 199)** |
| **Deferred tax reserve** | | |
| Resulting from valuation to fair value of financial assets available for sale | | |
| Tax assets | 244 037 | 506 770 |
| Tax liabilities | (45 789) | (3 104) |
| | **198 248** | **503 666** |
| | **(507 614)** | **(1 251 533)** |

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. 12 | 31 Dec. 11 |
|---|---|---|
| Legal reserve | 68 377 | 68 377 |
| Merger reserve | (2 463) | (2 463) |
| Consolidation reserves and retained earnings | 472 617 | 494 077 |
| Other reserves | 456 056 | 569 688 |
| Actuarial deviations | | |
| Associated with the transferred liabilities | (193 538) | (193 538) |
| Associated with the liabilities that remain with the Bank | (90 825) | (123 516) |
| Taxes related to actuarial deviations | 80 834 | 91 534 |
| Loss on treasury shares | (6 912) | (5 165) |
| Taxes relating to gain on treasury shares | 2 029 | 1 318 |
| | **786 175** | **900 312** |

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).

The Shareholders' General Meeting held on 31 May 2012 approved the utilisation of share premiums of 128 432 th. euro and other reserves of 113 632 th. euro to cover negative retained earnings (note 4.28).

In 2011 share premiums were used to cover negative retained earnings of 312 874 th. euro (note 4.28).

On 31 December 2012 and 2011 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 163 931 th. euro and 169 248 th. euro, respectively, which, adjusted by Banco BPI's effective participation percentage in these companies, amounted to 75 833 th. euro and 85 326 th. euro, respectively. These reserves are included in the captions CONSOLIDATION RESERVES AND RETAINED EARNINGS and REVALUATION RESERVES.

The caption CONSOLIDATION RESERVES at 31 December 2012 and 2011 includes 5 783 th. euro and (13 807) 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.

In 2012 and in 2011 the BPI Group recorded in the caption CONSOLIDATION RESERVES AND RETAINED EARNINGS 747 th. euro and 73 823 th. euro, respectively, 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 started 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 relating to the 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 recognised (note 4.44.).

## 4.32. Minority interests

This caption is made up as follows:

| | Balance sheet | | Statement of income | |
|---|---|---|---|---|
| | 31 Dec. 12 | 31 Dec. 11 | 31 Dec. 12 | 31 Dec. 11 |
| Minority shareholders in: | | | | |
| Banco de Fomento Angola, S.A. | 293 679 | 278 517 | 84 886 | 90 357 |
| BPI Capital Finance Ltd. | 51 144 | 53 296 | 1 232 | 7 201 |
| BPI Alternative Fund | 7 874 | 10 548 | 431 | 267 |
| Fundo BPI Obrigações Mundiais (ex-Fundo BPI Taxa Variável) | | 10 668 | | 198 |
| BPI Dealer – Sociedade financeira de Corretagem (Moçambique), S.A.R.L. | (40) | 6 | (46) | 1 |
| BPI (Suisse), S.A. | 5 | 3 | 2 | 1 |
| | **352 662** | **353 038** | **86 505** | **98 025** |

In 2012 the BPI Group reduced its participation in Fundo BPI Obrigações Mundiais (ex-Fundo BPI Taxa Variável) to a participation of less than 50%. In accordance with the Group's accounting policy, investment funds are consolidated only if the Group has control, i.e., when the Group holds more than 50% of the participating units. Thus, in 2012 the participation in this fund was reclassified to the financial assets available for sale portfolio, and is no longer recorded in accordance with the full consolidation method.

Minority interests in BPI Capital Finance at 31 December 2012 and 2011 include 51 021 th. euro and 53 122 th. euro, respectively, relating to preference shares:

| | 31 Dec. 12 | | | 31 Dec. 11 | | |
|---|---|---|---|---|---|---|
| | Issued | Repurchased | Balance | Issued | Repurchased | Balance |
| "C" Series Shares | 250 000 | (198 979) | 51 021 | 250 000 | (196 878) | 53 122 |
| | **250 000** | **(198 979)** | **51 021** | **250 000** | **(196 878)** | **53 122** |

The C Series preference shares, with a nominal value of 1 000 each, issued in August 2003, 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 payment of dividends and redemption of the preference shares are guaranteed by Banco BPI.

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.

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 subordinate 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. 12 | 31 Dec. 11 |
|---|---|---|
| Guarantees given and other contingent liabilities | | |
| Guarantees and sureties | 2 185 640 | 2 378 533 |
| Transactions with recourse | | 17 500 |
| Stand-by letters of credit | 13 635 | 26 349 |
| Documentary credits | 177 805 | 118 195 |
| Sureties and indemnities | 79 | 75 |
| Other guarantees given and contingent liabilities | 13 200 | |
| | **2 390 359** | **2 540 652** |
| Assets given as collateral | **15 166 739** | **7 830 857** |
| Commitments to third parties | | |
| Irrevocable commitments | | |
| Options on assets | 55 047 | 54 780 |
| Irrevocable credit lines | 1 582 | 1 934 |
| Securities subscription | 206 070 | 179 400 |
| Term commitment to make annual contributions to the deposit Guarantee Fund | 38 714 | 38 714 |
| Commitment to the Investor Indemnity System | 9 944 | 11 587 |
| Other irrevocable commitments | 707 | 707 |
| Revocable commitments | 2 234 781 | 2 429 877 |
| | **2 546 845** | **2 716 999** |
| Responsibility for services provided | | |
| Deposit and safeguard of assets | 24 869 361 | 23 562 945 |
| Amounts for collection | 131 737 | 150 374 |
| Assets managed by the institution | 4 924 016 | 5 182 981 |
| | **29 925 114** | **28 896 300** |

The caption ASSETS GIVEN AS COLLATERAL at 31 December 2012 and 2011 includes:

- 4 432 349 th. euro and 232 541 th. euro, respectively, relating to captive credit and 9 784 331 th. euro and 6 901 640 th. euro relating to securities eligible for funding from the European Central Bank (ECB);
- 7 247 th. euro and 5 195 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);
- 71 691 th. euro and 46 285 th. euro relating to securities given in guarantee to the Deposit Guarantee Fund.

Additionally, at 31 December 2012 and 2011 the caption ASSETS GIVEN AS COLLATERAL includes, respectively, 658 428 th. euro and 328 287 th. euro of securities and 195 290 th. euro and 316 909 th. euro of credit, given as collateral to the European Investment Bank.

The OPTIONS ON ASSETS caption at 31 December 2012 and 2011 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 2012 and 2011 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 2012 and 2011 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 2012 and 2011 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 2012 the BPI Group managed the following third party assets:

| | |
|---|---|
| Investment funds and PPRs | 2 019 412 |
| Pension funds[1] | 1 919 321 |

1) Includes the Group companies' pension funds.

## 4.34. Financial margin (narrow sense)

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Interest and similar income** | | |
| Interest on deposits with banks | 2 558 | 5 936 |
| Interest on placements with credit institutions | 29 088 | 29 510 |
| Interest on loans to Customers | 664 755 | 749 280 |
| Interest on credit in arrears | 13 370 | 13 124 |
| Interest on securities held for trading and available for sale | 485 685 | 403 072 |
| Interest on securitised assets not derecognised | 227 844 | 220 341 |
| Interest on derivatives | 441 857 | 566 228 |
| Interest on securities held to maturity | 539 | 1 460 |
| Interest on debtors and other aplications | 4 458 | 4 192 |
| Other interest and similar income | 9 541 | 11 667 |
| | **1 879 695** | **2 004 810** |
| **Interest and similar expense** | | |
| Interest on resources | | |
| Of central banks | 35 931 | 21 202 |
| Of other credit institutions | 22 402 | 52 539 |
| Deposits and other resources of Customers | 563 342 | 527 105 |
| Debt securities | 141 387 | 221 761 |
| Interest from short selling | 2 684 | 1 409 |
| Interest on derivatives | 472 818 | 597 344 |
| Interest on liabilities relating to assets not derecognised on securitised operations | 32 300 | 27 783 |
| Interest on contingent convertible subordinated bonds | 55 860 | |
| Interest on subordinated debt | 3 625 | 12 056 |
| Other interest and similar expenses | 428 | 287 |
| | **1 330 777** | **1 461 486** |

## 4.35. Gross margin on unit links

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Income from financial instruments | | |
| Interest | 4 834 | 6 500 |
| Gains and losses on financial instruments | 18 265 | (17 240) |
| Gains and losses on capitalisation insurance – unit links | (23 099) | 10 750 |
| Management and redemption commission | 2 671 | 3 790 |
| | **2 671** | **3 800** |

## 4.36. Income from equity instruments

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Conduril | 184 | 276 |
| SIBS | 1 071 | 1 068 |
| Viacer | 1 561 | |
| Others | 665 | 300 |
| | **3 481** | **1 644** |

## 4.37. Net commission relating to amortized cost

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Commission received relating to amortised cost | | |
| Loans to Customers | 33 890 | 35 431 |
| Others | 1 593 | 2 038 |
| Commission paid relating to amortised cost | | |
| Loans to Customers | (6 489) | (7 355) |
| Others | (1 469) | (2 111) |
| | **27 525** | **28 003** |

## 4.38. Technical result of insurance contracts

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Premiums | 230 906 | 355 410 |
| Income from financial instruments | 72 829 | 91 603 |
| Impairment (note 4.20) | | (72 999) |
| Cost of claims, net of reinsurance | (686 944) | (800 292) |
| Changes in technical provisions, net of reinsurance | 452 860 | 441 198 |
| Participation in results | (46 639) | (45 042) |
| | **23 012** | **(30 122)** |

This caption includes the result of capitalization insurance with a discretionary participation feature (IFRS 4). Participation in the results of capitalization 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).

## 4.39. Net commission income

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Commissions received** | | |
| On guarantees provided | 26 388 | 25 826 |
| On commitments to third parties | 1 953 | 1 476 |
| On insurance brokerage services | 38 976 | 38 388 |
| On banking services rendered | 247 092 | 209 904 |
| On operations realised on behalf of third parties | 12 251 | 14 263 |
| Other | 3 718 | 6 256 |
| | **330 378** | **296 113** |
| **Commissions paid** | | |
| On guarantees received | 10 | 101 |
| On commitments to third parties | | 11 |
| On financial instrument operations | 453 | 1 437 |
| On banking services rendered by third parties | 40 400 | 41 027 |
| On operations realised by third parties | 3 103 | 3 781 |
| Other | 319 | 546 |
| | **44 285** | **46 903** |
| **Other income, net** | | |
| Refund of expenses | 27 395 | 29 175 |
| Income from banking services | 28 047 | 27 903 |
| Charges similar to fees | (9 231) | (9 302) |
| | **46 211** | **47 776** |

At 31 December 2012 and 2011, commissions received on insurance brokerage services or reinsurance is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Life insurance** | | |
| Housing | 19 863 | 19 186 |
| Consumer | 2 564 | 3 631 |
| Others | 5 645 | 4 639 |
| | **28 072** | **27 456** |
| **Non-life insurance** | | |
| Housing | 4 300 | 4 105 |
| Consumer | 1 403 | 2 498 |
| Others | 5 201 | 4 329 |
| | **10 904** | **10 932** |
| | **38 976** | **38 388** |

Commission received on insurance brokerage services was paid in full in cash and 89% thereof relates to brokerage services in insurance of Allianz.

At 31 December 2012 commission received for other banking services rendered includes 32 643 th. euro relating to the setting up and placement of bonds issued by Portuguese companies.

## 4.40. Net income on financial operations

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Gain and loss on operations at fair value** | | |
| Foreign exchange gain, net | 83 658 | 71 015 |
| Gain and loss on financial assets held for trading | | |
| Debt instruments | 7 938 | 2 922 |
| Equity instruments | 43 006 | (47 161) |
| Other securities | 118 | (4) |
| Gain and loss on trading derivative instruments | (41 912) | 83 241 |
| Gain and loss on other financial assets valued at fair value through profit or loss | 1 065 | (1 437) |
| Gain and loss on held to maturity investments | 1 | |
| Gain and loss on financial liabilities held for trading | (10 799) | (1 994) |
| Gain and loss on the revaluation of assets and liabilities hedged by derivatives | 252 058 | 375 421 |
| Gain and loss on hedging derivative instruments | (221 162) | (302 583) |
| Other gain and loss on financial operations | 115 321 | 17 937 |
| | **229 292** | **197 357** |
| **Gain and loss on assets available for sale** | | |
| Gain and loss on the sale of loans and advances to Customers | (4 826) | 224 |
| Gain and loss on financial assets available for sale | | |
| Debt instruments | 173 418 | (206) |
| Equity instruments | 412 | 79 |
| Others | 10 | 224 |
| | **169 014** | **321** |
| **Interest and financial gain and loss with pensions (note 4.26)** | | |
| Interest cost | (45 798) | (120 360) |
| Expected fund income | 48 865 | 128 907 |
| | **3 067** | **8 547** |

At 31 December 2012 and 2011, the caption GAIN AND LOSS ON TRADING DERIVATIVE INSTRUMENTS includes (33 827) th. euro and (42 362) th. euro, respectively, relating to equity swaps contracted with Customers, which are hedged with shares classified in the caption EQUITY INSTRUMENTS.

The captions GAIN AND LOSS ON THE REVALUATION OF ASSETS AND LIABILITIES HEDGED BY DERIVATIVES and GAIN AND LOSS ON HEDGING DERIVATIVE INSTRUMENTS at 31 December 2012 include 23 721 th. euro relating to a gain on the repurchase of own bond issues (note 4.18 and 4.24). At 31 December 2011 these captions include 108 809 th. euro relating to gain on the repurchase of debt of which 92 523 th. euro relates to subordinated debt.

The caption OTHER GAINS AND LOSSES ON FINANCIAL OPERATIONS at 31 December 2012 and 2011, includes 115 938 th. euro and 16 286 th. euro, respectively, relating to gain on the repurchase of financial liabilities on securitization operations.

The caption GAIN AND LOSS ON THE SALE OF LOANS AND ADVANCES TO CUSTOMERS at 31 December 2012, includes 2 613 th. euro of losses regarding the repurchase of bonds relating to the securitization of housing loans of Banco BPI's Pension Fund and 2 261 th. euro of losses relating to the sale of loans and advances to Customers.

The caption GAIN AND LOSS ON FINANCIAL ASSETS AVAILABLE FOR SALE – DEBT INSTRUMENTS includes 171 158 th. euro relating to the sale of Treasury Bonds and Treasury Bills issued by the Portuguese State.

## 4.41. Net operating expenses

This caption is made up as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Operating income** | | |
| Gains on disposal of investments in subsidiaries and associated companies | 140 | 65 521 |
| Gain on tangible assets held for sale | 302 | 837 |
| Gain on other tangible assets | 6 447 | 21 552 |
| Other operating income | 9 685 | 20 719 |
| | **16 574** | **108 629** |
| **Operating expenses** | | |
| Subscriptions and donations | 4 003 | 4 160 |
| Contributions to the Deposit Guarantee Fund | 4 336 | 3 490 |
| Contribution to the Investor Indemnity System | 5 | 7 092 |
| Loss on tangible assets held for sale | 772 | 753 |
| Loss on other tangible and intangible assets | 8 673 | 14 185 |
| Partial transfer of pension liability to retirees and pensioners to the Social Security | (145) | 99 652 |
| Other operating expenses | 2 529 | 1 904 |
| | **20 173** | **131 236** |
| **Other taxes** | | |
| Indirect taxes | 4 567 | 4 556 |
| Direct taxes | 1 106 | 2 550 |
| | **5 673** | **7 106** |

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 (notes 4.9 and 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. 12 | 31 Dec. 11 |
|---|---|---|
| Remuneration | 287 839 | 287 129 |
| Long service premium (note 2.8 and 4.25) | 10 878 | 1 919 |
| Pension costs (note 4.26) | 6 358 | 9 306 |
| Early retirements (note 4.26) | 30 216 | 39 908 |
| Death subsidy (note 4.26) | (38 718) | |
| Other mandatory social charges | 66 743 | 69 303 |
| Other personnel costs | 9 463 | 10 448 |
| | **372 779** | **418 013** |

The caption REMUNERATION at 31 December 2012 and 2011 includes the following costs relating to remuneration granted to the members of Banco BPI's Board of Directors:

- 3 590 th. euro and 4 113 th. euro, respectively, relating to remuneration paid in cash; and
- 127 th. euro and 135 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 2012 and 2011 includes 3 543 th. euro and 1 648 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. 12 | 31 Dec. 11 |
|---|---|---|
| **Administrative costs** | | |
| Supplies | | |
| Water, energy and fuel | 13 425 | 11 755 |
| Consumable material | 6 609 | 6 500 |
| Other | 1 192 | 1 053 |
| Services | | |
| Rent and leasing | 52 904 | 51 098 |
| Communications and computer costs | 39 980 | 41 866 |
| Travel, lodging and representation | 7 854 | 8 025 |
| Publicity | 17 208 | 18 806 |
| Maintenance and repairs | 17 673 | 17 401 |
| Insurance | 5 300 | 4 791 |
| Fees | 4 210 | 4 004 |
| Legal expenses | 2 364 | 2 164 |
| Security and cleaning | 11 327 | 11 352 |
| Information services | 4 973 | 4 047 |
| Temporary labour | 3 832 | 3 575 |
| Studies, consultancy and auditing | 9 031 | 7 765 |
| SIBS | 18 496 | 20 135 |
| Other services | 17 035 | 16 509 |
| | **233 413** | **230 846** |

At 31 December 2012 the remuneration paid to Deloitte and its network[1,3], in the amount of 2 284 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 | 128 | 121 | 131 | 190 | 1 185 | 52% |
| Other assurance services | 391 | 335 | 51 | 43 | 95 | 914 | 40% |
| Tax consultancy | 70 | 102 | | | | 172 | 8% |
| Other services | 13 | | | | | 13 | 1% |
| | **1 089** | **564** | **172** | **174** | **285** | **2 284** | **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 Luxemburgo, BPI Private Equity, BPI Capital Africa, BPI – Locação de Equipamentos, BPI Capital Finance, BPI Dealer Moçambique 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 2012 and 2011, the income tax recognized 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. 12 | 31 Dec. 11 |
|---|---|---|
| Current income tax | | |
| For the year | 38 221 | 15 150 |
| Correction of prior years | (170) | (129) |
| | **38 051** | **15 021** |
| Deferred tax | | |
| Recognition and reversal of temporary differences | (1 621) | (71 675) |
| Change in tax rate | | (113) |
| On tax losses carried forward | 37 974 | (99 681) |
| | **36 353** | **(171 469)** |
| Contribution over the banking sector | **13 890** | **15 257** |
| **Total tax charged to the statement of income** | **88 294** | **(141 191)** |
| Net income before income tax[1] | 400 118 | (356 452) |
| Tax burden | 22.1% | 39.6% |

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).

In 2012 and 2011 Banco BPI recorded, directly in shareholders' equity, income tax of 9 989 th. euro and (91 182) th. euro, respectively, on actuarial deviations in pensions recognized in the period and on net gain / loss on treasury shares recognized in equity (note 4.31).

Reconciliation between the nominal rate of income tax and the tax burden in 2012 and 2011, 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. 12 | | 31 Dec. 11 | |
|---|---|---|---|---|
| | Tax rate | Amount | Tax rate | Amount |
| Net income before income tax | | 400 118 | | (356 452) |
| Income tax computed based on the nominal tax rate | 32.5% | 130 236 | 26.0% | (92 752) |
| Effect of tax rates applicable to foreign branches | 0.0% | (154) | (0.1%) | 207 |
| Income exempt from income tax (SFE's) | | | 0.3% | (1 246) |
| Capital gain and impairment of investments (net) | (0.3%) | (1 298) | 2.8% | (9 812) |
| Capital gain of tangible assets (net) | 0.0% | 85 | 0.7% | (2 551) |
| Income on Angolan public debt | (10.4%) | (41 757) | 13.8% | (49 047) |
| Non taxable dividends | (0.2%) | (694) | 0.0% | (6) |
| Tax on dividends of subsidiary and associated companies | 1.6% | 6 454 | (1.8%) | 6 571 |
| Conversion of shareholders' equity of associated companies | (0.2%) | (602) | 0.1% | (305) |
| Tax benefits | (0.4%) | (1 798) | 0.6% | (2 128) |
| Impairment and provision for loans | 0.3% | 1 329 | 0.5% | (1 619) |
| Non tax deductible pension costs | (0.1%) | (306) | 0.0% | 103 |
| Interest recognised on minority interests | (0.1%) | (363) | 0.5% | (1 959) |
| Correction of prior year taxes | 0.1% | 343 | 0.6% | (2 316) |
| Use of temporary tax settlements | (1.7%) | (6 830) | | |
| Differential of tax rate on tax losses[1] | | | (4.0%) | 14 379 |
| Use of tax losses | (2.7%) | (10 953) | 4.7% | (16 751) |
| Effect of change in the rate of deferred tax | | | 0.0% | (142) |
| Contribution over the financial sector | 3.5% | 13 890 | (4.3%) | 15 257 |
| Autonomous taxation | 0.3% | 1 278 | (0.7%) | 2 345 |
| Other non taxable income and expenses | (0.1%) | (564) | (0.2%) | 578 |
| | **22.1%** | **88 294** | **39.6%** | **(141 191)** |

1) 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 not recognized in the financial statements as of 31 December 2011 amount to 6 184 th. euro. The use of tax losses and temporary tax settlements are essentially related to the activity of Banco de Fomento Angola and refers to situations from previous years for which the corresponding deferred tax assets have not been recorded.

Current taxes are calculated based on the nominal tax rates legally in force in the countries in which the Bank operates:

| | 31 Dec. 12 | | 31 Dec. 11 | |
|---|---|---|---|---|
| | 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 between [1.5%; 5%] | 225 754 | 31.3% | (539 942) | 28.9% |
| Companies with income tax rate of 35% (Angola) | 170 113 | 35.0% | 181 076 | 35.0% |
| Investment funds[1] | 4 250 | | 2 414 | |
| | **400 118** | **32.5%** | **(356 452)** | **26.0%** |

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 recognized 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 2012 and 2011 are as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Deferred tax | | |
| Assets (note 4.12) | 608 483 | 894 754 |
| Liabilities (note 4.22) | (89 815) | (27 839) |
| | **518 668** | **866 915** |
| Recorded by corresponding entry to: | | |
| Retained earnings | 273 567 | 98 991 |
| Other reserves – Actuarial deviations | 83 206 | 92 789 |
| Fair value reserve (note 4.30) | | |
| Financial instruments available for sale | 198 248 | 503 666 |
| Net income | (36 353) | 171 469 |
| | **518 668** | **866 915** |

Deferred tax assets are recognized up to the amount expected to be realized through future taxable profits.

The changes in deferred taxes in 2012 are as follows:

| | Balance at 31 Dec. 11 | Corresponding entry to net income | | Corresponding entry to reserves and retained earnings | | Balance at 31 Dec. 12 |
|---|---|---|---|---|---|---|
| | | Costs | Income | Increases | Decreases | |
| **Deferred tax assets** | | | | | | |
| Pension liability | 23 697 | (17 434) | | | | 6 263 |
| Early retirements | 33 028 | (1 069) | | | | 31 959 |
| Advertising campaigns | 263 | (193) | | | | 70 |
| "Taxa garantida" operations | 94 | (92) | | | | 2 |
| Banco BPI Cayman net income | 225 | | | | | 225 |
| Taxed provisions and impairment | 91 413 | | 44 753 | | | 136 166 |
| Long service premium | 6 938 | (835) | 14 | | | 6 117 |
| Tax losses | 109 908 | (37 974) | | | | 71 934 |
| Financial instruments available for sale | 507 094 | (273) | 1 485 | 94 | (263 729) | 244 672 |
| Actuarial deviations | 92 789 | (9 245) | | | (340) | 83 205 |
| Actuarial deviations after 2011 | | 6 605 | | | (6 605) | |
| Tax deferral of the impact of transition to NCA | 28 770 | (1 598) | | | | 27 172 |
| Others | 535 | (103) | 216 | 51 | (1) | 697 |
| | **894 754** | **(62 211)** | **46 468** | **145** | **(270 674)** | **608 483** |
| **Deferred tax liabilities** | | | | | | |
| Revaluation of tangible fixed assets | (773) | | 52 | | | (721) |
| "Taxa garantida" operations | (93) | | 92 | | | (1) |
| Revaluation of assets and liabilities hedged by derivatives | (445) | 177 | | | | (267) |
| Subsidiary's equity conversion | (1 293) | 602 | | | | (691) |
| Dividends to be distributed by subsidiary and associated companies | (8 269) | (6 412) | 6 640 | 45 | (39) | (8 034) |
| RVA's | | (711) | 1 | 711 | | 1 |
| Loan impairment | (3 783) | | 3 783 | | | (0) |
| Financial instruments available for sale | (8 072) | (105) | | 487 | (42 280) | (49 971) |
| Repurchase of liabilities and preference shares | (5 049) | (24 937) | 147 | 10 | (303) | (30 132) |
| Others | (63) | | 60 | 4 | | 1 |
| | **(27 839)** | **(31 386)** | **10 775** | **1 257** | **(42 622)** | **(89 815)** |
| | **866 915** | **(93 596)** | **57 243** | **1 402** | **(313 296)** | **518 668** |

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 |
| Net income of Banco BPI Cayman | 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 | 73 645 | | 249 | 19 144 | (249) | 92 789 |
| Tax deferral of the impact of transition to NCA | | | 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) |
| Repurchase of liabilities and preference shares | | (5 049) | 24 610 | | (24 610) | (5 049) |
| Actuarial deviations | (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** |

The BPI Group does not recognize 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. 12 | 31 Dec. 11 |
|---|---|---|
| Banco Comercial e de Investimentos, S.A.R.L. | 10 262 | 6 910 |
| Companhia de Seguros Allianz Portugal, S.A. | 8 305 | 12 190 |
| Cosec – Companhia de Seguros de Crédito, S.A. | 2 501 | 2 901 |
| TC Turismo Capital – SCR, S.A. | | 104 |
| Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A. | 40 | 779 |
| InterRisco – Sociedade de Capital de Risco, S.A. | 344 | 231 |
| Unicre – Instituição Financeira de Crédito, S.A. | 2 364 | 1 837 |
| Viacer – Sociedade Gestora de Participações Sociais, Lda. | | 3 463 |
| | **23 816** | **28 415** |

## 4.46. Consolidated net income of the BPI Group

The contribution of Banco BPI and subsidiary and associated companies to consolidated net income in 2012 and 2011 is as follows:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Banks** | | |
| Banco BPI, S.A.[1] | 100 502 | (360 288) |
| Banco Português de Investimento, S.A.[1] | 3 078 | (1 786) |
| Banco de Fomento Angola, S.A.[1] | 79 687 | 84 822 |
| Banco Comercial e de Investimentos, S.A.R.L.[1] | 9 389 | 6 322 |
| Banco BPI Cayman, Ltd. | 1 414 | 3 458 |
| **Specialised credit** | | |
| BPI Locação de Equipamentos, Lda. | 83 | 105 |
| **Asset management and brokerage** | | |
| BPI Dealer – Sociedade Financeira de Corretagem (Moçambique), S.A.R.L. | (584) | 6 |
| BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliários, S.A.[1] | 8 455 | 10 903 |
| BPI – Global Investment Fund Management Company, S.A. | 372 | 324 |
| BPI (Suisse), S.A.[1] | 2 083 | 1 356 |
| BPI Alternative Fund: Iberian Equities Long / Short Fund[1] | 4 079 | 1 565 |
| Fundo BPI Obrigações Mundiais (ex-Fundo BPI Taxa Variável)[1] | (202) | 147 |
| **Venture capital / development** | | |
| TC Turismo Capital – SCR, S.A.[1] | | 104 |
| BPI Private Equity – Sociedade de Capital de Risco, S.A. | 98 | (1 170) |
| Inter-Risco – Sociedade de Capital de Risco, S.A. | 344 | 231 |
| **Insurance** | | |
| BPI Vida e Pensões – Companhia de Seguros, S.A. | 29 146 | (51 067) |
| Cosec – Companhia de Seguros de Crédito, S.A.[1] | 2 501 | 2 901 |
| Companhia de Seguros Allianz Portugal, S.A.[1] | 8 305 | 12 190 |
| **Others** | | |
| BPI, Inc.[1] | (69) | 35 |
| BPI Madeira, SGPS, Unipessoal, S.A. | 31 | 32 |
| BPI Capital Finance | | (8) |
| BPI Capital Africa | (1 981) | (1 154) |
| Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.[1] | 40 | 779 |
| Unicre – Instituição Financeira de Crédito, S.A. | 2 364 | 1 837 |
| Ulissipair ACE | | 22 |
| Viacer – Sociedade Gestora de Participações Sociais, Lda.[1] | | 3 463 |
| | **249 135** | **(284 871)** |

1) Adjusted net income.

## 4.47. Personnel

The average and period-end number of Employees[1] in 2012 and 2011 were as follows:

| | 31 Dec. 12 | | 31 Dec. 11 | |
|---|---|---|---|---|
| | Average for the period | End of period | Average for the period | End of period |
| Executive Directors[2] | 10 | 10 | 10 | 10 |
| Management staff | 611 | 612 | 621 | 606 |
| Other staff | 5 474 | 5 317 | 5 649 | 5 532 |
| Other Employees | 2 869 | 2 882 | 3 012 | 2 870 |
| | **8 964** | **8 821** | **9 292** | **9 018** |

1) Personnel of the Group's entities that were consolidated by the full consolidation method. This includes 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; or,
- 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 organized markets (especially stock exchanges).

The majority of over-the-counter derivatives (swaps, fras, 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 financial instruments valued based on 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;
- 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.

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;
- reference rates for bond issuances (Debt securities and Subordinated debt) are applied, taking into account the residual maturity and degree of subordination. In the past, money market and swap curves were used as a basis for determining the reference rates for mortgage and public sector covered bonds and curves obtained from estimates of market prices were used for non-collateralized bonds. As from 31 December 2011, given the lack of other market references, the Portuguese public debt curve was gradually introduced as a working basis. To this basis a spread taking into consideration the Bank's differential risk should be added. This base is currently used for all non-subordinated bonds issued. At 31 December 2012 a nil spread was considered, as it was believed that the market sees the Bank's risk as similar to that of the Portuguese Republic. For the subordinated debt, at 31 December 2011 the sale of a BPI Group's subordinated debt issuance was used as a reference. At 31 December 2012, as a more adequate reference could not be found, the Bank determined fair value (85% of par value) which was consistent with the significant improvement observed in the senior debt market. In the case of contingent convertible subordinated bonds the implicit rates of the bonds were used, thus having fair value equal to book value.

The reference rates used to calculate the discount factors at 31 December 2012 are listed in the table below. For each set of operations the above mentioned applicable spreads are added.

| | 1 month | 3 months | 6 months | 1 year | 2 years | 3 years | 5 years | 7 years | 10 years | 30 years |
|---|---|---|---|---|---|---|---|---|---|---|
| EUR | 0.11% | 0.19% | 0.32% | 0.54% | 0.38% | 0.47% | 0.77% | 1.12% | 1.57% | 2.21% |
| GBP | 0.49% | 0.52% | 0.67% | 1.01% | 0.71% | 0.78% | 1.02% | 1.36% | 1.87% | 2.97% |
| USD | 0.21% | 0.31% | 0.51% | 0.84% | 0.38% | 0.47% | 0.83% | 1.26% | 1.77% | 2.72% |
| JPY | 0.13% | 0.18% | 0.28% | 0.49% | 0.22% | 0.22% | 0.31% | 0.50% | 0.84% | 1.94% |

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 2012 is made up as follows:

| Type of financial instrument | Net book value | Fair value of financial instruments | | | Difference | Assets valued at historical cost[1] | Total book value |
|---|---|---|---|---|---|---|---|
| | | Recorded in the balance sheet at fair value | Recorded in the balance sheet at amortised cost | Total | | | |
| **Assets** | | | | | | | |
| Cash and deposits at central banks | 1 269 365 | | 1 269 365 | 1 269 365 | | | 1 269 365 |
| Deposits at other credit institutions | 453 438 | | 453 438 | 453 438 | | | 453 438 |
| Financial assets held for trading and at fair value through profit or loss | 782 619 | 782 619 | | 782 619 | | | 782 619 |
| Financial assets available for sale | 10 244 083 | 10 244 083 | | 10 244 083 | | 8 799 | 10 252 882 |
| Loans and advances to credit institutions | 1 710 727 | | 1 706 108 | 1 706 108 | (4 619) | | 1 710 727 |
| Loans and advances to Customers | 27 345 473 | | 24 645 459 | 24 645 459 | (2 700 014) | | 27 345 473 |
| Held to maturity investments | 445 298 | | 432 862 | 432 862 | (12 436) | | 445 298 |
| Trading derivatives[2] | 329 027 | 329 027 | | 329 027 | | | 329 027 |
| Hedging derivatives | 280 737 | 280 737 | | 280 737 | | | 280 737 |
| | **42 860 767** | **11 636 466** | **28 507 232** | **40 143 698** | **(2 717 069)** | **8 799** | **42 869 566** |
| **Liabilities** | | | | | | | |
| Resources of central banks | 4 270 918 | | 4 272 065 | 4 272 065 | (1 147) | | 4 270 918 |
| Financial liabilities held for trading | 233 | 233 | | 233 | | | 233 |
| Resources of other credit institutions | 2 568 421 | | 2 569 271 | 2 569 271 | (850) | | 2 568 421 |
| Resources of Customers and other debts | 24 621 139 | | 24 703 940 | 24 703 940 | (82 801) | | 24 621 139 |
| Debt securities | 3 787 627 | | 3 612 158 | 3 612 158 | 175 469 | | 3 787 627 |
| Financial liabilities relating to transferred assets | 1 590 984 | | 1 356 331 | 1 356 331 | 234 653 | | 1 590 984 |
| Trading derivatives | 339 931 | 339 931 | | 339 931 | | | 339 931 |
| Hedging derivatives | 814 983 | 814 983 | | 814 983 | | | 814 983 |
| Technical provisions | 2 255 364 | | 2 255 364 | 2 255 364 | | | 2 255 364 |
| Contingent convertible subordinated bonds | 1 200 279 | | 1 200 279 | 1 200 279 | | | 1 200 279 |
| Other subordinated debt and participating bonds | 156 331 | | 132 760 | 132 760 | 23 571 | | 156 331 |
| | **41 606 210** | **1 155 147** | **40 102 168** | **41 257 315** | **348 895** | | **41 606 210** |
| | **1 254 557** | | | **(1 113 617)** | **(2 368 174)** | **8 799** | **1 263 356** |
| Valuation differences in financial assets recognised in revaluation reserves | | | | | (669 893) | | |
| **Total** | | | | | **(3 038 067)** | | |

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 2011 is made up as follows:

| Type of financial instrument | Net book value | Fair value of financial instruments | | | Difference | Assets valued at historical cost[1] | Total book value |
|---|---|---|---|---|---|---|---|
| | | Recorded in the balance sheet at fair value | Recorded in the balance sheet at amortised cost | Total | | | |
| **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 | 594 916 | | 594 916 | | | 594 916 |
| Financial assets available for sale | 6 766 877 | 6 766 877 | | 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 | 342 574 | | 342 574 | | | 342 574 |
| Hedging derivatives | 279 843 | 279 843 | | 279 843 | | | 279 843 |
| | **40 936 141** | **7 984 210** | **29 849 944** | **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 | 327 898 | | 327 898 | | | 327 898 |
| Hedging derivatives | 661 904 | 661 904 | | 661 904 | | | 661 904 |
| Technical provisions | 2 625 181 | | 2 625 181 | 2 625 181 | | | 2 625 181 |
| Other subordinated debt and participating bonds | 214 491 | | 109 381 | 109 381 | 105 110 | | 214 491 |
| | **41 304 409** | **1 116 142** | **39 518 664** | **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 book value of the financial instruments recorded in the balance sheet at fair value at 31 December 2012, is made up as follows by valuation methodologies:

| Type of financial instrument | Active market listings (level 1) | Valuation techniques | | Total fair value |
|---|---|---|---|---|
| | | Market data (level 2) | Models (level 3) | |
| **Assets** | | | | |
| Financial assets held for trading and at fair value through profit or loss | 590 064 | 23 592 | 168 963 | 782 619 |
| Financial assets available for sale | 7 948 122 | 58 333 | 2 237 628 | 10 244 083 |
| Trading derivatives | 44 | 287 114 | 41 869 | 329 027 |
| Hedging derivatives | 350 | 205 409 | 74 978 | 280 737 |
| | **8 538 580** | **574 448** | **2 523 438** | **11 636 466** |
| **Liabilities** | | | | |
| Financial liabilities held for trading | 233 | | | 233 |
| Trading derivatives | 167 | 298 066 | 41 698 | 339 931 |
| Hedging derivatives | 248 | 776 738 | 37 997 | 814 983 |
| | **648** | **1 074 804** | **79 695** | **1 155 147** |

The book value of the financial instruments recorded in the balance sheet at fair value at 31 December 2011, is made up as follows by valuation methodologies:

| Type of financial instrument | Active market listings (level 1) | Valuation techniques | | Total fair value |
|---|---|---|---|---|
| | | Market data (level 2) | Models (level 3) | |
| **Assets** | | | | |
| Financial assets held for trading and at fair value through profit or loss | 505 394 | 49 867 | 39 655 | 594 916 |
| Financial assets available for sale | 4 138 318 | 63 054 | 2 565 505 | 6 766 877 |
| Trading derivatives | 1 209 | 234 159 | 107 206 | 342 574 |
| Hedging derivatives | 451 | 188 069 | 91 323 | 279 843 |
| | **4 645 372** | **535 149** | **2 803 689** | **7 984 210** |
| **Liabilities** | | | | |
| Financial liabilities held for trading | 126 340 | | | 126 340 |
| Trading derivatives | 268 | 222 682 | 104 948 | 327 898 |
| Hedging derivatives | 5 727 | 603 729 | 52 448 | 661 904 |
| | **132 335** | **826 411** | **157 396** | **1 116 142** |

At 31 December 2012 and 2011 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 2012 and 2011 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 2012 and 2011 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 2012 and 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 2011 | 39 655 | 2 565 505 | 2 258 | 38 875 | 2 646 293 |
| Accrued interest (amount at 31 December 2011) | (130) | (1 930) | (270) | 11 843 | 9 513 |
| Gain / (loss) recognized in net income | | | | | |
| In net income on financial operations | 440 | 61 | (1 248) | (7 452) | (8 199) |
| Potential gain / (loss) | 97 | (5) | (1 248) | (7 452) | (8 608) |
| Effective gain / (loss) | 343 | 66 | | | 409 |
| In impairment loss | | (13 120) | | | (13 120) |
| Gain / (loss) recognized in revaluation reserves | | 2 189 | | | 2 189 |
| Purchases | 142 317 | 92 168 | | | 234 485 |
| Sales / redemptions | (13 783) | (408 492) | | | (422 275) |
| Transfers in | 400 | 194 | | | 594 |
| Accrued interest (amount at 31 December 2012) | 64 | 1 053 | (569) | (6 285) | (5 737) |
| **Net book value at 31 December 2012** | **168 963** | **2 237 628** | **171** | **36 981** | **2 443 743** |

The purchase of assets held for trading and at fair value through profit or loss corresponds mostly to public debt securities issued by Angola and by Banco Nacional de Angola (BNA), acquired by Banco de Fomento Angola.

The purchases recorded in the available for sale portfolio include 60 000 th. euro relating to the acquisition of participating units of Fundo de Reestruturação Empresarial FCR and 20 000 th. euro relating to the acquisition of participating units of Fundo de Recuperação FCR.

Sales / redemptions of assets held for trading and at fair value through profit or loss correspond mainly to public debt securities issued by Angola and by Banco Nacional de Angola held by Banco de Fomento Angola that have matured.

For financial instruments recorded at fair value in the balance sheet, the changes between 31 December 2010 and 31 December 2011 of assets and liabilities classified in Level 3, are 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 |
| Sales / redemptions | (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** |

Sales / redemptions of 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 / redemptions on ASSETS AVAILABLE FOR SALE correspond mainly to securities that have matured.

### Derecognition of financial instruments

During 2012 and 2011 no financial instruments for which it was not possible to reliably determine their fair value were derecognized, therefore, there was no impact on net income for 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. 12 | | | 31 Dec. 11 | | | Effective interest rate on reclassification date |
|---|---|---|---|---|---|---|---|
| | Book value on reclassification date | Book value at 31 Dec. 12 | Fair value at 31 Dec. 12 | Book value on reclassification date | Book value at 31 Dec. 11 | Fair value at 31 Dec. 11 | |
| **Reclassification of bonds in 2008** | | | | | | | |
| Financial assets held for trading | (76 888) | | | (121 493) | | | |
| Financial assets available for sale | 601 | 654 | 654 | 4 406 | 1 662 | 1 662 | 5.81% |
| Loans represented by securities | 36 002 | 36 592 | 18 904 | 40 963 | 41 547 | 28 095 | 6.37% |
| Held to maturity investments | 40 285 | 43 537 | 37 975 | 76 124 | 81 138 | 71 754 | 6.29% |
| **Reclassification of bonds in 2009** | | | | | | | |
| Financial assets held for trading | (4 070) | | | (54 493) | | | |
| Loans represented by securities | 262 | 307 | 404 | 301 | 339 | 466 | 5.34% |
| Held to maturity investments | 3 808 | 5 575 | 4 527 | 54 192 | 60 849 | 57 928 | 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% |
| **Reclassification of bonds in 2012** | | | | | | | |
| Financial assets at fair value through profit or loss | (7 699) | | | | | | |
| Loans represented by securities | 7 699 | 7 662 | 6 606 | | | | 2.78% |
| | | **94 327** | **69 070** | | **309 565** | **271 697** | |

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 traded 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.

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). In 2012 these securities were exchanged under the agreement regarding the private sector involvement in the restructuring of Greek public debt. The new securities received were recorded in the caption FINANCIAL ASSETS AVAILABLE FOR SALE and were sold in 2012.

In 2012 a security recorded in the financial assets at fair value through profit or loss portfolio was reclassified to the loans to Customer's portfolio as, due to the lack of liquidity of the bond market, its valuation price did not reflect the price on an active market traded on a regular basis.

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.

After the reclassification date, the gain / (loss) relating to fair value changes in these securities not recognized in the statement of income in 2012 and 2011 and other gain / (loss) recognized in reserves and in the statement of income for these years for the securities reclassified from financial assets held for trading, were as follows:

| | 31 Dec. 12 | | | 31 Dec. 11 | | |
|---|---|---|---|---|---|---|
| | 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 | 9 | 9 | 68 | 975 | 975 | 1 033 |
| Loans represented by securities | (5 301) | | 1 152 | (4 263) | | 1 685 |
| Held-to-maturity investments | 2 964 | | 3 140 | (4 545) | | 8 026 |
| | **(2 328)** | **9** | **4 359** | **(7 833)** | **975** | **10 744** |

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. Part 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.

## 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 2012, excluding the insurance capitalization portfolios of BPI Vida e Pensões, was as follows:

| BPI Group excluding insurance capitalization portfolios | Nominal value | Net book value / fair value | Net gain / (loss) on securities | Hedge accounting effect | Impairment recognized |
|---|---|---|---|---|---|
| **Held for trading and at fair value through profit or loss** | **3 684** | **3 712** | **1** | | |
| Portugal | 3 684 | 3 712 | 1 | | |
| **Available for sale** | **6 001 185** | **5 865 611** | **(72 952)** | **(337 218)** | |
| Portugal | 5 646 185 | 5 493 710 | (80 754) | (285 969) | |
| Ireland | 355 000 | 371 901 | 7 802 | (51 249) | |
| **Total exposure** | **6 004 869** | **5 869 323** | **(72 951)** | **(337 218)** | |

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. In the case of the exposures to Portugal and Ireland, the BPI Group considers that at 31 December 2012 there was no objective evidence of impairment.

At 31 December 2012 the BPI Group had no exposure to Greek sovereign debt. The BPI Group has in the financial assets available for sale portfolio, OTE PLC bonds (Hellenic Telecommunications Organization), the leading telecom operator in Greece, in the amount of 22 650 th. euro and KION MORTGAGE Class A bonds (securitization of mortgage loans originated by the Greek Millennium bank) in the amount of 76 th. euro (note 4.5).

As regards the Group's exposure to Greek sovereign debt, in 2011 and 2012 the matters described below took place. The exposure to Greek debt securities at 30 June 2012 is a result of the exchange of the securities held by the BPI Group at 31 December 2011 under the agreement regarding the private sector involvement in the restructuring of Greek public debt, as explained below.

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 were 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; and

  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.

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 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 the debt securities issued by the Greek Government owned by the BPI Group at 31 December 2011. The present 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, regarding the exposure to debt securities issued by the Greek government, in 2011 the Banco BPI recognized impairment losses of 468 898 th. euro. 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.

  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 Customer's 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 the amortized cost of these securities in the Loans to Customer's portfolio, after the reclassification.

- After public announcement of the securities exchange conditions referred to above, Banco BPI recognized additional impairment losses on debt securities issued by the Greek Government, recorded in the Loans to Customer's 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.

In the first half of 2012 the Exchange Offer was carried out, Banco BPI having received new debt securities issued by the Greek Government that, as there was an active market, were recorded in the financial assets available for sale portfolio. Banco BPI also received Greek Republic GDP indexed securities ("Detachable GDP – Linked Securities") that were classified in the financial assets at fair value through profit or loss portfolio due to their derivative financial instrument characteristics.

On 30 June 2012 Banco BPI recognized impairment losses of 16 102 th. euro for the new Greek public debt securities, determined based on their fair value, in accordance with the prices available in international markets. In the second half of 2012 Banco BPI sold these securities. Impairment of 2 443 th. euro was used and the amount of 13 659 th. euro was reversed (note 4.20).

The BPI Group's exposure, excluding the insurance capitalization portfolios of 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 2012 is as follows, by residual period to maturity:

| Maturity | 2013 | 2014 | 2015 to 2020 | > 2021 | Total |
|---|---|---|---|---|---|
| Portugal | 2 674 417 | 651 984 | 2 171 021 | | 5 497 422 |
| Ireland | | 21 169 | 350 732 | | 371 901 |
| | **2 674 417** | **673 153** | **2 521 753** | | **5 869 323** |

The ratings of Portugal, Greece and Ireland are the following:

| | 31 Dec. 12 | | | 31 Dec. 11 | | |
|---|---|---|---|---|---|---|
| | S&P | Moody's | Fitch | S&P | Moody's | Fitch |
| Portugal | BB | Ba3 | BB+ | BBB- | Ba2 | BB+ |
| Greece | B- | C | CCC | CC | Ca | CCC |
| Ireland | BBB+ | Ba1 | BBB+ | BBB+ | Ba1 | BBB+ |

In addition, at 31 December 2012, 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.

| Insurance capitalization portfolios | Nominal value | Net book value | Market value | Impairment |
|---|---|---|---|---|
| **Held for trading and at fair value through profit or loss** | **170 199** | **118 456** | **118 456** | |
| Portugal | 121 642 | 118 120 | 118 120 | |
| Greece | 48 557 | 336 | 336 | |
| **Loans and other receivables** | **200 000** | **202 142** | **140 321** | |
| Portugal | 200 000 | 202 142 | 140 321 | |
| **Total exposure** | **370 199** | **320 598** | **258 777** | |

As previously mentioned, in the first half of 2012 the Exchange Offer under the private sector involvement in the restructuring of the Greek Public debt was carried out, BPI Vida e Pensões having received new debt securities issued by the Greek Government, which were recorded in the financial assets at fair value through profit or loss portfolio.

In 2011 BPI Vida e Pensões recognized impairment losses of 117 733 th. euro on debt securities issued by the Greek Government, as a result of the agreement regarding the private sector involvement in the restructuring of Greek public debt. The impairment losses were determined as follows:

- On 31 October 2011 impairment losses of 78 135 th. euro were recognized in the insurance capitalization portfolio for 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 were 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. euro were recorded in the caption TECHNICAL RESULT OF INSURANCE CONTRACTS;

- Products 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.

- 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 represented a loss of approximately 77%, in terms of the present 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. 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.

In the second half of 2012 the government bonds issued by Greece and held by BPI Vida e Pensões were sold. The Greek bonds linked to GDP ("Detachable GDP – Linked Securities"), the book value of which amounts to 336 th. euros at 31 December 2012, were kept in the portfolio.

Exposure of the insurance capitalization portfolios of BPI Vida e Pensões to the sovereign debt of Portugal and Greece, at 31 December 2012 is made up as follows, by residual period of maturity:

| Maturity | 2013 | 2014 | 2015 to 2020 | > 2021 | Total |
|---|---|---|---|---|---|
| Portugal | 30 227 | 87 288 | 101 126 | 101 621 | 320 262 |
| Greece | | | | 336 | 336 |
| | **30 227** | **87 288** | **101 126** | **101 957** | **320 598** |

Given the above, the impairment losses recorded by the BPI Group in the second half of 2011 for exposure to debt securities issued by the Greek Government amounted to 586 631 th. euro. The overall impact of the impairment losses on profit before tax of the BPI Group in 2011 amounted to 559 747 th. euro. In 2012, the overall impact resulting from the sale of the debt securities issued by the Greek Government was a loss of 1 489 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 2012, 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 | 453 438 | | 453 438 |
| Financial assets held for trading and at fair value through profit or loss | 782 619 | | 782 619 |
| Financial assets available for sale | 10 336 603 | (83 721) | 10 252 882 |
| Loans and advances to credit institutions | 1 711 679 | (952) | 1 710 727 |
| Loans and advances to Customers | 28 128 630 | (783 157) | 27 345 473 |
| Held to maturity investments | 445 298 | | 445 298 |
| Derivatives | | | |
| Hedging derivatives | 280 737 | | 280 737 |
| Trading derivatives[1] | 329 027 | | 329 027 |
| | **42 468 031** | **(867 830)** | **41 600 201** |
| **Off balance sheet items** | | | |
| Guarantees given | 2 185 640 | (48 097) | 2 137 543 |
| Irrevocable credit lines | 1 582 | (9) | 1 573 |
| | **2 187 222** | **(48 106)** | **2 139 116** |
| | **44 655 253** | **(915 936)** | **43 739 317** |

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 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.

***Breakdown of overdue loans***

Overdue loans and interest at 31 December 2012, 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 | 73 | 11 369 | 144 688 | 261 983 | 19 155 | 437 268 |
| Impairment | (27) | (4 069) | (55 521) | (150 969) | (11 917) | (222 503) |
| | **46** | **7 300** | **89 167** | **111 014** | **7 238** | **214 765** |
| Subject to collective assessment | | | | | | |
| Overdue loans and interest | 778 | 12 629 | 102 825 | 309 683 | 54 216 | 480 131 |
| Impairment | (196) | (3 017) | (37 835) | (147 036) | (26 282) | (214 366) |
| | **582** | **9 612** | **64 990** | **162 647** | **27 934** | **265 765** |

In addition, at 31 December 2012, collective impairment of 347 240 th. euro was recognized on performing 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 325 668 th. euro was recognized 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 2012 was as follows:

| Coverage | Loans with default | | | Collateral[1] | | Impairment[3] |
|---|---|---|---|---|---|---|
| | Performing amount associated with defaulting loans | Overdue | Total | Mortgages | Other collateral[2] | |
| >=100% | 197 012 | 236 906 | 433 919 | 419 588 | 14 331 | 117 678 |
| >=75% and <100% | 83 542 | 127 090 | 210 632 | 181 726 | 13 475 | 69 880 |
| >=50% and <75% | 3 065 | 30 941 | 34 006 | 20 708 | 1 526 | 12 351 |
| >=25% and <50% | 209 | 8 667 | 8 876 | 3 278 | 349 | 5 079 |
| >=0 and <25% | 26 685 | 5 821 | 32 506 | 208 | 1 620 | 7 718 |
| Without collateral | 197 621 | 507 974 | 705 595 | | | 302 292 |
| **Total** | **508 135** | **917 399** | **1 425 534** | **625 508** | **31 301** | **514 998** |

1) The value of collateral presented is the lower of the fair value of the collateral received and the amount owed at 31 December 2012.
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 78 129 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 2012 is as follows:

| Coverage | Loans with impairment | Collateral[1] | | Impairment[3] |
|---|---|---|---|---|
| | Performing loans | Mortgages | Other collateral[2] | |
| **Loans not represented by securities** | | | | |
| >=100% | 132 251 | 121 519 | 10 732 | 27 396 |
| >=75% and <100% | 9 311 | 7 132 | 1 141 | 2 275 |
| >=50% and <75% | 8 342 | 4 593 | 708 | 2 212 |
| >=25% and <50% | 33 605 | 1 429 | 12 345 | 1 456 |
| >=0 and <25% | 17 438 | 212 | 1 168 | 6 278 |
| Without collateral | 238 505 | | | 63 632 |
| | **439 452** | **134 885** | **26 094** | **103 249** |
| **Loans represented by securities** | | | | |
| Without collateral | 32 096 | | | 11 178 |
| **Guarantees provided** | | | | |
| >=100% | 16 900 | 12 213 | 4 687 | 1 648 |
| >=75% and <100% | | | | |
| >=50% and <75% | 24 | 17 | | 2 |
| >=25% and <50% | 435 | 126 | 34 | 49 |
| >=0 and <25% | 30 540 | 1 | 397 | 6 098 |
| Without collateral | 146 658 | | | 25 892 |
| | **194 557** | **12 357** | **5 118** | **33 689** |
| | **666 105** | **147 242** | **31 212** | **148 116** |

1) The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at 31 December 2012.
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 2011 is 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 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 value of impairment shown includes 62 793 th. euro relating to performing loans associated with defaulting loans.

The coverage of performing loans on which impairment was determined on an individual basis at 31 December 2011 is as follows:

| Coverage | Loans with impairment | Collateral[1] | | Impairment[3] |
|---|---|---|---|---|
| | 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.

***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's, 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 2012 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- | 1 211 817 | | 1 211 817 |
| | | A+ to A- | 2 465 | | 2 465 |
| | | BBB+ to BBB- | 122 856 | 950 | 121 906 |
| | | BB+ to BB- | 737 308 | | 737 308 |
| | | B+ to B- | 2 838 | 2 | 2 836 |
| | N/A | N/A | 427 | | 427 |
| | | | **2 077 711** | **952** | **2 076 759** |

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 2012 are as follows:

| Type of financial instrument | Origin | Rating Grade Class | Gross exposure | Impairment | Net exposure |
|---|---|---|---|---|---|
| Loans to Customers | External rating | AAA to AA- | 92 583 | | 92 583 |
| | | A+ to A- | 8 284 | | 8 284 |
| | | BBB+ to BBB- | 183 960 | 724 | 183 236 |
| | | BB+ to BB- | 1 889 286 | 585 | 1 888 701 |
| | | B+ to B- | 85 317 | | 85 317 |
| | | < B- | 210 283 | 3 790 | 206 493 |
| | Rating project finance | Strong | 205 214 | | 205 214 |
| | | Good | 1 053 582 | 134 | 1 053 448 |
| | | Satisfactory | 223 610 | 53 | 223 557 |
| | | Weak | 247 414 | 13 889 | 233 525 |
| | Internal rating | E01 to E03 | 1 243 797 | 4 760 | 1 239 037 |
| | | E04 to E06 | 2 700 180 | 10 842 | 2 689 338 |
| | | E07 to E10 | 1 927 231 | 40 225 | 1 887 006 |
| | | ED1 to ED3 | 86 891 | 49 631 | 37 260 |
| | Scoring | 01 to 03 | 8 375 878 | 15 702 | 8 360 176 |
| | | 04 to 06 | 2 389 164 | 8 765 | 2 380 399 |
| | | 07 to 10 | 1 609 770 | 19 342 | 1 590 428 |
| | | D01 to D03 | 1 145 608 | 366 551 | 779 057 |
| | N/A | N/A | 4 378 124 | 248 164 | 4 129 960 |
| | | | **28 056 176** | **783 157** | **27 273 019** |

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value.

The Securities portfolio, by ratings, at 31 December 2012 is as follows:

| Type of financial instrument | Origin | Rating Grade Class | Gross exposure | Impairment | Net exposure |
|---|---|---|---|---|---|
| Securities | External rating | AAA to AA- | 64 469 | | 64 469 |
| | | A+ to A- | 264 934 | | 264 934 |
| | | BBB+ to BBB- | 2 277 882 | | 2 277 882 |
| | | BB+ to BB- | 7 820 106 | 243 | 7 819 863 |
| | | B+ to B- | 181 751 | | 181 751 |
| | | < B- | 38 271 | | 38 271 |
| | N/A | N/A | 914 748 | 83 478 | 831 270 |
| | | | **11 562 161** | **83 721** | **11 478 440** |

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/A | N/A | 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 2012 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 |
| | Rating project finance | 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/A | N/A | 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/A | N/A | 861 486 | 147 664 | 713 822 |
| | | | **8 317 087** | **187 483** | **8 129 604** |

***Restructured loans***

In May 2012 the Bank of Portugal published Instruction 18 / 2012 which defines restructured credit due to financial difficulties of the Client.

According to the Bank of Portugal's definition, a loan operation is considered to have been restructured, due to the financial difficulties of a Client, when the institution agrees to change the contractual terms of existing loan operations (namely, extension of the repayment period, introduction of grace periods, capitalization of interest, reduction of interest rates, forgiveness of principal or interest), or agrees to grant new credit facilities for payment (total or partial) of the existing debt service.

Whenever a restructured loan operation represents more than 25% of the total exposure to the same Client, all the loan operations of that Client are considered as restructured loan operations.

A loan operation is no longer considered as restructured after 12 months, as long as during that period the Client has not defaulted or applied for a restructuring mechanism.

The following restructured loan operations have been identified at 31 December 2012 and 2011:

| | 31 Dec. 12 | | | | 31 Dec. 11 | | | |
|---|---|---|---|---|---|---|---|---|
| | Loans | | | Impairment | Loans | | | Impairment |
| | Performing | Overdue | Total | | Performing | Overdue | Total | |
| Companies | 549 764 | 173 664 | 723 429 | 176 926 | 483 090 | 89 334 | 572 425 | 108 770 |
| Loans to individuals | | | | | | | | |
| Housing | 77 218 | 38 300 | 115 518 | 25 591 | 53 218 | 29 184 | 82 402 | 15 662 |
| Other loans | 38 051 | 9 837 | 47 888 | 9 987 | 24 790 | 5 299 | 30 089 | 6 296 |
| | **665 033** | **221 802** | **886 835** | **212 503** | **561 098** | **123 818** | **684 916** | **130 728** |

**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 2012 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 | 1 269 280 | | | | | | 1 269 280 |
| Deposits at other credit institutions | 371 272 | 82 165 | | | | | 453 437 |
| Financial assets held for trading and at fair value through profit or loss | | 9 661 | 51 664 | 330 678 | 56 332 | 334 284 | 782 619 |
| Financial assets available for sale | | 3 431 843 | 1 938 843 | 1 481 037 | 3 050 760 | 434 120 | 10 336 603 |
| Held-to-maturity investments | | 51 010 | 135 041 | 252 833 | 4 055 | | 442 939 |
| Loans and advances to credit institutions | | 1 473 065 | 197 778 | 22 579 | 13 017 | | 1 706 439 |
| Loans and advances to Customers | | 4 488 365 | 2 254 512 | 7 735 317 | 12 611 427 | 917 399 | 28 007 020 |
| Hedging derivatives[1] | | 1 717 918 | 5 560 305 | 5 252 614 | 3 282 538 | | 15 813 376 |
| Trading derivatives[1] | | 538 556 | 649 070 | 4 918 850 | 1 642 569 | | 7 749 045 |
| Contractual interest cash flows of derivatives | | 87 963 | 167 976 | 497 908 | 299 158 | | 1 053 005 |
| Contractual interest cash flows of other assets | 86 | 300 562 | 724 167 | 2 432 397 | 2 447 074 | | 5 904 285 |
| | **1 640 638** | **12 181 107** | **11 679 356** | **22 924 213** | **23 406 930** | **1 685 803** | **73 518 047** |
| **Liabilities** | | | | | | | |
| Resources of central banks | | 237 755 | | 4 000 000 | | | 4 237 755 |
| Financial liabilities held for trading | | | | 92 | 141 | | 233 |
| Resources of other credit institutions | | 2 251 623 | 72 279 | 165 317 | 67 850 | | 2 557 069 |
| Resources of Customers and other debts | 7 811 055 | 7 033 792 | 7 321 029 | 1 952 568 | 273 287 | | 24 391 731 |
| Debt securities | | 429 191 | 763 014 | 2 192 043 | 274 655 | | 3 658 903 |
| Financial liabilities relating to transferred assets | | | 56 167 | 525 894 | 1 008 997 | | 1 591 058 |
| Hedging derivatives[1] | | 1 714 745 | 5 552 880 | 5 250 911 | 3 281 981 | | 15 800 517 |
| Trading derivatives[1] | | 511 052 | 670 497 | 4 929 118 | 1 651 011 | | 7 761 678 |
| Technical provisions | | 166 056 | 688 127 | 714 070 | 687 111 | | 2 255 364 |
| Contingent convertible subordinated bonds | | | | 1 200 000 | | | 1 200 000 |
| Other subordinated debt and participating bonds | | 59 585 | 434 | 96 063 | | | 156 082 |
| Contractual interest cash flows of derivatives | | 72 516 | 253 301 | 894 173 | 460 253 | | 1 680 243 |
| Contractual interest cash flows of other liabilities | | 242 429 | 419 323 | 842 998 | 177 426 | | 1 682 176 |
| | **7 811 055** | **12 718 744** | **15 797 052** | **22 763 246** | **7 882 713** | | **66 972 809** |

1) Includes the notional amount of swap operations.

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 |
| Other subordinated debt and participating bonds | | | 57 819 | 2 375 | 153 868 | | 214 062 |
| 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 Bank continuously tracks the evolution of its liquidity, monitoring incoming and outgoing funds in real time. Projections of liquidity are carried out in order to help plan the short and medium term funding strategy. In 2012 the BPI Group repaid medium and long-term debt totalling 1 911 700 th. euro (net of repurchases) and received 1 310 800 th. euro from repayments of the securities portfolio. At the end of June 2012, contingent convertible subordinated bonds in the amount of 1 500 000 th. euro were issued, under the recapitalization line for Portuguese banks, which were fully subscribed for by the Portuguese State. The Bank made partial repayments of 200 000 th. euro in August 2012, following a share capital increase of the same amount, and subsequently, in December 2012, in the amount of 100 000 th. euro, so that at 31 December 2012 the outstanding amount of these bonds was 1 200 000 th. euro. The funding obtained from the ECB in December 2012 amounted to 4 185 500 th. euro, of which 4 000 000 th. euro matures in 2015 with the possibility of being repaid early as from January 2013. The Bank has a portfolio of assets eligible for obtaining funding from the ECB, totalling 11 781 697 th. euro at 31 December 2012, net of ECB valuation margins. This amount includes 5 461 330 th. euro available for immediate use.

More information about the management of liquidity risks of the BPI Group is contained in the "Liquidity risk" section of the Directors' Report.

**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 2012 and 2011 the average VaR in the Bank's trading books was as follows:

| | 31 Dec. 12 | | 31 Dec. 11 | |
|---|---|---|---|---|
| | VaR (average) | VaR (maximum) | VaR (average) | VaR (maximum) |
| Interest rate risk | 1 582 | 8 131 | 660 | 8 323 |
| Currency risk | 929 | 1 985 | 273 | 1 418 |
| Equity risk | 1 013 | 3 903 | 505 | 2 632 |
| Commodities | 1 | 17 | 1 | 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. 12 | | | 31 Dec. 11 | | |
| | Position | Weighting factor | Weighted position | Position | Weighting factor | Weighted position |
| on demand | 913 878 | 2.00% | 18 278 | 2 212 827 | 2.00% | 44 257 |
| on demand-1 month | (4 374 287) | 1.92% | (83 986) | (2 283 116) | 1.92% | (43 836) |
| 1-2 months | 2 523 208 | 1.75% | 44 156 | 680 075 | 1.75% | 11 901 |
| 2-3 months | 2 905 215 | 1.58% | 45 902 | 3 452 074 | 1.58% | 54 543 |
| 3-4 months | 62 328 | 1.42% | 885 | 372 654 | 1.42% | 5 292 |
| 4-5 months | (93 680) | 1.25% | (1 171) | (92 647) | 1.25% | (1 158) |
| 5-6 months | 3 284 600 | 1.08% | 35 474 | 2 473 910 | 1.08% | 26 718 |
| 6-7 months | 686 606 | 0.92% | 6 317 | (568 762) | 0.92% | (5 233) |
| 7-8 months | (76 932) | 0.75% | (577) | (34 092) | 0.75% | (256) |
| 8-9 months | (46 973) | 0.58% | (272) | (153 853) | 0.58% | (892) |
| 9-10 months | 71 286 | 0.42% | 299 | (131 389) | 0.42% | (552) |
| 10-11 months | (114 650) | 0.25% | (287) | (108 805) | 0.25% | (272) |
| 11-12 months | (44 352) | 0.08% | (35) | 39 036 | 0.08% | 31 |
| **Total** | | | **64 982** | | | **90 543** |

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.

At 31 December 2012 BPI had a liability of 1 200 000 th. euro at a fixed interest rate, corresponding to the contingent convertible subordinated bonds, which was partially offset by 425 275 th. euro of fixed rate assets (Portuguese public debt). The interest rate risk of the remaining fixed interest rate assets and liabilities is hedged through derivatives, or is offset by balance sheet operations with a reverse risk profile. At 31 December 2011 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 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 loss[1]. This stress test was based on the following exposures in shares and participating units:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Financial assets held for trading and at fair value through profit or loss | 16 533 | 16 549 |
| Financial assets available for sale – at fair value and without impairment | 117 586 | 131 721 |
| Financial assets available for sale – at fair value and with impairment | 7 363 | 6 896 |
| Financial assets available for sale at historical cost | 8 799 | 11 248 |
| Participating units in liquidity, bond and real estate funds | 238 130 | 128 218 |
| | **388 411** | **294 632** |

Note: Does not include the trading portfolio which is considered in market risk.

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) at 31 December 2012 and 2011, would result in a decrease of 28 296 th. euro and 31 033 th. euro, respectively, in their fair value, implying the recognition of a loss of 4 779 th. euro and 4 689 th. euro, the remaining devaluation being reflected in the fair value reserve.

### Currency risk

Financial assets and liabilities at 31 December 2012, 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 | 219 911 | 537 256 | 506 161 | 6 037 | 1 269 365 |
| Deposits at other credit institutions | 397 962 | 21 987 | 3 661 | 29 828 | 453 438 |
| Financial assets held for trading and at fair value through profit or loss | 886 211 | 61 625 | 153 353 | 10 457 | 1 111 646 |
| Financial assets available for sale[1] | 8 925 730 | 1 216 217 | 780 385 | 439 | 10 922 771 |
| Loans and advances to credit institutions | 774 005 | 432 433 | 503 551 | 738 | 1 710 727 |
| Loans and advances to Customers | 25 864 452 | 671 942 | 658 021 | 151 058 | 27 345 473 |
| Held-to-maturity investments | 445 298 | | | | 445 298 |
| Hedging derivatives | 272 298 | 2 058 | | 6 381 | 280 737 |
| Debtors and other applications | 32 674 | 120 098 | 4 136 | 525 | 157 433 |
| | **37 818 541** | **3 063 616** | **2 609 268** | **205 463** | **43 696 888** |
| **Liabilities** | | | | | |
| Resources of central banks | 4 253 485 | 17 433 | | | 4 270 918 |
| Financial liabilities held for trading | 337 501 | 2 418 | | 245 | 340 164 |
| Resources of other credit institutions | 2 287 215 | 279 637 | 34 | 1 535 | 2 568 421 |
| Resources of Customers and other debts | 18 177 700 | 4 100 503 | 2 130 536 | 212 400 | 24 621 139 |
| Debt securities | 3 582 689 | 141 648 | | 63 290 | 3 787 627 |
| Financial liabilities relating to transferred assets | 1 590 984 | | | | 1 590 984 |
| Hedging derivatives | 796 953 | 17 741 | | 289 | 814 983 |
| Provisions | 104 466 | 31 822 | 1 241 | 869 | 138 398 |
| Technical provisions | 2 255 364 | | | | 2 255 364 |
| Contingent convertible subordinated bonds | 1 200 279 | | | | 1 200 279 |
| Other subordinated debt and participating bonds | 156 331 | | | | 156 331 |
| | **34 742 967** | **4 591 202** | **2 131 811** | **278 628** | **41 744 608** |
| Forward currency operations | (1 688 058) | 1 606 958 | (4 927) | 136 378 | 50 351 |
| | | **79 372** | **472 530** | **63 213** | |
| Stress test | | 15 874 | 141 759 | 12 643 | |

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 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 |
| Other subordinated debt and participating bonds | 214 491 | | | | 214 491 |
| | **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.

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 Kwanza (AKZ) 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 to 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 currency risk relating to the above hedged 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 amortized 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 2012 is made up as follows:

| Fair value types of hedge | Hedged items | | | | | Hedging instruments | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Nominal amount | Interest, premiums and potential gain / loss | Impair-ment | Value corrections | Total | Notional amount | Interest and premiums | Revalua-tion | Fair value |
| **Assets** | | | | | | | | | |
| Loans to Customers | 453 244 | 2 923 | (2 034) | 49 156 | 503 289 | 510 982 | (5 605) | (50 454) | (56 059) |
| Fixed rate securities portfolio | 4 106 188 | (653 199) | | 637 218 | 4 090 207 | 4 177 128 | (72 452) | (638 974) | (711 426) |
| | **4 559 432** | **(650 276)** | **(2 034)** | **686 374** | **4 593 496** | **4 688 110** | **(78 057)** | **(689 428)** | **(767 485)** |
| **Liabilities** | | | | | | | | | |
| Resources of credit institutions | 20 000 | 781 | | 10 505 | (31 286) | 20 000 | 735 | 14 902 | 15 637 |
| Customer deposits | 6 975 159 | 60 301 | | 43 844 | (7 079 304) | 7 595 104 | 50 477 | 29 483 | 79 960 |
| Debt issues | 2 780 546 | 21 312 | | 96 059 | (2 897 917) | 3 647 520 | 21 293 | 116 349 | 137 642 |
| | **9 775 705** | **82 394** | | **150 408** | **(10 008 507)** | **11 262 624** | **72 505** | **160 734** | **233 239** |

Embedded options were not included.

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 | Impair-ment | Value corrections | Total | Notional amount | Interest and premiums | Revalua-tion | 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 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) there may be several derivatives to hedge the corresponding future flows.

Net income on financial operations recognized in hedging derivative financial instruments and in hedged items in 2012 and 2011 was the following:

| Fair value types of hedge | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| Hedging derivatives | (221 162) | (302 583) |
| Hedged items | | |
| Loans and advances to credit institutions | (83) | (1 365) |
| Loans to Customers | 13 267 | 17 318 |
| Fixed rate securities portfolio | 222 879 | 268 573 |
| Resources of credit institutions | (1 719) | (4 504) |
| Customer deposits | (17 537) | (6 872) |
| Debt issues | 35 251 | 102 271 |
| | **252 058** | **375 421** |
| | **30 896** | **72 838** |

The caption GAIN ON DEBT ISSUES at 31 December 2012 and 2011 includes 23 721 th. euro and 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 Acções – 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 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 on a gradual basis over the three years following the grant date (25% each year). The options to purchase shares may be exercised between the 90$^{th}$ day to the fifth year as from the grant date. In accordance with the RVA Regulations, 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.

During the Portuguese State investment period, the members of Banco BPI's Executive Commission will not be paid any variable remuneration. Nonetheless, the Remuneration Committee may continue to evaluate annually the performance of the members of the Executive Commission of the Board of Directors and determine the amount of the variable remuneration to which they would be entitled under the rules established in the Remuneration Policy approved in the Shareholders General Meeting of April 2011. However, payment of the variable remuneration will depend on the decision of the Remuneration Committee in office when the Portuguese State investment has been fully repaid.

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, 2010, 2011 and 2012, 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 summarized in the following table:

| Program | Shares | | | | |
|---|---|---|---|---|---|
| | Date of assign-ment | Strike price | Date of availability of tranches | | |
| | | | 2nd | 3rd | 4th |
| RVA 2007 | 2008-03-21 | 3.33 | 2009-03-21 | 2010-03-21 | 2011-03-21 |
| RVA 2008 | 2009-03-16 | 1.26 | 2010-03-16 | 2011-03-16 | 2012-03-16 |
| RVA 2009 | 2010-03-11 | 1.72 | 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 |
| RVA 2011 | 2012-05-28 | 0.37 | 2013-05-28 | 2014-05-28 | 2015-05-28 |
| RVA 2012 | 2012-12-19 | 0.87 | 2013-12-19 | 2014-12-19 | 2015-12-19 |

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 prices of the options, as well as the period the options can be exercised, are summarized in the following table:

| Program | Options | | | |
|---|---|---|---|---|
| | Date of assignment | Strike price[1] | Strike period | |
| | | | From | To |
| RVA 2005 | 2006-02-23 | 4.27 | 2006-05-24 | 2011-02-23 |
| RVA 2007 | 2008-03-21 | 2.85 | 2008-06-23 | 2013-03-21 |
| RVA 2008 | 2009-03-16 | 1.26 | 2009-06-17 | 2014-03-16 |
| RVA 2009 | 2010-03-11 | 1.72 | 2010-06-12 | 2015-03-11 |
| RVA 2010 | 2011-04-29 | 1.11 | 2011-07-30 | 2016-04-29 |
| RVA 2011 | 2012-05-28 | 0.36 | 2012-08-29 | 2017-05-28 |
| RVA 2012 | 2012-12-19 | 0.87 | 2013-03-19 | 2017-12-19 |

1) Strike price after considering the effect of the share capital increase made in August 2012.

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 | Shares | | |
|---|---|---|---|
| | Date of assignment | Strike price | Date of availability |
| RVA 2010 | 2011-04-29 | 1.25 | 2014-04-29 |

| Program | Options | | | |
|---|---|---|---|---|
| | Date of assignment | Strike price[1] | Strike period | |
| | | | From | To |
| RVA 2010 | 2011-04-29 | 1.11 | 2014-04-29 | 2017-04-29 |

1) Strike price after considering the effect of the share capital increase made in August 2012.

The number of Employees and Directors covered by the RVA 2012 and RVA 2011 programs was as follows:

| | RVA 2012 | RVA 2011 |
|---|---|---|
| Directors | 0 | 0 |
| Employees | 135 | 66 |
| | **135** | **66** |

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 |
| RVA 2012 | 53 | 609 | 662 |
| | **18 910** | **21 445** | **40 355** |

## MODEL FOR VALUING THE EQUITY INSTRUMENTS GRANTED TO THE EMPLOYEES 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 on the date the RVA remuneration is granted.

The changes in the number of shares not yet made available to the Employees of the BPI Group in 2012 and 2011, as well as the fair value of the respective instruments, are as follows:

| | RVA 2008 | | | RVA 2009 | | | RVA 2010 | | | RVA 2011 | | | RVA 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Fair value | | 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 | | On the date attributed | On the reference date |
| Shares attributed in 2010 | 128 252 | 181 | 178 | 14 937 | 29 | 21 | | | | | | | | | |
| Shares made available in 2010 | 62 303 | 88 | 86 | 3 774 | 7 | 5 | | | | | | | | | |
| Shares made available early in 2010 | 5 659 | 8 | 8 | | | | | | | | | | | | |
| Shares refused in 2010 | | | | | | | | | | | | | | | |
| Shares not made available at 31 December 2010 | 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 | 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 | 33 198 | 43 | 16 | 8 131 | 14 | 4 | 5 408 | 6 | 3 | | | | | | |
| Shares attributed in 2012 | | | | | | | | | | 9 168 | 3 | 9 | 60 923 | 53 | 57 |
| Shares made available in 2012 | 33 198 | 42 | 31 | 4 036 | 7 | 4 | 1 780 | 2 | 2 | 2 301 | 1 | 2 | 15 257 | 13 | 14 |
| Shares made available early in 2012 | | | | | | | | | | | | | | | |
| Shares refused in 2012 | | | | | | | | | | | | | | | |
| Shares not made available at 31 December 2012 | | | | 4 095 | 7 | 4 | 3 628 | 4 | 3 | 6 867 | 2 | 6 | 45 666 | 40 | 43 |

In the case of death, incapacity or retirement of the Employee, 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 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 of the BPI Group (options that can be exercised) in 2012 and 2011, as well as their respective fair values are as follows:

| | RVA 2005 | | | RVA 2007 | | | RVA 2008 | | | RVA 2009 | | | RVA 2010 | | | RVA 2011 | | | RVA 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of options | Fair value | | Number of options | Fair value | | Number of options | Fair value | | Number of options | Fair value | | Number of options | Fair value | | Number of options | Fair value | | Number of options | 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 | | On the date attributed | On the reference date | | On the date attributed | On the reference date | | On the date attributed | On the reference date |
| Options attributed up to 2010 | 6 950 436 | 3 003 | | 1 15 013 916 | 5 915 | 225 | 3 339 370 | 1 249 | 835 | 2 079 992 | 763 | 295 | | | | | | | | | |
| Options made available until 2010 | 6 950 436 | 3 003 | | 1 15 013 916 | 5 915 | 225 | 3 339 370 | 1 249 | 835 | 2 079 992 | 763 | 295 | | | | | | | | | |
| Options cancelled in 2010 | 89 125 | 39 | | 471 689 | 186 | 7 | | | | | | | | | | | | | | | |
| Options exercised in 2010 | 4 016 920 | 1 735 | | 1 878 | 1 | | 1 119 935 | 419 | 280 | | | | | | | | | | | | |
| 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 | | | | | | |
| Options in circulation at 31 December 2011 | | | | 15 815 580 | 5 553 | | 2 424 038 | 807 | 133 | 2 287 885 | 747 | 93 | 837 481 | 206 | 171 | | | | | | |
| Options attributed in 2012 | | | | 315 470 | 111 | | 50 429 | 17 | 3 | 49 923 | 16 | 2 | 18 280 | 4 | 4 | 1 194 011 | 145 | 767 | 2 173 552 | 602 | 778 |
| Options made available in 2012 | | | | 315 470 | 111 | | 50 429 | 17 | 3 | 49 923 | 16 | 2 | 18 280 | 4 | 4 | 1 194 011 | 145 | 767 | 2 173 552 | 602 | 778 |
| Options cancelled in 2012 | | | | 562 | | | | | | | | | | | | | | | | | |
| Options exercised in 2012 | | | | | | | | | | | | | | | | 461 339 | 56 | 296 | | | |
| Options in circulation and exercisable at 31 December 2012 | | | | 16 130 488 | 5 663 | | 2 474 467 | 824 | 136 | 2 337 808 | 763 | 95 | 855 761 | 210 | 174 | 732 672 | 89 | 470 | 2 173 552 | 602 | 778 |

The granting and availability of Shares and Options under the RVA 2005, 2007, 2008, 2009 and 2010 programs in 2011 and 2012 result from the capital increases in May 2011 and in August 2012.

When an Employee 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 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 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 2012, the average price of the shares on the date in which the options were exercised was as follows:

| Program | Options exercised in 2012 | |
|---|---|---|
| | Number of options | Average price of the shares |
| RVA 2011 | 461 339 | 0.79 |

In 2011 no options were exercised.

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 2012 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; and
  - 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 2007 | RVA 2008 | RVA 2009 | RVA 2010 | RVA 2011 | RVA 2012 |
|---|---|---|---|---|---|---|
| BPI listing | 3.33 | 1.41 | 1.94 | 1.25 | 0.37 | 0.87 |
| Strike price | 3.33 | 1.41 | 1.94 | 1.25 | 0.37 | 0.87 |
| Implicit volatility | 29.34% | 44.27% | 32.25% | 35.97% | 41.70% | 39.78% |
| Interest rate | 3.73% | 3.10% | 2.68% | 5.15% | 3.87% | 3.18% |
| Expected dividends | 0.19 | 0.07 | 0.08 | 0.00 | 0.00 | 0.00 |
| Value of the option | 0.41 | 0.37 | 0.37 | 0.28 | 0.12 | 0.28 |

The number of outstanding options under each RVA Program, as well as their respective fair values at 31 December 2012 was as follows:

| | RVA 2007 | RVA 2008 | RVA 2009 | RVA 2010 | RVA 2011 | RVA 2012 |
|---|---|---|---|---|---|---|
| Number of outstanding options | 16 130 488 | 2 474 467 | 2 337 808 | 855 761 | 732 672 | 2 173 552 |
| Strike price | 2.85 | 1.26 | 1.72 | 1.11 | 0.36 | 0.87 |
| Value of option | 0.00 | 0.05 | 0.04 | 0.20 | 0.64 | 0.36 |

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 | 2.85 | 1.26 | 1.72 | 1.11 |
| Value of option | 0.00 | 0.01 | 0.00 | 0.02 |

## 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 derecognized 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 2012 and 2011 are as follows:

| Shares | Program | 31 Dec. 12 | | | 31 Dec. 11 | | |
|---|---|---|---|---|---|---|---|
| | | 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 2008 | | | | 49 | | |
| | RVA 2009 | 7 | | | 12 | | |
| | RVA 2010 | 95 | | | 65 | | |
| | RVA 2011 | 2 | | | 3 | | |
| | RVA 2012 | 14 | | | | | |
| | | **118** | | | **129** | | |
| Cost of the shares to be made available to the Group's Employees / Directors, not recognized in shareholders' equity | RVA 2008 | | | | 2 | | |
| | RVA 2009 | 0 | | | 2 | | |
| | RVA 2010 | (91) | | | (59) | | |
| | RVA 2011 | 0 | | | 5 | | |
| | RVA 2012 | 26 | | | | | |
| | | **(65)** | | | **(50)** | | |
| | **Total** | **53** | **60 256** | **56** | **79** | **46 737** | **23** |
| Treasury shares made available early to the Group's Employees / Directors | RVA 2007 | | | | 0 | | |
| | RVA 2008 | 8 | | | 8 | | |
| | **Total** | **8** | | | **8** | | |
| Treasury shares to be made available to the Group's Employees / Directors | RVA 2008 | | | | 43 | 33 198 | 16 |
| | RVA 2009 | 7 | 4 095 | 4 | 14 | 8 131 | 4 |
| | RVA 2010 | 4 | 3 628 | 3 | 6 | 5 408 | 3 |
| | RVA 2011 | 2 | 6 867 | 6 | | | |
| | RVA 2012 | 40 | 45 666 | 43 | | | |
| | **Total** | **53** | **60 256** | **56** | **63** | **46 737** | **23** |

### 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 derecognized together with transfer of share ownership to the Employees. At that time a gain or loss is recognized, 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 2012 and 2011 are as follows:

| Options | Program | 31 Dec. 12 | | | 31 Dec. 11 | | |
|---|---|---|---|---|---|---|---|
| | | Book value | Fair value | Unrealized gain / (loss) | Book value | Fair value | Unrealized gain / (loss) |
| Cost of outstanding options (premiums) recognized in shareholders' equity | RVA 2007 | 5 725 | | | 5 725 | | |
| | RVA 2008 | 828 | | | 828 | | |
| | RVA 2009 | 814 | | | 814 | | |
| | RVA 2010 | 496 | | | 401 | | |
| | RVA 2011 | 89 | | | 133 | | |
| | RVA 2012 | 488 | | | | | |
| | | **8 440** | | | **7 901** | | |
| Cost of outstanding options (premiums) not recognized in shareholders' equity | RVA 2011 | | | | 78 | | |
| | RVA 2012 | 121 | | | | | |
| | | **121** | | | **78** | | |
| | **Total** | **8 561** | **1 751** | **6 810** | **7 979** | **708** | **7 271** |
| Treasury shares hedging the RVA options | RVA 2007 | 11 348 | 3 271 | (8 077) | 14 619 | 2 149 | (12 470) |
| | RVA 2008 | 3 045 | 1 394 | (1 651) | 3 045 | 711 | (2 334) |
| | RVA 2009 | 3 147 | 971 | (2 176) | 3 147 | 495 | (2 652) |
| | RVA 2010 | 118 | 36 | (82) | 146 | 23 | (123) |
| | RVA 2011 | 133 | 38 | (95) | | | |
| | RVA 2012 | 428 | 414 | (14) | | | |
| | **Total** | **18 219** | **6 124** | **(12 095)** | **20 957** | **3 378** | **(17 579)** |
| **Unrealized gain / (loss)** | | | | **(5 285)** | | | **(10 308)** |

The gain and loss realized 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 2012 and 2011, are as follows:

| Gain / loss | | Program | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|---|---|
| **Shares** | In making the shares available | RVA 2010 | | (14) |
| | | RVA 2011 | (25) | |
| | | RVA 2012 | (7) | |
| | | | **(32)** | **(14)** |
| **Options** | In the exercise of options | RVA 2005 | | (7) |
| | | RVA 2011 | (1 283) | |
| | | | **(1 283)** | **(7)** |
| | On the sale of hedging shares | RVA 2005 | | 1 166 |
| | | RVA 2007 | (1 148) | |
| | | | **(1 148)** | **1 166** |
| **Transaction costs / Dividend devolution** | | | **59** | **73** |
| | | | **(2 404)** | **1 218** |

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 recognized in 2012 and 2011 was as follows:

| Program | 31 Dec. 12 | | | 31 Dec. 11 | | |
|---|---|---|---|---|---|---|
| | Shares | Options | Total | Shares | Options | Total |
| RVA 2007 | | | | (51) | (4) | (55) |
| RVA 2008 | (6) | | (6) | 13 | (2) | 11 |
| RVA 2009 | 2 | | 2 | 5 | | 5 |
| RVA 2010 | 32 | 95 | 127 | 54 | (120) | (66) |
| RVA 2011 | (1) | 12 | 11 | 3 | 133 | 136 |
| RVA 2012 | 27 | 488 | 515 | | | |
| **Total** | **54** | **595** | **649** | **24** | **7** | **31** |

## 4.50. Capital Management

Under the Economic and Financial Assistance Program agreed in May 2011 between the Portuguese Republic and the International Monetary Fund, the European Central Bank and the European Commission, the Bank of Portugal increased the capital and solvency requirements of Portuguese banks, establishing that banks must reach core tier I ratios on a consolidated basis, of 9% by the end of 2011 and 10% by the end of 2012.

On the other hand, in the European Council of 26 October 2011 measures were approved to restore confidence of the markets regarding sovereign risks of the European Union countries and increase the stability of their financial systems. 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 capital core tier I ratio, on a consolidated basis, of 9% as from 30 June 2012, considering sovereign debt exposures at 30 September 2011 valued at market prices at that date. This Recommendation was accepted by the Bank of Portugal through the Notice 5 / 2012.

**Temporary capital buffer defined by EBA for sovereign debt exposures**

Banco BPI was one of the 71 European banks submitted to the recapitalization exercise proposed by EBA. For purposes of determining the temporary capital buffer, EBA established that the relevant market prices to value sovereign debt exposure were the prices at 30 September 2011. It was further indicated by EBA that the value of the temporary capital buffer would be fixed and would not be changed by market price fluctuation or by the subsequent sale or repayment of the corresponding sovereign debt securities.

Based on the amounts observed on 30 September 2011 it was identified the need for a temporary capital buffer of 1 389 million euro for the BPI Group, resulting mostly from sovereign debt exposure (1 359 million euro), namely Portuguese sovereign debt (989 million euro).

In the period from 30 September 2011 – the reference date of the temporary capital buffer of EBA – to 31 December 2012, Banco BPI's exposure to sovereign risk and the value of those assets, based on market prices changed significantly.

| (million euro) | 30 Sep. 11 | | | | 31 Dec. 12 | | | |
|---|---|---|---|---|---|---|---|---|
| | Nominal value | EBA temporary buffer[1] | | | Nominal value | Recalculation of the buffer[1] | | |
| | | Securities | Derivatives | Total | | Securities | Derivatives | Total |
| **Sovereign bonds (after tax)** | | | | | | | | |
| Portugal | 2 766 | (582) | (125) | (708) | 5 454 | (88) | (203) | (292) |
| Of which: | | | | | | | | |
| Treasury bonds acquired until 31 Dec. 11 | 2 732 | (582) | (125) | (708) | 1 702 | (163) | (203) | (367) |
| Treasury bonds acquired in 2012 | - | - | - | - | 410 | 62 | | 62 |
| Treasury bills | 34 | - | - | - | 3 342 | 14 | | 14 |
| Italy | 975 | (66) | (73) | (139) | 975 | 9 | (126) | (117) |
| Ireland | 355 | (37) | (19) | (56) | 355 | 6 | (36) | (31) |
| Greece | 480 | (136) | (39) | (175) | - | - | - | - |
| | **4 576** | **(822)** | **(256)** | **(1 078)** | **6 784** | **(74)** | **(366)** | **(439)** |
| Loans to local public administration | 1 058 | | | (281) | 913[2] | | | (131) |
| **Capital buffer for sovereign risk exposure** | | | | **(1 359)** | | | | **(570)** |
| Amount recognised in results (Greece) | | | | 175 | | | | - |
| **Temporary capital needs** | | | | **(1 184)** | | | | **(570)** |

1) Includes hedging of interest rate risk.
2) Exposure as of 31 December 2012 applying average haircuts by maturity estimated by BPI based on 31 December 2012 market prices.

In this context, considering the temporary nature of the capital buffer to cover sovereign risks, in June 2012 Banco BPI approved a "Recapitalization Plan" to strengthen the core tier I capital ratio, in order to comply with the minimum ratios established by EBA and the Bank of Portugal, as explained in note 4.27. The "Recapitalization Plan", in the amount of 1 500 000 th. euro, includes:

a) a capital increase of 200 000 th. euro with pre-emptive rights of the shareholders;

b) the issuance of financial instruments eligible as core tier I own funds (contingent convertible subordinated debt), subscribed for by the Portuguese State, in the amount of 1 300 000 th. euro.

On 29 June 2012 subscription by the Portuguese State of the instruments referred in b) above was carried out, in the amount of 1 500 000 th. euro, which was reduced to 1 300 000 th. euro after the capital increase mentioned above in a). The features of these instruments are defined in Law 63-A / 2008 of 24 November as republished by Law 4 / 2012 of 11 January (Bank Recapitalization Law), in Ministerial Order 150-A / 2012 of 17 May and in the Terms and Conditions established in Order 8840-A / 2012 of the Portuguese Minister of Finance and State of 28 June 2012. The investment period of the instrument is five years from the date of issue, and the Bank's Recapitalization Plan considers partial repayments over the period of the instrument. On 10 August 2012 the Bank's capital increase, in the amount of 200 000 th. euros, with preemptive rights of the shareholders, was concluded and on 13 August 2012 this amount was used by the Bank to repay part of the contingent convertible subordinated bonds, which were reduced to 1 300 000 th. euro. Additionally, in December 2012 100 000 th. euro was repaid and so at 31 December 2012, the contingent convertible subordinated bonds amounted to 1 200 000 th. euro.

The potential components of the Own Funds tier I (including core tier I) and tier II (including upper tier II and lower tier II), comply with what is established in Bank of Portugal Notice 6 / 2010. The BPI Group's Own Funds are made up as follows at 31 December 2012 and 2011:

| | 31 Dec. 12 | 31 Dec. 11 |
|---|---|---|
| **Base own funds** | | |
| Subscribed share capital, share premium, reserves (excluding positive fair value reserves) and retained earnings | 2 178 504 | 1 698 654 |
| Contingent convertible subordinated bonds | 1 200 000 | |
| Preference shares | 51 326 | 53 427 |
| Other minority interests | 240 775 | 217 591 |
| Intangible assets | (14 017) | (9 557) |
| Treasury shares | (10 864) | (12 990) |
| Deduction related to deposits with high interest rates | (4 782) | (969) |
| Partial transfer of retired and pensioners pension liabilities to the Social Security[1] | | 261 813 |
| Actuarial deviations considered in the prudential corridor | 69 491 | 117 677 |
| Contributions to the pension fund not yet recognised as cost (corridor method) | (63) | (69) |
| Deferred transition adjustments to IAS / IFRS | 24 734 | 48 526 |
| **Base own funds** | **3 735 104** | **2 374 103** |
| **Complementary own funds** | | |
| Revaluation reserves of fixed assets | 8 548 | 8 548 |
| Positive fair value reserve | 10 610 | 11 282 |
| Subordinated debt and participating securities | 106 387 | 164 841 |
| **Complementary own funds** | **125 545** | **184 671** |
| **Deductions** | | |
| Deduction of participations in insurance companies and other financial institutions | (182 829) | (203 251) |
| Others deductions | (3 223) | (6 123) |
| **Deductions** | **(186 052)** | **(209 374)** |
| **Total own funds** | **3 674 597** | **2 349 400** |
| Total requirements | 1 960 947 | 2 012 179 |
| **Assets weighted by risk[2]** | **24 511 839** | **25 152 243** |
| Own Funds requirements ratio | 15.0% | 9.3% |
| Tier I[3] | 14.9% | 9.0% |
| Core tier I (excluding preference shares)[3] | 15.0% | 9.2% |
| Percentage of preference shares to tier I | 1.4% | 2.3% |

1) At the end of 2011 Banco BPI transferred to the Social Security part of the pension liabilities under payment. As mentioned in Bank of Portugal Notice 1 / 2012, the impact of this transaction on core capital was only reflected on 30 June 2012.
2) Total requirements x 12.5.
3) Calculated in accordance with Bank of Portugal Instruction 16 / 2004.

At 31 December 2012 the core tier I capital ratio established in the Recommendation of the European Banking Authority (EBA) and Bank of Portugal Notice 5 / 2012, considering valuation of the sovereign debt at 30 September 2011 at the market prices was 9.8%, so complying with the requirement of 9%, set in this standards.

| (million euro) | 31 Dec. 12 |
|---|---|
| **Core tier I (Bank of Portugal)** | **3 684** |
| Deduction of participations in financial institutions and insurance companies[1] | (91) |
| Temporary buffer EBA | (1 359) |
| Amount recognised in the statement of income (Greece)[2] | 175 |
| Temporary capital needs | (1 184) |
| **Core tier I (EBA)** | **2 408** |
| Assets weighted by risk | 24 512 |
| **Core tier I ratio (EBA)** | **9.8%** |

1) In accordance with EBA rules deduction of participations in financial institutions and insurance companies are reflected in core tier I.
2) The buffer relating to Greece was recognized in the statement of income through the recording of impairment and so is already reflected in core tier I of the Bank of Portugal.

**Dividend policy**

As from the amendment to the articles of association of Banco BPI approved in the Shareholders' General Meeting held on 20 April 2006, the following rule was included (Article 26 item 3): "The Shareholders' General Meeting should decide on the long term dividend policy by proposal of the Board of Directors which should justify possible deviations from that policy."

In complying with this statutory rule, the Shareholders' General Meeting held on 19 April 2007 approved the Long Term Dividend Policy of Banco BPI, the main guideline, being to distribute an annual dividend of not less than 40% of consolidated net income for the year, except in special circumstances.

The Policy referred to in the last paragraph is temporarily limited by item 6.4. of the Recapitalization Plan approved in the General Meeting held on 27 June 2012, in which the Board of Directors indicated that there will be no dividends or reserve distributions until the hybrid instruments to be issued in the recapitalization operation have been entirely repaid, as well as, in the same way, item 11.1. A) of the Terms and Conditions of the core tier I Capital Instruments Subscribed for by the State approved by Order of the Portuguese Minister of State and Finance 8840-A / 2012.

## 4.51. Related parties

The BPI Group's related parties at 31 December 2012 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% | |
| Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A. | Portugal | 32.8% | 32.8% |
| Unicre – Instituição Financeira de Crédito, S.A. | Portugal | 21.0% | 20.7% |
| **Pension funds of Employees and Directors of the BPI Group** | | | |
| Fundo de Pensões Banco BPI | Portugal | 100.0% | |
| Fundo de Pensões Aberto BPI Acções | Portugal | 15.0% | |
| Fundo de Pensões Aberto BPI Valorização | Portugal | 43.0% | |
| Fundo de Pensões Aberto BPI Segurança | Portugal | 30.0% | |
| Fundo de Pensões Aberto BPI Garantia | Portugal | 13.2% | |
| **Shareholders of Banco BPI**[1] | | | |
| La Caixa Group | Spain | 46.22% | |
| **Members of the Board of Directors of Banco BPI**[1] | | | |
| Artur Santos Silva | | | |
| 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 | | | |
| Allianz Europe Ltd. – Represented by Herbert Walter | | | |
| Ignacio Alvarez-Rendueles | | | |
| Isidro Fainé Casas | | | |
| José Pena do Amaral | | | |
| Juan María Nin Génova | | | |
| Klaus Dührkop | | | |
| Manuel Ferreira da Silva | | | |
| Marcelino Armenter Vidal | | | |
| Maria Celeste Hagatong | | | |
| Mário Leite da Silva | | | |
| Pedro Barreto | | | |
| Tomaz Jervell | | | |

1) On 3 May 2012 the La Caixa Group purchased a18.9% participation, previously held by the Itaú Group. The tables presented for 2011 include the operations with the Itaú Group, as well as information relating to the members of the Board of Directors appointed by the Itaú Group (Carlos Camera Pestana, Henri Penchas and Ricardo Villela Marino).

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 2012 were as follows:

| | Associated and jointly controlled companies | Pension funds of Employees of the BPI Group | Total |
|---|---|---|---|
| **Assets** | | | |
| Financial applications | 2 823 | | 2 823 |
| Financial assets held for trading and at fair value through profit or loss | 7 | 152 | 159 |
| Loans | 34 929 | | 34 929 |
| | **37 759** | **152** | **37 911** |
| **Liabilities** | | | |
| Financial liabilities held for trading and derivatives | 5 | | 5 |
| Deposits and technical provisions | 31 352 | 70 582 | 101 934 |
| Other financial resources | | 60 077 | 60 077 |
| Other liabilities | 168 | | 168 |
| | **31 525** | **130 659** | **162 184** |
| **Net income** | | | |
| Financial margin (narrow sense) | (57) | (2 012) | (2 069) |
| Net commission income | 67 | 259 | 326 |
| General and administrative costs | (941) | (16 290) | (17 231) |
| | **(931)** | **(18 043)** | **(18 974)** |
| **Off balance sheet items** | | | |
| Guarantees given and other contingent liabilities | | | |
| Guarantees and sureties | 10 576 | | 10 576 |
| Responsibilities for services rendered | | | |
| Deposit and safeguard of assets | 942 694 | 780 900 | 1 723 594 |
| Foreign exchange operations and derivative instruments | | | |
| Purchases | 16 850 | | 16 850 |
| Sales | (16 532) | | (16 532) |
| | **953 588** | **780 900** | **1 734 488** |

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 2012 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 | 17 295 | | | 17 295 |
| Financial assets held for trading and at fair value through profit or loss | 387 | | | 387 |
| Financial assets available for sale | | | 8 | 8 |
| Loans | 1 715 | 11 168 | 229 550 | 242 433 |
| Other assets | | | 32 | 32 |
| | **19 397** | **11 168** | **229 590** | **260 155** |
| **Liabilities** | | | | |
| Deposits and technical provisions | 5 132 | 8 576 | 27 452 | 41 160 |
| Other liabilities | 490 | 25 | 111 | 626 |
| | **5 622** | **8 601** | **27 563** | **41 786** |
| **Net income** | | | | |
| Financial margin (narrow sense) | 1 857 | (109) | 2 663 | 4 411 |
| Net commission income | 40 | 12 | 8 | 60 |
| | **1 897** | **(97)** | **2 671** | **4 471** |
| **Off balance sheet items** | | | | |
| Guarantees given and other contingent liabilities | | | | |
| Guarantees and sureties | 18 414 | 496 | 78 987 | 97 897 |
| Commitments to third parties | | | | |
| Revocable commitments | 207 | | 2 000 | 2 207 |
| Responsibilities for services rendered | | | | |
| Deposit and safeguard of assets | 605 842 | 21 270 | 166 577 | 793 689 |
| Others | | | 135 364 | 135 364 |
| Foreign exchange operations and derivatives instruments | | | | |
| Purchases | 540 022 | | 57 457 | 597 479 |
| Sales | (549 300) | | (57 495) | (606 795) |
| | **615 185** | **21 766** | **382 890** | **1 019 841** |

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 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** |
| **Profit and loss** | | | |
| Financial margin (narrow sense) | (197) | (7 520) | (7 717) |
| Net commission income | 34 | 154 | 188 |
| Net operating income | | 38 478 | 38 478 |
| General and 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 derivative 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 assets | 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** |
| **Profit and loss** | | | | |
| Financial margin (narrow sense) | 2 013 | (47) | 110 | 2 076 |
| Net commission 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.

## REMUNERATION AND OTHER BENEFITS AWARDED TO THE CORPORATE BOARDS

Following presentation of the request for access to public investment (in terms of Law 63-A / 2008, of 24 November) and approval by the Shareholders' General Meeting held on 27 June 2012 of adjustments to the Remuneration Policy included in the section 6.1.1 of the Governance Report of the BPI Group, the Remuneration Committee decided to decrease the fixed remuneration of the members of the Board of Directors and of the Supervisory Board to the annual amount of 2 806 519 euro, i.e., 50% of the average remuneration received in the years 2010 and 2011.

### Remuneration of the Chairman of the Shareholders' General Meeting Committee

In 2012 the overall remuneration for exercising the function of **Chairman of the Shareholders' General Meeting Committee** was 14 000 euro, paid in 14 instalments.

The members of the Shareholders' General Meeting Committee do not gain from this fact any retirement entitlement.

### Remuneration of the Supervisory Board

Considering the above mentioned limit, the Remunerations Committee decided to reduce the overall annual amount of the remuneration of the members of the Supervisory Board to 177 547 euro.

In 2012, the aggregate remuneration of the Supervisory Board members was 189 691.58 euro gross, paid in 14 instalments, an amount that already reflects the reduction referred to above in the second half of 2012. The gross amounts earned individually were as follows: **Abel Pinto dos Reis** (Chairman) earned 69 464.54 euro; **Jorge Figueiredo Dias** earned 60 113.52 euro; **José Neves Adelino** earned 60 113.52 euro.

The members of the Supervisory Board are not beneficiaries, due to this fact, of any retirement-related benefit.

### Remuneration of the Board of Directors

Considering the above mentioned limit, the Remunerations Committee decided on 26 June 2012 to decrease the overall annual remuneration of the members of the Board of Directors to 2 628 972 euro.

In 2012, the remuneration of all the members of the Board of Directors amounted to 3 095 th. euro relating to fixed remuneration, an amount that already reflects the decrease referred to above in the second half of 2012.

In addition, the payment of 40 624 euro relating to seniority payments and 201 268 euro relating to long service premiums (in terms of the Collective Vertical Labour Agreement for the Portuguese Banking Sector), and, in the case of non-executive members, 194 250 euro relating to attendance allowances (the unit value of which was, in terms of the decision of the Remunerations Committee referred to above, also decreased by 50% in the second half of 2012).

Thus, in 2012, the overall remuneration of the non-executive members amounted to 917 th. euro and remuneration of the executive members amounted to 2 614 th. euro.

There were no payments in 2011 resulting from early termination.

**Remuneration of the Board of Directors' non-executive members**

The remuneration of the non-executive members of the Board of Directors totalled 917 th. euro in 2012 and includes regular fixed salaries, paid in 14 instalments, in the amount of 694 th. euro, the payment of attendance allowances for meetings of the Consultative Committees of the Board of Directors in the amount of 194 th. euro and the payment of long service premiums in the amount of 29 th. euro.

The **amounts earned individually** were as follows: **Artur Santos Silva** earned fixed remuneration of 99 000 euro for his role as Chairman of the Board of Directors. In addition to this he received a long service premium of 29 428 euro, which was due in 2011 but had not yet been paid. He also received attendance allowances in the amount of 31 450 euro for serving on the Financial Risks Committee and the amount of 3 700 euro for serving on the Corporate Governance Committee. **Carlos da Camara Pestana** (Deputy-Chairman) earned fixed remuneration of 38 000 euro. **Alfredo Rezende Almeida** earned fixed remuneration of 38 500 euro, in addition to 35 150 euro for attendance allowance for serving on the Audit and Internal Control Committee. **António Lobo Xavier** earned fixed remuneration of 38 500 euro, plus 7 400 euro for attendance allowance for serving in the Nominations, Evaluation and Remunerations Committee. **Armando Leite Pinho** earned fixed remuneration of 38 500 euro, plus of 3 700 euro in attendance allowance for serving on the Corporate Governance Committee. **Carlos Moreira da Silva** earned fixed remuneration of 38 500 euro, plus 3 700 euro in attendance allowance for serving on the Nominations, Evaluation and Remunerations Committee. **Edgar Alves Ferreira** earned fixed remuneration of 38 500 euro, plus 20 350 euro in attendance allowance for serving on the Audit and Internal Control Committee. **Henri Penchas** earned fixed remuneration of 28 000 euro. **Herbert Walter** earned a fixed remuneration of 38 500 euro, plus 3 700 euro in attendance allowance for serving on the Corporate Governance Committee. **Ignacio Alvarez-Rendueles** earned fixed remuneration of 38 500 euro, plus 35 150 euro in attendance allowance for serving the Audit and Internal Control Committee. **Isidro Fainé Casas**, earned fixed remuneration of 38 500 euro. **Juan Nin Génova**, earned fixed remuneration of 38 500 euro. **Klaus Dührkop** earned fixed remuneration of 38 500 euro. **Marcelino Armenter Vidal** earned fixed remuneration of 38 500 euro, plus 31 450 euro in attendance allowance for serving the Financial Risks Committee and 7 400 euro for serving on the Nominations, Evaluation and Remunerations Committee. **Mário Leite da Silva** earned fixed remuneration of 38 500 euro, plus 11 100 euro in attendance allowance for serving on the Audit and Internal Control Committee. **Ricardo Villela Marino** earned fixed remuneration of 28 000 euro. **Tomaz Jervell**, earned fixed remuneration of 38 500 euro.

The Directors Carlos da Camara Pestana, Henri Penchas and Ricardo Villela Marino resigned from their positions on 4 May 2012, effective as of 30 June and so their remuneration relates to the monthly remuneration up to that date plus amounts relating to holiday and Christmas subsidies.

### Remuneration of the Executive Committee

Total remuneration (fixed) paid to Banco BPI's Executive Committee in 2012 for carrying out its duties was 2 614 th. euro. In 2012 no variable remuneration was paid to the Executive Committee members.

It should be noted that, as stated above, pursuant to Section 6.5 of the Recapitalization Plan, in the public investment period no variable remuneration will be paid to the Executive Committee members.

**The total amounts of the remuneration earned individually by the members of the Executive Committee were as follows,** fixed remuneration being paid in 14 instalments: **Fernando Ulrich** (Chairman):fixed remuneration of 448 041.94 euro, which includes 7 201.60 euro relating to seniority payments, and 42 544.21 euro relating to long service premium. **António Domingues** (Deputy-Chairman): fixed remuneration of 409 636.12 euro, which includes 5 539.52 euro relating to seniority payments and 15 237.09 euro relating to long service premium. **António Farinha Morais**: fixed remuneration of 320 118 euro, which includes 8 863.40 euro relating to seniority payments. **José Pena Amaral**: fixed remuneration of 316 794.26 euro, which includes 5 539.66 euro relating to seniority payments, and 24 831.51 euro relating to long service premium. **Manuel Ferreira da Silva**: fixed remuneration of 316 794.26 euro, which includes 5 539.66 euro relating to seniority payments and 41 793.23 euro relating to long service premium. These amounts correspond to remuneration earned in Banco Português de Investimento (fixed remuneration of 280 953.81 euro) and in Banco BPI (fixed remuneration of 77 813.68 euro). **Maria Celeste Hagatong**: fixed remuneration of 316 794.26 euro, which includes 5 539.66 euro relating to seniority payments, and 30 545.42 euro relating to long service premium. **Pedro Barreto**: fixed remuneration of 313 655.04 euro, which includes 2 400.44 euro relating to seniority payments, and 16 708.43 euro relating to long service premium.

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.

### Pensions of the executive members of the Board of Directors

The Directors covered by the defined benefits pension plan referred to in point 6.1.2 of the Governance Report of the BPI Group and the plan's liabilities, were as follows at 31 December 2012:

| | Current | Retired | Total |
|---|---|---|---|
| Number of persons | 7 | 4 | 11 |
| Liability (th.€) | 14 550 | 10 725 | 25 275 |

Adding the amounts relating to other individuals that are current or former Directors of the Banks in the BPI Group and that 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 |
| Liability (th.€) | 18 477 | 16 636 | 35 113 |

In December 2006 the liability for retirement and survivor pensions under a defined benefit pension regime of Directors of the BPI Group's banks was transferred to an open-ended pension fund (Fundo de Pensões BPI Valorização).

The pension rights acquired in 2012 by the members of the Executive Committee relating to old age retirement pensions amounted to 29 627 euro.

The cost incurred by the bank in the year to finance the pensions of the members of the Executive Committee amounted to 1 118 197 euro.

## Loans to members of the Board of Directors

### Mortgage loans

At 31 December 2012 the overall balance of 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 the exercise of RVA options and subscriptions of BPI shares in the capital increase realised in 2008

Banco BPI's executive Directors (as well as its Employees) benefit from a credit line for the acquisition and maintenance in portfolio of BPI shares resulting from the exercise of options awarded under the RVA scheme. At the end of 2012 the balance of credit given to the members of Banco BPI's Executive Committee was 5 699 th. euro.

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 to keep in the portfolio of shares thus acquired[1]. At the end of 2012, the credit line balance relating to the members of Banco BPI's Executive Committee was 957 th. euro.

**Credit lines for the exercise of RVA options and subscription for BPI shares in the capital increase realised in 2008**

Balance at 31 December 2012

| | Credit line for the exercise of options[2] | Credit line for subscription for BPI shares |
|---|---|---|
| Banco BPI Executive Committee | 5 699 | 957 |
| Directors of Banco Português de Investimento[3] | 99 | 38 |
| Managers and other Employees | 2 358 | 295 |
| **Total** | **8 156** | **1 290** |

## Insurance of the Chairman and Executive Directors of Banco BPI

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.

| Policy | Risk covered | Capital insured |
|---|---|---|
| Group life insurance | Illness | 424 |
| | Accident (involuntary cause) | 848 |
| | Traffic accident | 1 272 |
| Personal accident insurance | Accident | 148 |
| Work accident insurance | Death or professional disability | Under the terms of the law |
| Health insurance[4] | Illness or accident | 25[5] |

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 the portfolio of BPI shares resulting from the exercise of the RVA options.
3) Directors who are not simultaneously members of the Executive Committee of the Board of Directors of Banco BPI.
4) Covers the respective family.
5) Annual cost of insurance.

The costs incurred by the BPI Group in connection with the above mentioned policies amounted to 46.9 th. euro, in 2012 (49.6 th. euro in 2011).

In addition, the BPI Group incurs costs of 7.7 th. euro relating to SAMS contributions for the three members of Banco BPI's Executive Committee who benefit from protection of this scheme.

### Early termination of contracts

No severance compensation was paid nor is any due in 2012 to any former Executive Director relating to cessation of their functions during the year.

## EMPLOYEE REMUNERATION AND OTHER BENEFITS

The information provided in this section has the objective of complying with the requirements of Bank of Portugal Notice 10 / 2011, and refers to the Employees who meet certain of the following criteria corresponding to those set out in article 1(2)(a) to (c) of the aforesaid Notice:

a) 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;

c) perform the control functions covered by Bank of Portugal Notice 5 / 2008 (compliance, audit and risk control).

In applying the above-mentioned criteria and solely to restrict the Employees to which the information to be provided to pursuant to article 17 of Notice 10 / 201, it was considered that the relevant Employees correspond to those of the Remuneration Policy of Managers mentioned in the section 6.1.6. of the Governance Report of the BPI Group, namely:

- Employees considered as "managers" for purposes of the provisions of article 248-B of the Portuguese Securities Code;
- Employees that occupy first and second tier positions in departments which perform control functions.

In 2012, the universe defined above encompassed 23 Employees.

In 2012, the remuneration paid to the above universe totaled 3.79 M.€. split between fixed remuneration of 2.31 M.€, variable remuneration of 1.23 M.€ and long service premium of 248 th. euro. The fixed remuneration includes 62 th. euro relating to seniority payments.

The amount of variable remuneration of 1.23 M.€. was distributed as follows:

- in cash: 1 129.4 th. euro;
- in options: 76.9 th. euro;
- in shares: 24.8 th. euro.

At 31 December 2012 the aggregate amount of pension rights (annual) acquired by the universe of Employees under review was 1 211.9 th. 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 | 930 786 | 1 377 907 |
| Variable remuneration: Available – cash | 309 554 | 819 847 |
| Variable remuneration: Available – options | 22 882 | 54 049 |
| Variable remuneration: Available – shares | 0 | 24 818 |
| Long service premium | 100 844 | 147 356 |
| **Total remuneration** | **1 364 066** | **2 423 977** |
| Pension rights acquired | 498 611 | 713 289 |

There is no deferred remuneration (not paid) awarded to the above group of Employees.

There is no deferred remuneration due, paid or subject to reduction as a result of the adjustment introduced based on individual performance.

No new Employees were recruited in 2012 who fall within this universe.

No payments were made in 2012 for early termination of employment contracts.

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 2012 were as follows:

| | Shares[1] | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Held at 31 Dec. 11 | Purchases | Sales | Held at 31 Dec. 12 | Value at 31 Dec. 12[3] | Unavailable shares A | Shares pledged in guarantee B | Shares pledged in guarantee C | Shares pledged in guarantee D | Loans E | Loans F |
| Artur Santos Silva | 885 938 | 150 000 | 166 000 | 869 938 | 820 | | | | | | |
| Carlos da Camara Pestana[3] | 390 723 | | | 390 723 | 368 | | | | | | |
| Fernando Ulrich[4] | 2 092 180 | | | 2 092 180 | 1 973 | | 1 585 040 | 348 510 | | 4 104 | 707 |
| Alfredo Rezende de Almeida | 2 101 000 | 299 000 | 100 000 | 2 300 000 | 2 169 | | | | | | |
| António Domingues[4] | 306 042 | | | 306 042 | 289 | | 220 591 | | | 283 | |
| António Farinha Morais[4] | 389 859 | 158 642 | | 548 501 | 517 | | 258 823 | | | 332 | |
| António Lobo Xavier | | | | | | | | | | | |
| Armando Leite de Pinho | | | | | | | | | | | |
| Carlos Moreira da Silva | 47 148 | 19 185 | | 66 333 | 63 | | | | | | |
| Edgar Alves Ferreira | 1 594 619 | | | 1 594 619 | 1 504 | | | | | | |
| Henri Penchas[3] | | | | | | | | | | | |
| Herbert Walter | | | | | | | | | | | |
| Ignacio Alvarez-Rendueles | | | | | | | | | | | |
| Isidro Fainé Casas | | | | | | | | | | | |
| José Pena do Amaral[4] | 72 682 | | | 72 682 | 69 | | | | | | |
| Juan María Nin Génova | | | | | | | | | | | |
| Klaus Dührkop | | | | | | | | | | | |
| Manuel Ferreira da Silva[4] | 723 929 | 126 071 | | 850 000 | 802 | | | | 135 800 | | |
| Marcelino Armenter Vidal | | | | | | | | | | | |
| Maria Celeste Hagatong[4] | 885 151 | | | 885 151 | 835 | | 171 110 | 48 815 | | 370 | 97 |
| Mário Leite da Silva | | | | | | | | | | | |
| Pedro Barreto[4] | 473 999 | | | 473 999 | 447 | | 378 399 | 94 600 | | 610 | 153 |
| Ricardo Villela Marino[3] | | | | | | | | | | | |
| Tomaz Jervell | 11 145 | 4 535 | | 15 680 | 15 | | | | | | |

A – Shares attributed under the RVA program, the availability of which at 31 December 2012 is subject to a resolutive condition.
B – Shares which at 31 December 2012 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 2012 were pledged in guarantee of loans to finance their acquisition resulting from exercise of BPI share subscription rights under the capital increase.
D – Shares which at 31 December 2012 were pledged in guarantee for purposes of article 396 of the Commercial Company Code (Código das Sociedades Comerciais).
E – Amount owed at 31 December 2012 on the loan referred to in B.
F – Amount owed at 31 December 2012 on the loan referred to in C.
1) Includes securities held by their husbands / spouses.
2) Fair value of the shares.
3) On 7 May 2012 resigned as a member of the Board of Directors, which in accordance with item 2 of article 404 of the Commercial Company Code (Código das Sociedades Comerciais) was effective as of 30 June 2012, therefore the position presented refers to this date.
4) Member of the Executive Committee.

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 2012 was as follows:

| | Options[1] | | | |
|---|---|---|---|---|
| | Held at 31 Dec. 11 | Purchases | Exercised | Held at 31 Dec. 12 |
| Artur Santos Silva | | | | |
| Carlos da Camara Pestana[2] | | | | |
| Fernando Ulrich[3] | | | | |
| Alfredo Rezende de Almeida | | | | |
| António Domingues[3] | 1 046 872 | 22 802 | | 1 069 674 |
| António Farinha Morais[3] | 916 291 | 19 958 | | 936 249 |
| António Lobo Xavier | | | | |
| Armando Leite de Pinho | | | | |
| Carlos Moreira da Silva | | | | |
| Edgar Alves Ferreira | | | | |
| Henri Penchas[2] | | | | |
| Herbert Walter | | | | |
| Ignacio Alvarez-Rendueles | | | | |
| Isidro Fainé Casas | | | | |
| José Pena do Amaral[3] | 743 577 | 16 196 | | 759 773 |
| Juan María Nin Génova | | | | |
| Klaus Dührkop | | | | |
| Manuel Ferreira da Silva[3] | 1 132 807 | 24 675 | | 1 157 482 |
| Marcelino Armenter Vidal | | | | |
| Maria Celeste Hagatong[3] | | | | |
| Mário Leite da Silva | | | | |
| Pedro Barreto[3] | 1 092 291 | 23 792 | | 1 116 083 |
| Ricardo Villela Marino[2] | | | | |
| Tomaz Jervell | | | | |

1) Includes securities held by their spouses.
2) On 7 May 2012 resigned as a member of the Board of Directors, which in accordance with item 2 of article 404 of the Commercial Company Code (Código das Sociedades Comerciais) was effective as of 30 June 2012, therefore the position presented refers to this date.
3) Member of the Executive Committee.

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 Investimento, in terms of the shares held at 31 December 2012 was as follows:

| | Shares | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Held at 31 Dec. 11 | Purchases | Sales | Held at 31 Dec. 12 | Value at 31 Dec. 12[1] | Unavailable shares A | Shares pledged in guarantee B | Shares pledged in guarantee C | Shares pledged in guarantee D | Loans E | Loans F |
| Alexandre Lucena e Vale | 108 970 | 44 342 | | 153 312 | 145 | | 48 064 | 18 964 | | 99 | 38 |
| Fernando Costa Lima | 77 964 | 31 725 | 28 565 | 81 124 | 76 | | | | | | |
| José Miguel Morais Alves | 12 486 | 23 031 | | 35 517 | 33 | 13 461 | | | | | |
| João Pedro Oliveira e Costa | | 10 708 | | 10 708 | 10 | 8 031 | | | | | |

A – Shares attributed under the RVA program, the availability of which at 31 December 2012 is subject to a resolutive condition.
B – Shares which at 31 December 2012 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 2012 were pledged in guarantee of loans to finance their acquisition resulting from exercise of BPI share subscription rights under the capital increase.
D – Shares which at 31 December 2012 were pledged in guarantee for purposes of article 396 of the Commercial Company Code (Código das Sociedades Comerciais).
E – Amount owed at 31 December 2012, on the loan referred to in B.
F – Amount owed at 31 December 2012, on the loan referred to in C.
1) Fair value of the shares.

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 Investimento, in terms of the options held at 31 December 2012 was as follows:

| | Options | | | |
|---|---|---|---|---|
| | Held at 31 Dec. 11 | Purchases | Exercised | Held at 31 Dec. 12 |
| Alexandre Lucena e Vale | 346 439 | 7 546 | | 353 985 |
| Fernando Costa Lima | 251 186 | 63 957 | | 315 143 |
| José Miguel Morais Alves | 353 037 | 63 811 | | 416 848 |
| João Pedro Oliveira e Costa | 192 625 | 37 672 | | 230 297 |

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 2012 was as follows:

| | Shares[1] | | | | | Options[1] | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Held at 31 Dec. 11 | Purchases | Sales | Held at 31 Dec. 12 | Value at 31 Dec. 12[2] | Held at 31 Dec. 11 | Purchases | Exercised | Held at 31 Dec. 12 |
| Manuel Maria Meneses | 103 704 | | | 103 704 | 98 | 257 708 | 5 615 | | 263 323 |
| Isabel Castelo Branco | 19 496 | 7 937 | | 27 433 | 26 | 73 492 | 1 601 | | 75 093 |
| Susana Trigo Cabral | 21 038 | | | 21 038 | 20 | 94 219 | 2 053 | | 96 272 |
| Luis Ricardo Araújo | 57 200 | | | 57 200 | 54 | 183 138 | 121 331 | | 304 469 |
| Graça Graça Moura | 37 134 | | | 37 134 | 35 | 44 667 | 973 | | 45 640 |
| Ana Rosas Oliveira | 6 487 | | | 6 487 | 6 | 71 189 | 62 858 | | 134 047 |
| João Avides Moreira | 14 850 | 6 042 | | 20 892 | 20 | 60 646 | 51 575 | | 112 221 |

1) Includes securities held by their husbands / spouses.
2) Fair value of shares.

**ARTUR SANTOS SILVA**
On 10 August under the capital increase, purchased 150 000 shares at 0.5 per share.

On 26 October sold in the stock exchange:

- 108 827 shares at 0.87 euro per share;
- 4 813 shares at 0.86 euro per share;
- 8 020 shares at 0.851 euro per share;
- 44 340 shares at 0.850 euro per share.

**CARLOS DA CAMARA PESTANA**
Has not traded any Banco BPI shares.

On 3 May 2012, IPI – Itaúsa Portugal Investimentos, SGPS, Lda., of which he is a member of the Management Board, sold 186 840 600 Banco BPI shares to CaixaBank, S.A. at 0.5 euro per share.

Resigned on 7 May 2012, which in accordance with the terms of item 2 of article 404 of the Commercial Company Code (Código das Sociedades Comerciais) was effective as of 30 June 2012.

**FERNANDO ULRICH**
Has not traded any Banco BPI shares.

At 31 December his spouse held 58 724 Banco BPI shares.

**ALFREDO REZENDE DE ALMEIDA**
At 10 August under the capital increase, purchased 299 000 shares at 0.5 euro per share.

On 14 December sold 100 000 shares in the stock exchange at 0.890 euro per share.

**ANTÓNIO DOMINGUES**
Has not traded any Banco BPI shares.

As a result of the adjustment to RVA 2007 due to the capital increase, 22 802 options were attributed to him on 10 August, having at 31 December 1 069 674 Banco BPI's share options, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro.

**ANTÓNIO FARINHA MORAIS**
On 10 August under the capital increase, purchased 158 642 shares at 0.5 per share.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August the following options were attributed to him:

- 13 377 options relating to RVA 2007, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro;

- 6 581 options relating to RVA 2009, for which the adjusted assignment value due to the capital increase is 0.367 euro and the strike price is 1.722 euro;

owned 936 249 Banco BPI share options at 31 December.

**ANTÓNIO LOBO XAVIER**
Does not hold and has not traded any Banco BPI shares.

**ARMANDO LEITE DE PINHO**
Does not hold and has not traded any Banco BPI shares.

At 31 December Arsopi – Holding, SGPS, S.A., of which he is the President of the Board of Directors. owned 2 942 267 Banco BPI shares.

At 31 December ROE, SGPS, S.A., of which he is President of the Board of Directors, owned 4 442 291 Banco BPI shares.

At 31 December Security, SGPS, S.A., of which he is President of the Board of Directors, owned 3 414 404 Banco BPI shares.

**CARLOS MOREIRA DA SILVA**
On 10 August under the capital increase, purchased 19 185 shares at 0.5 per share.

**EDGAR ALVES FERREIRA**
Has not traded any Banco BPI shares.

At 31 December his spouse held 242 000 shares.

At 31 December Violas Ferreira Financial, S.A., of which he is a member of the Board of Directors, owned 28 351 791 Banco BPI shares.

**HENRI PENCHAS**
Does not hold and has not traded any Banco BPI shares.

Resigned on 7 May 2012, which in accordance with the terms of item 2 of article 404 of the Commercial Company Code (Código das Sociedades Comerciais) was effective as of 30 June 2012.

**HERBERT WALTER**
Does not hold and has not traded any Banco BPI shares.

Is the person named by Allianz Europe, Ltd. to represent it as a member of the Board of Directors to which the company was elected.

On 10 August under the capital increase, Allianz Europe Ltd. purchased 34 867 769 shares at 0.5 euro per share, having at 31 December 120 553 986 shares.

The entity to which the above qualified shares are allocated is the company Allianz SE, which owns the entire share capital of Allianz Europe BV, which in turn is the sole shareholder of Allianz Europe Ltd.

**IGNACIO ALVAREZ RENDUELES**
Does not hold and has not traded any Banco BPI shares.

Is Deputy General Director at CaixaBank, S.A. and a Member of the Directors Committee of the CaixaBank, S.A.

**ISIDRO FAINÉ CASAS**
Does not hold and has not traded any Banco BPI shares.

Is President of Caja de Ahorros y Pensiones de Barcelona "la Caixa", which has full control over CaixaBank, S.A., being also President of CaixaBank, S.A. and Member of the Directors Committee of CaixaBank, S.A.

On 3 May 2012, CaixaBank, S.A. purchased from IPI – Itaúsa Portugal Investimentos, SGPS, Lda. 186 840 600 Banco BPI shares at 0.5 euro per share.

On 7 May 2012, CaixaBank, S.A. sold to Santoro Finance – Prestação de Serviços, S.A. 93 420 330 Banco BPI shares at 0.5 euro per share.

On 10 August under the capital increase, CaixaBank, S.A. purchased 251 052 206 shares at 0.5 euro per share, holding 642 462 536 shares at 31 December.

**JOSÉ PENA DO AMARAL**
Has not traded any Banco BPI shares.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August the following share options were attributed to him:

- 13 377 options relating to the RVA 2007, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro;
- 2 819 options relating to the RVA 2008, for which the adjusted assignment value due to the capital increase is 0.374 euro and the strike price is 1.258 euro;

owned 759 773 Banco BPI share options at 31 December.

**JUAN MARÍA NIN GÉNOVA**
Does not hold and has not traded any Banco BPI shares.

Is General Director of Caja de Ahorros y Pensiones de Barcelona "la Caixa", which has full control over CaixaBank, S.A., being also Vice-President and Delegate Adviser of CaixaBank, S.A. and Member of the Directors' Committee of the CaixaBank, S.A.

**KLAUS DÜHRKOP**
Does not hold and has not traded any Banco BPI shares.

**MANUEL FERREIRA DA SILVA**
On 10 August under the capital increase, purchased 109 623 shares at 0.5 per share.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August the following share options were attributed to him:

- 13 377 options relating to RVA 2007, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro;
- 2 819 options relating to RVA 2008, for which the adjusted assignment value due to the capital increase is 0.374 euro and the strike price is 1.258 euro;
- 3 291 options relating to RVA 2009, for which the adjusted assignment value due to the capital increase is 0.367 euro and the strike price is 1.722 euro;

owned 914 129 Banco BPI share options at 31 December.

On 10 August under the capital increase, his spouse purchased 16 448 shares at 0.5 euro per share.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August 5 188 options relating to RVA 2007 were attributed to his spouse, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro, holding 243 353 Banco BPI share options at 31 December.

**MARCELINO ARMENTER VIDAL**
Does not hold and has not traded any Banco BPI shares.

Is Executive Director of Caja de Ahorros y Pensiones de Barcelona "la Caixa", which has full control over Caixa Bank, S.A.

For further information about the transactions and participation of Caixa Bank, S.A. in Banco BPI's capital, see the above information concerning the member Isidro Fainé Casas.

**MARIA CELESTE HAGATONG**
Has not traded any Banco BPI shares.

At 31 December her husband held 407 316 shares.

**MÁRIO LEITE DA SILVA**
Does not hold and has not traded any Banco BPI shares.

On 7 May 2012, Santoro Finance – Prestação de Serviços, S.A., of which he is President of the Board of Directors, purchased in a non-stock exchange operation 93 420 330 Banco BPI shares from CaixaBank, S.A. at the price of 0.5 euro per share.

On 10 August under the capital increase, Santoro Finance – Prestação de Serviços, S.A. purchased 78 278 047 shares at 0.5 euro per share, holding 270 643 372 shares at 31 December.

**PEDRO BARRETO**
Has not traded any Banco BPI shares.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August the following share options were attributed to him:

- 13 377 options relating to RVA 2007, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro;
- 3 834 options relating to RVA 2008, for which the adjusted assignment value due to the capital increase is 0.374 euro and the strike price is 1.258 euro;
- 6 581 options relating to RVA 2009, for which the adjusted assignment value due to the capital increase is 0.367 euro and the strike price is 1.722 euro;

owned 1 116 083 Banco BPI share options at 31 December.

**RICARDO VILLELA MARINO**
Does not hold and has not traded any Banco BPI shares.

Resigned on 7 May 2012, which in accordance with the terms of item 2 of article 404 of the Commercial Company Code (Código das Sociedades Comerciais) was effective as of 30 June 2012.

**TOMAZ JERVELL**
On 10 August under the capital increase, purchased 4 535 shares at 0.5 per share.

On 10 August under the capital increase, Norsócia, SGPS, S.A. of which he is a member of the Board of Directors, purchased 3 196 016 shares at 0.5 euro per share, holding 11 050 105 shares at 31 December.

**ALEXANDRE LUCENA E VALE**
On 10 August under the capital increase, purchased 44 342 shares at 0.5 per share.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August the following options were attributed to him:

- 4 588 options relating to RVA 2007, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro;
- 2 988 options relating to RVA 2008, for which the adjusted assignment value due to the capital increase is 0.374 euro and the strike price is 1.258 euro;

owned 353 985 Banco BPI share options at 31 December.

**FERNANDO COSTA LIMA**
Sold on the stock exchange on 6 August 10 000 shares at the price of 0.505 euro.

Sold on the stock exchange on 9 August 3 777 shares at the price of 0.538 euro and 14 788 at the price of 0.539.

On 10 August under the capital increase, purchased 31 725 shares at 0.5 per share.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August the following options were attributed to him:

- 2 737 options relating to RVA 2007, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro;
- 1 176 options relating to RVA 2009, for which the adjusted assignment value due to the capital increase is 0.367 euro and the strike price is 1.722 euro;
- 1 560 options relating to RVA 2010, for which the adjusted assignment value due to the capital increase is 0.2765 euro and the strike price is 1.108 euro;

On 28 December under RVA 2012, 58 484 Banco BPI share options were attributed to him, for which the adjusted assignment value is 0.277 euro and the strike price is 0.866 euro, owning 315 143 Banco BPI share options at 31 December.

**JOSÉ MIGUEL MORAIS ALVES**
On 10 August under the capital increase, purchased 5 080 shares at 0.5 per share.

As a result of the adjustment to the RVA programs due to the capital increase, the following share options were attributed to him on 10 August:

- 5 108 options relating to RVA 2007, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro;
- 2 582 options relating to RVA 2008, for which the adjusted assignment value due to the capital increase is 0.374 euro and the strike price is 1.258 euro;

Under RVA 2012 the following shares and share options were attributed to him on 28 December:

- 17 951 shares for which the adjusted assignment value is 0.866 euro;
- 56 121 Banco BPI share options, for which the adjusted assignment value is 0.277 euro and the strike price is 0.866 euro;

owned 416 848 Banco BPI share options at 31 December.

**JOÃO PEDRO OLIVEIRA COSTA**
As a result of the adjustment to the RVA programs due to the capital increase, 4 196 options relating to RVA 2007 were attributed to him on 10 August, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro.

Under RVA 2012 the following shares and options were attributed to him on 28 December:

- 10 708 Banco BPI shares for which the adjusted assignment value is 0.866 euro, holding an equal amount at 31 December;
- 33 476 purchase options of Banco BPI, for which the assignment value is 0.277 euro and the strike price is 0.886 euro, holding 230 297 Banco BPI share options, at 31 December.

**MANUEL MARIA MENESES**
Has not traded any Banco BPI shares.

As a result of the adjustment to the RVA programs due to the capital increase, the following options were attributed to him on 10 August:

- 3 033 options relating to RVA 2007, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro;
- 1 279 options relating to RVA 2008, for which the adjusted assignment value due to the capital increase is 0.374 euro and the strike price is 1.258 euro;
- 1 303 options relating to RVA 2009, for which the adjusted assignment value due to the capital increase is 0.367 euro and the strike price is 1.722 euro;

owned 263 323 Banco BPI share options at 31 December.

**ISABEL CASTELO BRANCO**
On 10 August under the capital increase, purchased 7 937 shares at 0.5 per share.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August 1 601 options relating to RVA 2007 were attributed to her, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro, holding 75 093 Banco BPI share options, at 31 December.

**SUSANA TRIGO CABRAL**
Has not traded any Banco BPI shares.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August 2 053 options relating to RVA 2007 were attributed to her, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro, holding 96 272 Banco BPI share options, at 31 December.

**LUÍS RICARDO ARAÚJO**
On 28 May 2012, under the RVA 2011 program, 70 968 purchase options of Banco BPI shares were attributed to him, for which the adjusted assignment value due to the capital increase is 0.358 Euros.

As a result of the adjustment to the RVA programs due to the capital increase, the following options were attributed to him at 10 August:

- 1 673 options relating to RVA 2007, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro;
- 705 options relating to RVA 2008, for which the adjusted assignment value due to the capital increase is 0.374 euro and the strike price is 1.258 euro;
- 719 options relating to RVA 2009, for which the adjusted assignment value due to the capital increase is 0.367 euro and the strike price is 1.722 euro;
- 954 options relating to RVA 2010, for which the adjusted assignment value due to the capital increase is 0.2765 euro and the strike price is 1.108 euro;
- 1 546 options relating to RVA 2011, for which the adjusted assignment value due to the capital increase is 0.124 euro and the strike price is 0.358 euro.

On 28 December under RVA 2012, 44 766 purchase options of Banco BPI were attributed to him, for which the adjusted assignment value due to the capital increase is 0.277 euro and the strike price is 0.866 euro, holding 304 469 Banco BPI share options at 31 December.

**GRAÇA GRAÇA MOURA**
Has not traded any Banco BPI shares.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August 973 options relating to RVA 2007 were attributed to her, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro, holding 45 640 Banco BPI share options, at 31 December.

At 31 December her husband owned 27 677 Banco BPI shares.

**ANA ROSAS OLIVEIRA**
Has not traded any Banco BPI shares.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August 1 141 options relating to RVA 2007 were attributed to her, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro.

On 28 December under RVA 2012, 43 435 purchase options of Banco BPI shares were attributed to her, for which the adjusted assignment value due to the capital increase is 0.277 euro and the strike price is 0.866 euro, holding 96 920 Banco BPI share options at 31 December.

At 31 December her husband held 1 839 Banco BPI shares.

As a result of the adjustment to the RVA programs due to the capital increase, on 10 August 411 options relating to the RVA 2007 were attributed to her husband, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro.

On 28 December under RVA 2012, 17 871 purchase options of Banco BPI shares were attributed to her husband, for which the adjusted assignment value due to the capital increase is 0.277 euro and the strike price is 0.866 euro, holding 37 127 Banco BPI share options at 31 December.

**JOÃO AVIDES MOREIRA**
On 28 May 2012, under the RVA 2011 program, 32 259 purchase options of Banco BPI shares were attributed to him, for which the adjusted assignment value due to the capital increase is 0.124 euro and the strike price is 0.358 euro.

At 10 August under the capital increase, purchased 6 042 shares at 0.5 per share.

As a result of the adjustment to the RVA programs due to the capital increase, the following options were attributed to him on 10 August:

- 202 options relating to RVA 2007, for which the adjusted assignment value due to the capital increase is 0.410 euro and the strike price is 2.847 euro;
- 321 options relating to RVA 2008, for which the adjusted assignment value due to the capital increase is 0.374 euro and the strike price is 1.258 euro;
- 327 options relating to RVA 2009, for which the adjusted assignment value due to the capital increase is 0.367 euro and the strike price is 1.722 euro;
- 434 options relating to RVA 2010, for which the adjusted assignment value due to the capital increase is 0.2765 euro and the strike price is 1.108 euro;
- 703 options relating to RVA 2011, for which the adjusted assignment value due to the capital increase is 0.124 euro and the strike price is 0.358 euro.

On 28 December under the RVA 2012 program, 17 329 purchase options of Banco BPI shares were attributed to him, for which the adjusted assignment value due to the capital increase is 0.277 euro and the strike price is 0.866 euro, holding 112 221 Banco BPI share options at 31 December.

## 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 follows[1]:

"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 2012 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) |
| Fernando Ulrich | (Deputy-Chairman) |
| | |
| Alfredo Rezende de Almeida | (Member) |
| António Domingues | (Member) |
| António Farinha Morais | (Member) |
| António Lobo Xavier | (Member) |
| Armando Leite de Pinho | (Member) |
| Carlos Moreira da Silva | (Member) |
| Edgar Alves Ferreira | (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) |
| Tomaz Jervell | (Member) |

Oporto, 15 March 2013

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

Deloitte.

**Deloitte & Associados, SROC S.A.**
Inscrição na OROC nº 43
Registo na CMVM nº 231

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Portugal

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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 2012, which comprise the Consolidated Balance Sheet as of 31 December 2012 (that reflects total assets of 44 564 581 th. euro and total shareholders' equity of 2 060 644 th. euro, including a consolidated net income of 249 135 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 consolidated 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.

"Deloitte" refere-se à Deloitte Touche Tohmatsu, Limited, uma sociedade privada de responsabilidade limitada do Reino Unido, 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 Limited e suas firmas membro consulte www.deloitte.com/about.

Tipo: Sociedade civil sob a forma comercial | Capital Social: 500.000,00 euros | Matrícula CRC de Lisboa e NIPC 501 776 311
Sede: Edifício Atrium Saldanha, Praça Duque de Saldanha, 1 – 6º, 1050-094 Lisboa | Porto: Bom Sucesso Trade Center, Praça do Bom Sucesso, 61 - 13º, 4150-146 Porto

Deloitte.

**Deloitte & Associados, SROC S.A.**
Inscrição na OROC nº 43
Registo na CMVM nº 231



**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. This 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. This 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.

**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 2012, 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.

**Report on other legal requirements**

6. It is also our opinion that the consolidated financial information included in the Directors' Report is consistent with the consolidated financial statements for 2012 and that the report on corporate governance includes the items required for the Bank in accordance with article 245-A of the Portuguese Securities Market Code.

Oporto, 18 March 2013

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**
**2012**

The present report on the work carried out by the Supervisory Board during 2012 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 2012

During 2012 the Supervisory Board held sixteen meetings which were attended by all its members, with the exception of the meeting of 24 July, when the member José Neves Adelino was absent because he was overseas and, at the meeting of 21 August, at which the member Jorge Figueiredo Dias could not take part on the grounds that it was analysing a credit operation to an entity of which he is Chairman of the Board of Directors.

Besides these meetings, the Supervisory Board attended 10 meetings of the Audit and Internal Control Committee held in 2012, 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 meeting of the Board of Directors at which the approval of the 2011 annual accounts was on the agenda, and at Banco BPI's General Meeting of 31 May 2012, which also included in the agenda the approval of the 2011 report and accounts, as well as at the General Meeting of 27 June 2012, at which a resolution was passed approving the Bank's recapitalisation plan and other measures resulting from this resolution.

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 2012, 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 followed closely all the audit work conducted by the Bank of Portugal, as well as reviewing all the relevant progress reports systematically submitted to that Bank.

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.

In September, in compliance with the provisions of Bank of Portugal Notice no. 9 / 2012, it issued an opinion on the action taken related to the supervision of the work involving the prevention of money laundering and the financing of terrorism.

**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 2012 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 Supervisory Board monitored closely all the phases relating to the implementation of the "recapitalisation plan" agreed to with the Ministry of Finance, considering namely:

- the clarifications given to it by the Executive Committee and by the Board of Directors on the discussions with the Ministry of Finance;
- participating in the General Meeting of 27 June 2012, at which the recapitalisation plan and consequent capital increase were approved by the shareholders;
- participating in the Board of Directors' meeting of 10 July, at which it was decided to increase the Bank's capital through the issue of 400 000 000 new, ordinary, dematerialised, nominative shares with no par value at an issue price of € 0.50 each, having also followed closely the entire issue operation.

The Supervisory Board also monitored the repurchase from the Portuguese State of 100 million euro of contingent convertible subordinated bonds (Coco) ahead of schedule, which in conjunction with the repayment made in the meantime following the capital increase, permitted reducing to 1 200 million euro the amount of this type of debt held by the State at 31 December 2012.

**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 2012 financial year, as well as the Company's Corporate Governance Report.

The Board records the improvement made in terms of the net profit for the year, which swung from a net loss of 284.9 million euro in 2011 to a net profit of 249.1 million euros.

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 2012 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)(b) of the CCC)**
In 2012 there was no need to propose the nomination of the Portuguese statutory auditors as no mandate terminated in that year.

**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 Corporate Governance Code)**
In 2012 there was no need to propose the nomination of the Portuguese statutory auditors as no mandate terminated in that year.

**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 2012 the following fees payable to Deloitte for services rendered were adjudicated for the Group as a whole:

| | |
|---|---|
| ■ statutory audit | 1 334 501.00 euro |
| ■ other assurance services | 796 400.00 euro |
| ■ tax advisory services | 169 400.00 euro |
| ■ other non audit-related services | 15 700.00 euro |

The above figures correspond to the provision of services adjudicated in 2012 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 7.99% of Deloitte's total fees adjudicated in 2012, with the portion relating to Banco BPI and its subsidiaries was 11.41% (13.5% in 2011).

**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 2012 was reviewed at the Audit and Internal Control Committee's meeting held on 28 March 2012, 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.

As referred to previously, the Supervisory Board monitored the Bank's entire recapitalisation process.

**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.

It also complied with Notice no. 9 / 2012, issuing an opinion on the action relating to the supervisory work aimed at the prevention of money laundering and the financing of terrorism.

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 and the Organisation 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 monitored the analysis systematically carried out of the evolution of Customers' liabilities which is reviewed at the meetings of the Financial Risks Committee, of which we highlight the following:

- 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 2012 the Supervisory Board was called upon to issue an opinion in the case of the revision of the exposure limit, under normal market conditions, relating to a shareholder owning a qualified holding.

In the terms contemplated in article 85(8) of the General Regime of Credit Institutions and Financial Companies, the Supervisory Board began to issue prior opinions on credit operations to entities in which members of the Bank's management or supervisory bodies are managers or in which they have qualified shareholdings.

During 2012 it was called upon to issue an opinion on ten cases.

### *1.11.3. Financial risks*

The Supervisory Board continued to devote special attention 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 Supervisory Board has access to all the documentation relating to the matters dealt with at the meetings of the Financial Risks Committee, as well as the respective minutes, having also attended the meetings at which, due to the matters to be dealt with, it deemed its presence to be of interest. With effect from the commencement of functions of the Supervisory Board member representing the State, this member began to participate in the committee's meetings, together with the other Supervisory Board members who may be present.

### *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:

- 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;
- the preservation of Customers', Shareholders' and BPI's own assets;
- 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 fifteen communications were received, of which four have not yet been finalised.

Of the communications of irregularities finalised:

- in two cases, the Customers were partially justified, with an eventual cost to the Bank in terms of its image in the eyes of these Customers;
- in one case an ex-Employee of the Bank was found not to have grounds, and there was no loss to the Bank;
- in two cases the Customers' communications were unfounded, and there was no loss to the Bank;
- in the remaining six cases, the Customers' communications were unfounded, although, despite the clarifications given, there could be an eventual cost to the Bank in terms of these Customers' image of the bank.

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 and terrorism financing activities, as well as the relationship with the authorities charged with overseeing this matter.

The Board considered the report on this Division's activity with reference to June 2012, as well as the report sent to the Bank of Portugal in September 2012 relating to the control of money laundering and terrorism financing activity.

*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 auditor's 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 2012.

The Supervisory Board was kept regularly informed about the communications sent to the Bank of Portugal relating to the monitoring of the recommendations made within the ambit of the Special Inspections Programme conducted by the Bank of Portugal's permanent inspection team, as well as the respective deadlines for implementation.

*1.11.7. Reporting 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 Auditor; the Risk Analysis and Control Division, the Compliance Division and the Organisation Division – Operational Risk.

*1.11.8. Reporting to the Bank of Portugal – Notice no. 9 / 2012*
The Supervisory Board issued an opinion, which it sent to the Bank of Portugal in September 2012, relating to the supervisory activity of the prevention works relating to money laundering and terrorism financing.

**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 2012, 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 2012 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.

Taking into consideration the understanding which the CMVM communicated to Banco BPI whereby in terms of the article 245 (1) (c) of the Securities Code, the content of the declaration signed by the members of the Supervisory Board should be disclosed within the ambit of this legal enactment, we hereby transcribe the declaration that was signed individually by each one of the members of the Supervisory Board: *"I declare in the terms and for the purposes of 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 2012 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 scope, and that the directors' report provides an accurate account of that company's and of the companies included in the consolidation scope business, performance and financial position, as well as containing a description of the principal risks and uncertainties which they confront."*

## 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.

Oporto, 19 March 2013

Abel Pinto dos Reis – Chairman

Jorge Figueiredo Dias – Member

José Neves Adelino – Member

Miguel Artiaga Barbosa – Member representing the State

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# 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 | CMVM Web site[1] | Official Journal[2] |
|---|---|---|
| **CMVM**<br>**Securities Market Code** | ✓ | Republished by Decree-Law 357-A / 2007, 31 October[3] |
| **CMVM's Corporate Governance Code**<br>(2010) | ✓ | – |
| **CMVM Regulation 1 / 2010 on Corporate Governance**<br>(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**<br>**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**<br>**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**<br>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, 1st Series 3 April 2007, amended by Decree-Law 88 / 2011 of 20 July, published in the Official Journal no. 138, 1st Series 1 of 20 July 2011, namely, relevant point for remuneration policy, point XI of its annex. |
| **Law no. 63-A / 2008** | | Official Journal no. 228, 1st Series of 24 November 2008, amended by Law no. 3-B / 2010, of 28 April, by Law no 55-A / 2010, of 31 December and by Law no. 4 / 2012, of 11 January. |
| **Ministerial Order no. 150-A / 2012** | | Official Journal no. 96, 1st Series of 17 May 2012. |

| | 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' Code of conduct | | ✓ |
| | Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios' 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 RECOMENDATIONS 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 2010[1], 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<br>References in the governance report[2]<br>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<br>2.2.10. (p. 268) |
| **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<br>6.2.1. (p. 312) |
| **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<br>2.2.4. (p. 266);<br>2.2.5. (p. 267) |
| **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<br>2.2.4. (p. 266) |
| **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<br>0.4. (p. 260) |
| | ▪ have shares which do not confer the right to vote; | ✓ 2.2.2. (p. 266) |
| | ▪ 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. 266) |
| **I.4** | Deliberative quorum | |
| | Companies should not fix a deliberative quorum larger than that provided for in the law. | Not adopted[3]<br>0.4. (p. 260) |
| **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<br>2.2.11. (p. 268) |
| **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<br>0.4 (p. 260) |
| **I.6.1.2** | (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<br>0.4. (p. 260) |
| **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<br>7.3. (p. 318) |

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<br>References in the governance report[1]<br>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<br>1. (p. 263) |
| **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: | Adopted<br>4. (p. 297);<br>p. 88 Manag. report |
| | ▪ 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. | ✓ |
| **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<br>2.3.1. (p. 269)<br>2.8.1. (p. 282)<br>2.8.2. (p. 287) |
| **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<br>✓ 4. (p. 297)<br>✓ Manag. report (p. 88) |
| **II.1.1.5** | The management and supervisory bodies should have functioning regulations which should be disclosed on the company's website. | Adopted<br>0.1. (p. 254) |
| **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<br>2.6.1. to 2.6.3.<br>(p. 273 and 274) |
| **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]<br>0.4. (p. 261) |
| **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<br>2.6.2. (p. 273)<br>2.6.3. (p. 273) |
| **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<br>2.3.3. (p. 270);<br>Appendix (p. 330) |
| **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<br>2.6.12 (p. 276)<br>2.8.4. (p. 289) |
| **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: | Adopted<br>8.6. (p. 323) |
| | ▪ 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. | ✓ |

1) Except when mentioned otherwise.
2) With regard to the quantitative requirement mentioned in the recommendation.

| | Recommendation | Adoption<br>References in the governance report[1]<br>Point / (page no.) |
|---|---|---|
| **II.1.4.2** | This policy's general lines (for communicating irregularities) must be disclosed in the corporate governance report. | Adopted<br>8.6. (p. 323) |
| **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<br>6.1. (p. 301) |
| (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<br>2.8.4. (p. 289) |
| (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<br>6.1.1 (p. 301) |
| (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<br>6.1.1 (p. 301) |
| (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<br>6.1 (p. 301) |
| (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<br>6.1 (p. 301) |
| (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<br>6.1.1. (p. 301) |
| (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<br>6.1.4. (p. 307) |
| (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<br>6.1. (p. 301) |
| **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<br>6.1.1. (p. 301) |
| | ▪ about the payments relating to the removal from office or cessation by accord of the functions of Directors. | Adopted<br>6.2.6. (p. 315) |
| **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<br>6.1.6. (p. 308) |
| **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]<br>6.1.8. (p. 309) |
| **II.1.5.6** | At least one representative of the Remuneration Committee must be present at the shareholders' annual general meetings. | Adopted<br>2.2.7. (p. 267) |
| **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<br>2.7. (p. 279) |

1) Except when mentioned otherwise.
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<br>References in the governance report[1]<br>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:<br>▪ defining the company's strategy and general policies;<br>▪ defining the group's business structure;<br>▪ decisions which must be considered strategic due to their amount, risk or other special characteristics. | Adopted<br>✓ 2.6.4. (p. 275) |
| **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<br>2.6.16 (p. 278); 2.8.1. (p. 282); 2.8.2. (p. 287) |
| **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<br>2.7.5. (p. 280) |
| **II.3** | Chief Executive, Executive Committee and Executive Board of Directors | |
| **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<br>2.7.6. (p. 280) |
| **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<br>2.7.6. (p. 280) |
| **II.4** | General and Oversight Board, Financial Matters Committee, Audit Committee and 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<br>2.3.10. (p. 271) |
| **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<br>2.3.10. (p. 271) |
| **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<br>2.3.5. (p. 270) |
| **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<br>2.3.1. (p. 269);<br>2.3.11. (p. 272) |
| **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<br>2.3.8. (p. 271) |
| **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: | Adopted<br>2.1. (p. 264) |
| | ▪ 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; | 2.8.4. (p. 289) |
| | ▪ 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; | 2.8.3. (p. 289) |
| | ▪ timely identifying potential candidates with the high profile necessary for the performance of Directors' functions. | 2.8.4. (p. 289) |
| **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<br>0.4. (p. 262) |
| **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<br>2.5.1. (p. 272) |
| **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<br>2.5.1. (p. 272) |

1) Except when mentioned otherwise.

| | Recommendation | Adoption<br>References in the governance report[1]<br>Point / (page no.) |
|---|---|---|
| II.5.4 | All the committees must draw up minutes of the meetings held. | Adopted<br>2.8. (p. 281) |
| 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<br>9. (p. 325) |
| III.1.2 | The following information available on the company's website must be disclosed in English:<br>a) The name, status of a publicly-traded company, the registered office and other details stipulated in article 171 of the Commercial Companies Code;<br>b) Statutes;<br>c) Identity of the members of the governing bodies and of the representative for market relations;<br>d) Investor Support Office, respective functions and means of access;<br>e) Annual report and accounts;<br>f) Half-yearly calendar of company events;<br>g) Proposals submitted for discussion and voting at General Meetings;<br>h) Notices convening General Meetings. | Adopted<br>9. (p. 325)<br>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<br>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<br>5.3. (p. 298) |
| 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<br>8.2.2. (p. 320) |
| 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<br>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** |
| | Recommendation not adopted, as concerns that part which states that companies which ordain that voting rights above a certain number, when cast by one only Shareholder or by shareholders related to him / her / it, do not comply with the proportionality between voting rights and the shareholding.<br>As regards this subject, see the justification relating to recommendation I.6.1.2. |
| **I.4.** | **Relating to the constitutive or deliberative quorum** |
| | Recommendation not adopted, as regards that part which recommends that companies should not set a deliberative quorum larger than that provided for by law.<br><br>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).<br><br>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.<br><br>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:<br><br>▪ 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;<br><br>▪ 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.<br><br>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. |
| **I.6.1.** | **Relating to the limit on the number of votes** |
| (I.6.1.2.) | Recommendation not adopted.<br>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., the approval of seventy five per cent of the votes cast in General Meeting (GM).<br><br>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. |

| Recom. | Explanation |
|---|---|

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 2012 and on the date this report was concluded, the situation regarding Banco BPI's 14 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 12 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 8 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 group[1];
    - 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 or entities of their group, then there are 8 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 12 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 CCC[2], 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) Two of which are also covered by paragraph b).
2) Article 64 – Fundamental duties.

| Recom. | Explanation |
|---|---|

**II.1.2.2. Relating to the number of independent non-executive Directors (cont.)**

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 a professional executive team independent of any specific interests, with the presence of a non-executive structure clearly in the majority.

In terms of the foregoing, and in line with the recommendations of the European Union[1] 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**

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* for 2012[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 2012, 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 report also provides the information concerning Remuneration Policy required by Bank of Portugal Notice10 / 2011 and recounts the compliance with the series of provisions governing this subject set out in point XI of the annex to Decree-Law 104 / 2007, of 3 April and Bank of Portugal Notice 10 / 2011.
3. The Board of Directors did not identify any 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, 15 March 2013

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 2012.

# 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**), 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 (SB)** – 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.

At 31 December 2012

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) CaixaBank, S.A, designated Isidro Fainé Casas to represent it in this position.
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) Mr. Miguel Barbosa is the State representative on Banco BPI's Supervisory Board, having been appointed by dispatch published in the Republic's Official Journal, II Series, of 4 December (Dispatch no. 15463-B / 2012 of the Minister of State and Finance). This appointment was made pursuant to the provisions of article 14(2) of Law no. 63-A / 2008, of 24 November and taking into account the provisions of point 9 of Dispatch no. 8840-A / 2012, of the Minister of State and Finance, which approved Banco BPI's Recapitalisation operation. Banco BPI immediately began to register this appointment at the Bank of Portugal, which registration was communicated to Banco BPI by the Bank of Portugal on 17 January 2013, date on which the supervision authority was informed was the date on which Mr. Miguel Barbosa commenced his functions.
7) Member not belonging to the Board of Directors.

## 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 Shareholders[1] 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 May[1]. 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.

In terms of article 386 of the Commercial Companies Code (CCC), the General Meeting deliberates by a majority of the votes cast irrespective of the percentage share capital represented thereat, with abstentions not being counted. The law and the statutes can however require a qualified majority should this be the case:

a) of the resolutions relating to the matters for which the law prescribes a constitutive quorum of one third of the share capital, which in terms of article 386(3) of the CCC, have to be approved by two thirds of the votes cast;

b) of the resolutions amending the Statutes relating to the limitation of the voting rights cast by one only Shareholder (article 12(4) and (5) and article 30(2)) and of the resolution concerning the company's dissolution, in respect of which the Bank's statutes require the approval by 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).

1) In terms of article 376(1) 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.

### 2.2.9. Procedure in case of suspension of the GM

In accordance with the Statutes (article12(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.

### 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. Meetings held in 2012

In 2012 two Shareholders' General Meetings were held, on 31 May and on 27 June.

#### 2.2.12.1 General Meeting of 31 May 2012

The General Meeting of 31 May was held at 10.00 am at the Casa da Música, in the city of Porto. 223 Shareholders were present or represented, holding 757 560 970 shares with voting rights corresponding to 76.52% of the share capital.
8 Shareholders owning 626 831 shares voted by post (0.06%), with the result that the capital with voting rights totalled 76.58%.

**Presences at the General Meeting of 31 May 2012**

| | No. of shareholders | No. of shares | % share capital |
|---|---|---|---|
| Present or represented | 223 | 757 560 970 | 76.52 |
| Postal votes | 8 | 626 831 | 0.06 |
| **Total** | **231** | **758 187 801** | **76.58** |

By virtue of the rules contained in article 12(4) of the Bank's statutes, the Shareholder CaixaBank, S.A., holder of 484 830 660 shares which corresponded to 484 830 660 votes, saw its votes reduced to 198 million.

**Results of the voting at the GM of 31 May 2012[1]**

| | Percentage of the votes cast[2] | |
|---|---|---|
| | For | Against |
| Banco BPI's Directors report and individual and consolidated accounts relating to the 2011 financial year | 99.99% | 0.01% |
| Appropriation of net profit for 2011 | 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% |
| 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. | 99.93% | 0.07% |
| Acquisition and disposal of treasury shares | 99.98% | 0.02% |

1) The meeting convening this Meeting included two additional points on its agenda, which were withdrawn before it was held at the initiative of the Board of Directors.
2) Abstentions do not count as votes cast.

#### 2.2.12.2 General Meeting held on 27 June 2012

The General Meeting held on 27 June took place at 9.30 am at the Fundação de Serralves in the city of Oporto. 191 shareholders were present or represented, holding 781 066 775 shares with voting rights corresponding to 78.9% of the share capital. A further 5 shareholders voted by post (0.05%), holding 507 798 shares, with the result that the capital entitled to vote totalled 78.95%.

**Presences at the General Meeting of 27 June 2012**

| | No. of shareholders | No. of shares | % share capital |
|---|---|---|---|
| Present or represented | 191 | 781 066 775 | 78.90 |
| Postal votes | 5 | 507 798 | 0.05 |
| **Total** | **196** | **781 574 573** | **78.95** |

By virtue of the rules contained in article 12(4) of the Bank's statutes, the Shareholder CaixaBank, S.A., holder of 484 830 660 shares which corresponded to 484 830 660 votes, saw its votes reduced to 198 million.

**Results of the voting at the GM of 27 June 2012**

| | Percentage of votes cast[1] | |
|---|---|---|
| | For | Against |
| a) Banco BPI' Recapitalisation Plan submitted to the Bank of Portugal with a view to accessing the public investment envisaged in Law no. 63-A / 2008 of 24 November | 100% | - |
| Modification of article 4 of the statutes, whereby the Bank's shares now have no par value | 100% | - |
| b) Issue of contingent convertible subordinated bonds to be subscribed for by the Portuguese States as part of the Recapitalisation Plan approved, as well as the necessary capital increases, should the event on which it depends occur, in order to satisfy the respective conversion into shares representing the Bank's share capital | 100% | - |
| c) Suppression of the Shareholder pre-emption rights on the subscription of the contingent convertible subordinated bonds referred to in c) | 100% | - |
| d) Modification of article 4 of the statutes, introducing therein an authorisation for the Board of Directors to deliberate increases in the Bank's capital in order to create the conditions for the exercise of the option for the alternative payment of the remuneration of the contingent convertible subordinated bonds | 100% | - |
| e) Suppression of Shareholders' pre-emption rights as regards capital increases which the Board of Directors may decide to realise in the future in terms of the authorisation referred to in e) | 100% | - |
| f) Modification of article 4 of the statutes, introducing therein an authorisation for the Board of Directors to deliberate a capital increase with cash injections, from the current 990 000 000 euro to 1 190 000 000 euro | 100% | - |
| g) An authorisation for the Board of Directors to be empowered to use the company's treasury stock as a means of paying in kind the remuneration on the contingent convertible subordinated bonds referred to in sub-paragraph c) above | 100% | - |
| h) An authorisation for the Bank's Board of Directors to proceed with the acquisition of the contingent convertible subordinated bonds referred to in sub-paragraph c) above | 100% | - |

1) Abstentions are not counted 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 three 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**

Pursuant to the provisions of article 14(2) of Law no. 63-A / 2008, of 24 November and taking into account the provisions of point 9 of Dispatch no. 8840-A / 2012, of the Minister of State and Finance, which approved Banco BPI's Recapitalisation operations, the Minister of State and Finance appointed by dispatch published in the Republic's Official Journal, II Series, of 4 December (Dispatch no. 15463-B / 2012 of the Minister of State and Finance) Mr. Miguel Artiaga Barbosa as the State's representative on Banco BPI's Supervisory Board.

Banco BPI immediately began to register this appointment at the Bank of Portugal, which registration was communicated to Banco BPI by the Bank of Portugal on 17 January 2013, date on which the supervision authority was informed was the date on which Mr. Miguel Barbosa commenced his functions.

The remaining members of the Supervisory Board were appointed to this body by resolution passed at the General Meeting of 27 April 2011.

**Composition of Banco BPI's Supervisory Board** At 31 December 2012

| | Independence (according to art.414(5) CCC) | Disqualification (according to art.414-A(1) CCC) | Date of First appointment | End of the current term | 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 |
| Miguel Artiaga Barbosa | Complies[2] | Complies[2] | 4 Dec. 12 | -[3] | 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 330).

### 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.

### 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:

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) Without prejudice to his subjection to a special statute stemming from the source of his appointment and the regime in terms of which it was effected, it is deemed to be justified to ascertain, also as regards Mr. Miguel Barbosa, compliance with the requirements of independence and the absence of the disqualifications envisaged in the law.
3) Not applicable given the special regime to which he is subject.

- 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.

The rules referred to above are not however applicable to the member Mr. Miguel Artiga Barbosa, taking into account the specific regime – explained previously – for his appointment to the Supervisory Board.

### 2.3.10. Activity carried out in 2012 by the Supervisory Board

In 2012 the Supervisory Board met 16 times at which all its members were present, with the exception of two of these meetings where one member was absent. In 2013 and up until the date this report is issued, the Supervisory Board met 4 times in the presence of all members.

The Supervisory Board also took part in 10 meetings of the Audit and Internal Control Committee, in the meetings of the Board of Directors at which the annual accounts were reviewed and approved, in the meeting of Banco BPI's General Meeting at

which the 2011 annual accounts were approved, as well as in the General Meeting of 27 June 2012, at which a resolution was passed approving the Bank's Recapitalisation Plan and the other measures resulting from this resolution.

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 2012 the Supervisory Board was called upon to issue an opinion on one case.

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."*

15 March 2013

**The Supervisory Board**

Abel Pinto dos Reis – Chairman
Jorge Figueiredo Dias – Member
José Neves Adelino – Member
Miguel Artiaga Barbosa – Member; State's Representative

## 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 seven ("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

During 2012 the Committee (on 7 May) passed a resolution by way of the circulation of documents approved unanimously and met on 26 June, which registered a presence of 66%.

**7 May 2012**

The Committee approved an alteration to articles 1, 2 and 4 of the Regulations regarding the retirement entitlement of senior management members' (currently the appointed members of the Executive Committee of the Board of Directors).

**26 June 2012**

Approval, following the presentation of the application for access to public investment (in terms of Law 63-A / 2008, of 24 November) and of the respective Recapitalisation Plan, of the decrease in the fixed annual remuneration of the members of the Board of Directors and the Supervisory Board to the limit of 50% of the average of the total remuneration (fixed and variable) paid to the aforesaid bodies in 2010 and 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 composed of 21 members as of 31 December 2012, seven of whom make up the Executive Committee. The Board's nominative composition and that of its consultative committees appears in point 2.1.

**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 Union[1] 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 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

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.

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 14 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 2012

| | 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 | | b) | ✓ |
| **Members** | | | | | | |
| Alfredo Rezende de Almeida | Member | | | | b) | ✓ |
| António Lobo Xavier | | | | Member | Independent | c) |
| Armando Leite de Pinho | | | Member | | b) | c) |
| Carlos Moreira da Silva | | | | Member | Independent | c) |
| Edgar Alves Ferreira | Member | | | | a) | ✓ |
| Herbert Walter | | | Member | | a) | ✓ |
| Ignacio Alvarez-Rendueles | Member | | | | a) | ✓ |
| Isidro Fainé Casas | | | | | a) b) | c) |
| Juan Maria Nin | | | | | a) | c) |
| Klaus Dührkop | | | Member | | a) b) | ✓ |
| Marcelino Armenter Vidal | | Member | | Chairman | a) | c) |
| Mário Leite da Silva | Member | | | | 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 CMVCM 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.

At 31 December 2012 and on the date of the completion of this report, the disqualification rules did not apply to six Directors, i.e. the Chairman Artur Santos Silva and the members Alfredo Rezende de Almeida, Edgar Alves Ferreira, Herbert Walter, Ignacio Alvarez-Rendueles and Klaus Dührkop. Eight 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, S.A., 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.

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;
- 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.

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.

As referred to previously in this chapter, 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 law[1] provides that the Directors are jointly and severally liable to the company and its creditors[2], 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, which was revised in the meantime, with the entry of BPI's new Code of Ethics and Conduct scheduled to come into force in April 2013.

### 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 331 to 335).

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 2012 and up until 15 March 2013

The Board of Directors met fifteen times in 2012, having recorded an average attendance level of 86%, not considering for this purpose proxy representations.

During 2012, and at the two meetings held between 1 January and 15 March 2013, 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 (2012, except if indicated otherwise) | Resolutions / Matters |
|---|---|
| | **Approvals of plans and budgets** |
| 5 Jan., 17 Jan. and 20 Jan. | Banco BPI's Recapitalisation Plan. |
| 11 Dec. | Review of the estimated results for 2012. |
| 11 Dec. | Review and approval for 2013 Budget. |
| 25 Jul. and 24 Oct. | Funding and Capital Plan. |
| 2013: 30 Jan. | |
| 14 Mar., 20 Apr., 1 Jun. and | Banco BPI's Recapitalisation Plan. |
| 3 Jun. | |
| 24 Oct. | Restructuring plan to be submitted to the European Directorate-General for Authority. |
| | **Annual reports and proposed appropriation of net profit** |
| 2 Feb. and 14 Mar. | Review and approval of the 2011 consolidated accounts, as well as deliberation on their public disclosure. |
| 14 Mar. | BPI Group's situation in Jan. 2012. |
| 27 Mar. | Approval of the draft Annual Report to be submitted at the AGM of 31 May 2012. |
| 20 Apr. | Review of the consolidated accounts at 31 March 2012 as well as deliberation on their public disclosure. |
| 25 Jul. | Review of the consolidated accounts at 30 June 2012 as well as deliberation on their public disclosure. |
| 24 Oct. | Review of the consolidated accounts at 30 September 2012 as well as deliberation on their public disclosure. |
| 2013: 30 Jan. | Review and approval of the 2012 consolidated accounts, as well as deliberation on their public disclosure. |
| 2013: 15 Mar. | Approval of the draft Annual Report to be submitted to the AGM of 24 April 2013. |
| 2013: 15 Mar. | BPI Group's situation in Feb. 2013. |
| | **Initiatives for the presentation of motions to the Shareholders' General Meeting** |
| 20 Apr. | Approval of the draft Notice of Meeting and motions to be presented to the AGM of 31 May 2012. |
| 8 Jun. | Approval of the draft Notice of Meeting and motions of the Board of Directors to the AGM of 27 June 2012. |
| 2013: 15 Mar. | Approval of the draft Notice of Meeting and motions to be presented to the AGM of 24 April 2013. |
| | **Monitoring the trend in pension liabilities and the BPI Group's pension funds** |
| 20 Apr., 25 Jul. and 24 Oct. | Review of the retirement and survivors' pension liabilities and the respective pension fund cover, as well as the return achieved |
| 2013: 30 Jan; 15 Mar. | by the pension fund. |
| | **Monitoring the Bank's exposure to the large risks and financing operations** |
| 24 Oct. and 11 Dec. | Review of credit risk exposures in excess of 300 M.€. |
| 2013: 30 Jan. | |
| 14 Mar., 24 Oct. and 11 Dec. | Review of operations subject to the regime contemplated in article 85 or 109 of the Banking Law. |
| 2013: 30 Jan. and 15 Mar. | |
| | **Bond issues** |
| 5 Jan. | Approval of the public offer for acquisition of the mortgage bonds issued by Banco BPI. |
| 2 Feb., 14 Mar., | Approval renewal / revision of the Euro Medium Term Note Programme (EMTN Programme). |
| 2013: 30 Jan | |
| | **Internal functioning** |
| 2 Feb., 14 Mar., 20 Apr., | Information about the Audit and Internal Control Committee's activity. |
| 25 Jul., 24 Oct. and 11 Dec. | |
| 2013: 30 Jan. and 15 Mar. | |
| 2 Feb., 14 Mar., 20 Apr., | Information about the Financial Risks Committee's activity. |
| 25 Jul., 24 Oct. and 11 Dec. | |
| 2013: 30 Jan. and 15 Mar. | |
| 14 Mar. | Recomposition of the Nominations, Evaluation and Remuneration Committee and of the Corporate Governance Committee. |

**Principal resolutions / matters object of the Board of Directors' meetings (cont.)**

| Dates (2012, except if indicated otherwise) | Resolutions / Matters |
|---|---|
| | **Internal functioning** (cont.) |
| 27 Mar.<br>2013: 15 Mar. | Information concerning the Corporate Governance Committee. |
| 27 Mar. | Information regarding the activity of the Nominations, Evaluation and Remuneration Committee. |
| 25 Jul. | Loans to Employees and executive Directors. |
| 24 Oct. | Scheduling of the General Meeting and Board of Directors' meetings for 2013. |
| | **Other matters of general interest for the company** |
| 2 Feb. | Implications of the remuneration policy set by the Bank of Portugal for the banking sector. |
| 29 May | Analysis of the communication received by the Shareholder HVF – SGPS, S.A. |
| 10 Jul. | Banco BPI's capital increase. |
| 25 Jul., 24 Oct.<br>2013: 30 Jan. and 15 Mar. | Analysis of the behaviour of Banco BPI shares on the stock market. |
| 24 Oct. | Special inspection by the "Troika" of the loan portfolio relating to the construction, real-estate activity and tourism sectors. |
| 11 Dec. | Situation relating to the commitments assumed to the "Troika" and the Portuguese State. |
| 11 Dec.<br>2013: 30 Jan. and 15 Mar. | Dialogue with the European Directorate-General for Authority. |
| 2013: 30 Jan. | Amendments to BPI's Code of Ethics and Conduct approved at the meeting of 25 July 2011. |
| 2013: 30 Jan. | Programme for the redemption of the contingent convertible subordinated bonds (CoCos). |

## 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 | Individuals and small businesses banking; Non-residents; Commercial partners; Communication and Brand Management. |
| Maria Celeste Hagatong | Corporate Banking; Project Finance; Construction Financing; Corporate Credit recovery; Banco BPI's branch in Spain; Africa Office. |
| Manuel Ferreira da Silva | Equities; Corporate Finance; Private Equity; Economic and Financial Studies; Investor Relations; BPI Investimentos' branch in Spain. |
| António Farinha Morais | Procurement, Outsourcing and Fixed Assets; Operations; Analysis and Risk Control; Credit Risk; Legal; Compliance; Affiliated companies; Insurance. |
| Pedro Barreto | Organization and Quality; 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 regulations[1].

1) Both the regulations are available on the Investor Relations website, in the BPI Group's Corporate Governance section.

### 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 2012, the Executive Committee met 49 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.

#### 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 in the information systems domain, as well as the control over related projects and undertakes the annual evaluation and approval of the strategic plan within the scope of the information systems.

### 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 Committee (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 regulations[1]. 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 must always be less than half the total number of members making up the committee.

Also with a seat on the aforesaid committees is the State's representative on Banco BPI's Supervisory Board – Mr. Miguel Barbosa – in terms of the dispatch published in the Republic's Official Journal, II Series, of 4 December (Dispatch no. 15463-B / 2012 of the Minister of State and Finance).

### 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.

1) Available on the Investor Relations' website in the section "BPI Group's Corporate Governance".

**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 meets at least bimonthly and the CRF, in principle, every month[1] and whenever convened by its chairman. The CGS and the CNAR meet whenever convened by the respective chairman or by two of their members and, in particular, whenever they have to issue an opinion on the issues within their terms of reference.

**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 evaluating the effectiveness of the internal control, management of non-financial risks 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 Central Manager responsible for the BPI Group's internal audit area, the representative of 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 2012, the Audit and Internal Control Committee met 11 times. The average attendance rate was 86%. In 2013, and up until the date the present report was approved, the Audit and Internal Control Committee met 2 times and the respective attendance rate was 90%.

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.

1) Alteration approved at the Board of Directors' meeting of 30 January 2013. This Commission' Regulation previously foresaw bimonthly meetings.

## REPORT OF THE AUDIT AND INTERNAL CONTROL COMMITTEE'S ACTIVITY IN 2012

The Audit and Internal Control Committee (Portuguese acronym CACI) held ten meetings during 2012, having analysed the matters related with its terms of reference according to the activity plan approved at the meeting held in December of the previous year.

In terms of its regulations, the Chairman of the Board of Directors, the Chairman and Vice-Chairman of the Executive Committee, the members of the Supervisory Board and the representatives 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 (Portuguese acronym DAI) and by the Bank's various Divisions within the scope 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 2012 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 the implementation of 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:

- 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 adequacy of the accounting treatment adopted by Banco BPI in the asset-assignment operations with the Recovery Fund – ECS, in compliance with the Bank of Portugal's regulations.

The November meeting also reviewed the report prepared by the DAI on compliance by Banco BPI and Banco Português de Investimento with the rules governing the various prudential reports submitted to the Bank of Portugal and to the CMVM, as well as the accuracy of the respective content.

At the June meeting, the Legal Division furnished information about the new regulatory framework published in January 2012 for the remuneration policies of credit institutions and the steps taken by the Bank to inform itself of the content of the innovative provisions introduced and to ensure its proper compliance with them.

As regards keeping abreast of the inspections carried out by the supervisory authorities, the Committee was informed throughout the year of the reports, in the preliminary and / or definitive versions, on the inspections conducted by the Bank of Portugal according to the Risk Evaluation Model (REM) of the "Large and Medium-size Companies", "Small Businesses" and "Project Finance" areas, as well as the Bank's responses to these reports and the pace of the implementation of the recommendations presented.

Still in this domain, it reviewed at the September meeting, the summaries of the progress reports compiled by the Bank, relating to compliance with the recommendations stemming from the Special On-site Inspections Programme of the Bank of Portugal, as regards the credit-risk procedures and controls and impairment methodology ("Workstream 1") and the calculation of the own funds requirement for credit risk ("Workstream 2").

At the December meeting, the findings and recommendations were reviewed as concerns the BPI Group of the Special On-site Inspections Programme also carried out by the Bank of Portugal, with the object of evaluating the adequacy of the impairment allowances allocated to the exposure to the construction and real-estate development sectors at the eight largest national banking groups.

**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 2011, as well as those relating to the first, second and third quarters of 2012. Already in January 2013, it analysed the results to December 2012.

It also reviewed at the March meeting the draft Board of Directors' Management Report relating to 2011 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 2012, 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 31 March and 30 September 2012. It also carried out an identical examination of Banco de Fomento Angola's financial statements for the first six months 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 2011 and 30 June 2012.

Still as regards the monitoring of the preparation and dissemination of financial information, the Committee analysed at the June 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 2011 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.

**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 unit, but also on the presentations and clarifications which are the responsibility of the relevant Boards and Divisions. 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 DAI unit on compliance and the forecast of the periods for implementation of the recommendations formulated by the audits, 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 DAI 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.

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 respective Executive Committee having given the necessary clarifications on these issues.

On the other hand, it analysed at the March meeting, the draft interim report relating to 2011 on the "Self-evaluation of the Adequacy of Internal Capital" to be sent to the Bank of Portugal in terms of Instruction no. 15 / 2007.

It also examined at the same meeting the report on the risk of credit concentration with reference to December 2011, prepared in compliance with Bank of Portugal Instruction no. 5 / 2011.

At the June 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 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 (the Portuguese securities market commission) in compliance with Notice 5 / 2008 of the BPI Group and all the Group's companies and offshore branches subject to supervision on a consolidated basis;
- the annual reports on the prevention of money laundering and the financing of terrorism at Banco BPI, Banco Português de Investimento and BPI Gestão de Activos, sent to the Bank of Portugal in compliance with Notice 9 / 2012;
- the opinions of the respective oversight bodies and statutory auditors, which accompany the annual reports;
- the annual report on the risk management and internal control systems at BPI Vida e Pensões, sent to the Instituto de Seguros de Portugal, in terms of Regulation no. 14 / 2005 – R of that Institute, and the respective statutory auditors' opinion.

## 4. Evaluating and monitoring the effectiveness of the risk-management system

**a) Operational risk**

One of the principal means used in assessing and promoting efficacy in the control of operational risk also 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 2012, the audits and review procedures, analysed according to that method, encompassed the following areas:

**(i) The external auditors' review procedures:**

- Corporate Loans Recovery Division – Individuals and Small Business Network
- Finance Division – Trading Area and Sales
- Self-evaluation of internal capital adequacy process (ICAAP)
- BFA – Granting, monitoring and recovery of corporate loans
- BFA – Premises and Fixed Assets Division
- BFA – General IT Controls – "Banka" application
- Contracting of personal loans
- Corporate Loans Recovery Division – Management of Repossessed Goods Area
- Banco Português de Investimento – Private Banking Division
- Information Systems Division – General IT controls – "Loans with Plan" application

**(ii) Audits by Banco BPI's Audit and Inspection Division**

- French branch – Contracts entered into with external entities (follow-up)
- Formalisation of discount operations, pricing and monitoring retirements
- Operations Division – Checking of liquid assets at external treasuries
- Banco BPI Cayman (follow-up) and Cayman subsidiaries, Madeira (follow-up), Santa Maria (follow-up) and Macau (follow-up)
- Customer death processes (Banco BPI and Banco Português de Investimento)
- Guarantees given without time limit

**(iii) Audits by BFA's Audit, Inspection and Security Division**

- BFA – Foreign Division – International Transfers Area
- Documentary Operations Area

In addition, the Committee was informed at the January and July meeting about all the investigations carried out by the DAI of occurrences which generate losses, respectively in the second half of 2011 and first six months of 2012, having analysed the operational causes of these occurrences and the measures decided on for their eradication.

It also performed an identical analysis at the May meeting of incidents which occurred at BFA in 2011, by way of a report prepared by that bank's Audit, Inspection and Security Division.

Furthermore, it examined at the January and July meetings, statistical data presented by the DAI relating to incidents of that nature which took place at Banco BPI, respectively in the four-year periods 2008 / 2011 and 2009 / 2012, with details of the risks imputed to the Bank and its Employees, as well as those not assumed by the Bank.

Meanwhile at the March and September meetings, the summaries prepared by the Strategic Marketing Division were reviewed regarding Customer complaints received at Banco BPI in the previous half years, as well as the improvements introduced into the internal procedures arising from the complaint situations, with a view to refining the control of operational risk. At the November meeting, a similar review was done as regards the process for handling complaints at BFA, with indications of the main measures taken internally in this area.

Special attention was also paid at the September meeting to the report submitted by the Procurement, Outsourcing and Fixed Assets Division regarding outsourced activities, with indication of the methods and procedures utilised for ensuring adequate control of this type of activity on the subject of security, quality and price levels.

The Committee also examined at the April meeting the fundamental lines and the progress of Banco BPI's "Business Continuity Plan", as well as the "Disaster Recovery Plan" founded on the recovery of the information system platforms. It also acquainted itself with the reorganisation of the organic back-up structures for business continuity management, including the creation and functions of the Business Continuity Committee of a permanent nature and of the Crisis Committee, conceived to respond to the critical incidents.

Finally, the April meeting was devoted to the presentation of the annual activity report relating to operational risk management at the BPI Group during 2011, the coordination of which is undertaken by the Organisation Division's Operational Risk Area. The Committee learnt about the steps taken to mitigate this risk, the statistics of incidents and the resulting losses, as well as the tasks programmed in this area for 2012.

**b) Compliance risk**

The Committee examined at the April meeting the report on the work performed by the Compliance Division during 2011, in its mission of preventing and mitigating compliance risk in

the areas of normative and contractual regulation and more specifically, in the prevention of money laundering, terrorism financing and market abuse. It was informed about the refinement and strengthening of measures introduced in the respective means for operating.

At the May meeting, the Committee gave its agreement to that Division's activity plan for 2012, including the plan drafted for the Macao branch centred on the prevention of the aforementioned crimes.

**c) Reputational risk**
The Committee reviewed at the March and September meetings the various service-quality evaluation factors, as well as the external and internal instruments used at Banco BPI for its measurement, amongst which 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, there was the opportunity to review the already-mentioned quarterly summaries covering complaints, the reputational risk associated with the procedures followed in the provision of services and communication with Customers.

The Committee reviewed at the October meeting the report on the work carried out during 2012 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 September and December meetings, 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.

Following the revision of the BPI Group's Code of Conduct promoted by the Committee, it was informed about the guidelines which impacted the drafting of the new Code of Ethics and Conduct and of the internal rules containing the regulation of the general principles enshrined therein, as well as the plan relating to its entry into force.

In addition, it reviewed the conclusions of the various 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, other Portuguese banks and the Portuguese Republic.

**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:

- 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 with the recommendations issued by this Division, by the external auditors and by the Bank of Portugal, based on information supplied by that Division with indication of the respective degrees of risk.

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 2011 activity report and the approval of the respective audit plan for 2012, 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 2012 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 reported for the same purpose on the proposed fees relating to the external auditors' annual work plan at those two banks and at other Group companies.

It also examined and submitted, with its opinion, to the Supervisory Board for approval Deloitte's proposals for work not directly related with their function as the Group's external auditors.

Finally, it is worth mentioning the holding in February of the joint meeting of the Financial Risks Committee with the CACI, at which members of that Committee were given updated information about the trend and management of Banco BPI's credit risks, the monitoring of which forms part of the Financial Risks Committee's terms of reference. A review was thus done of the behaviour and quality of the loan portfolio, including the most significant exposures, the evolution of the impairment allowances and the situation relating to the main Customers subject to the observation regime.

## 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 2012, the Financial Risks Committee met 19 times. The average attendance rate at the meetings was 93%. In 2013, and up till the date of the approval of the present report, the Financial Risks Committee met 3 times and the respective attendance rate was 100%.

The Financial Risks Committee met 19 times during 2012 and the matters discussed at the meeting were, in summary, the following:

**Activity of the Financial Risks Committee in 2012**

| Dates | Resolutions / Matters |
|---|---|
| 4 January | ▪ Banco BPI's liquidity situation.<br>▪ Funding and Capital Plan to be submitted to the Bank of Portugal.<br>▪ Operation for purchase of BPI Mortgage Bonds Jan. 2015. |
| 14 February | ▪ Summary of behaviour of the quality of the Corporate Banking's loan portfolio.<br>▪ Summary of behaviour of the quality of the Individuals' loan portfolio.<br>▪ Trend in the 20 largest exposures to non-financial entities.<br>▪ Trend in the 20 largest exposures to construction and public works firms.<br>▪ Trend in the 20 largest exposures to the real-estate business sector.<br>▪ Credit risk exposures of more than 75 M.€.<br>▪ Trend in the distribution of the Corporate Banking portfolio by rating classes.<br>▪ Trend in the 50 biggest Corporate and Small Business Banking loan impairments.<br>▪ Groups under observation without individual impairments with individual liabilities in excess of 25 M.€.<br>▪ Trend in foreclosure properties and respective impairments of more than 250 M.€.<br>▪ Monthly information relating to December / 2011 concerning Loans to Individuals for family and business purposes.<br>▪ Credit Operation to the submitted to the Board of Directors and to the Supervisory Board, in terms of article 85 of the General Regime of Credit Institutions (RGIC). |
| 27 and 28 February | ▪ Banco BPI's liquidity situation.<br>▪ Funding and Capital Plan.<br>▪ Approval of recourse to medium-term funds from the ECB.<br>▪ Approval of the acquisition of Treasury Bills.<br>▪ Approval of the granting of Loans to State-owned Companies.<br>▪ Latest review of the Greek sovereign debt situation.<br>▪ Latest review of the Italian sovereign debt situation. |
| 14 March | Between this meeting and the previous one, the Committee approved after circulation of documentation amongst its members, the acceptance by BPI of the Private Sector Involvement relating to Greek sovereign debt.<br>The following matters were dealt with at this meeting:<br>▪ Approval of the Committee's Activity Plan in 2011.<br>▪ Banco BPI's liquidity situation.<br>▪ Approval of the acquisition of Treasury Bonds.<br>▪ Portfolio of Corporate Bonds.<br>▪ Information about the conclusion of the "Special on-Site Inspections Programme".<br>▪ Loan portfolio of companies resident in Spain. |

**Activity of the Financial Risks Committee in 2012 (Cont.)**

| Dates | Resolutions / Matters |
|---|---|
| 14 March (cont.) | ▪ Loan portfolio of non residents in Portugal and Spain.<br>▪ Analysis of defaults in excess of 250 thousand in Corporate and Small Business Banking.<br>▪ Recent trend in BPI's loan portfolio relating to the State Business Sector.<br>▪ Trend in the 20 largest exposures to construction and public works firms.<br>▪ Credit risk exposures of more than 75 million euro. |
| 23 March | ▪ Analysis of the proposed Ministerial Order regulating recapitalisation mechanisms of financial institutions with recourse to public investment.<br>▪ Approval of the acquisition of Treasury Bonds.<br>▪ Latest review of acquisition of Treasury Bills. |
| 3 April | ▪ Banco BPI's liquidity situation.<br>▪ Assumptions of the new version of the Funding and Capital Plan.<br>▪ Latest review of the acquisition of Portuguese public debt.<br>▪ Approval of the repurchase of loan securitisation bonds originated by the BPI.<br>▪ New Bank of Portugal rules as regards the remuneration of deposits.<br>▪ BPI Group's March results. |
| 10 April | ▪ Funding and Capital Plan to be presented to the Bank of Portugal. |
| 30 April | ▪ Banco BPI's liquidity situation.<br>▪ Latest version of the proposed Ministerial Order for Recapitalisation.<br>▪ Approval of the acquisition of Treasury Bonds. |
| 9 May | ▪ Funding and Capital Plan to be presented to the Bank of Portugal. |
| 17 May | ▪ Banco BPI's liquidity situation.<br>▪ Portfolio of Portuguese Public Debt. |
| 4 June | ▪ Approval of acquisition of Treasury Bonds. |
| 10 July | ▪ Banco BPI's liquidity situation.<br>▪ Portfolio of Portuguese public debt.<br>▪ Credit Operation to the submitted to the Board of Directors and to the Supervisory Board, in terms of article 85 of the General Regime of Credit Institutions (RGIC). |
| 24 July | ▪ Banco BPI's liquidity situation.<br>▪ Portfolio of Portuguese public debt. |
| 12 September | ▪ Banco BPI's liquidity situation.<br>▪ Approval of the acquisition of Treasury Bonds. |
| 19 September | ▪ Banco BPI's liquidity situation.<br>▪ Trend in the 50 biggest Corporate and Small Business Banking loan impairments.<br>▪ Loan portfolio of entities resident in Spain.<br>▪ Credit Operation to the submitted to the Board of Directors and to the Supervisory Board, in terms of article 85 of the General Regime of Credit Institutions (RGIC). |
| 24 October | ▪ Banco BPI's liquidity situation.<br>▪ Approval of sale of Portuguese public debt acquired in 2012.<br>▪ Approval of the sale of the Greek public debt portfolio. |
| 31 October | ▪ Latest review of the sale of Portuguese public debt acquired in 2012.<br>▪ Latest review of the sale of Greek public debt.<br>▪ Alternative scenarios for the investment of the sale proceeds of Portuguese public debt acquired in 2012. |
| 14 November | ▪ Banco BPI's liquidity situation.<br>▪ Approval of the acquisition of Treasury Bills.<br>▪ Approval of sale of Portuguese public debt acquired in 2012.<br>▪ Proposed Limits for Country Risk and for Financial Institutions.<br>▪ Credit Operations to the submitted to the Board of Directors and to the Supervisory Board, in terms of article 85 of the General Regime of Credit Institutions (RGIC). |
| 4 December | ▪ Partial redemption of the Hybrid.<br>▪ Results of the On-site Inspections Programme for exposure to the construction and real-estate business sectors.<br>▪ Banco BPI's liquidity situation.<br>▪ Latest review of the Portuguese public debt portfolio.<br>▪ Approval of the proposed alterations to the Risk Limits to accommodate the OMP and OETV status.<br>▪ Budget for 2013. |

## 2.8.3. CORPORATE GOVERNANCE COMMITTEE

### 2.8.3.1. Terms of reference

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.

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".

### 2.8.3.2. Activity

The Corporate Governance Committee met on the following dates.

**Activity of the Corporate Governance Committee**

| Dates | Resolutions / Matters |
|---|---|
| 22 March 2012 | ▪ BPI's situation relating to compliance with legal rules and regulations and the adoption of the recommendations applicable to 2011.<br>▪ Review of the BPI Group's proposed Corporate Governance Report in 2011 to be submitted to the Board of Directors for approval.<br>▪ Review of the proposed alteration to Banco BPI's statutes to be presented by the Board of Directors to the Shareholders' General Meeting to be held on 31 May 2012.<br>▪ Review of Banco BPI activity in 2011 within the scope of its Social Responsibility, with the Committee having considered very positively the fact that the Bank, notwithstanding the constraints stemming from the international crisis and its impact on profitability, having kept its commitments in the corporate social responsibility sphere, maintaining the assistance given to renowned institutions in the fields of culture, education, innovation, science and social solidarity. |
| 11 March 2013 | ▪ Review of BPI's situation relating to compliance with legal rules and regulations and the adoption of the CMVM recommendations applicable to 2012.<br>▪ Review of the tentative and preliminary version of the BPI Corporate Governance Report relating to 2012.<br>▪ Review of Banco BPI activity in 2012 within the scope of its Social Responsibility, having underscored the fact that the Bank, in a particularly challenging economic environment, has maintained the support given in the various spheres of its social responsibility – patronage, social solidarity, culture, education and research, innovation and entrepreneurship. |

## 2.8.4. NOMINATIONS, EVALUATION AND REMUNERATION COMMITTEE

### 2.8.4.1. Terms of reference

The Nominations, Evaluation and Remuneration Committee (CNAR), 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 (available on the Investor Relations website in the section "BPI Group's Corporate Governance") and in article 7 of Bank of Portugal Notice 10 / 2011 do Banco de Portugal.

Following the entry into force of Bank of Portugal Notice 10 / 2011 and the requirement envisaged therein that the majority of the members of the remuneration committee serving on the Board of Directors must be independent, the Board of Directors approved at its meeting of 2 February the reformulation of the CNAR's composition, which is now composed of a majority of independent members in light of the criteria fixed in the aforesaid Notice.

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 remuneration policy of the Bank complies with the recommendation appearing in point II.1.5.1(i) of CMVM's Corporate Governance Code, 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.

It should be noted that the content of the preceding paragraph is not prejudiced by the fact that in terms of point 6.5 of Banco BPI's Recapitalisation Plan, during the public investment period, the Executive Directors should not be paid any variable remuneration. In effect and on the one hand, this amounts to a temporary derogation founded on the recapitalisation regime of that policy. On the other, notwithstanding the non-payment of variable remuneration to the Executive Committee members, the Remuneration Committee approved a recommendation that the performance evaluation of the members of the Executive Committee of the Board of Directors will continue to be performed annually and the determination of the amount of the variable remuneration that they would be entitled to under the rules of the Remuneration Policy approved by the General Meeting of April 2011, the payment of which will be dependent on a decision of the Remuneration Committee then in office and to be taken after the full repayment of the public investment.

The remuneration policy in force at the BPI Group is described in chapter 6 of the present report (pages 301 to 317).

### 2.8.3.2. Activity in 2012

The Nominations, Evaluation and Remuneration Committee met on the following dates.

**Activity of the Nominations, Evaluation and Remuneration Committee**

| Dates | Resolutions / Matters |
|---|---|
| 23 March 2012 | ▪ Election of the Committee's Chairman.<br>▪ Review of the legal and regulatory alterations governing remuneration policies.<br>▪ The main changes relating to remuneration policy stemming from the publication of Decree-Law 88 / 2011 of 20 July and Bank of Portugal Notice 10 / 2011 were evaluated, as well as the adequacy in terms of compliance by Banco BPI with the aforementioned provisions.<br>▪ Considering the implications stemming from the subject appearing in Notice 10 / 2011 on Banco BPI's Remuneration Policy, the Committee requested that, prior to passing any resolution on this matter, it obtained a clarification from the Bank of Portugal on the queries posed as to its applicability to the term of office in progress, as well as regarding the meaning and scope of certain of the rules embodied in the aforesaid legal norm.<br>▪ Alterations to the Directors' Retirement regulations.<br>▪ The Committee deliberated to issue a positive opinion on the proposed alteration to the Directors Retirement Regulations which formed part of the proposed Remuneration Policy applicable to the members of the management and oversight bodies presented by the Remuneration Committee at the annual General Meeting held on 31 May 2012. |
| 20 June 2012 | ▪ Opinion on the Restructuring of the remuneration of the Executive Committee stemming from Banco BPI's Recapitalisation Plan. |

## 2.9. 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:

**PRINCIPAL TERMS OF REFERENCE OF THE COMPANY SECRETARY**

- 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.

**Board of Directors**

*Chairman*

Fernando Ulrich

*Deputy-Chairman*

António Domingues

*Members*

Manuel Ferreira da Silva — *Chairman* — **Executive Committee**

Alexandre Lucena e Vale

João Pedro Oliveira e Costa

José Miguel Morais Alves

Fernando da Costa Lima

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 within greater detail under point 9 – Code of Ethics and Professional Conduct, of this report (pages 319 to 324).

## 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 a minimum of seven and a maximum of fifteen (currently twelve), 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.

**General Meeting Committee**

*Chairman*
Rui de Faria Lélis
*Deputy-Chairman*
Alexandre Lucena e Vale

**Supervisory Board**

*Chairman*
Amílcar Safeca
*Member*
Susana Trigo Cabral
*Member ROC*
Henrique Camões Serra

**Board of Directors**

*Chairman*
Fernando Ulrich
*Deputy-Chairmen*
Isabel dos Santos
António Domingues
*Members*
José Pena do Amaral
Diogo Santa Marta
Mário Silva
Emídio Costa Pinheiro
António Matias
Francisco Costa
Mariana Assis
Otília Faleiro
Vera Escórcio

**Statutory Auditor**

*External Auditor*
PKF – Angola, Auditores e Consultores, Lda.
*Contractual Auditor*
Deloitte & Touche – Auditores, Lda.

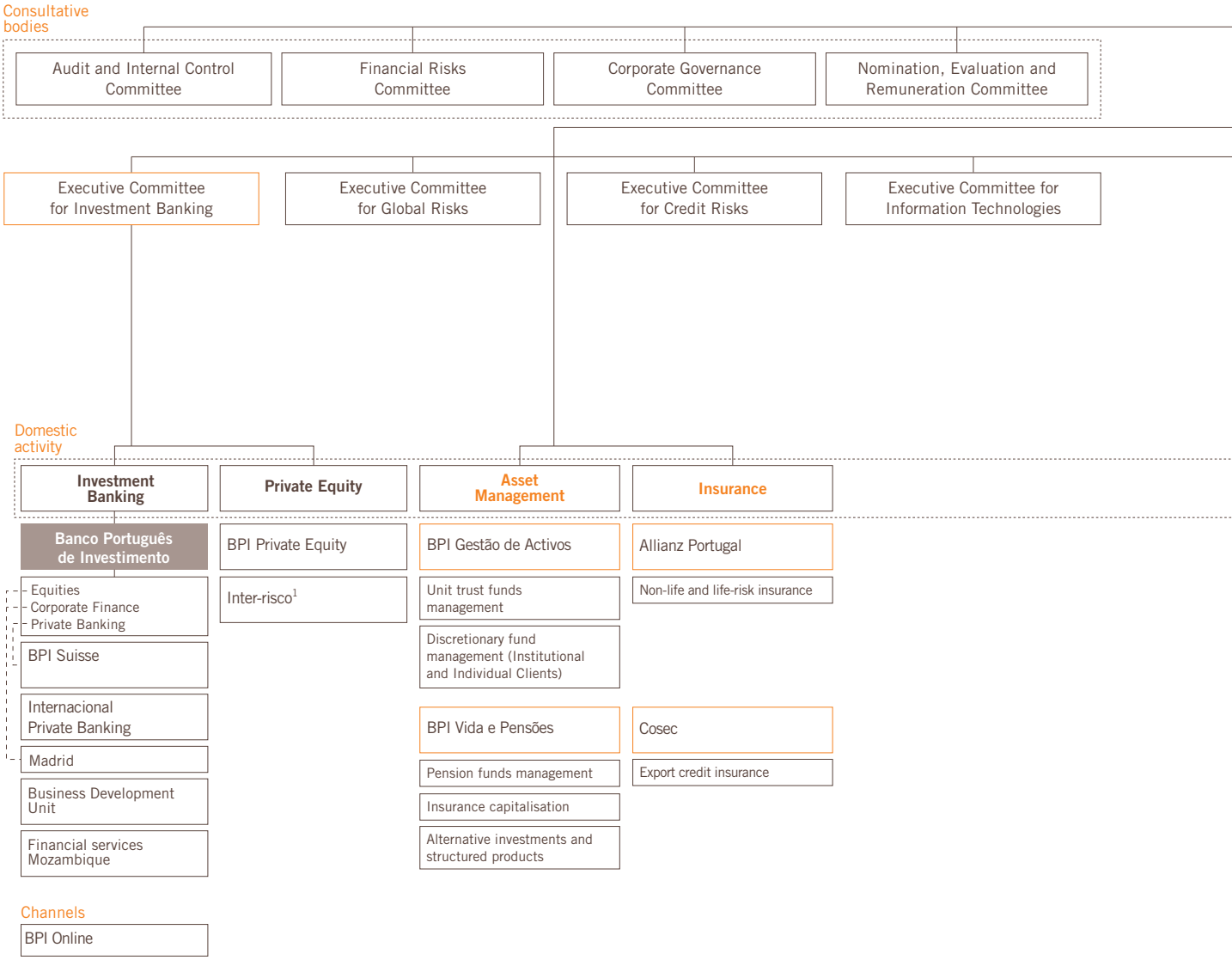
**Principal areas of responsibility of members of Executive Committee of the Board of Directors of BFA**

| | |
|---|---|
| Emídio Pinheiro | **Chairman of Executive Committee**<br>Marketing, Legal, Audit, Compliance |
| António Matias | Individual and Business banking, Investment Centres, Loans to individual and business, new agencies units |
| Francisco Costa | Companies, Credit risk for companies and real estate operations |
| Mariana Assis | Accounting and Planning, Human Resources |
| Otília Faleiro | Organization, Training, Information Systems, Operations, Cards and Automatic banking |
| Vera Escórcio | Financial, International, Procurement, Instalments and fixed assets |

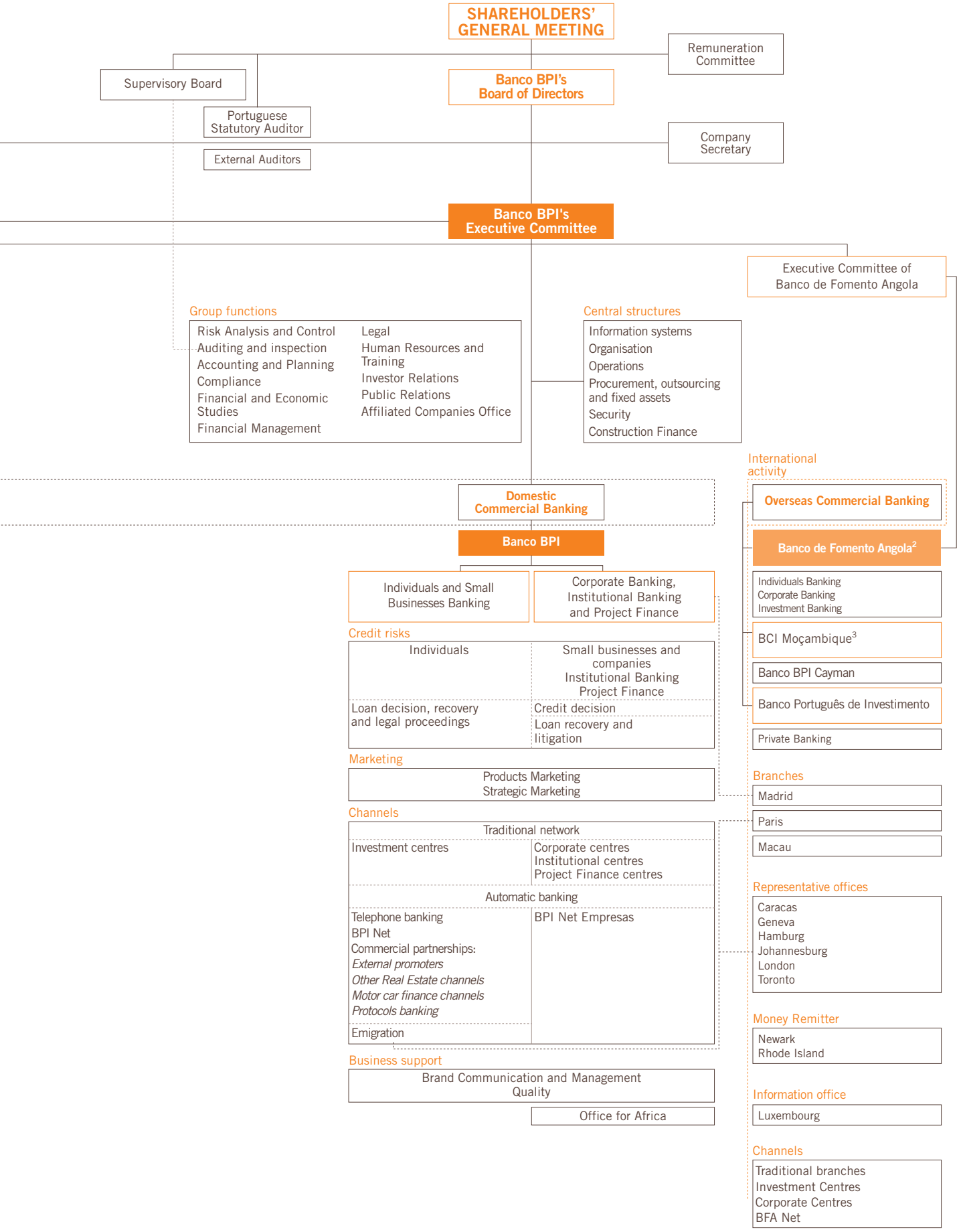
**Legal and regulatory framework governing BFA's activity**

| 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.<br>To this end, the BNA is vested with powers to regulate and supervise the banking system.<br>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<br>Notice 01 / 11, 26 May | Aims to fight against money laundering the financing of terrorism.<br>Regulates the obligations envisaged in Law 12 / 10, including the creation of the Compliance Officer. |
| **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 07 / 12 | 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:<br>▪ 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);<br>▪ the maximum exposure limit for the 20 largest debtors cannot exceed 300% of regulatory own funds. |
| **Classification of risk levels on lending operations** | Notice 3 / 12 | 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.<br>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 5 / 12 | 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 15 / 12 and 16 / 12, 3 Apr. | Regulates the process of formation and functioning of Factoring companies. |
| **Formation of leasing companies** | Notices 17 / 12 and 18 / 12, 3 Apr. | Regulates the process of formation, functioning and prudential rules applicable to Leasing companies. |

# 3. The Group's functional organisation chart




1) 49.9% shareholding.
2) 50.1% shareholding.
3) 30% shareholding.


SHAREHOLDERS' GENERAL MEETING
Remuneration Committee
Supervisory Board
Banco BPI's Board of Directors
Portuguese Statutory Auditor
Company Secretary
External Auditors
Banco BPI's Executive Committee
Executive Committee of Banco de Fomento Angola
Group functions
Risk Analysis and Control
Auditing and inspection
Accounting and Planning
Compliance
Financial and Economic Studies
Financial Management
Legal
Human Resources and Training
Investor Relations
Public Relations
Affiliated Companies Office
Central structures
Information systems
Organisation
Operations
Procurement, outsourcing and fixed assets
Security
Construction Finance
International activity
Domestic Commercial Banking
Overseas Commercial Banking
Banco BPI
Banco de Fomento Angola[2]
Individuals and Small Businesses Banking
Corporate Banking, Institutional Banking and Project Finance
Individuals Banking
Corporate Banking
Investment Banking
BCI Moçambique[3]
Banco BPI Cayman
Banco Português de Investimento
Private Banking
Credit risks
Individuals
Small businesses and companies
Institutional Banking
Project Finance
Loan decision, recovery and legal proceedings
Credit decision
Loan recovery and litigation
Marketing
Products Marketing
Strategic Marketing
Channels
Traditional network
Investment centres
Corporate centres
Institutional centres
Project Finance centres
Automatic banking
Telephone banking
BPI Net
Commercial partnerships:
External promoters
Other Real Estate channels
Motor car finance channels
Protocols banking
BPI Net Empresas
Emigration
Business support
Brand Communication and Management
Quality
Office for Africa
Branches
Madrid
Paris
Macau
Representative offices
Caracas
Geneva
Hamburg
Johannesburg
London
Toronto
Money Remitter
Newark
Rhode Island
Information office
Luxembourg
Channels
Traditional branches
Investment Centres
Corporate Centres
BFA Net

### 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 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 642 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.

# 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 (see Matrix of responsibilities for risk management and control).

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<br>**DACR** and **DF**: external rating identification for debt securities and for credit to financial institutions<br>**DRC**: Rating of Companies and Small Businesses, Project Finance and Institutional Clients<br>**Rating Committee**: Rating for large sized Corporates and Institutional Clients<br>**DRCP**: Expert system for loans to Individuals<br>**DACR**: Exposure to Derivatives<br>**DACR**: analysis of global exposure to credit risk | **CECA**, **CERG**: overall strategy<br>**CECA**, **CERC**: approval of substantial operations<br>**Credit Board**, **DRC**, **DBI**, **DRCP**, **DF**: approval of operations | **CA** (advised by the FRC)<br>**CECA**, **CERC**, **Credit Board**, **DRC**, **DRCP**, **DACR**, **DF**: limits<br>**CECA**, **CACI**, **CERC**, **CERG, Credit Board**, **DACR**, **DO**, **Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control | **DRCE**: Corporate<br>**DRCP**: Individuals and Sole proprietors | **CECA**, **CERG**, **CERC**,<br>**DCPE**, **DACR**,<br>**All other Divisions** |
| **Country risk** | **DF**: analysis of individual country risk with recourse to external ratings and analyses<br>**DACR**: analysis of overall exposure | **CECA** and **CERG**: overall strategy<br>**DF**, **DA**, **DIAPE**: operations | **CA** (advised by the FRC)<br>**CECA**, **CACI**, **CERG**, **DACR**, **DC**<br>**Internal and external Auditors**[1], **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<br>**DF**, **DA**, **DIAPE**: operations | **CA** (advised by the FRC)<br>**CECA**, **CERG**, **DACR**, **DF**, **DA**: limits<br>**CECA**, **CACI**, **CERG**, **DACR**, **DC**<br>**Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control | | |
| **Liquidity risk** | **DF**, **DA**, **DIAPE**: individual risk analysis of liquidity, by instrument<br>**DACR**: analysis of overall liquidity risk | **CECA** and **CERG**: overall strategy | **CA** (advised by the FRC)<br>**CECA**, **CACI**, **CERG**, **DACR**, **DC**<br>**Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control | | |
| **Operating risks** | **DACR**: analysis of overall exposure<br>**DORG** and **all the Divisions**: identification of critical points | **CECA**: overall organisation<br>**CRO**<br>**DORG**: regulations | **CECA**, **CERG**, **DORG**, **DACR**: regulation and limits<br>**CECA**, **CACI**, **DORG**, **DACR**, **DC**, **Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control | **DJ**, **DAI**, **DO**, **Commercial Divisions** | **CECA**, **DORG**[2] |
| **Legal and compliance risks** | **DJ**, **DC**<br>**DC**: analysis of compliance risk | **CECA**: compliance | **CECA**, **CACI**, **DJ**, **DC**, **Internal and external Auditors**[1], **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 (Executive Committee for Credit Risks); **CERG** – Comissão Executiva de Riscos Globais (Executive Committee for Global Risks); **CRF** – Comissão de Riscos Financeiros (Financial Risks Committee); **CRO** – Comité de Risco Operacional (Operating Risk Committee); **DA** – Departamento de Acções (Equities Department); **DACR** – Direcção de Análise e Controlo de Riscos (Risk Analysis and Control Division); **DAI** – Direcção de Auditoria Inspecção (Inspection Audit Division); **DC** – Direcção de Compliance (Compliance Division); **DCPE** – Direcção de Contabilidade, Planeamento e Estatística (Accounting, Planning and Statistics 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 auditor

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 2011for 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 law[1], auditors[2] 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 contract s 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 network[3] for services rendered to the BPI Group companies in 2012 totalled 2.3 M.€. Note 4.43 (page 194) in the notes to the consolidated financial statements presents a table with the breakdown of this figure by nature of the work and the company to which the service were provided.

**Composition of fees paid to Deloitte**

| | 2011 | 2012 |
|---|---|---|
| Audit and other assurance services | 1 746 | 2 099 |
| Tax consultancy and other | 238 | 185 |
| **Total** | **1 984** | **2 284** |

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.

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.

## 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 independent 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 technical personnel are involved in the audit work of those entities whose IT environments are considered 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.

**Independent review of work quality**
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 member firms of the DTTL network are subject to annual reviews of their professional practices. These reviews are performed by external reviewers (generally from other the member firms), whose work is mandatorily monitored by a partner of another member firm, encompassing a representative sample of the partners and audit assignments realised in that year. Such reviews also contemplate the firm's main quality-control processes.

It should also be noted that Deloitte was, in each one of the past three years, subjected to the quality control review conducted by the Portuguese Institute of Statutory Auditors (Ordem dos Revisores Oficiais de Contas – "OROC") / National Audit Oversight Board (Conselho Nacional de Supervisão de Auditoria – "CNSA"), pursuant to article 68 of the EOROC.

# 6. Remuneration

The information appearing in Chapter 6 is provided with a view to complying with the provisions of article 3 of Law 28 / 2009, of 19 June, article 3 of CMVM Regulation 1 / 2010 and articles 16 and 17 of Bank of Portugal Notice 10 / 2011.

## 6.1. REMUNERATION POLICY

### 6.1.1. Remuneration policy of the members of Banco BPI's management and oversight bodies[1]

The Remuneration Policy for the members of Banco BPI's Management and Oversight bodies in force for the three-year period 2011 / 2013 and which is described below, was submitted by the Remuneration Committee to the General Meeting of 27 April 2011 where it was approved. Subsequently, the General Meeting of 31 May 2012 confirmed its continuity in force.

The Remuneration Policy under review was, by way of the resolution passed at the General Meeting of 27 June 2012 which approved Banco BPI's Recapitalisation Plan, the object of the following adjustments to be applied until such time as the core tier I Capital instruments subscribed by the State are fully redeemed:

a) Reduction of the amount of the combined fixed remuneration of the members of the Board of Directors and of the members of the Supervisory Board to 50% of the average amount of the remuneration paid to the members of these bodies in 2010 and 2011;

b) Non-payment to the Director members of the Executive Committee of any variable remuneration, but without prejudice to the Remuneration Committee continuing within the framework of the remuneration policy rules in force, to grant to these members of the Executive Committee variable remuneration provided that this is not paid until such time as the said instruments are fully redeemed.

The text of the Remuneration Policy approved at the General Meeting of 27 April 2011 is reproduced as follows.

> ***"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 (CNAR).*
>
> *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*

1) To which article 2 of Law no. 28 / 2009 of 19 June refers.

*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.*

*For the three-year period 2011 / 2013 the Remuneration Committee proposes the following limits:*

*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 CNAR, 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 CNAR, 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 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 CNAR (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 CNAR, with the Remuneration Committee being responsible for presenting to the Shareholders the alterations it considers warranted."*

As already referred to, following the resolution approved at the General Meeting of 27 June 2012, the following adjustments were introduced to the Remuneration Policy described above to apply until such time as the core tier I Capital instruments subscribed by the State are fully redeemed:

a) Reduction of the amount of the combined fixed remuneration of the members of the Board of Directors and of the members of the Supervisory Board to 50% of the average amount of the remuneration paid to the members of these bodies in 2010 and 2011;
b) Non-payment to the Director members of the Executive Committee of any variable remuneration, but without prejudice to the Remuneration Committee continuing within the framework of the remuneration policy rules in force, to grant to these members of the Executive Committee variable remuneration providing that this is not paid until such time as the said instruments are fully redeemed.

Taking into account the above adjustments, the Remuneration Committee approved a number of measures necessary for their implementation, which include:

a) The measures needed to ensure that the overall amount of the fixed remuneration paid to the members of the Board of Directors and the Supervisory Board falls within the limit corresponding to 50% of the average amount of the remuneration paid to the members of these bodies in 2010 and 2011;
b) The 50% decrease in the value of the attendance allowances paid to the non-executive members of the Board of Directors for their participation and work at this body's Committee meetings;
c) The recommendation that:
   i) Following the proposal by the CNAR, the evaluation of the performance of the Executive Committee members of the Board of Directors continues to be undertaken annually, as is the determination of the amount of the variable remuneration that they would be entitled to by application of the Remuneration Policy rules approved by the General Meeting of April 2011, the payment of which shall depend on a decision of the Remuneration Committee then in office and to be taken after full repayment of the public investment;

and that:

   ii) Once again dependent on a resolution to be taken by the Remuneration Committee then in office, after the full repayment of the public investment be paid to the members of the Board of Directors, the amounts corresponding to the decrease in their fixed remuneration resulting from the application of the resolution referred to in b) above, updated by application of the rates of increase identical to those which, under the Vertical Employment Agreement for the Banking Sector, are applied to the level 18 remuneration, be paid to the members of the Board of Directors, to the Executive Committee members of the Board of Directors and to the members of the Supervisory Board.

### 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 were presented to the General Meeting of 27 April 2011.

Within the context of the application by the Remuneration Committee of the aforesaid Regulations, and owing to the fact that this Committee has identified three aspects in respect of which doubts have arisen, the Remuneration Committee deemed it appropriate to propose to the General Meeting of 31 May 2012 the adjustment to the rules concerned, so they expressly embody the meaning that the Committee believes corresponds to their spirit.

The alterations thus proposed by the Remuneration Committee to the General Meeting were essentially aimed at clarifying:

a) That it is relevant for the length of service utilised in calculating the pension not only the number of years performing the functions of Executive Directors, but also the service rendered at banks controlled by the BPI Group before occupying the post of Executive Committee member (and whether that happened after or before Banco BPI acquiring control of those Banks);
b) That in cases in which the relevant length of service is composed of years performing functions as an Executive Director and years of service with executive functions at other BPI Group Banks, whether those functions of Executive Director were exercised before or after the exercise of functions as Executive Director, what is deemed to be relevant for the basis of calculating the pension is the remuneration earned at 31 December 2009;
c) That article 2(1) of the Regulations, as with all the rest of the Regulations, are applicable to both the current and future members of the Executive Committee of the Board of Directors;

These alterations were approved by the Shareholders at the General Meeting of 31 May 2012, which resulted in the version of the Retirement Entitlement Regulations of Members of the Management Board (applicable to the Executive Committee members of the Board of Directors in accordance with the provisions of article 32(1) of the Bank's Statutes) which is transcribed as follows:

*"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) *Being, at the time when the facts referred to in the preceding sub-paragraph occur, elected to the post of Manager or, if they are not, they meet the requirements set out in article 4;*
   c) *They have held such office for at least 3 years, consecutive or intermittent.*
2. *For purposes of the requirement envisaged in sub-paragraph c) of the preceding number, the following is counted:*
   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 on the basis of the amount of the fixed monthly remuneration as at 31 December 2009 for the Management Board post corresponding to that which they occupied at the date the conditions envisaged in article 1 are met, updated at the identical rate of increase as that, according to the Collective Employment Agreement for the banking sector, which is applied to level 18 remuneration.*
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 Management 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%* | *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%.*
5. *For purposes of the application of the provisions of the preceding numbers, where the beneficiaries have exercised management functions at any Bank controlled by Banco BPI with head office in Portugal, whether these were exercised before or after the acquisition of that control, the relevant number of years exercise of functions (first column of table no. 2) shall correspond to the sum of the number of years during which the exercise of the office of Management Board member was exercised and the number of years of the exercise of management functions at the foresaid Bank(s) controlled by Banco BPI.*

***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, of the exercise of the office of Manager and who, having so ceased to exercise it, if he / she remains in management functions at any Bank controlled by Banco BPI until reaching the age of 60, in other functions at the last-mentioned or at a BPI Group company, or in functions outside the BPI Group but in the latter's interest or at the latter's instruction, upon reaching that age, or if before reaching that age becomes incapacitated for exercising such functions, acquires the right to start receiving a retirement pension which will be calculated by the application of the percentages indicated in article 2(2) for the situation of reaching retirement age to the amount of the salary referred to in article 2(1).*
2. *The amount of the pension referred to in the in the preceding paragraph 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, which is attached hereto as Annex I.*

***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.*[1]
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. *he 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 personal loans, subsidised and non-subsidised home loan regimes 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.

1) In December 2006, the liabilities for defined-benefit retirement and survivors' pensions of the BPI Group's Banks were transferred to an open-end pension fund (Fundo de Pensões BPI Valorização).

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 Regulations, the General Meeting of 27 April 2011 approved, and the General Meeting of 31 May 2012 deliberated to retain in force, the Remuneration Policy for the group of Employees referred to in that document as Senior Managers, which group corresponds to Employees classified as "managers" for purposes of the provisions of article 248-B of the Securities Code, and to the first and second line 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 2012, bearing in mind the exceptional state of the financial markets, the RVA component of the variable remuneration may be fully paid in cash.

The variable remuneration referring to performance in 2011 was paid in May 2012 and, exceptionally, the variable remuneration referring to the performance in 2012 was paid on 28 December of the same year.

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.

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 the content of a), Employees of Banco BPI and, therefore, the senior personnel, benefit from a retirement pension plan envisaged in the ACT for the banking sector or, in certain cases of Employees originating from companies covered by the general social security regime and subsequently enrolled at the CAFEB, and to the extent that it is more favourable, stemming from the rules of the social security general regime, from a plan whose funding is guaranteed by a pension fund. These benefits are identical to those that the majority of Banco BPI Employees enjoy 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, in that part which refers to the members of the Management and Oversight bodies – and the Board of Directors, as regards the other Managers –, submitted to the GM of 31 May 2012 declarations regarding the remuneration policy, which, save for the alteration referred to previously relating to the Directors' Retirement Entitlement Regulations, form the basis of the proposal to retain in force the Remuneration Policies approved at the General Meeting of 27 April 2011 for the 2011 / 2013 terms of office.

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 bodies[1] –, 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.

### 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.

1) Within the meaning of article 248-B(3) of the Securities Code.

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

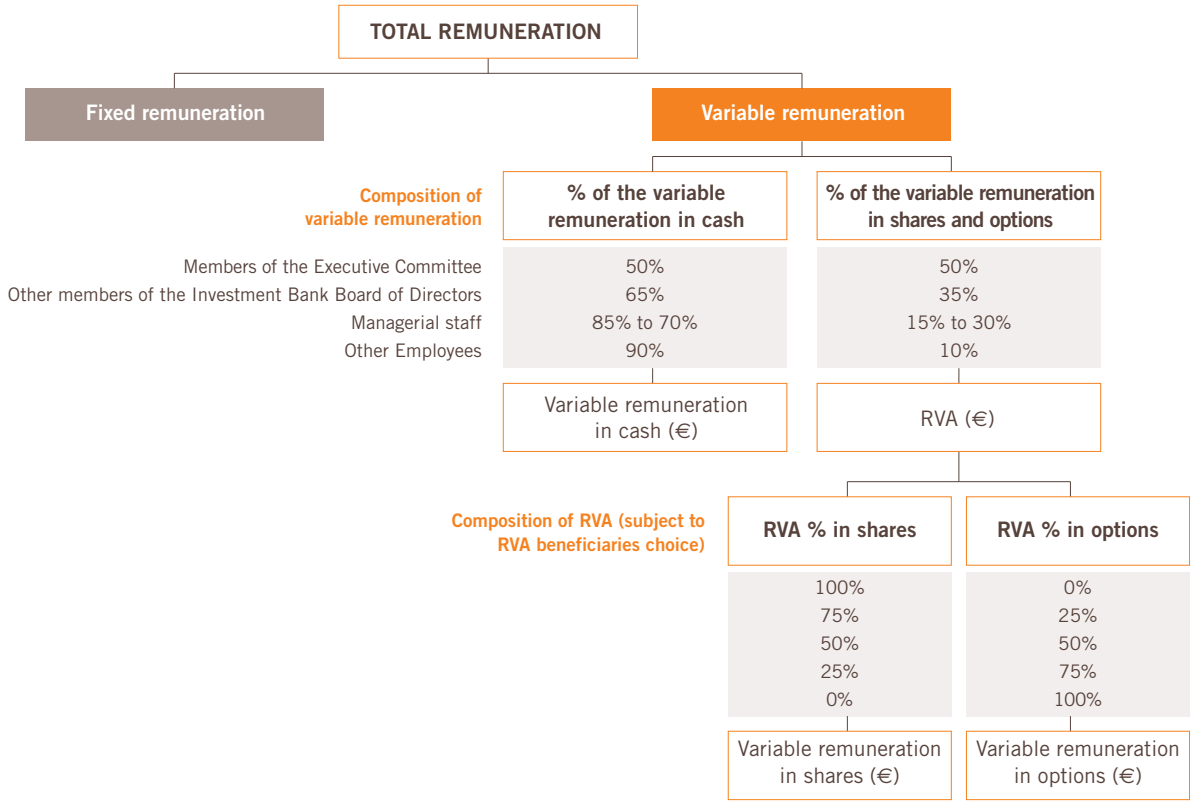
**Beneficiaries**

The RVA regulations embrace Banco BPI's Executive Committee, the Board of Directors of Banco Português de Investimento, as well as all the Group's Employees whose annual variable remuneration is equal to or more than 2 500 euro[1].

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%.

**The Bank's remuneration structure, applicable to the Executive Committee and to Employees overall**




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.

### 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.

## 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 Shareholders' General Meeting of 27 April 2011, within the scope of the motion presented by the Remuneration Committee relating to the remuneration policy for the Management and Oversight Bodies for the three-year period 2011 / 2013, a revised version of the RVA Regulations was approved. The maintenance in force of this version was confirmed by the Shareholders' General Meeting of 31 May 2012.

### 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:
   a) 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;
   b) 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 the 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 GOVERNING BODIES

Following the presentation of the request for access to public investment (in terms of Law 63-A / 2008, of 24 November) and the approval by the General Meeting of 27 June 2012 of the adjustments to the Remuneration Policy which were identified in section 6.1.1 of this Report, the Remuneration Committee deliberated the corresponding reduction in the fixed remuneration of the members of the Board of Directors and of the Supervisory Board to the annual figure of 2 806 519 euro, that is, 50% of the average remuneration earned in 2010 and 2011.

### 6.2.1. Remuneration of the Chairman of the GM Committee

In 2012, the overall amount of remuneration for the exercise of the function of **Chairman of the General Meeting Committee** was 14 000 euro, paid in 14 instalments.

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

Considering the limit referred to in 6.2 the Remuneration Committee deliberated the reduction in the annual overall amount of the remuneration of the members of the Supervisory Board to 177 547 euro.

In 2012, the aggregate remuneration of the members of the Supervisory Board, amounted to 189 691.58 euro gross, paid in 14 instalments. This figure already reflects compliance with the reduction referred to above during the second half of 2012. The gross amounts earned individually are as follows: **Abel Pinto dos Reis** (Chairman) earned 69 464.54 euro; **Jorge Figueiredo Dias** earned 60 113.52 euro; **José Neves Adelino** earned 60 113.52 euro.

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

Considering the limit referred to in 6.2 the Remuneration Committee deliberated on 26 June 2012 the reduction of the annual overall amount of the remuneration of the members of the Board of Directors to 2 628 972 euro.

In 2012, the remuneration of the group of members of the Board of Directors amounted to 3 095 thousand euro in fixed remuneration, which figure already reflects compliance with the abovementioned reduction during the second half of 2012.

Added to this figure are seniority payments of 40 624 euro and 201 268 euro relating to length-of-service bonuses (in terms of the Collective Employment Agreement for the banking sector), and, in the case of the non-executive members of the Board, 194 250 euro in the form of attendance allowances (the unit value of which was, within the scope of the Remuneration Committee's abovementioned deliberation, also reduced by 50% with effect from the second half of 2012).

In this manner, in 2012 the overall remuneration of the non-executive members amounted to 917 thousand euro and the remuneration of the executive members amounted to 2 614 thousand euro.

There was no payment in 2012 arising from early termination of employment contracts.

#### 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 in 2012 amounted in aggregate terms to 917 thousand euro and includes regular fixed remuneration, paid in 14 instalments, in the amount of 694 thousand euro, the payment of attendance allowances at meetings of Board of Directors Committees in the amount of 194 thousand euro and the payment of long-service bonuses of 29 thousand euro.

The **amounts earned individually** were as follows: **Artur Santos Silva** earned a fixed remuneration of 99 000 euro for serving as Chairman of the Board of Directors. Added to this amount was the payment of the long-service bonus of 29 428 euro, which become due in 2011 but had not yet been paid. He also received attendance allowances in the amount of 31 450 euro for participating in the Financial Risks Committee and 3 700 euro for participating in the Corporate Governance Committee. **Carlos da Camara Pestana** (Deputy-Chairman) earned a fixed remuneration of 38 000 euro. **Alfredo Rezende Almeida** earned a fixed remuneration of 38 500 euro, plus an amount of 35 150 euro in attendance allowances for participating in the Audit and Internal Control Committee. **António Lobo Xavier** earned a fixed remuneration of 38 500 euro, plus an amount of 7 400 euro in attendance allowances for participating in the Nominations, Evaluation and Remuneration Committee. **Armando Leite Pinho** earned a fixed remuneration of 38 500 euro, plus an amount of 3 700 euro in attendance allowances for participating in the Corporate Governance Committee. **Carlos Moreira da Silva** earned a fixed remuneration of 38 500 euro, plus an amount of 3 700 euro in attendance allowances for participating in the Nominations, Evaluation and Remuneration Committee. **Edgar Alves Ferreira** earned a fixed remuneration of 38 500 euro, plus an amount of 20 350 euro in attendance allowances for participating in the Audit and Internal Control Committee. **Henri Penchas** earned a fixed remuneration of 28 000 euro. **Herbert Walter** earned a fixed remuneration of 38 500 euro, plus an amount of 3 700 euro in attendance allowances for participating in the Corporate Governance Committee. **Ignacio Alvarez-Rendueles** earned a fixed remuneration of 38 500 euro, plus an amount of 35 150 euro in attendance allowances for participating in the Audit and Internal Control Committee. **Isidro Fainé Casas**, earned a fixed remuneration of 38 500 euro. **Juan Nin Génova**, earned a fixed remuneration of 38 500 euro. **Klaus Dührkop** earned a fixed remuneration of 38 500 euro. **Marcelino Armenter Vidal** earned a fixed remuneration of 38 500 euro, plus an amount of 31 450 euro in attendance allowances for participating in the Financial Risks Committee and 7 400 euro for participating in the Nominations, Evaluation and Remuneration Committee. **Mário Leite da Silva** earned a fixed remuneration of 38 500 euro, plus an amount of 11 100 euro in attendance allowances for participating in the Audit and Internal Control Committee. **Ricardo Villela Marino** earned a fixed remuneration of 28 000 euro. **Tomaz Jervell**, earned a fixed remuneration of 38 500 euro.

The Directors Carlos da Camara Pestana, Henri Penchas and Ricardo Villela Marino tendered their resignations on 4 May 2012, which became effective on 30 June, with the result that the remuneration referred to relates to the monthly remuneration earned up until the date concerned, plus their proportional entitlements to the holiday and Christmas subsidies.

#### 6.2.3.2. Remuneration of the Executive Committee

The total remuneration (fixed) payable in 2012 to Banco BPI's Executive Committee for the exercise of its functions amounted to 2 614 thousand euro. In 2012 no variable remuneration was paid to the members of the Executive Committee.

As referred to previously, in terms of point 6.5 of the Recapitalisation Plan, the members of the Executive Committee will not be paid any variable remuneration during the period of public investment.

**The total remuneration earned individually by the members of the Executive Committee were as follows,** in fixed remuneration, paid in 14 instalments: **Fernando Ulrich** (Chairman): fixed remuneration of 448 041.94 euro, which includes 7 201.60 euro

in seniority payments. Added to this amount is the payment of 42 544.21 euro relating to the long-service bonus. **António Domingues** (Deputy-Chairman): fixed remuneration of 409 636.12 euro, which includes 5 539.52 euro in seniority payments. Added to this amount is the payment of 15 237.09 euro relating to the long-service bonus. **António Farinha Morais**: fixed remuneration of 320 118 euro, which includes 8 863.40 euro in seniority payments. **José Pena Amaral**: fixed remuneration of 316 794.26 euro, which includes 5 539.66 euro in seniority payments. Added to this amount is the payment of 24 831.51 euro relating to the long-service bonus. **Manuel Ferreira da Silva**: fixed remuneration of 316 794.26 euro, which includes 5 539.66 euro in seniority payments. Added to this amount is the payment of 41 973.23 euro relating to the long-service bonus. These amounts refer to remuneration earned from Banco Português de Investimento (fixed remuneration of 280 953.81 euro) and from Banco BPI (fixed remuneration of 77 813.68 euro). **Maria Celeste Hagatong**: fixed remuneration of 316 794.26 euro, which includes 5 539.66 euro in seniority payments. Added to this amount is the payment of 30 545.42 euro relating to the long-service bonus. **Pedro Barreto**: fixed remuneration of 313 655.04 euro, which includes 2 400.44 euro in seniority payments. Added to this amount is the payment of 16 708.43 euro relating to the long-service bonus.

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 to the executive members of the Board of Directors

The universe of Directors covered by the defined benefits pension plan addressed in point 6.1.2. and the plan's liabilities, were at 31 December 2012 as follows:

| | Current | Retired | Total |
|---|---|---|---|
| Number of persons | 7 | 4 | 11 |
| Liabilities (th.€) | 14 550 | 10 725 | 25 275 |

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 (th.€) | 18 477 | 16 636 | 35 113 |

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).

The global amount of the old-age pension rights acquired during 2012 by the members of the Executive Committee amounted to 29 627 euro.

The cost incurred by the bank to finance the pensions of the members of the Executive Committee stood at 1 118 197 euro.

### 6.2.4. Loans to members of the Board of Directors

**Mortgage loans**

At 31 December 2012, 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 2012, the balance on credit extended to the members of Banco BPI's Executive Committee was 5 699 thousand euro.

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 keep in portfolio the shares thus acquired[1]. At the end of 2012, the credit-line balance relating to the members of Banco BPI's Executive Committee stood at 957 thousand euro.

**Credit lines for exercise of options and subscription of BPI shares in the capital increase realised in 2008**
Balance at 31 December 2012

Amounts in thousands of euro

| | Credit line for exercise of options[2] | Credit line for subscription of BPI shares |
|---|---|---|
| Banco BPI Executive Committee | 5 699 | 957 |
| Directors of Banco Português de Investimento[3] | 99 | 38 |
| Managers and other Employees | 2 358 | 295 |
| **Total** | **8 156** | **1 290** |

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.

### 6.2.5. Insurance of Banco BPI's Chairman and Executive 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[1] | Illness or accident | 25[2] |

The costs borne by the BPI Group in connection with the abovementioned policies amounted to 46.9 thousand euro, in 2012 (49.6 thousand euro in 2011).

In addition, the BPI Group bears costs of 7.7 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 2012 to any former executive Directors relating to the cessation of their functions during the year.

## 6.3. EMPLOYEES' REMUNERATION AND OTHER BENEFITS

The information provided in this section has as it object complying with the requirements of Bank of Portugal Notice 10 / 2011, in which refers to the universe of Employees who meet certain of the following criteria which correspond to those set out in article 1(2)(a) and (c) of the aforesaid Notice:

a) 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;

c) 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 248-B of the Securities Code;
- Employees who occupy first and second tier positions at divisions which perform control functions.

In 2012, the universe defined above encompassed 23 Employees.

In 2012, the remuneration of the universe described above, in aggregate terms, amounted to 3.79 M.€, split between fixed remuneration of 2.31 M.€, variable remuneration of 1.23 M.€ and long-service bonuses of 248 thousand euro. Included in fixed remuneration is 62 thousand euro relating to seniority payments. The variable remuneration figure of 1.23 M.€ is broken down as follows:

- in cash: 1 129.4 thousand euro;
- in options: 76.9 thousand euro;
- in shares: 24.8 thousand euro.

At 31 December 2012, the aggregate amount of pension rights (annual) acquired by the universe of Employees under review was 1 211.9 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 | 930 786 | 1 377 907 |
| Variable remuneration: Disposable – cash | 309 554 | 819 847 |
| Variable remuneration: Disposable – Options | 22 882 | 54 049 |
| Variable remuneration: Disposable – Shares | 0 | 24 818 |
| Long service premium | 100 844 | 147 356 |
| **Total remuneration** | **1 364 066** | **2 423 977** |
| Pension rights acquired | 498 611 | 713 289 |

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 2012 who fall within this universe.

No payments were made in 2012 for the early termination of employment contracts.

1) Covers the respective family.
2) Annual cost with insurance.

## 6.4. BANK OF PORTUGAL REGULATIONS GOVERNING REMUNERATION POLICIES

Bank of Portugal Notice no. 10 / 2011 came into force on 10 January 2012 and updates the regulations relating to the general principles governing remuneration policies and practices, revoking Bank of Portugal Notice no. 1 / 2010 and Letter-Circular no. 2 / 2010 / DSB.

The publication of the aforesaid Notice and revocation of the Bank of Portugal's instructions relating to this subject, falls within a framework resulting from (i) the publication of Decree-Law 88 / 2011, of 20 July, which transposed into national law Directive 2010 / 76 / EU of the European Parliament and Council (usually designated "CRD III") and added in this framework a new point regarding remuneration policies (point XI) to Annex to DL 104 / 2007, of 20 July, as well as (ii) the publication in December 2010, of the principles regarding this subject by the then Committee of European Banking Supervisors (CEBS) – which gave origin to the present European Banking Authority (EBA).

The new regulatory framework thus promulgated addresses three main areas:

a) Principles and rules governing the approval and evaluation of remuneration policy;

b) Principles and rules governing the structure and composition of remuneration policy;

c) Principles and rules governing the disclosure of information relating to this topic, whether it be about policy or the remuneration paid in terms thereof.

### 6.4.1. Principles and rules governing the approval and evaluation of remuneration policy

As regards the first of the aforementioned areas, the Bank believes that it complies with the vast majority of the rules envisaged dealing with the matters included therein, namely those embodied in articles 5, 7 and 14 of Notice 10 / 2011. In this respect, it is important to underline:

- that the remuneration policy of the members of the governing bodies is the object of approval, in general terms, by the General Meeting (pursuant to the provisions of Law 28 / 2009, of 19 June) and subsequently formalised by the Remuneration Committee elected by the same body through the concrete definition of the fixed remuneration and the amount of the attendance allowances to be paid to the members of the Board of Directors and, in the case where they are members of the Executive Committee, determining, based on the respective performance evaluation, the amount of the respective variable remuneration;
- that the remuneration policy relating to the Employees is the object of approval by the Board of Directors, without prejudice to, in the annual declaration regarding this matter approved by the General Meeting, and with respect those designated as Senior Managers, certain general directives being defined by it.

It should also be highlighted that the Bank has, in compliance with the relevant statutory requirements, a Board of Directors Committee responsible for remuneration matters (the CNAR – the Nominations, Evaluation and Remuneration Committee), which adheres to the terms set out in numbers 25 and 26 of point XI of the annex to DL 104 / 2007, of 3 April and in article 7 of Notice 10 / 2011. This Committee, which is consultative in nature and lends support to the Board of Directors, performs, amongst others, the functions contemplated in article 7(4) of Notice 10 / 2011. Since 2 February 2012, and for compliance with no. 2 of the same article, this Committee is composed of a majority of the Board of Directors classified as being independent in light of the criterion set out in no. 3 of the same article. Finally, it should be noted that the Bank also has in progress a process involving the analysis of the manner and terms in which it can achieve the application of the directive which refers to the participation in the remuneration policy approval and evaluation process of the organisation's units responsible for the control functions.

### 6.4.2. Principles and rules governing the structure and composition of remuneration policy

As concerns this area of the new legal dispensation, the Bank also complies in a general manner, and especially as regards the members of the management and oversight bodies, with the vast majority of the principles set out in number 24 of point XI of the annex to DL 104 / 2007, of 3 April, as well as the rules set out in chapters III and IV of Notice 10 / 2011. Part of these principles have in fact reciprocity in the recommendations which the Bank of Portugal had already disseminated in 2010 (Letter Circular 2 / 2010), which Banco BPI had already been taken cognisance of and had made reference to in the 2011 Annual Report as insofar as the extent of adoption is concerned.

With respect to the character and meaning of the aforesaid principles and rules, and without prejudice to what is referred to further on, it is considered to be important to bear in mind the reference to proportionality and adequacy stemming from the text of number 24 of point XI of DL 104 / 2007, of 3 April and that of article 3(1) of Bank of Portugal Notice 10 / 2011. It is stated in the first that "credit institutions must observe the following principles in a manner and to the extent appropriate to their size and internal organisation and to the nature, the scope and the complexity of their activities". The second of the aforementioned provisions state that "The Remuneration Policy must be appropriate and proportional to the size, internal organisation, nature, scope and magnitude of the risks assumed or to be assumed and to the degree of centralisation and delegation of the powers established at the institution". It follows from the texts cited that we are dealing with prescribed principles and rules which must be adhered to by

the institutions in a manner and fashion proportionate and appropriate to their characteristics and always bearing in mind the underlying values and objectives.

As has already been described in previous points of this Report, the Remuneration Policy pursued by the Bank is designed taking into account and with a view to ensuring (i) an alignment of interests between the Bank's management, shareholders and other stakeholders and (ii) the compatibility with the maintenance of its own funds at adequate levels that comply with applicable ratios and (iii) the sound assumption and management of risks. To this end, the policy under review includes the projection that the remuneration of the executive members of the Board of Directors and of the Employees will comprise a fixed and a variable part, appropriate rules as regards the relevant elements in determining the remuneration to be paid (in particular the variable remuneration) and the limits to that remuneration, namely according to the Bank's results. As regards the executive Directors, rules are also envisaged relating to conditionality and the deferral of 50% of the variable remuneration over three years.

The remuneration policy outlined in the preceding paragraph corresponds to that which was approved in the General Meeting of April 2011 for the period corresponding to the term of office of the governing bodies which commenced then (2011 / 2013) and is described in point 6.1.1 of this report.

As referred to previously, the Remuneration Policy under review was, by way of resolution of the General Meeting of 27 June 2012, which approved Banco BPI's Recapitalisation Plan, the object of the following adjustments ordained to remain in force until the core tier I Capital instruments subscribed by the State are not fully redeemed:

a) Reduction of the aggregate amount of the fixed remuneration of the members of the Board of Directors and the remuneration of the members of the Supervisory Board to 50% of the average amount of the remuneration paid to the members of these bodies in 2010 and 2011;
b) Non-payment to the Director members of the Executive Committee of any variable remuneration, but without prejudice to the Remuneration Committee being able to continue, within the framework of the rules of the remuneration policy in force, to award to these Executive Committee members variable remuneration, on the condition that these are not paid until such time as those instruments are not fully redeemed.

Without prejudice to Banco BPI's remuneration policies, whether it relates to its management board members or to its Senior Managers (cf. Point 6.1.6 above), having, at the time of their approval by the General Meeting of April 2011, been defined for a period corresponding to the governing bodies' term of office (3 years), and that these, as referred to above, comply with the vast majority of the principles and rules of the legal dispensation that we have been referring to, the Bank also has in progress an analysis of certain of the directives stemming from this legal dispensation, such as they relate to the definition of specific rules for the structure and composition of the remuneration whether of Employees with control functions or of Employees who perform functions which have a material impact on the institution's risk profile. This analysis is aimed at, within the context of the values and objectives underlying these directives, seeking on the one hand a definition of the respective application scope which is compatible with the principles of proportionality and adequacy referred to above and, on the other, a form of implementation that satisfies the same parameters. As should happen in the analysis referred to in the final part of point 6.4.1., Banco BPI shall seek to count upon, in this analysis, the contributions from the discussions to be held with the Bank of Portugal.

### 6.4.3. Principles and rules governing the disclosure of information relating to this matter, whether about policy or about the remuneration paid in terms thereof (vg. articles 16 and 17 of Bank of Portugal Notice)

This is a matter that the Bank complies with by way of the present Corporate Governance report and the various information appearing therein concerning the Remuneration Policy pursued.

# 7. Shareholder structure, control and transferability of shares

## 7.1. SHAREHOLDER STRUCTURE

At 31 December 2012 Banco BPI's capital was held by 20 271 Shareholders, of whom 19 823 were individuals owning 11.1% of the capital, while 448 institutional investors and companies owned 88.9% 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 2012

| Shareholders | No. of shares held | % of capital held | % of voting rights[1] |
|---|---|---|---|
| La Caixa Group[3] | 642 462 536 | 46.2% | 46.2% |
| Santoro[4] | 270 643 372 | 19.5% | 19.5% |
| Allianz Group[5] | 122 744 370 | 8.8% | 8.8% |
| HVF SGPS, S.A.[6] | 29 946 410 | 2.2% | 2.2% |

Note: Shareholder positions recorded at 31 December 2012 at the securities clearing house (Central de Valores Mobiliários – CVM), based on the information received from the Central de Valores Mobiliários. At 31 December 2021 the BPI Group held 6 492 950 own shares corresponding to 0.47% 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[7] 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 2012, 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[8] 10 465 848 shares, representing 0.75% of the Bank's share capital. Of these, 5 228 555 shares (0.53%) were held by members of the Executive Committee and 5 237 293 shares (0. 53%) by non-executive Directors;

- the executive members also owned at today's date 5 039 261 options to buy Banco BPI shares, which if exercised represent 0.51% of the capital;

- the companies in which the non-executive Directors occupy management positions held at the same date 1 118 436 801 bank shares representing 80.5% 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 2012, companies controlled by the Director Armando Leite de Pinho held 7 856 695 shares representing 0.6% of BPI's capital. Persons related by family ties and companies linked to them owned holdings which, added to the abovementioned, totalled 30 505 274 shares representing 2.2% 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) Directly held by Santoro Finance – Prestação de Serviços, S.A. ("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 controlling Shareholder of Santoro Financial Holdings, SGPS.
5) 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).
6) Participating interest held via Violas Ferreira Financial, S.A., whose share capital is fully held by HVF, SGPS, S.A., and, in terms of the provisions of article 20(1)(a) of the SC, includes 242 000 shares held by Otília Soares Violas Alves Ferreira (0.02% of Banco BPI's capital) and 1 352 619 shares held by Edgar Alves Ferreira (0.10% of Banco BPI's capital), respectively Chairman and member of the Board of Directors of HVF – SGPS.
7) In the closing date of this report, there is an outstanding amount of 1 000 M.€ of contingent convertible subordinated bonds (CoCos), issued by BPI and subscribed by the State under Banco BPI's Recapitalisation Plan. BPI foresees to fully redeem the above mentioned bonds, with the result that, under this circumstance, there would be no conversion of these instruments into BPI shares.
8) 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 2012 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 partnership[1] with the Allianz Group in the life assurance and life risk business, materialised in a 35% interest in Allianz Portugal[2] 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 2012.

**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] 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 account[5].

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 party[6]. 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 securities[7], 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-habitating 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 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 walls[1] between the research, equity sales and Corporate Finance areas;
- the decoupling of the financial analyst's remuneration[2] 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 analysts[3];
- 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 SUPRESSION OF MONEY LAUNDRING 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 2012, the Compliance Division, supported by an IT application, carried out systematic control initiatives involving the analysis of a total of 2 119 alerts about accounts and people, of which 69 required notification to the Attorney General and the Judiciary Police's Financial Information Unit.

The BPI Group provides training directed at the prevention of money laundering and the financing of terrorism to all Employees, both immediately after their admission and later on numerous occasions during the exercise of their functions. This training is carried out with the aid of a specific E-learning programme or in a classroom, for example at the end of the audits that it performs at the various bodies of the organisation's structure, with special incidence on the BPI Group's commercial units.

On this subject, 364 e-learning training courses and many in-room courses were carried out in 2012.

## 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 15$^{th}$ 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 15$^{th}$ 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 DAI 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 2012, are outlined in a separate chapter of the Directors' Report (pages 17 to 22).

### 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 has not participated in Shareholders General Meetings during 2012.

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**

BPI Vida e Pensões exercised its voting rights at twelve Shareholders General Meetings of local companies, in 2012, 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.

**Final note**

Most of the matters, principles and rules referred to in this section, in force during 2012, were integrated in the meantime into BPI's new Code of Ethics and Conduct and the internal regulation governing these, which come into force in April 2013.

# 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 (DRI) 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 DRI and the Accounting and Planning Division (DCPE), 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 DRI 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<br>4100-476 Porto |
| Phone: | +351 22 607 33 37 |
| Fax: | +351 22 600 47 38 |
| E-mail: | investor.relations@bancobpi.pt |
| Web site: | 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

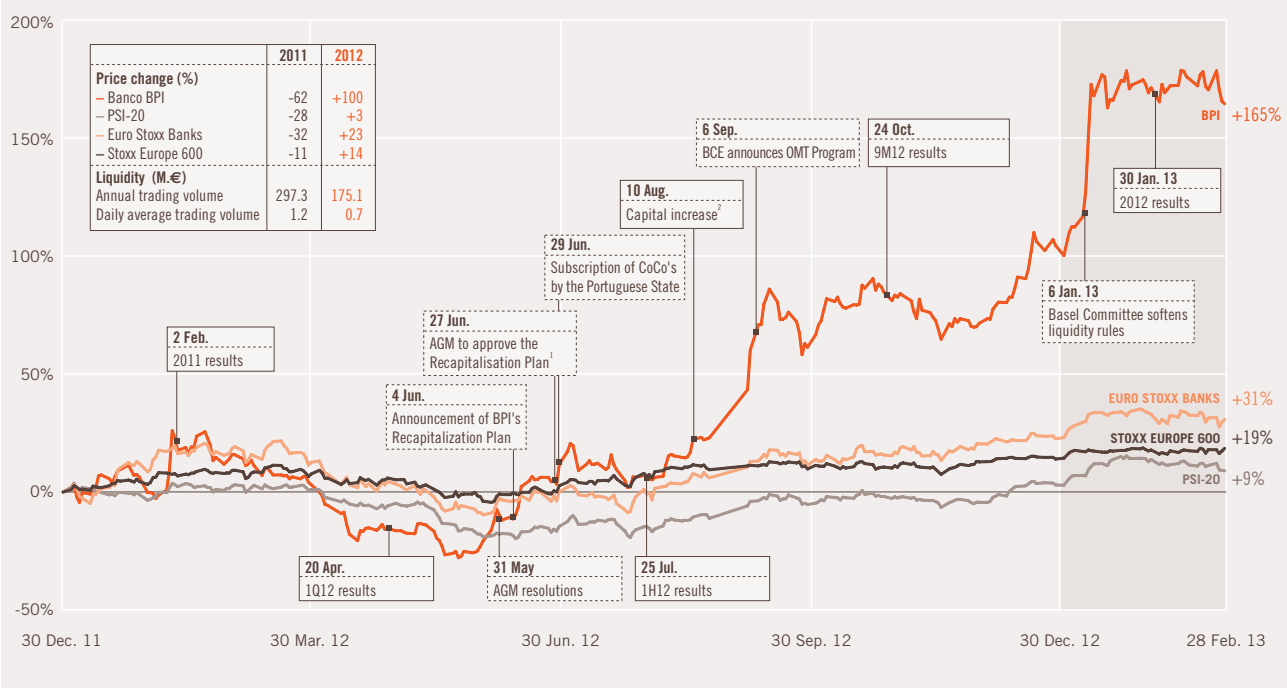
The stock market price of Banco BPI shares posted a gain of 100.3% in 2012, closing the year at 0.943 euro. In the same period, the European banking sector, represented by the DJ Europe Stoxx Banks, rose by 23.1% while the Portuguese PSI-20 index advanced by 2.9%.

Up till the end of May, the BPI share followed a downward trajectory, reflecting the fears concerning the Portuguese banking sector's solvency and the uncertainties surrounding the implementation of the Recapitalisation Plan. The share price sank to a minimum of 0.338 euro on 24 May.

The announcement of the Bank's Recapitalisation Plan and the subsequent success of the capital increase marked a turning point in the perception of BPI's financial solidity, dissipating part of the concerns relating to its solvency.

In this context, the share staged a strong rebound in June on the stock exchange, also benefiting from a favourable external background. The easing of the pressure on the T-Bonds which benefited on the one hand from the gradual international recognition of the execution of the adjustment plan and from the progressive correction of the Portuguese external deficit and, on the other, from the announcement of the OMT Programme by the ECB, guaranteeing the unlimited purchase of sovereign debt, contributed decisively to this trend.

Other positive factors took place during the second half of the year, such as the early repayment to the Portuguese State of 100 M.€ contingent convertible subordinated bonds (the repayment of an additional 200 M.€ took place in the first quarter of 2013) or the positive results of the Inspection Programme covering the Construction and Real Estate Development Portfolio, which confirmed the quality of Banco BPI's loan portfolio.




**Codes and tickers:**

| | |
|---|---|
| ISIN and Euronext code: | PTBPI0AM0004 |
| Reuters: | BBPI.LS |
| Bloomberg: | BPI PL |

**Listing on the Euronext Lisbon**

**Index weighting** (31 Dec. 12)

PSI-20: 2.25%; #11

Next 150: 0.87%; #46

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 n 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.

1) The Shareholders' General Meeting of 27 June 2012 approved Banco BPI's Recapitalisation Plan, which included a capital increase reserved for shareholders and the issue of contingent convertible subordinated bonds to be subscribed by the State, as well as a number of proposals directed at permitting the Plan's execution.

2) On 10 August, Banco BPI concluded a capital increase from 990 M.€ to 1 190 M.€, through the issue of 400 million shares, with shareholders' right of preference, at a subscription price of 0.50€ each. After this operation, the share capital is now represented by 1 390 million ordinary, nominative and dematerialised shares with no par value.

**Banco BPI shares principal indicators**

| | 2011 (as reported) | 2011, excl. non recurring[1] | 2012 |
|---|---|---|---|
| **Data per share (€)[2]** | | | |
| Cash flow after taxation | 0.461 | 0.349 | 0.510 |
| Net profit | (0.284) | 0.115 | 0.216 |
| Dividend | - | | - |
| Book value | 0.478 | | 1.235 |
| Weighted average no. of shares (in millions)[2] | 1 003.8 | | 1 154.6 |
| **Market valuation** | | | |
| Price as a multiple of: | | | |
| Cash flow after taxation (PCF) | 1.0 | 1.3 | 1.9 |
| Net profit (P/E) | (1.7) | 4.1 | 4.4 |
| Book value (PBV) | 1.0 | | 0.8 |
| Earnings yield[3] | (23.0%) | 9.4% | 45.8% |
| Stock market capitalisation (M.€) | 476.2 | | 1 310.8 |

### CAPITAL INCREASE RESERVED FOR SHAREHOLDERS

Following the announcement of Banco BPI's Recapitalisation Plan at the beginning of June, and in compliance with the relevant clauses therein, the Bank completed in August the capital increase from 990 M.€ to 1 190 M.€.

The subscription price was fixed at 0.50€, representing an implicit discount of 8.3% relative to the closing share price on 10 July 2012 ("cum-rights"). The capital increase was fully subscribed, with the principal shareholders having adhered to the operations, in this manner maintaining or even reinforcing their positions. The supplementary applications for shares by allotment exceeded supply by 107%.

The cash proceeds raised of 200 M.€ were utilised to repurchase from the Portuguese State the same amount of contingent convertible subordinated bonds (CoCo) subscribed by the State on 29 June 2012, as contemplated in the Bank's Recapitalisation Plan.

## 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 2012.

At the end of 2012, Banco BPI held 6 492 950 treasury shares (0.5% of capital)

**Treasury shares transactions in 2012**

Amounts in euro

| | No. shares held (31 Dec.11) | Acquisition | | | Disposal | | | Total turnover (amount) | No. shares held (31 Dec.12)[5] |
|---|---|---|---|---|---|---|---|---|---|
| | | Quantity | Amount | Average Price | Quantity | Amount | Average Price | | |
| Banco BPI (over-the-counter)[4] | 7 024 380 | - | - | - | 531 430 | 428 266 | 0.81 | 531 430 | 6 492 950 |
| **Total** | **7 024 380** | **-** | **-** | **-** | **531 430** | **428 266** | **0.81** | **531 430** | **6 492 950** |
| **% of share capital** | **0.71%** | **-** | | | **0.04%** | | | **0.04%** | **0.47%** |

Note: Banco BPI staff pension fund held at that date 7 952 597 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.
2) Amounts adjusted for capital increases with cash contribution in June 2012 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) Over-the-counter trades only.
5) The balance of treasury shares at the end of 2012 does not include 60 256 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.

# 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 Dividend Policy described below is temporarily limited by the provisions of point 6.4. of the Recapitalisation Plan approved at the General Meeting of 27 June 2012, at which the Board of Directors indicated the intention not to distribute any dividends or reserves until the hybrid instruments issued in the recapitalisation operations were fully redeemed, as well as the similar provisions of point 11.1. A) of the Terms and Conditions of the core tier I Capital instruments subscribed by the State and approved by Dispatch of the Minister of State and Finance no. 8840-A / 2012.

## 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**

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Net profit (M.€) | 150.3 | 175 | 184.8 | (284.9) | 249.1 |
| Dividend (M.€) | 60.1 | 70.2 | 0 | 0 | 0 |
| Pay-out ratio | 40% | 40% | - | - | - |
| Basic earnings per share (EPS) (€) | 0.159 | 0.174 | 0.184 | (0.284) | 0.216 |
| Δ% | (61%) | 10% | 6% | s.s. | s.s. |
| Dividend per share (€) | 0.063 | 0.069 | - | - | - |
| Δ% yoy | (61%) | 10% | s.s. | - | - |
| Closing price (€) | 1.557 | 1.886 | 1.232 | 0.471 | 0.943 |
| Δ% | (66%) | 21% | (35%) | (62%) | 100% |
| Dividend Yield (share price at start of the year) | 1.4% | 4.5% | - | - | - |
| Dividend Yield (share price at end of the year) | 4.0% | 3.7% | - | - | - |
| Capital ratio | 11.3% | 11.0% | 11.1% | 9.3% | 15.0% |
| Tier I | 8.8% | 8.6% | 9.1% | 9.0% | 14.9% |
| Core tier I | 8.0% | 7.8% | 8.7% | 9.2% | 15.0% |

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 SGFII, 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 of "PLMJ – A.M. Pereira, Sáragga Leal, Oliveira Martins, Júdice e Associados – Sociedade de Advogados, R.L."
Associate Founder of the "Associação Portuguesa de Arbitragem"
Member of the Arbitration Board of the Delegação Nacional Portuguesa da CCI – Chambre de Commerce Internationale
Arbitrator appointed by the Economic and Social Council
Member of the LCIA (London Court of International Arbitration) and of the Club Español del Arbitraje.

**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" of the "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 supervisory positions at other companies**

Director of Sarcol – Sociedade de Gestão e Investimento Imobiliário, S.A.

**Previous professional experience**

Various positions held at Sarcol Group

#### 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 supervisory positions 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 do 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**

Chairman of the Board of Directors of Bússola das Palavras, S.A.

**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 de Técnica de Lisboa
**1981:** PhD in Finance from Kent State University

**Management and supervisory positions at other companies**

**2007-...:** Director of Sonae SGPS, S.A. (non-executive)
**2010-...:** Director of Cimpor SGPS, S.A. (non-executive)

**Other positions**

**2012-...:** Finance and Investment Director, Fundação Calouste Gulbenkian
**2008-...:** Member of the Investments Committee of Portugal VC Initiative (EIF)
**2007-...:** Member of Remunerations Committee of Sonae Indústria, S.A.
**2006-...:** Guest lecturer, Bentley College, USA

**Previous professional experience**

**1981-2012:** Cathedratic Professor, Nova SBE, Universidade Nova de Lisboa
**2004-2012:** Member of the Investment Committee of the Fundo Caravela 1
**2005-07:** Member of the Investments Committee of PT Previsão
**2003-07:** Member of the Remunerations Committee of Sonae SGPS, S.A.
**2002-06:** Non-executive Director and Chairman of the Audit Committee of EDP – Electricidade de Portugal, S.A.
**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
**1981-86:** Member of the Management Council, Economics Faculty, Universidade Nova de Lisboa
**1978-81:** Teaching Fellow, Kent State University

### Miguel Silva Artiaga Barbosa[1]

| | |
|---|---|
| **Date of birth** | 13 November 1970 |
| **Nationality** | Portuguese |
| **Date of first appointment** | 2 December 2012 |
| **End of current term** | Payment of the public investment |

**Academic qualifications**

**1994:** Hons degree in Economics, Universidade Católica Portuguesa
**2005:** Executive Corporate Finance Evening Programme, London Business School

**Management and supervisory positions at other companies**

Does not exercise other positions at companies

**Previous professional experience**

**2013-...:** Member of the Office of the Minister of the State and Finance, where he exercised Technical-Specialist functions.
**2011-2012:** Responsible for Investor Relations of the Monitoring of the Memoranda of Understanding unit of the Assistant Secretary of State of the Prime Minister. Additionally, responsible for monitoring the measures of the Memoranda of Understanding in the Financial, Privatisation and State Business Sector areas.
**2006-2011:** Manager in the Capital Market area of Banco de Investimento Credit Suisse.
**2005-2006:** Iberian Manager in the area of Currency Risk Management of the Banco de Investimento Barclays Capital.
**2000-2005:** Iberian Manager in the area of Currency, Interest Rate and Commodities risk management of Goldman Sachs Investment Bank.
**1998-2000:** Sub-manager in the area of the Equity Sales areas in Flemings Investment Bank.
**1994-1998:** Sub-manager in the area of Banco Finantia's Treasury.

1) Mr. Miguel Artiaga Barbosa is the State representative on Banco BPI's Supervsory Board, having been appointed by dispatch published in the Republic Official Journal, II series of 4 December (Dispatch no. 15463-B / 2012 of Minister of State and Finance).

## 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.
Chairman of the Board of Directors of Partex Oil & Gas (Holdings) Corporation

**Other positions**

Chairman of the Board of Directors of Fundação Calouste Gulbenkian

**Previous professional experience**

**1981-04:** Executive Chairman of SPI / BPI
**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.

### 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 de Fomento Angola, S.A.
Chairman of the Board of Directors of Banco Português de Investimento, S.A.
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 Strategic Council of the Lisbon Faculty Law School of Universidade Católica Portuguesa
Member of the Associação Portuguesa de Bancos's Management Board

**Previous professional experience**

**1983-85:** Deputy Manager of SPI – Sociedade Portuguesa de Investimento
**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.

**Other positions**

Director of ATP – Associação Têxtil e do Vestuário de Portugal
Director of Associação Portuguesa de Exportadores Têxteis

**Previous professional experience**

**1998-08:** Chairman of the Board of Directors of ARCOtêxteis, S.A.
**1998-08:** Chairman of the Board of Directors of ARCOfio – 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

### 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, S.A.
Deputy-Chairman of the Board of Directors of BCI – Banco Comercial e de Investimentos, S.A.
Member of the Companhia de Seguros Allianz Portugal, S.A.
Member of the 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 a 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 Riopele, S.A.
Non-executive Director of Vallis, SGPS, S.A.
Chairman of the Board of Directors of Douro Old Chaps, S.A.
Non-executive Directors of EPM, SGPS, S.A.
Curator Member of the Fundação Belmiro de Azevedo.

**Other positions**

Partner of law firm "Morais Leitão, Galvão Teles, Soares da Silva e Associados – Sociedade de Advogados"
Chairman of the IRC Reform Commission
Consultant to the Board of Directors of SonaeCom, SGPS, S.A.
Member of the Consultative Committee of Futebol Clube do Porto, SAD
Member of the Board of Directors of the Instituto de Arbitragem Comercial
Member of the Board of Directors of the Centro de Arbitragem Comercial

**Previous professional experience**

**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.
Director 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 Controle, S.A.
Director of Viacer – Sociedade Gestora de Participações Sociais, Lda.
Director of Petrocer – SGPS, Lda.
Director of IPA – Imobiliária Pinhos & Antunes, Lda.
Director of Arsopi España, S.L.

**Previous professional experience**

**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, Lda.
**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.

**Previous professional experience**

**2009-2012:** Member of the Supervisory Board of Jeronimo Martins Dystrybucja, S.A.
**2005-2012:** Member of the Advisory Board of 3i Spain
**2003-05:** Chairman of Executive Committee of Sonae Indústria, SGPS
**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.
Director of Violas Ferreira Financial 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.

## 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, Moscovo (since February 2011)
Member of the Supervisory Board of Board of Aragon Ag, Wiesbaden (since July 2012)

**Previous professional experience**

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, Colónia (until May 2010)
Member of the Board of Directors of E.ON Ruhrgas AG, Essen (until May 2010)
Assistant lecturer at the University of Munich
Journalist for "Frankfurter Allgemeine Zeitung and 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. Universidade 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 Ciências 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, 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 Patron of 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 World Savings Banks Institute – WSBI
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
Chairman of the Confederación Española de Directivos y Ejecutivos – CEDE
Chairman of the Spanish Chapter of the Club de Roma
Member of the Executive Commitee of the Consejo Empresarial para la Competitividad – CEC

**Previous professional experience**

**1999-07:** Director-General of Caixa 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 Caixa de 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 Garcia
**1969:** Director of Banco Asunción, Paraguay
**1964:** Investment Manager of Banco Atlântico

## 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**

Member of the Board of Directors of Banco de Fomento Angola, S.A.
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 Ecuestre"
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
Chairman of the Allianz4Good Department of Allianz SE Munich

**Previous professional experience**

**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 and 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.

**Management and supervisory positions at other companies**

Member of the Supervisory Board of Euronext, N.V.

**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**

Hons degree in Company Management and Administration
Master of Business Administration (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.
3rd Vice Chairman of Ahorro Corporación

**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 Cosec, S.A.

**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

**Management and supervisory positions at other companies**

Chairman of the Board of Directors of Santoro, Financial Holding, SGPS, S.A.
Chairman of the Board of Directors of Santoro Finance, S.A.
Chairman of the Board of Directors of Fidequity – Serviços de Gestão, S.A.
Chairman of the Board of Directors of Grisogono, S.A.
Member of the Board of Directors of Socip – Sociedade de Investimentos e Participações, S.A.
Director of Esperaza Holding, B.V.
Director of Banco de Fomento Angola, S.A.
Director of Nova Cimangola, S.A.
Director of Finstar – Sociedade de Investimentos e Participações, S.A.
Director of Kento Holding Limited
Director of ZON Multimédia, SGPS, S.A.
Director of Victoria Holding Limited

**Previous professional experience**

Administrative and Financial Director and Member of the Board of Directors of several companies of Grupo Américo Amorim

## 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

## 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 1 190 000 000